

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



**Meeting Minutes
City Council Special Meeting**

Municipal Plaza Building
114 W. Commerce Street
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

Thursday, November 30, 2023

1:00 PM

City Council Chambers

The City Council convened a special meeting in the Norma S. Rodriguez Council Chamber in the Municipal Plaza Building beginning at 1:05 PM. City Clerk Debbie Racca-Sittre took the Roll Call noting a quorum with the following Council Members present:

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

ABSENT: 1 - Kaur

ITEMS

1. Briefing from City's Public Utilities Supervisor on recommendations related to the Proposed Increase in CPS Energy Electric and Gas Base Rates of 4.25% and Establishment of the Regulatory Asset for Pension Expense. [Erik Walsh, City Manager; Ben Gorzell Jr., Chief Financial Officer]

City Manager Erik Walsh introduced the Item and Chief Financial Officer/Public Utilities Supervisor Ben Gorzell, who provided background and an overview of the CPS Energy Rate Request. Gorzell summarized the request as a 4.25% rate increase which would have an average residential bill impact of 2.7% and would raise \$85 million and included a 2027 base rate

of 5.5% if approved by the CPS Energy Board of Trustees and the City's Public Utilities Supervisor but would not require further action from City Council other than a briefing.

Gorzell stated that staff completed a comprehensive review of CPS Energy's rate model, sales forecast, revenue requirements, Operations & Maintenance (O&M) Budget, Capital Plan, financial statements, Financing Plan, financial metrics, credit considerations, financial statements, rate design, affordability programs and bill impacts. According to Gorzell, staff reviewed CPS Energy's FY 2023 Audited Financial Statements, the latest estimate for CPS Energy FY 2024, projections beginning in FY 2025 for 25 years, O&M Budget, Capital Budget, Financing Plan, flow of funds, Statement of Net Position and Income Statement.

Gorzell described CPS Energy's flow of funds as first funding O&M, then debt service, followed by 6% for repair and replacement, the City Payment and any remaining funding was used for repair and replacement. Gorzell listed the CPS Energy's credit ratings from each of the three rating agencies with Moody's at "AA2" with stable outlook, S&P at "AA-" with negative outlook, and Fitch at "AA-" with negative outlook.

Gorzell reported that the Brattle Group conducted an independent study of the total cost of service ratio noting that for every dollar of cost allocated to residential groups, 93 cents were recovered. He stated that however, from commercial customers, the recovery ranged from \$1.03 to \$1.11 recovered for every dollar spent. Gorzell compared the sources of funds to uses of funds for the 2025 Proposed Budget of \$3.286 billion. He charted the historical annual cost of O&M from FY 2020 as well as projections through FY 2029.

According to Gorzell, CPS Energy had 3,370 authorized positions in the last rate case, however, over 400 positions were vacant in the fall of 2021. He noted that since that time, CPS Energy had made substantial progress in filling positions and added 350 more positions to address key staffing requirements and anticipated retirements as well as 100 overhires for total of 3,626 net authorized positions for FY 2025. Gorzell added that the proforma included an \$18/hour minimum entry wage and assumed a 4% annual increase for all staff.

Gorzell detailed CPS Energy's proposed costs for operations and maintenance, staffing, materials, outside services, and the Capital Plan. He stated that the revised Power Generation Plan included retired plants and coal plants expected to retire or be converted to natural gas by 2028. Additionally, Gorzell noted that CPS Energy planned to replace its Enterprise Resource Planning (ERP) System. He outlined the Capital Plan which included \$937.3 million in FY 2025 and a total of \$6,164.9 million over the next five years and the corresponding Debt Financing Plan.

Gorzell noted that assistance and discount programs were in place for low income customers, seniors, customers with disabilities, those with life saving medical equipment, families with children 18 years or younger in the home as well as expansion of eligibility for those with severe energy burden defined as more than 10% of their monthly income paid for their energy bill. He reported that the utility had \$175.2 million in total outstanding accounts receivables that were greater than 30 days in arrears.

Gorzell provided a chart of impacts of the rate increase on residential and commercial energy bills at the various customer levels.

DISCUSSION:

Mayor Nirenberg thanked CPS Energy leadership and the Board Members for attending the briefing. He noted that the City of San Antonio residents owned CPS Energy as an asset and the main goal of that was to keep the power on in the most efficient and reliable way possible and investments were necessary to protect our asset. Mayor Nirenberg clarified that Gorzell had confirmed that the 4.25% rate request was needed after completion of all due diligence and that the 5.5% in 2027 was a good projection. Mayor Nirenberg supported the staff's recommendation.

