CITY OF SAN ANTONIO
INTERDEPARTMENTAL CORRESPONDENCE

TO: Erik Walsh, City Manager

FROM: Ben Gorzell Jr., Chief Financial Officer

COPIES: Mayor & City Council;

SUBJECT: Report on Proposed Adjustments to CPS Energy Electric and Gas Rates

DATE: December 6, 2021

RECOMMENDATION:

Public Utilities Staff completed a comprehensive review of CPS Energy's proposed rate case. Based on this review, Staff's professional recommendation is approval of:

- Proposed 3.85% system-wide increase in electric and gas base rates to become effective March 1, 2022, to support CPS Energy's operations and maintenance expenses, capital plan, and associated financing plan.
- Establishment of a Regulatory Asset up to $1.005 billion related to CPS Energy's fuel costs from Winter Storm Uri.
    - ➢ Debt financing of Winter Storm Uri fuel costs paid by CPS Energy through the end of calendar year 2021 (approximately $418 million) over a 25-year period with recovery of the associated annual debt service requirements through the fuel adjustment component of customer bills beginning on March 1, 2022.
    - ➢ Procedures for the potential future recovery of amounts related to the approximately $587 million in Winter Storm Uri fuel costs currently being disputed by CPS Energy as resolution to these costs occurs in the future.

Additionally, as part of the review of the rate case, several other observations were noted which culminated in the following City Staff recommendations to CPS Energy:

- Develop a timeline for discussion of generation planning options with the Board of Trustees and the Rate Advisory Committee given the approaching retirement of several generation plants along with upcoming key capital investment decision points for existing generation assets.
- Develop a timeline for the review of rate design (how costs are recovered from different rate classes) with the CPS Energy Board of Trustees and the Rate Advisory Committee.
- Study total compensation levels to include pension and benefit plans to provide for total compensation that allows CPS Energy to recruit and maintain talent while also recognizing that it is a public utility.
- Review the treatment of GAAP determined pension expenses within the rate model.
- After additional information is obtained, assess the proposed plan and timeline for CPS Energy's Digital Enterprise Resource Planning (DERP) system.
- Participate in the City's Ready to Work workforce program.
- Develop a public budget document which outlines CPS Energy's financial plans for the upcoming fiscal year.

BACKGROUND:

Over the past several months, CPS Energy staff have discussed the need for a potential rate increase with its Board of Trustees. Prior to formally initiating a rate review process with the City, a draft proposed rate increase was submitted to the City's Public Utilities Division in September 2021 to allow City staff to begin to review aspects of the proposed rate increase in detail. Subsequently, City staff proposed a revised rate strategy focusing solely on a proposed rate increase effective early next calendar year that provides CPS Energy with the funding to stabilize financially while also allowing the recovery of costs paid to date for Winter Storm Uri. City and CPS Energy staff have collaborated on this revised rate strategy over the past several weeks culminating in a revised rate case.

By focusing on immediate financial pressures, the revised approach provides time for important analysis and dialogue on key policy issues such as generation planning and the design of customer rates to occur with the Rate Advisory Committee, CPS Energy Board of Trustees, and others. Additionally, it also provides time for more clarity to be gained on areas such as bad debt related to the pandemic and fuel costs associated with Winter Storm Uri.

The following table reflects the original rate case submitted to the City along with the revised rate plan currently being considered. As noted in the table, the original case included a base rate increase of 13.4% in FY 2023 followed by 7.0% base rate increases in FY 2025 and FY 2027. The revised rate plan includes a base rate increase of 3.85% in FY 2023 followed by 5.5 % base rate increases in FY 2025 and FY 2027. For FY 2023, the estimated average residential bill impact declines from 11.1% under the original rate case to an estimated 3.3% in the revised rate case. The information in the remainder of this report will be based on the revised rate case.

Table 1 – Rate Plan

CPSE Fiscal Year	Base Rate	Fuel Adjustment	Average Residential Bill Impact	Revenue Requirement Base Rate	Revenue Requirement Winter Storm **
Original					
2023	13.4%	Uri & Bad Debt % not provided	11.1%*	$ 243.6 M	$37.0 M
2025	7.0%				
2027	7.0%				
Revised					
2023	3.85%	.8% - Uri Only	3.3%	$ 72.3M	$24.2 M
2025	5.5%				
2027	5.5%				

* The previously reported 8.2% average residential bill impact contained a 2.9% forecast usage reduction
** Not subject to City Payment

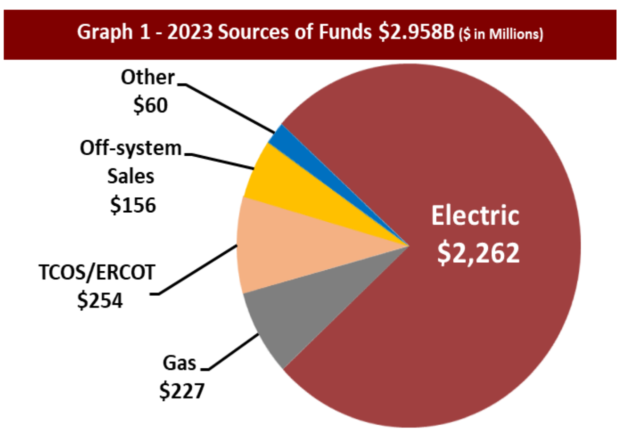
REVIEW PROCESS:

