

**State of Texas
County of Bexar
City of San Antonio**



**Meeting Minutes
City Council B Session**

Council Briefing Room
City Hall
100 Military Plaza
San Antonio, Texas 78205

2023 – 2025 Council Members

Mayor Ron Nirenberg
Dr. Sukh Kaur, Dist. 1 | Jalen McKee-Rodriguez, Dist. 2
Phyllis Viagran, Dist. 3 | Dr. Adriana Rocha Garcia, Dist. 4 Teri
Castillo, Dist. 5 | Melissa Cabello Havrda, Dist. 6 Marina
Alderete Gavito, Dist. 7 | Manny Pelaez, Dist. 8 John
Courage, Dist. 9 | Marc Whyte, Dist. 10

Wednesday, November 8, 2023

2:00 PM

Council Briefing Room

The City Council convened a B Session meeting in the Council Briefing Room beginning at 2:06 PM. City Clerk Debbie Racca-Sittre took the Roll Call noting a quorum with the following Council Members present:

PRESENT: 10 – Nirenberg, Kaur, McKee-Rodriguez, Viagran, Castillo, Cabello Havrda, Alderete Gavito, Pelaez, Courage, Whyte

ABSENT: 1 - Rocha Garcia

ITEMS

1. Briefing by CPS Energy on the Business Case for a Proposed Rate Increase and the Establishment of a Regulatory Asset Related to CPS Energy's Pension Expense. [Ben Gorzell Jr., Chief Financial Officer; Troy Elliott, Deputy Chief Financial Officer]

City Manager Erik Walsh introduced the Item. Ben Gorzell, Chief Financial Officer and Supervisor of Public Utilities for the City of San Antonio, provided context and background of CPS Energy's governance structure which provided that the City of San Antonio was the owner of the utility. He indicated that CPS Energy was a separate entity governed by a five-member Board of Trustees with the Mayor serving as an ex-officio member.

Gorzell stated that the City Charter included a Supervisor of Public Utilities whose role was combined with the Chief Financial Officer. He noted that within the Finance Department, an Assistant Director of Public Utilities led a team charged with completing a comprehensive review of CPS Energy's rate model, sales forecast, revenue requirements, operations & maintenance Budget, Capital Plan, financial statements, Financing Plan, financial metrics, credit considerations, financial statements, rate design, Affordability Discount Programs and bill impacts.

The rate timeline, according to Gorzell, was initiated today with a formal process which would culminate in approval of a rate request by the CPS Energy Board of Trustees and consideration of the rate increase by City Council. Gorzell noted that City Council had final authority to approve the rates. Gorzell stated that staff recommended approval of the requested rate increase and establishment of the regulatory asset for pension expense.

Rudy Garza, President and Chief Executive Officer of CPS Energy, recognized the work of CPS Energy Board Chair Janie Gonzalez and his leadership team: Cory Kuchinsky, CPA, Chief Financial Officer and Deanna Hardwick, Chief Customer Strategy Officer. Garza stated that CPS Energy's goal was to provide reliable and affordable electric and gas service for its customers and the rate request focused on necessary community investments.

Garza outlined the utility's five-year plan which contained five strategic objectives: operational evolution, financial stability, customer experience, team culture and community partnership and growth. CPS Energy convened three meetings of a Community Input Working Group (CIWG) which included members of the Rate Advisory Committee (RAC) and the Citizen's Advisory Committee.

Kuchinsky provided a timeline for the rate review process which began in September 2023. He stated that the rate review process accomplished the following: set a new Power Generation Plan, approved a new Sustainability Plan, grew community solar options, expanded equity-focused programs and outreach, collected community input, completed operational efficiency and organizational culture assessments, refined future-state technology plan, stabilized staffing levels, stabilized investment volatility for employee benefits, participated in the City's Ready to Work Program and increased transparency and clarity of communications.

According to Kuchinsky, the rate plan would reduce the likelihood and impact of outages through reliability and resiliency, ensure sufficient power to meet community needs through community and customer growth, enhance customer experience and security through technology and provide staffing to meet customer needs. Kuchinsky provided a chart of growth which included a proposed 4.25% rate increase (down from 5.5% in the previous forecast) which would produce an estimated \$85 million in annual increased revenue. He projected no rate request increase in FY 2026 but an increase in FY 2027.

Kuchinsky reported that the plan included use of \$130 million in one-time wholesale revenue which were sales to the Energy Reliability Council of Texas (ERCOT) statewide electric grid. Kuchinsky stated that the utility planned to reinvest \$70 million in the system which included: generation plants, tree trimming and reliability improvements with less borrowing. Kuchinsky proposed an increase of \$10 million in direct customer assistance through the Residential Energy Assistance Partnership (REAP).

Finally, Kuchinsky stated that the remaining \$30 million would be invested in new market and regulatory requirements.

