



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 6

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 Proposed Electric and Gas Rate Increase

SUMMARY:

Ordinance authorizing approval of adjustments to the CPS Energy electric and gas base rates by 3.85%.

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.

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 on a proposed rate increase

effective early in calendar year 2022 that provides CPS Energy with the funding to stabilize financially and the establishment of a regulatory asset to allow the recovery of costs paid to date for Winter Storm URI. City and CPS Energy Staff collaborated on this revised rate strategy culminating in a revised rate case. This revised proposed rate increase was presented in B-Session on December 1, 2021.

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 revised rate case proposes the following two components: 1) a base rate increase; and 2) the establishment of a regulatory asset related to CPS Energy's fuel and other related costs from Winter Storm URI. The base rate increase will support CPS Energy's operations and maintenance expenses, capital plan, and associated financing plan. This agenda item focuses on the base rate increase. The Regulatory Asset is addressed in a separate agenda item.

The City hosted three City Council work sessions (December 1, December 8, and December 15, 2021) to allow CPS Energy to present its rate case, receive the report of the Supervisor of Public Utilities, and provide opportunities to address questions from City Council. The CPS Energy Board of Trustees held a public meeting on December 14, 2021 to gather public input on the proposed increase and CPS Energy has held numerous meetings with community members.

The Public Utilities Staff of the Finance Department worked with CPS Energy to conduct a comprehensive review of the proposed electric and gas rate increase. The review included 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. A detailed report was provided for the City Council B-Session on December 8, 2021 and is included as an attachment to the ordinance.

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. 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.

ISSUE:

Based on the results of the comprehensive review, City Staff recommends approval of the 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, associated financing plan, and amendments to the affordability discount program to mitigate the impact on low-income customers.

Additionally, as part of the review, 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.

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 may be negatively impacted.

FISCAL IMPACT:

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. The City's utility expenses would also increase for the remainder of the current fiscal year in the amount of approximately \$684,000. If the proposed rate increase is approved, the fiscal impact will be incorporated into the budget during the City's mid-year budget adjustment process for FY 2022.

On an annual basis, City payment is projected to increase by approximately \$10.1 million and 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 for future fiscal years.

RECOMMENDATION:

Staff recommends approval of the ordinance authorizing an increase of 3.85% to the CPS Energy Electric and Gas Base Rates effective March 1, 2022; tariff amendments to implement the rate adjustments; and amendments to the Affordability Discount Program for qualifying low-income customers.