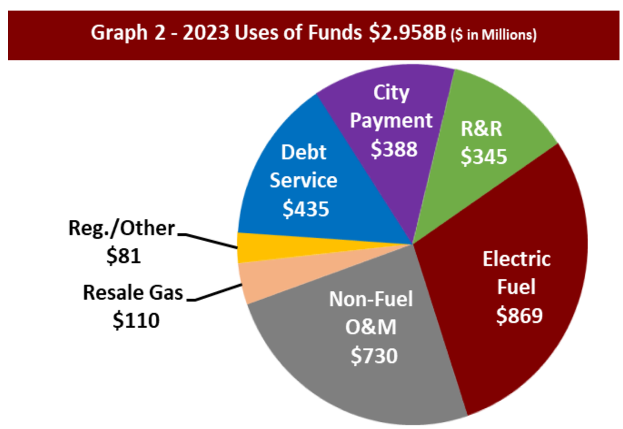
The position of Supervisor of Public Utilities is created under the City Charter and its responsibilities are currently combined with that of the City's Chief Financial Officer. This position has the responsibility to review requests to adjust rates and issue debt for the City owned utilities, CPS Energy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

The comprehensive review includes areas such as the economic/rate model; sales forecast; revenue requirements; operations and maintenance budget; capital plan; financing plan; financial targets and metrics; credit considerations; financial statements; rate design; affordability programs; and bill impacts. The following sections offer a more detailed description of some key areas included in the review.

Proposed Budget

CPS Energy is proposing a total revenue budget of $2.958 billion for FY 2023, an increase of $182.6 million, or 6.6% over the latest estimate for FY 2022. This total proposed revenue budget is inclusive of growth in the system, fuel (which is generally a pass through on rates), the proposed base rate increase of 3.85%, and the proposed recovery of projected debt service requirements on Winter Storm Uri fuel costs paid through the end of the calendar year. The pie chart below on the left labeled Graph 1 categorizes the major sources of revenue while the pie chart labeled Graph 2 on the right reflects the major categories of the uses of funds.

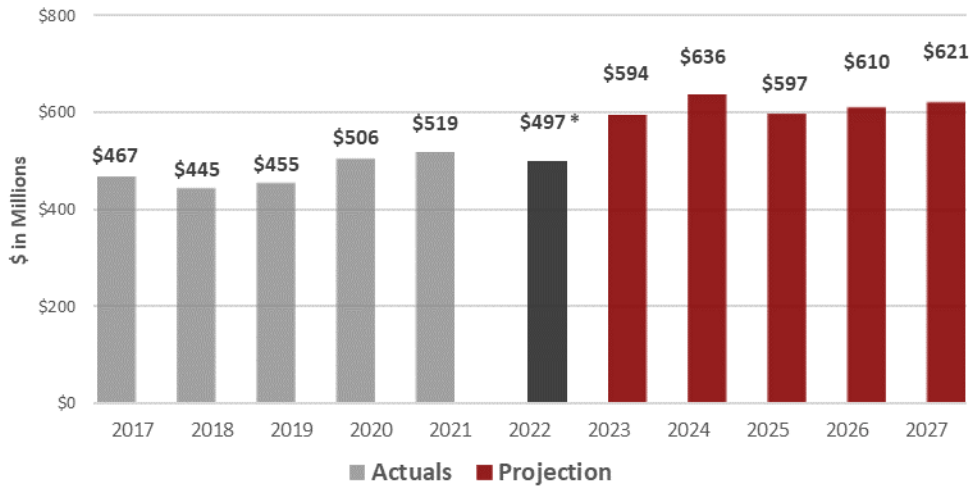




Operations and Maintenance (O&M) Proposed Budget

Graph 3 below summarizes actual non-fuel O&M expenses net of capitalization and exclusive of the South Texas Nuclear Project (STP) for the prior five years compared to the projected five-year plan.

Graph 3 – O&M History and Projection



*Latest FY 2022 Estimate

The proposed FY 2023 non-fuel O&M budget net of capitalization and exclusive of STP is $593.6 million, an increase of $60.5 million, or 11.4% over the FY 2022 Adopted Budget. The increase in FY 2023 is primarily driven by increases in the Labor and Outside Services expense categories. A portion of O&M costs are eligible to be capitalized and as such will be funded through the capital budget. To provide a more complete picture on total compensation, labor and benefit amounts reported below are gross, or prior to capitalization.