Kuchinsky outlined the five-year Operations and Maintenance Plan which was expected to make infrastructure more resilient, enable digital transformation and enhance security, as well as develop a workforce plan for retirements. He noted that additionally, the five-year Capital Plan would enable the digital transformation strategy, meet the growing demand for energy and plan for new power generation.

Kuchinsky projected that the additional rate support would provide financial stability of CPS Energy. He reported that residential rates for electric and gas would increase by an average of \$4.45 per month which was a 2.7% increase. He indicated that commercial electric rates would increase between 2.9% and 3% with larger impacts on larger commercial businesses. He added that commercial gas rates would increase between 2.8% and 3.1% with a smaller percentage for large commercial but that still resulted in a larger amount of money.

Hardwick provided a breakdown of customer types as follows: 90% (827,338) were residential, 1% (2,042) were large and industrial businesses and 9% (84,122) were small and medium businesses. She highlighted a proposed expansion of the Affordability Discount Program which would also expand eligibility noting that the utility had provided \$63 million in assistance to customers since March 2022. Hardwick stated that CPS Energy also provided other programs such as a Budget Payment Program, Disabled Person Billing Program, senior citizen programs for billing and late payments, payment arrangements and weatherization.

Hardwick closed the presentation with a listing of resources to help residents understand the proposed rate increase which included direct outreach and online outreach in both English and Spanish.

DISCUSSION:

Mayor Nirenberg opened the discussion by recognizing that the City Council was the ultimate watchdog over CPS Energy. He commented that in 2021, post-winter storm Uri, CPS Energy needed changes and extensive revenue to help improve the utility's health; today was a different story since CPS Energy was in excellent financial health. Mayor Nirenberg pointed out that the first time CPS Energy began discussing a rate increase in 2021, the projection was for over 10%. He noted that however, the amount was adjusted down but would require more frequent small increases to protect against "rate shock."

Mayor Nirenberg asked how the prior forecast of 5.5% was decreased to 4.25%. Garza stated that the previous rate increase of 3.85% helped cover some of the increased costs, that the new Enterprise Resource Platform (ERP) bids came in lower than anticipated, the plan for improvement of energy generation plants was approved and the extra \$100 million from the wholesale market as well as a plan to request more frequent rate increases allowed the rate requests to be smaller percentages.

Mayor Nirenberg commented that no one liked to increase utility rates and CPS Energy had an obligation to justify the increased costs but asked of input received during the outreach meetings. Garza stated that individuals were concerned about reliability of the power system in addition to

affordability to meet the demand and growth expected over the next 25 years. Mayor Nirenberg suggested that all future expected costs to ensure reliability should be included in the plan and recommended committing to keeping energy affordable for the most vulnerable.

Councilmember Cabello Havrda commented that the proposed rate increase was not unexpected and noted that the request was about ensuring reliability. Councilmember Cabello Havrda noted that she had proposed an alternative that was intended to stave off a rate increase and noted that no one wanted to pay more but they wanted reliable energy. Councilmember Cabello Havrda asked what the community wanted. Garza stated that generally customers expected reliability and affordability; adding that every category of proposed expenditures was designed with this in mind.

Councilmember Cabello Havrda asked whether CPS Energy considered other options besides a rate increase. Garza stated that the utility went eight years without a rate increase and had already reduced costs and continued to work to be more efficient. Councilmember Cabello Havrda asked if CPS Energy expected more individuals would be forced to utilize the Affordability Discount Programs. Hardwick stated that they were slowly working people out of past due balances and had been getting more customers enrolled in payment plans and other programs that helped them. She added that the affordability programs would be expanded.

Councilmember Alderete Gavito noted that Council District 7 had 2,100 individuals enrolled in affordability programs and 2,700 in payment plans and asked CPS Energy how they would mitigate those numbers. Garza stated that there was a balance between keeping their utilities on and disconnecting them, and noted that during the hot summer months they were not cutting them off so the utility was working to get them enrolled in payment plans.

Councilmember Alderete Gavito suggested freezing the rates for seniors or disabled persons on a fixed income. Shanna Ramirez, Chief Legal Counsel for CPS Energy, stated that there were legal obstacles because of regulatory rules but CPS Energy had discount programs that might get those residents to the same outcome. Councilmember Alderete Gavito noted that last year the City of Austin suffered a devastating ice storm that brought down power lines due to trees which ultimately cost customers. Garza stated that CPS Energy trimmed three times their usual number of trees this year using their wholesale revenue; noting that this was the best way to get ahead of reliability challenges.

Councilmember Alderete Gavito offered to assist with block walking in her council district as well as the community meetings. She recommended simplification of the explanation on where the money would be spent to help residents understand why a rate increase was needed. Councilmember Alderete Gavito requested a breakdown of the Capital Budget in more detail.

