

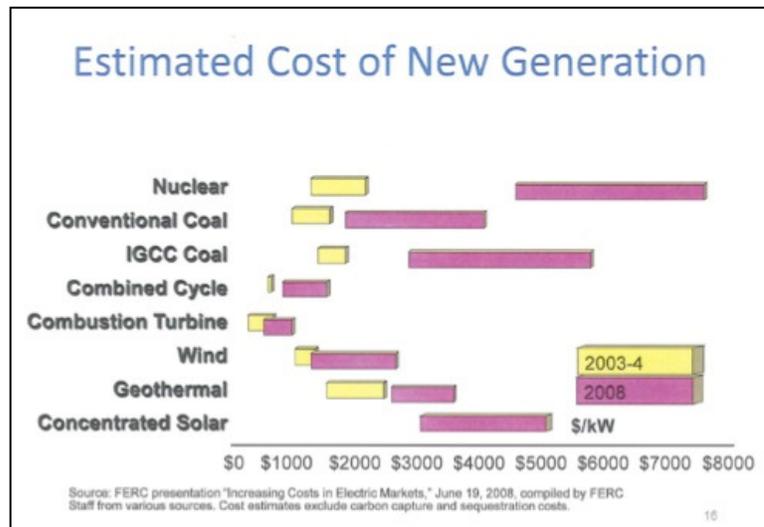
Greater San Antonio Chamber of Commerce
602 E. Commerce Street
San Antonio, TX 78205

August 27, 2009

Dear President Richard Perez and Greater San Antonio Chamber of Commerce Members,

San Antonio is currently faced with important decisions that will affect San Antonio's economic and energy future for years to come. The decision on whether or not to buy into South Texas Project's proposed Units 3 and 4 is of such a magnitude that it should not be made lightly. The decision, like any business decision, must involve weighing the economic risks San Antonio would undertake if it were to go ahead with the project compared to other alternatives San Antonio could pursue.

The estimates for new nuclear generation costs keep increasing. In June 2008, the Federal Energy Regulatory Commission (FERC) included this slide in a presentation entitled "Increasing Costs in Electric Markets." It clearly illustrates that the estimated costs of nuclear in 2008 are higher than any other energy source shown and that nuclear costs had the greatest increase from 2003-4 to 2008.



A new report on the costs of new nuclear plants by economist Mark Cooper shows two disturbing national trends. Cost estimates for nuclear plants are skyrocketing even before any plant has been approved, mirroring utilities' history in building nuclear plants previously and utilities and the nuclear industry consistently low-ball estimates in an effort to gain public support, which can lead to problems later.

CPS and NRG cost estimates for new nuclear reactors have already shown these patterns. NRG started off in 2007 with an estimate of \$5.4 billion for both reactors. They now admit to a figure nearly double their original estimate, while still low-balling costs at \$10 billion. Steve Winn, chief executive officer of Nuclear Innovation North America, NRG's nuclear development arm in partnership with Toshiba, was quoted in the Express-News, saying "We're in a different position" from CPS...CPS wants to be accurate with you." Winn added "We want Toshiba scared and to give us the lowest possible cost. For us, it's all about the contract." The CPS and NRG estimates differ by \$3 billion, although both included the same costs in deriving their estimates. The trustworthiness of NRG as a partner needs to be considered.

This June CPS more than doubled the original NRG's figures with an estimate of \$13 billion. Independent sources say costs could go even higher. The 2008 estimate from energy expert Dr. Arjun Makhijani went as high as \$17.5 billion and the June 2009 estimate from Clarence Johnson, formerly with the Public Utility Council, up to \$22 billion, even without cost overruns.