With respect to staffing, no change in the total number of current authorized positions (3,370) is included in the five-year plan. However, CPS Energy currently has over 400 positions vacant and is projecting to fill most of these positions over the next 18 months in order to return to pre-pandemic staffing and operational levels. With the number of positions CPS Energy expects to fill over the near term, the City's Ready to Work workforce development program presents an opportunity for participation and assistance in filling these positions.

CPS Energy did not include any compensation increases in its current fiscal year. For FY 2023, CPS Energy has $23.2 million budgeted as summarized in Table 2 to address issues including resumption of merit increases, increasing the entry wage, and compensation adjustments targeting hard to fill positions discussed in more detail below.

Table 2 – Compensation Changes FY 2023

Category	$ Impact ($ in Millions)		% of Pay
Merit/GWI	$	6.7	2.5%
Entry Wage	$	2.0	0.7%
Other		6.5	2.4%
Hard to Fill Positions		8.0	2.9%
Total Market Adjustments	$	16.5	6.1%
Total Compensation	**$**	**23.2**	**8.5%**

Merit/General Wage Increase – The proposed budget includes a General Wage Increase (GWI) and a merit pay increase pool of $6.7 million or 2.5% of pay. The GWI is for non-salaried employees and takes effect in February while the merit increase is for salaried employees and takes effect in June.

Entry Wage – The proposed budget includes $2 million for an increased entry wage from $15.00 to $18.00 per hour, effecting approximately 350 positions, primarily Utility Workers and Energy Advisors.

Hard to Fill Positions – CPS Energy reports challenges attracting and retaining employees in the current very competitive labor market, especially in key technical and financial roles. As such, a total of $11.4 million has been included for compensation adjustments for these hard to fill non-executive positions. These adjustments are programmed to occur over two years with $8 million in FY 2023 and an additional $3.4 million in FY 2024, respectively. A summary of the targeted adjustments is shown in Table 4.

Table 3 – Targeted Market Adjustments

Increase Range	Roles *
0%-20%	Operators - System, Transmission, and Distribution IT Techs, System Techs, Energy Controllers
0%-15%	Engineers and Designers Meter Techs, Gas Techs, Operations Techs... Auditors and Financial Analysts
0%-10%	Supervisors and Managers Other Professionals and Analysts Misc. Non-exempt positions
*Executives are excluded from adjustment pool	

Other – The proposed budget also includes $6.5 million in FY 2023 to provide more hiring and retention flexibility including lump sum retention and sign-on incentives for hard to fill positions, job evaluations and equity adjustments for changes in roles, and compensation adjustments to current average salaries for the additional employees CPS Energy plans to hire to return to normal staffing discussed above.

Additionally, there is an approximately $53.6 million increase associated with pension expense and other benefit costs included for FY 2023. This increase is largely driven by pension expense which was lower over prior years due to the smoothing of investment gains. Actual cash pension contributions continue to be relatively stable from year to year.

The Employee Incentive Program (EIP) is not included in the proposed budget or rate model prospectively. A total of $28.8 million associated with the EIP has been accrued for FY 2020 ($14.3 million) and FY 2021 ($14.5 million) but has not been paid to date. The amount for FY 2020 is legally required to be paid out and that payment to employees is expected to occur in early calendar year 2022. The amount for FY 2021 will not be paid out and as such, these funds will be returned to available fund balance.

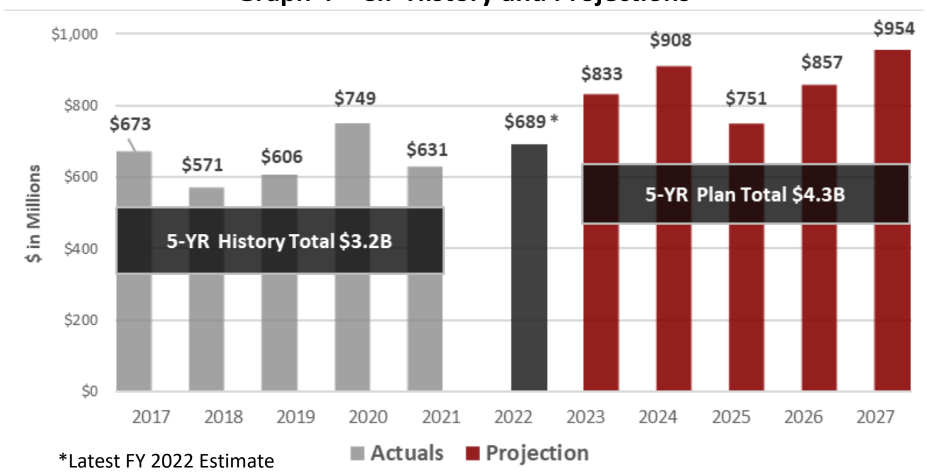
With respect to outside services, the FY 2023 budget is increasing by $22 million or 9% over the FY 2022 Budget. This increase is largely driven by services to support the Digital Enterprise Resource Planning System (DERP) with $18.4 million allocated in FY 2023 and $14.1 million allocated in FY 2024. The DERP will be discussed further in a subsequent section. Outside services also increased due to power plant maintenance and overhauls, IT and security consultants, as well as transmission and distribution system maintenance. CPS Energy has also included reliability and resiliency initiatives to support recommendations from the Committee on Emergency Preparedness (CEP) which are discussed below in Table 5 showing both the O&M and capital components of these investments.