Councilmember Castillo commented that in February 2023 there was a CPS Energy presentation regarding distinctions in rates based on poverty, age and income and she supported finding more ways to help vulnerable residents. Councilmember Castillo asked how many customers would be served in the residential Affordability Program and asked how commercial customers were assisted. Hardwick stated that the residential program currently served 65,000 customers and was planned to expand by 15,000; the commercial program generally focused on payment plans and connecting them with other resources.

Councilmember Castillo thanked CPS Energy for breaking down the wholesale revenues and requested the information from the past two years as well. Councilmember Castillo requested a further breakdown of the request and how the funding would be used. She expressed concern that an increase would create more disconnections but was hopeful that more residents could be served through the Affordability Program.

Councilmember Castillo asked if the Board had discussed alternative billing methods and tiered rates. Garza stated that the current ERP technology was limited but CPS Energy was planning to collect data on the different models and expected the new ERP to be more flexible.

Councilmember Kaur asked why the CIWG replaced the RAC noting that the RAC had a base level of knowledge. Garza explained that the RAC had completed their work; some members of the RAC were tapped to serve on the working group. Councilmember Kaur requested a copy of the feedback received from the CIWG.

Councilmember Kaur requested a growth and investment projection over 25 years instead of only the five that was presented. Kuchinsky stated that energy generation technology shifts could significantly impact the future and was an unknown. Garza commented that the utility would provide an update to its Board this spring and would update the City Council as well and it would be updated every year.

Councilmember Kaur asked CPS Energy to translate the investment into outcomes rather than simply providing output measures. She stated that sometimes there was a large administrative burden on the most underserved communities to access the affordability programs.

Councilmember Pelaez stated that just this morning, four residents of his council district told him that the number one priority for San Antonio was energy reliability with clean air for their children to breathe coming in second. Councilmember Pelaez stated that CPS Energy needed to prepare for the 1 million plus individuals that were relocating to San Antonio, maintain the existing grid and protect the security of its computer systems and power generation facilities.

Councilmember Pelaez commented that he had visited Seoul, South Korea with the San Antonio delegation recently and the targeted companies all expected reliable energy. He added that the Medical Center held critical infrastructure that meant life and death for patients and the military bases were critical for our national security and added that the rate increase would help protect the reliability of electricity to those areas.

Councilmember Courage asked how much money was owed to CPS Energy by its past due customers and why it was not written off. Hardwick stated that \$175 million was owed; Kuchinsky stated that the utility wrote off \$5 to \$6 million each month for customers that moved and others who were put on payment plans. Segovia clarified that the write offs were from an accounting perspective. Councilmember Courage asked what would happen if we lost our Winter Storm Uri lawsuits and suggested that we would incur more costs as the lawsuits continued. Garza stated that he felt good about the case and planned to continue to pursue legal remedies.

Councilmember Courage requested clarification on the new regulatory requirements. Kuchinsky stated that ERCOT was now requiring CPS Energy to give the \$50 million to be able to produce its own energy

for its customers. Councilmember Courage requested a list of anticipated capital expenditures over the next five years as well as use of the continued revenues over the long term. Kuchinsky clarified that the expenditures were baked into future Budgets to be used for the same operating costs. Garza explained that the two-year rate increase plan provided more transparency than an eight-year cycle.

Councilmember Whyte asked how effective CPS Energy had been in collecting the money from the 195,000 delinquent accounts and how long it would take to collect the \$175 million. Garza stated that the number grew during the summer when they did not disconnect; putting them on a payment plan stopped the bleeding but they still needed to continue to pay their bills and stated that it would take about three years to collect approximately \$100 million.

Councilmember Whyte requested clarification on why the Spruce 1 coal plant was being decommissioned 20 years short of its expected lifespan and how it would impact capacity or the ability for CPS Energy to sell power. Garza stated that the cost to maintain and meet regulatory requirements made replacing the Spruce 1 coal plant more cost effective and converting the Spruce 2 coal plant to natural gas would also support the capacity as well as new technologies such as batteries.

Councilmember Whyte asked whether CPS Energy planned to purchase energy. Garza stated that the utility purchased some energy and produced most of the energy required for its customers. Councilmember Whyte questioned that if the rate increase was not approved, would CPS Energy not replace its ERP or the power plants. Garza stated that not having a rate increase would decrease reliability but they were already purchasing the new ERP.

Councilmember Whyte suggested that if CPS Energy had \$85 million more this year, they would not need a rate increase. Garza stated that the rate increase provided certainty as well as the revenue noting that a one-time contribution of money would not be a long-term solution. Councilmember Whyte expressed concern that wages were not keeping up with rising costs.

Councilmember McKee-Rodriguez requested a list of the CIWG Members and wanted to ensure representation of all council districts. He also asked how many residents were reached by the block walking. Councilmember McKee-Rodriguez commented that sometimes community engagement efforts felt like just checking a box noting that there were only three meetings held in a few weeks when CPS Energy had known for two years they were going to request a rate increase.