CPS Energy's credit rating may be at risk. The uncertainty of costs of new nuclear power is a primary reason why Moody's Investors Service is considering taking a "more negative view" of debt obligations issued by companies seeking to build new nuclear plants. ("New Nuclear Generation: Ratings Pressure Increasing," June 2009). Moody's states that "first federal approvals are at least two years away, and economic, political and policy equations could easily change before then." They also point out that "Given the lengthy construction time needed for nuclear projects, there is no guarantee that tomorrow's regulatory, political, or fuel environments will be as supportive to nuclear power as today's." (p. 7)

Moody's views "new nuclear generation plans as a "bet the farm" endeavor for most companies, due to the size of the investment and length of time needed to build a nuclear power facility." (p. 4) With CPS capital assets of \$6.4 billion in 2009, an investment of \$5.2 billion would certainly classify as betting the farm. Historical rating trends were tracked by Moody's and of 48 issuers during the last nuclear building cycle (1965-1995) "two received rating upgrades, six went unchanged, and 40 had downgrades. Moreover, the average downgraded issuer fell four notches." (p. 3)

NRG's obligations were rated by Moody's as Ba3, which the company considers speculative or "junk" grade, having "questionable credit quality." NRG Energy Inc. filed for Chapter 11 bankruptcy in 2003. The New York Times (5/15/03) reported that the action included a "\$752 million commitment by its parent, Xcel Energy Inc., to help settle debts."

More affordable options and readily available options to nuclear power exist. On August 6th the Atomic Safety and Licensing Board (judicial branch of the NRC) found that Luminant failed in their Comanche Peak reactor license application to sufficiently analyze combinations of alternatives to nuclear for baseload power, as the law requires. NRG admits in its reactor license application that it has not evaluated all of the alternatives and that there might be a more "cost-effective" alternative to STP Units 3 and 4. "It is conceivable that a mix of alternatives might be cost-effective and may also provide a better environmental solution. There are many possible combinations of fuel types to generate 2700 MWe, and STPNOC has not exhaustively evaluated each combination." (STP license application, Environmental Report, Section 9.2.2.6.1, p. 9.2-18). CPS Energy and partner NRG should do what the ASLB says is required by evaluating all combinations of alternatives.

Energy efficiency could meet much of the projected demand that CPS claims nuclear is needed and CPS officials told Mayor Castro that an additional 500 MW of energy reductions could be achieved, although at a higher cost than the "low-hanging" fruit in terms of efficiency. This is a large chunk of the 540 MW that would be provided with a 20% ownership in CPS, and would be a more affordable, more environmentally sound and less financially risky approach.

Aggressive additional conservation and energy efficiency measures, beyond the current 771 MW goal, could spur San Antonio's economy, take advantage of federal subsidies and create new local businesses, while saving businesses and homeowners money on utility bills. The money saved on electric bills could be invested in our economy in other ways.

Analysis of alternatives needs to be accurate. CPS is overestimating the cost of energy efficiency, using an average cost that is three times more expensive than that of Austin's experience with efficiency over many years. The projected costs for the STEP program are \$1,102 per kW. Austin's implemented cost of \$350 per kW includes higher cost efforts that follow "low-hanging fruit" reductions. If CPS used numbers similar to Austin's experience their \$850 million investment would save 2,428 MW, much more than the 771 MW goal. The additional 1,600 MW of energy savings would more than offset any projected deficit in capacity in 2020.

Solar power is becoming increasingly affordable and could be utilized. Solar Energy Initiatives, Inc. plans to build a 300 MW solar plant in West Texas, which will cost \$750 million. Building 1080 MW of solar at this rate would cost \$2.7 billion, roughly half the \$5.2 billion estimated for this portion of the STP nuclear energy.

Energy efficiency, more wind power, large-scale concentrated solar facilities, solar on rooftops, geothermal, and cogeneration to utilize waste heat are among the many options for San Antonio. Energy storage is becoming more of a reality, and can combine solar and wind to create baseload power. Given the uncertainty in costs even before the license has been obtained, the risks of a partner with questionable credit, and the history of nuclear plants being delayed and over budget, risking San Antonio's economic future on nuclear reactors does not make sense.

Sincerely,

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For more information go online to:

www.EnergiaMia.org