Capital Plan

Capital requirements are a significant driver in the development of rates as funding is derived from the issuance of additional debt and cash contributions, both of which impact cash flows on an annual basis. Staff's review of the capital plan focused on the five-year plan (FY 2023 through FY 2027). Individual meetings with CPS Energy senior leadership and staff of each of the Business Areas were conducted to obtain a greater understanding of the proposed capital plan, its development, as well as the prioritization of proposed projects. The proposed five-year capital plan includes almost 600 projects with a projected total capital spend of $4.3 billion. Business cases which included a project description, project justification, and expected benefits were provided for each individual project.

For context, Graph 4 below summarizes the actual capital spend from FY 2017 to FY 2021, the latest estimate for FY 2022, and the projections for the five-year period from FY 2023 to FY 2027. As noted in the table, the total actual capital spend was $3.2 billion compared to $4.3 billion projected from FY 2023 to FY 2027.

Graph 4 – CIP History and Projections



*Latest FY 2022 Estimate

The Capital Improvement Plan (CIP) for FY 2023 includes investments in the following strategic categories:

- $302.7M Infrastructure Modernization - includes upgrades at existing power plants, grid reliability enhancements, and technology improvements
- $242.9M Customer Growth - primarily upgrading and extending service to new customers,
- $163.1M System Growth - primarily gas and electric transmission and distribution system investments
- $86.4M Environmental/Legislative/Regulatory, Special Projects – primarily projects to address CEP recommendations and to comply with existing or new regulations
- $37.9M Civic Improvements - required infrastructure changes to support City, State and Federal capital projects

CEP Funding

From February 13 to February 19, 2021, the continental United States experienced a severe winter storm resulting from the southern migration of a polar vortex that meteorologists characterize as the most significant in terms of scope and duration since the monitoring of these weather phenomenon began in the 1950s. With this storm, San Antonio experienced three consecutive days of record low temperatures and record low daily high temperatures and wind chills. This winter storm, named Uri, had significant cascading impacts on the San Antonio community.

On February 22, 2021, Mayor Nirenberg created the Committee on Emergency Preparedness (CEP) to study the event to determine what happened and to provide recommendations on what needed to be done to better prepare for these types of events. The study was focused on CPS Energy, the San Antonio Water System, and the City's Emergency Operations Center. Based upon the Committee's review and analysis, a Report with recommendations for each entity was published. The intent of the recommendations is to improve and better prepare the entities to manage significant future emergencies with cascading impacts to include a severe weather event. Table 4 summarizes approximately $200 million in funding included in the O&M budget and capital plan to address some of the recommendations made by the Committee on Emergency Preparedness.

CEP	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	5-Yr. Total
Communications	$ 2,684,000	$ 4,584,000	$ 2,484,000	$ 2,484,000	$ 2,484,000	$ 14,720,000
Reclosers - Circuit Reliability	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	50,000,000
Freeze Protection	8,400,000	23,800,000	-	-	-	32,200,000
Plant Perf. & Reliability	8,000,000	10,000,000	-	-	-	18,000,000
Fuel Oil	1,000,000	6,200,000	10,000,000	-	-	17,200,000
Other	8,875,000	11,025,000	8,825,000	7,275,000	8,706,800	44,706,800
Total Capital Items	$ 38,959,000	$ 65,609,000	$ 31,309,000	$ 19,759,000	$ 21,190,800	$ 176,826,800
O&M Items	$ 5,704,773	$ 11,426,241	$ 1,930,161	$ 1,184,620	$ 1,192,312	$ 21,438,107
Combined CIP and O&M	**$ 44,663,773**	**$ 77,035,241**	**$ 33,239,161**	**$ 20,943,620**	**$ 22,383,112**	**$ 198,264,907**

Following are some general descriptions of the work to be completed in each of the categories reflected in Table 5:

- Communications – to identify and implement a situational awareness "data driven" platform that can display evolving information remotely from operational teams to leadership.
- Reclosers for Circuit Reliability – Reclosures isolate faults and clears momentary outages which reduces the number of customers that are exposed to outages on the distribution system and further enhance load shedding capabilities.

- Freeze Protection – the Public Utility Commission of Texas (PUCT) is developing rules that may require additional weatherization investments to meet more stringent standards.
- Plant Performance and Reliability Improvements – The burner & ignitor systems at the Braunig sites and Spruce 1 variable frequency drives need upgrades to improve performance.
- Fuel Oil – seeks to increase fleet resiliency by having additional generation units backed up on-site by secondary fuel sources.