Councilmember Rocha Garcia noted that Gorzell's position was in the City's Charter which included a requirement for annual updates to the City Council, noting that it seemed like the updates were only during rate request time and not every year. Gorzell stated that there had been updates made to the Public Utilities Committee previously but not to City Council annually. Councilmember Rocha Garcia recommended a report annually from the Public Utilities Supervisor as outlined in the City Charter and community briefings as well.

Councilmember Rocha Garcia asked how the City could help CPS Energy improve their credit ratings. Gorzell stated that the 2025 rate increase would help along with the plan for 2027 which would provide certainty; however, winter storm Uri and other external factors played into lower ratings. Councilmember Rocha Garcia requested more information about the role of the Electric Reliability Council of Texas (ERCOT) that could educate residents and additional strategies to help residents who were behind on their payments. She supported the investment in affordability programs such as the Residential Energy Assistance Program (REAP) for low income and senior customers.

Councilmember Rocha Garcia asked what type of new construction required the rerouting of power lines and infrastructure. CPS Energy's Chief Financial Officer Cory Kuchinsky stated that new developments paid for their own infrastructure but adjustments were often needed to the grid. Councilmember Rocha Garcia asked why the ERP needed to be replaced. President and Chief Executive Officer of CPS Energy Rudy Garza, stated that the ERP impacted every portion of their operations, particularly the customer and systems/device communication platform which would be improved significantly.

Councilmember Alderete Gavito noted that CPS Energy's rates were the second lowest in the nation and hoped to keep the utility affordable, particularly for senior citizens and low-income families. She asked if Bexar County also contributed to REAP. DeAnna Hardwick, Chief Customer Strategy Officer for CPS Energy, stated that the utility contributed \$1 million per year, and she would get the amounts contributed by Bexar County. Gorzell clarified that the City did not contribute to REAP regularly but contributed one-time funds when there was a surplus of revenue.

Councilmember Alderete Gavito requested more information about the Federal Low Income Home Energy Assistance Program (LIHEAP) funding which was run through Bexar County and asked if Bexar County set the eligibility criteria because it was allowed to be up to 150% poverty. Hardwick stated that LIHEAP provided \$28 million last year, and the utility developed the criteria for eligibility based on its equity guidelines. Councilmember Alderete Gavito recommended

increasing the eligibility criteria from 125% poverty to the maximum income allowed by Federal Law.

Councilmember Cabello Havrda noted there was a 25-year projection for CPS Energy, but Gorzell only showed five years in his presentation. Gorzell confirmed there was a 25-year projection, but the five-year projection was the focus because the recommended Ordinance included the next rate of 5.5% for 2027. Councilmember Cabello Havrda supported the recommendation to include a five-year plan as it would give more certainty to customers and the bond markets/rating agencies. She requested a comprehensive staffing plan for the utility to be presented to City Council.

Councilmember Cabello Havrda stated that her residents understood the need for materials, plant maintenance, vegetation management, security as well as an upgrade of old computer systems such as the ERP. She expressed concern with the estimated growth of the City and new customer demand that would need to be met in the future.

Councilmember Whyte clarified that with the 4.25% increase, the net increase would be \$7.2 million in FY 2024 and was projected to reach \$10.9 million in FY 2025. Councilmember Whyte noted that in 2021, the previous CEO of CPS Energy provided a memo stating that early retirement of the coal plants would leave unamortized depreciation on the books and would cost ratepayers. Garza stated that the viability of the closure was based not only on depreciation, but rather on the cost of keeping an antiquated plant operating with additional maintenance costs. Kuchinsky stated that the projections had been updated and the 2021 assumptions were no longer valid. Garza confirmed that part of the rate increase was related to closure of the coal plant, but ultimately new plants would come online to provide capacity.

Councilmember Whyte noted that although we had some of the lowest energy rates in the nation, our residents earned much less than in many other cities and suggested our residents were more cost-burdened than the residents of other cities. Garza stated that he would validate the comparisons.

Councilmember Pelaez noted that the CPS Energy Board of Trustees as well as the City Council both had the role to do the best for CPS Energy, however, he also played the role of consumer advocate, which was a balance between needs and wants, noting that no one really wanted to pay more but they realized they needed reliable power. Councilmember Pelaez commented that it was important for the utility to defend itself against cyber-attacks and have reliable and clean energy sources which all cost money, therefore, City Council needed to make the hard decision to raise rates.

