



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 4

Agenda Date: December 7, 2023

In Control: City Council A Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

CPS Energy Proposed Increase in Electric and Gas Base Rates

SUMMARY:

Ordinance approving a 4.25% CPS Energy base rate increase, including adjustments to the Affordability Discount Program, and authorizing a Pension regulatory asset.

BACKGROUND INFORMATION:

The position of Supervisor of Public Utilities is created under the City Charter and its responsibilities are currently combined with the City's Chief Financial Officer. This position has the responsibility to review requests to adjust rates and issue debt from the City owned utilities, CPS Energy and the San Antonio Water System, and provide recommendations to the City Manager and the Mayor & City Council. Those recommendations are based on a comprehensive review of the business case supporting a rate request performed by the Supervisor of Public Utilities with the support of staff in the Public Utilities Division of the Finance Department.

Over the past several months, CPS Energy staff have discussed the need for a potential rate increase with its Board of Trustees, the City, and the community. During this time, City staff have been working collaboratively with the CPS Energy team on the proposed rate request and business

case.

The formal process for City Council consideration of a rate request began with a formal briefing to the CPS Energy Board of Trustees on November 8th. The following table reflects the schedule for consideration of a rate request by the City from CPS Energy.

| Date | Agenda | Description | Status |
|-------------------|-----------------|--|---------------|
| November 8, 2023 | B Session | Briefing from CPS Energy to include revenue requirements, proposed rate increase, operations and maintenance budget, capital budget, finance plan, and establishment of a regulatory asset for pension expense. | Complete |
| November 30, 2023 | Special Session | Briefing from City's Public Utilities Supervisor on recommendations related to the requested rate increase and establishment of the regulatory asset for pension expense; follow-up from the B-session of November 8th; and continued discussion and responses to questions posed. | Complete |
| December 7, 2023 | A Session | Consideration by City Council of Ordinances for a proposed rate increase and establishment of regulatory asset for pension expense. | Pending |

The rate request has the following two components: 1) 4.25% system-wide increase in electric and gas base rates to become effective February 1, 2024; and 2) the establishment of a regulatory asset for Pension and Other Post-Employment Benefits (OPEB) costs. The base rate increase will support CPS Energy's operations and maintenance expenses, capital plan, and associated financing plan. In the last rate request, the Public Utilities Supervisor recommended CPS Energy review the treatment of pension expense in the rate model in order to smooth volatility caused by swings in pension plan asset market values. The establishment of the regulatory asset implements that recommendation.

The combined electric and gas base rate adjustment would equate to an estimated \$4.45 per month increase on the average residential customer bill. To help mitigate the impact of the base rate increase on low-income customers, the affordability discount will be increased by \$2.22 for a combined electric and gas bill. The discount will be available for those who have income at or below 125% of Federal Poverty guidelines and meet one of the following criteria: are elderly; are disabled; use life-sustaining medical equipment; or have children in the household under the age of 18 years. The rate request proposes expanding ADP eligibility criteria to those with severe energy burden; where the cost of energy annually is more than 10% of the annual household income. These customers would still be required to meet the income requirement. The program

currently has 65,000 customers enrolled in it. CPS Energy has included funding to support an increase in enrollment for the program to 80,000 customers.

ISSUE:

Based on the results of the comprehensive review, City Staff recommends approval of the attached ordinance which implements a

- 4.25% system-wide increase in electric and gas base rates to become effective February 1, 2024, to support CPS Energy's operations and maintenance expenses, capital plan, and associated financing plan; including Tariff Amendments to implement the rate adjustments; and amendments to the Affordability Discount Program for Qualifying Low-Income Customers; and
- Establishment of a Regulatory Asset to smooth the volatility of Pension and Other Post-Employment Benefit (OPEB) costs in the rate model.

Additionally, as part of the review of the rate case, other observations were noted which culminated in the following City Staff recommendations to CPS Energy: Periodically perform a Cost of Service study at least every five years and monitor cost ratio results by customer class.

ALTERNATIVES:

If the rate adjustment is not approved, it would significantly impact CPS Energy's Proposed Capital Plan and Operations and Maintenance Budget as well as the financial integrity of the System. Additionally, if not approved, CPS Energy's credit ratings from the three major rating agencies could be negatively impacted.

FISCAL IMPACT:

The City receives 14% of CPS Energy gross revenues based on its ownership of CPS Energy. If the new rates are implemented on February 1, 2024, additional projected revenue of approximately \$8 million will be generated for the remainder of the City's FY 2024. On an annual basis, City payment is projected to increase by approximately \$12 million beginning in FY 2025.

The City's utility expenses would also increase for the remainder of the current fiscal year FY 2024, in the amount of approximately \$800,000.00. On an annual basis, the City's utility expenses will increase by approximately \$1.1 million beginning in FY 2025. If approved, the adjustments for both revenues and expenses will be incorporated into the City's budgeting process.

RECOMMENDATION:

Staff recommends approval of the ordinance authorizing an increase of 4.25 percent to the CPS Energy Electric and Gas Base Rates (System Average) effective February 1, 2024; Tariff Amendments to implement the rate adjustments; and amendments to the Affordability Discount

Program for Qualifying Low-Income Customers; and authorizing the establishment of the regulatory asset for pension and OPEB expenses.