Further, CPS Energy is working to improve their operational resiliency, controls, and communication in emergency situations. Some projects that highlight improved reliability and resiliency include:

- Cable rehabilitation to replace failing direct buried cable
- Undergrounding lines in areas with historic reliability issues
- Replacing aging poles
- Transmission rebuilds
- Steel gas service replacement

Financing of Capital Plan

CPS Energy will fund the capital plan with various funding sources that includes Contributions in Aid of Construction (CIAC) – developer paid fees including line extensions; Debt – short-term commercial paper and long-term bonds; and, Equity – cash contributions from its Repair & Replacement Fund. Table 5 below illustrates each funding source by year for the 5-year $4.3 billion plan along with the percentage of funding by cash and by debt. Historically, CPS Energy targets a 60% debt to 40% cash funding ratio. Since the forecasted Debt/Equity ratio exceeds the 60% target, additional cash has been allocated to the capital plan to move toward the overall system wide 60% Debt to Equity target.

Table 5 – Capital Funding Sources

Funding Source ($ in Thousands)	FY2023	FY2024	FY2025	FY2026	FY2027	5-YR Total
Funded with CIAC	$ 70,760	$ 72,370	$ 70,802	$ 71,011	$ 71,067	$ 356,010
Funded with Debt	304,601	497,841	299,064	387,710	484,911	1,974,128
Funded with Equity & Other	457,542	338,205	381,179	398,220	398,351	1,973,497
Total Sources of Construction	$ 832,904	$ 908,416	$ 751,046	$ 856,941	$ 954,329	$ 4,303,635
Debt % of New Construction	**36.57%**	**54.80%**	**39.82%**	**45.24%**	**50.81%**	**45.87%**
Equity % of New Construction	**63.43%**	**45.20%**	**60.18%**	**54.76%**	**49.19%**	**54.13%**

Under the proposed plan, CPS Energy will issue approximately $2.0 billion of "new money" debt to finance the 5-year capital plan. The plan includes the following installments and does not include debt for Winter Storm Uri fuel costs:

- 1st Installment - $300 million (Fall 2023)
- 2nd Installment - $495 million (Winter 2024)
- 3rd Installment - $300 million (Fall 2026)
- 4th Installment - $390 million (Winter 2027)
- 5th Installment - $485 million (Fall 2028 refunding commercial paper previously issued)

Digital Enterprise Resource Planning (DERP) System Project

DERP is a technology transformation project to replace CPS Energy's current end-of-life legacy ERP solution. The scope of this project is highly complex and involves the replacement of the current financial system in addition to approximately fifty integrated business solutions. It is an estimated seven-year program (FY 2022 to FY 2028) with an estimated cost of approximately $300 million.

Given the complexity of this project along with it being in the early phases of development, the rate model was revised to provide funding only in FY 2023 and FY 2024. Table 6 below summarizes the amount of funding for both years categorized as operating or capital. In FY 2024, CPS Energy will have completed defining its requirements for a new system(s) and will have received responses from its procurement process. At that point, better estimates of costs will be available and an assessment of how to proceed, taking into consideration all risks, can be further developed. Based on information at that time, a multi-year funding plan can be developed which also aligns with the next potential rate case.

Table 6 – DERP Assessment & Planning Costs

($ in Millions)	FY2023	FY2024
O&M	$ 18.40	$ 14.10
Capital	$ 1.10	$ 8.20
Total	$ 19.50	$ 22.30

Economic/Rate Model

CPS Energy uses a detailed Cash Flow Model ("Model") to develop financial forecasts. The Model includes key financial targets and policies that are designed to assist CPS Energy in maintaining a strong financial position, attaining its long-term financial goals, meeting the capital and maintenance requirements of both the electric and gas systems, meeting the flow-of-funds requirements as set out in the bond ordinances, and maintaining a strong credit rating. Credit ratings are an important factor due to the level of projected capital funding required and the impact on the overall cost of borrowing.

CPS Energy recently received credit ratings downgrades along with many other utilities throughout Texas due to the impact of Winter Storm Uri. CPS Energy's Sr. Lien Debt rating was impacted as follows: Fitch changed from AA+ to AA- with no outlook change, S&P changed from AA to AA- and from Stable outlook to Watch Negative outlook, and Moody's maintained the Aa1 rating but the outlook went from Stable to Negative. Table 7 reflects the impacts from each of the credit rating agencies.

Table 7 – Rating Impact of Winter Storm

Before Weather Event			After Weather Event			Current		
	Rating	Outlook	Rating	Outlook	Comments	Rating	Outlook	Comments
Fitch	AA+	Negative	AA-	Negative	*Change in Rating*	AA-	Negative	*No recent change*
S&P	AA	Stable	AA-	Watch Negative	*Change in Rating & Watch*	AA-	Negative	*Removed Watch Negative; Added Negative Outlook*
Moody's	Aa1	Stable	Aa1	Negative	*Change in Outlook Only*	Aa1	Negative	*No recent change*

The financial targets include such items as: Debt Service Coverage, Debt/Equity Ratio, Days Cash on Hand and additional Repair and Replacement (R&R) Deposits. Targets were evaluated in terms of CPS Energy's cash flow and system requirements. In reviewing the sufficiency of CPS Energy's key financial targets, Staff reviewed several items including the "U.S. Public Power Peer Study", a report by Fitch Ratings from June 2021 as well as each of the most recent rating reports. The Peer Study Report compares the recent financial performance of public power systems among various categories utilizing different financial ratios.

