



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 5

Agenda Date: January 13, 2022

In Control: City Council A Session

DEPARTMENT: Finance Department

DEPARTMENT HEAD: Troy Elliott

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

CPS Energy Regulatory Asset for Winter Storm Costs

SUMMARY:

Ordinance authorizing CPS Energy to establish a regulatory asset for the 2021 Winter Storm fuel and other related costs and providing a mechanism for the recovery of allowable costs.

BACKGROUND INFORMATION:

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.

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 budget 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 and other related costs from Winter Storm Uri with the remaining approximately \$587 million 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, spreading the impact on customer bills. The Regulatory Asset is requested in an amount not to exceed \$1.005 billion to capture all the Winter Storm fuel and other 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 (approximately \$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. The annual debt service requirement for this initial financing is estimated at \$24.2 million and has been included in the rate case submitted for Council consideration in a separate agenda item.

Additionally, Staff recommends that the recovery of Winter Storm Uri fuel and other related costs through the Regulatory Asset be exempt from the City's 14% gross revenue payment.

The regulatory asset and proposed recovery plan have been reviewed in three City Council work sessions (December 1, December 8 and December 15, 2021) as well as a CPS Energy Board of Trustees public meeting on December 14, 2021. CPS Energy has held numerous meetings with community members.

ISSUE:

CPS Energy requests authorization to:

1. Establish a Regulatory Asset up to \$1.005 billion related to CPS Energy's fuel and other related costs from Winter Storm Uri.
2. Debt finance Winter Storm Uri fuel and other related 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 would include:

1. CPS Energy to brief City Council on the resolution of the dispute.
2. The City's Public Utilities Division 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.

ALTERNATIVES:

If the Regulatory Asset is not approved, CPS Energy would need to recognize the paid Winter Storm costs immediately causing extremely high bills for customers and cascading financial impacts on CPS Energy and the City.

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 the recovery Winter Storm Uri costs through the Regulatory Asset. This waiver of City Payment has a projected value of approximately \$98 million over the proposed 25-year bond financing.

RECOMMENDATION:

City Staff recommends Council approve the Ordinance which includes:

1. Establishment of a Regulatory Asset up to \$1.005 billion related to CPS Energy's fuel and other related costs from Winter Storm Uri.
2. Debt financing of Winter Storm Uri fuel and other related 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.
3. Waiver of City Payment on revenues associated with the recovery of the Winter Storm Uri costs.
4. 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.