Councilmember McKee-Rodriguez did not support the rate increase at the present time noting that vulnerable populations were still suffering and more and more residents were becoming cost-burdened. He recommended that CPS Energy hire a residential consumer advocate and evaluate the impact on vulnerable residents. He also requested a tiered rate structure for marginalized residents who often used little energy and dealt with extreme weather.

Councilmember Viagran commented that CPS Energy had not invested in quality infrastructure and innovative technology. Garza stated that not having a rate increase in eight years did not allow for that investment. Councilmember Viagran recommended preventing those who pay their bills or make a good faith effort from getting disconnected. She supported having a discussion about a consumer advocate and stated that she had been receiving letters from residents in opposition to a rate increase, but noted that more time was needed for discussion.

Councilmember Viagran recommended exploring a tiered program that considered poverty levels and energy usage. Garza stated that tiered rates could not be created until the ERP system was upgraded and warned that it also caught the inefficient homes often owned by poor residents.

Councilmember Viagran appreciated the work of the CIWG but suggested that the southern sector would be challenged with older housing stock and problems with clear home titles that prevented them from participating in a weatherization program.

Mayor Nirenberg clarified that the role of the City Council was to advocate for its residents. He suggested that despite the challenging position of authorizing a rate adjustment, the impact to our residents was our ultimate goal which also included ensuring reliability and not only affordability.

Councilmember Alderete Gavito commented that there was value in allowing CPS Energy to plan for the future of our entire community and noted that CPS Energy rates were the lowest in Texas and were transparent.

Councilmember Castillo clarified that the rate increase would provide \$85 million and reflected on last year's \$42 million rebate. Kuchinsky clarified that CPS Energy did not receive excess revenue last year as the revenues were from gas prices which only benefitted the City as owner but not CPS Energy as it was a pass through. She noted that the excess City revenue for this year from the wholesale market was \$130 million.

Councilmember Castillo expressed concern that we were asking more and more from residents who often could not afford even their current utility bills and potentially they might keep their air conditioning or heating off and suffer due to unaffordability.

Councilmember Pelaez requested clarification on what CPS Energy would not be able to do if a rate increase was not approved. Garza stated that the expectation would not change from the community's perspective, the difficulty would be in ensuring reliability and less progress in climate action goals.

Councilmember Pelaez noted that there were some good appointments to the RAC that were participating on the CIWG and they represented the majority of the community.

Councilmember Courage requested a detailed explanation of the capitalization rates for infrastructure, the average residential customer bill to be able to compare and the best affordability discount. Councilmember Courage requested information about the regulatory asset calculation. Kuchinsky explained that the calculation was complicated but the bottom line was that the utility was in better fiscal health now than it was a few years ago.

Councilmember Courage suggested the CIWG could serve as a consumer rate advocate. Garza agreed and added that consumer advocates already served on the CPS Energy Board of Trustees.

Councilmember Whyte noted that CPS Energy was the City's asset and recommended prioritization of how the needs could be funded by the City instead of a rate increase. He requested that the City cut

\$40 million from its Budget and give it back to CPS Energy and suggested cutting public art maintenance and arts agency funding to pay for it.

Mayor Nirenberg closed the discussion by noting that CPS Energy had become more efficient over the years and asked if the cuts would need to be reoccurring to the City. Gorzell stated that the cuts would have to be reoccurring in order to impact CPS Energy's Budget and impact the first requested rate increase. Mayor Nirenberg commented that the cuts would not only need to be reoccurring but continue the same reoccurring reduction every year.

Mayor Nirenberg recommended that City Council discuss authorizing the CPS Energy board to make the decision on the rate increases in 2027 which might help the ratepayer have more certainty for the future and improve the credit rating for CPS Energy. Gorzell stated that in that case, the Finance Department staff would still complete the due diligence, but it would keep City Council from having to re-debate the issue in two years and added that it would likely improve CPS Energy's borrowing power. Mayor Nirenberg suggested this was the methodology followed for the San Antonio Water System (SAWS) which was successful.

Mayor Nirenberg requested a comparison of CPS Energy with other electric utility companies in Texas. He commented that aging housing stock that was inefficient more heavily burdened low-income families and suggested using the gauge of "severe energy burden" for homeowners to qualify for home rehabilitation and weatherization. He stated that severe energy burden was defined as paying 10% or more of a household income to energy bills.

City Manager Walsh committed to working with CPS Energy to get answers to all of the questions for every Councilmember.

EXECUTIVE SESSION

Executive Session was not held.

ADJOURNMENT

There being no further discussion, the meeting was adjourned at 5:10 p.m.

Approved

**Ron Nirenberg
Mayor**

**Debbie Racca-Sittre City
Clerk**