The analysis shows that the current rate request will result in key CPS Energy financial measures remaining relatively flat to slightly increasing above target from FY 2023 to FY 2027, due to increases in O&M expenses, the funding of its capital program, and the issuance of debt related to the Winter Storm Uri fuel costs. Strong financial measures will continue to be essential to ensure low financing costs along with adequate debt capacity. Attachment A includes graphs for some of these key financial metrics.

Rate Design

Under the revised rate case, no changes to the current rate design (how costs are recovered from customer classes) are being proposed. The base rate increase of 3.85% is being applied across the board to base rate components, with some rounding and adjustments allowed, resulting in the current rate structure largely remaining intact. This approach will provide the necessary time for the study of the current rate structure to facilitate the development of potential recommendations on changes by the Rate Advisory Committee and the CPS Energy Board of Trustees.

Regulatory Asset

Following Winter Storm Uri, utilities across Texas were invoiced for exorbitant electric and gas fuel costs and CPS Energy was invoiced over $1 billion for this approximate one-week period. To put this in perspective, CPS Energy's total fuel expense for the entire year of FY 2022 was approximately $1 billion. CPS Energy has been protecting its customers from excessive, illegitimate costs through negotiation and the pursuit of legal actions. To date, CPS Energy has paid approximately $418 million in fuel costs related to Winter Storm Uri with the balance continuing to be disputed.

Normally, fuel costs are recorded as fuel expense and recovered from retail customers within 60-90 days through the fuel adjustment factor. If the fuel costs associated with Winter Storm Uri were to be passed on in this manner, CPS Energy customers would immediately experience extremely high customer bills. To mitigate the impact of the Winter Storm fuel charges on its customers, CPS Energy is requesting a Regulatory Asset which allows these charges to be capitalized and amortized over 25 years. This in turn allows these costs to be recovered from customers over time mitigating the impact. The Regulatory Asset is requested in an amount not to exceed $1.005 billion to capture all the Winter Storm fuel related charges including gas and energy charges, litigation costs, interest, and interim financing costs. However, only CPS Energy fuel and other related costs for Winter Storm Uri paid through the end of the current calendar year and related costs (currently $418 million) will be authorized to be debt financed with the recovery of debt service requirements commencing on March 1, 2022 through the fuel component of customers' bills. Additionally, Staff recommends that the recovery of Winter Storm Uri fuel costs through the Regulatory Asset be exempt from the City's 14% gross revenue payment. The annual debt service requirement for this initial financing is estimated at $24.2 million and has been included in the revised rate case. Please also note that the Winter Storm Uri recoveries are not included in the base rate increase as this recovery will occur through the fuel adjustment portion of the customer bill.

Approval of the Regulatory Asset would also include procedures for the potential recovery of amounts related to the approximately $587 million in Winter Storm Uri fuel costs currently being disputed by CPS Energy, as resolution to these disputes occur in the future. These procedures include:

1. CPS Energy to brief City Council on the resolution of the dispute

2. Public Utilities to review the impact on the fuel adjustment and average residential customer
3. CPS Energy would request City Council approval to issue long-term debt to finance any further Winter Storm Uri costs

Rate Plan and Customer Bill Impact

The Rate Model utilized by CPS Energy is a long-range financial model. Under the revised rate case, the rate plan includes the proposed 3.85% base rate under consideration for approval and projects two future base rate increases over the next five years of 5.5% in both FY 2025 and FY 2027. These future base rate increases are not under consideration at this time but are part of the financial model projections. Over time, this Rate Model will continue to be updated for factors such as changing conditions, financial information, economic activity, execution of planning decisions, and more clarity on outstanding issues. These factors will impact the Rate Model and the level of future projected rate increases. Table 8 below illustrates the current projected 5-year rate plan.

Table 8 – 5-Year Rate Plan

System	2023	2024	2025	2026	2027
Electric	3.85%	0.00%	5.50%	0.00%	5.50%
Gas	3.85%	0.00%	5.50%	0.00%	5.50%

The combined electric and gas systems rate adjustment will equate to an increase of 3.85% on base electric rates and base gas rates. In addition to the base rate increase, CPS Energy is proposing to recover the costs already paid due to the impact of Winter Storm Uri as discussed above in the section labeled "Regulatory Asset". The recovery mechanism for this will be included in the normal monthly fuel adjustment recovery factor. Table 9 below illustrates the impacts to the average residential combined electric and gas bill, the electric only bill, and the gas only bill with the last column reflecting the percentage increase on the total bill. Additionally, for your information, Attachment B includes the projected impact at various usage levels for residential and commercial customers.