Councilmember Castillo thanked CPS Energy and City staff for the detailed information but asked whether all goals of the last increase were met such as inclusion of \$131 million for alternative fuel sources. Garza stated that the utility had adjusted its plan to focus on future generation and innovations which not only included replacement of aging coal plants with natural gas but also new solar and battery storage and strategic partnerships for new energy. Councilmember Castillo requested a more detailed budget including whether the ERP was a replacement or simply switching vendors. Garza characterized the ERP as an upgrade to new technologies.

Councilmember Castillo asked what CPS Energy meant when they were asking for funds to accommodate for future development. Garza stated that the developer paid for the last mile, however, the additional power generation and substations required for those new neighborhoods were covered by CPS Energy and ultimately borne by all customers. She asked about incentives. Garza stated that CPS Energy did not provide development incentives.

Councilmember Castillo asked about the increased \$4.1 million costs in security. Garza stated that the increase included both cybersecurity and physical security as CPS Energy was a part of the critical infrastructure. Councilmember Castillo requested the number of substations added due to development in the past year.

Councilmember Castillo asked whether the proposed rate increase would fix the Texas grid and ensure against another winter storm Uri. Garza stated that there were no guarantees. Councilmember Castillo recommended a consumer advocate to analyze the energy burden allocation across the community, suggested cost burden needed to consider all levels of affordability and noted that there were discrepancies in the rates residents were paying versus commercial rates.

Councilmember Viagran suggested that the rate increase could be postponed until January 2024 because Council District 3 did not get to host a Town Hall and she was unsure that all customers were aware of the rate request, noting that there was still a trust issue between CPS Energy and the community. She recommended annual discussions about smaller, more frequent rate increases other than large increases to help people budget. Councilmember Viagran also supported bringing on a consumer advocate.

Councilmember Viagran requested the number of active accounts that were 30, 60 and 90 days past due and suggested trying to get them on a program. Councilmember Viagran asked whether any of the funds for staffing included executive bonuses. Gorzell stated that the bonus program had been eliminated but included the 4% across the board increase. Councilmember Viagran requested that CPS Energy provide a plan for staffing including those from the Ready to Work Program.

Councilmember Courage clarified that CPS Energy's FY 2025 actually began in February 2024 and that would be when the rate increased would take effect. Councilmember Courage requested a breakdown of the rate impacts on the different customer classes. He asked what factors impacted the dollar costs in the Brattle Group Study. Kuchinsky stated that the Brattle analysis included the total cost of service for each customer class.

Councilmember Courage noted that 125% poverty was the level for REAP and supported Councilmember Alderete Gavito's recommendation to increase to 150% for eligibility. Councilmember Courage commented that many utilities have had to increase their rates following the COVID Pandemic and weather events, noting that a fuel increase and rate increase had been approved in the past few years and suggested evaluating those increases cumulatively. He did not support committing a future City Council to the 2027 rate hike nor did he support the requirement of analysis by a consumer advocate as the current rate case was sound.

Councilmember Whyte stated that his position was that the increase was not justified for San Antonio residents to foot the entire bill; and suggested that the burden should be spread across the

City and CPS Energy needed to tighten their belt as well. Councilmember Whyte recommended that City Council prioritize how the City spent its money noting that the economy was not good and people were paying too much on their energy bills.

Councilmember Castillo noted that residential classes had higher rates per kilowatt hour than large commercial users, so she suggested those commercial businesses used more energy yet paid lower rates which overburdened residential customers. Councilmember Castillo did not support approving a 2027 rate increase now, rather, she recommended discussion at that future time.

Councilmember Viagran asked how the improved technology would help consumers, a timeline for implementation of those improvements and whether customers would need to have their own phones and computers upgraded. CPS Energy stated that technology would allow variable rate structures and other energy programs for customers.

Mayor Nirenberg closed the discussion by asserting that the large investments needed today resulted from a lack of proper previous investment and provided street maintenance, police officers, park and library maintenance as an example of how investing in our services today would produce better outcomes tomorrow. Mayor Nirenberg supported trimming the fat but not to the extent that service became unstable pointing to the past underinvestment in personnel and technology that led to the need for this rate increase now.

EXECUTIVE SESSION

There was no Executive Session held.

ADJOURNMENT

There being no further discussion, the meeting was adjourned at 3:29 p.m.

Approved

**Ron Nirenberg
Mayor**

**Debbie Racca-Sittre
City Clerk**