Table 9 – Residential Bill Impact Summary

Residential Bill	Current	Base Increase	Winter Storm	Total Bill Increase	New Bill	Total % Increase
Combined Electric & Gas	$152.28	$3.84	$1.26	$5.10	$157.38	3.3%
Electric Only	$126.11	$3.12	$0.93	$4.05	$130.16	3.2%
Gas Only	$26.17	$0.72	$0.33	$1.05	$27.22	4.0%

Utility Assistance

During the COVID-19 pandemic, many residents struggled financially due to unemployment or loss of job hours or income. These residents found themselves unable to pay for basic needs including their monthly rent, mortgage, utility bills and food. CPS Energy reports there are approximately 65,000 customers eligible for disconnect with a balance of $72.1 million as of October 31, 2021. On November 18, 2021, City Council approved $20 million in federal funding from the American Rescue Plan Act (ARPA) to provide emergency utility bill assistance to low-income San Antonio residents who were financially impacted by COVID-19.

Under the Ordinance and Program approved by City Council, CPS Energy may utilize the funding to credit past due bills of eligible residents. CPS Energy may pay the full balance of a resident's past due bill incurred between March 1, 2020, and September 30, 2021, if the resident earns less than 125% of the Federal Poverty Level (FPL). For eligible residents at or above 125% of the FPL, the Program allows CPS Energy to provide up to $1,000 in bill credits for balances incurred during that same time period. Past due balances and accounts eligible for disconnect will continue to be closely monitored.

Affordability Program Update

The combined electric and gas base rate adjustment would equate to an estimated $3.84 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 $3.84 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 under the age of 18 years.

Table 10 below illustrates the increase in the affordability discount program. The program currently has 51,780 electric customers and 30,413 gas customers enrolled in it. CPS Energy has included funding to support an increase in enrollment for the program to 65,000 electric customers and 44,000 gas customers.

Table 10 – Affordability Discount Program Adjustments

	Current	Proposed	Additional
Electric	**$8.55**	**$11.67**	**$3.12**
Gas	**$3.75**	**$4.47**	**$0.72**
Combined	**$12.30**	**$16.14**	**$3.84**

This discount is addition to other assistance programs offered by CPS Energy, some are listed as follows: Residential Energy Assistance Program (REAP), Burned Veterans' Discount, Sr. Citizen Late Payment Waiver, Disabled Citizens, Critical Care, and others.

Summary

City Staff recommends support for the revised rate case to include the 3.85% base rate increase and the establishment of the Regulatory Asset for Winter Storm Uri fuel costs. This revised rate case recognizes that in the near-term CPS Energy faces a number of challenges ranging from the impacts of the pandemic and Winter Storm Uri to policy issues such as decisions related to generation planning and the design of its customer rates. It acknowledges more time is required for robust analysis and dialogue on these important policy issues and time will provide more clarity on areas where greater uncertainty exists currently.

Importantly, this rate case addresses CPS Energy's immediate financial pressures and establishes a base rate plan that will continue to get updated as decisions on policy issues are implemented and areas of uncertainty continue to evolve. Key to facilitating the ability to focus on policy issues is ensuring CPS Energy is in a solid financial position and through a rate plan has the flexibility to adjust as conditions change, and if necessary, receive additional rate support. Many factors will affect this in the future and include items such as:

- Post-pandemic realities

- Pandemic bad debt
- Winter Storm Uri disputed fuel costs
- Generation planning decisions
    - Spruce I and II Coal Units
    - Decommissioning of the Braunig and Sommers Units
    - Flex Path Options
    - Generation technology advancements
- DERP costs and implementation plans
- Rate design changes
- Future conservation programs (Flex Step)

FISCAL IMPACT:

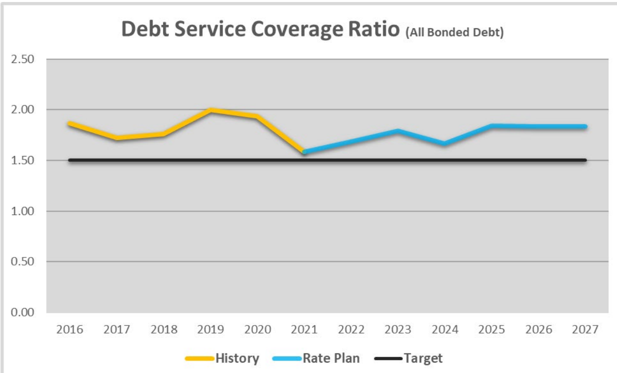
The City receives 14% of CPS Energy gross revenues based on its ownership of CPS Energy. City Staff recommends that no City Payment be applied to recovery of CPS Energy fuel and other related costs for Winter Storm Uri through the Regulatory Asset. This waiver of City Payment has a projected value of approximately $98 million over the proposed 25-year bond financing.

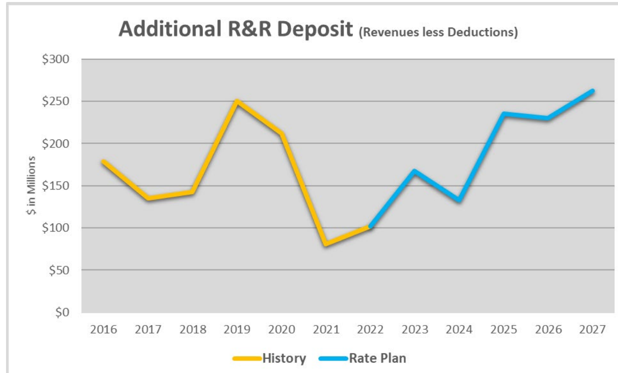
The City would receive the 14% City Payment on the proposed base rate increase. If the new rates are implemented on March 1, 2022, additional projected revenue of approximately $5.9 million will be generated for the remainder of the City's FY 2022. On an annual basis, City payment is projected to increase by approximately $10.1 million beginning in FY 2023.

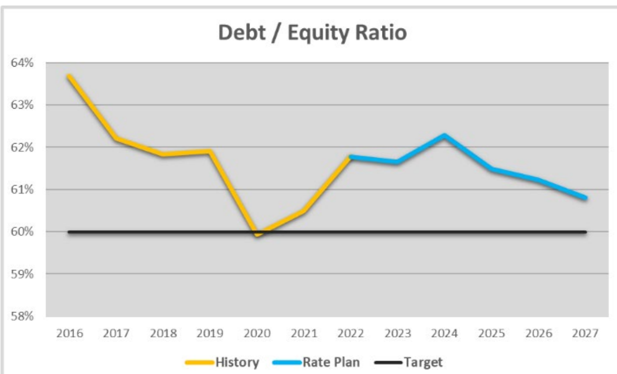
The City's utility expenses would also increase for the remainder of the current fiscal year in the amount of approximately $684,000. On an annual basis, the City's utility expenses will increase by approximately $1.12 million beginning in FY 2023. If approved, the adjustments for both revenues and expenses will be incorporated into the City's budgeting process.

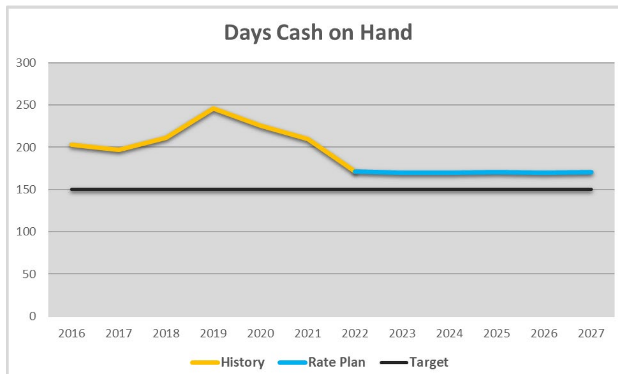
Please contact me if you should have any questions or require additional information.

Attachment A
Economic/Rate Model Measures









Attachment B
Bill Impacts, Various Usage Levels, Several Rate Classes
Including Winter Storm Recovery
(Monthly Averages)

Residential Bill Impact (Monthly at Various Usage Levels)				ADP	
Electric kWh	Gas CCF	$ Change	% Change	$ Change	% Change
500	10	$2.32	3.04%	-$0.90	-1.38%
1,000	20	$4.57	3.28%	$1.47	1.14%
1,500	35	$6.97	3.40%	$3.97	2.04%
2,000	50	$9.35	3.46%	$6.47	2.48%

Small Commercial (PL & Commercial G)			
Electric kWh	Gas CCF	$ Change	% Change
1,000	20	$5.48	3.87%
2,000	40	$10.53	3.87%
3,000	60	$14.52	3.84%
4,000	80	$20.48	3.86%

Small Commercial Elec Only (PL)			
Electric kWh	Gas CCF	$ Change	% Change
1,000		$4.40	3.70%
2,000		$8.77	3.70%
3,000		$12.08	3.67%
4,000		$17.36	3.70%

Large Commercial (LLP)			
Electric MWh	Gas CCF	$ Change	% Change
60		$215.31	3.67%
100		$354.12	3.67%
140		$492.93	3.66%
180		$631.74	3.66%

Small Commercial Gas Only (Commercial G)			
Electric MWh	Gas CCF	$ Change	% Change
	30	$1.42	4.88%
	50	$2.10	4.99%
	70	$2.78	5.05%
	90	$3.47	5.10%

Industrial Gas (Ind B)		Bill	Impact
Electric MWh	Gas CCF	$ Change	% Change
	500	$19.04	5.34%
	1,200	$43.19	5.40%
	1,600	$56.98	5.41%
	2,200	$77.68	5.42%