



Citizens Advisory Committee

1st Quarter 2020 Meeting Outcome & Activity Report

February 12, 2020 Meeting

On Wednesday, February 12, 2020 the Citizens Advisory Committee (CAC) held its regularly scheduled monthly meeting. Kevin Matula, Manager, Local Government Relations outlined the upcoming year's topics based on the recent CAC Survey results.

Geronimo Gonzalez, Director of Financial Planning and Analysis presented highlights from the FY21 approved budget.

- Mr. Gonzalez shared the CPS Energy business model, stating that while the company is run like any other business (generate revenues, manage expenses, contain costs and issue debt), there are differences. For example, our business model allows for direct connectivity to our customers through our *People First!* Community Fairs, walk-in and call centers and connectivity to our community by way of our CAC. We are unique, and it is felt and built into the entire budgeting process.
- Our company's guiding pillars: Reliability, Affordability, Security, Safety, Environmental Responsibility, Resiliency and Financial Responsibility are carried out in the budgeting process as well. The budget is built thoughtfully and a full analysis of relevant data is assessed to ensure it includes only what we need.
- Gonzalez described the non-fuel Operations & Maintenance (O&M) and the Capital budgets that had been approved by the Board of Trustees (BOT) on February 27, 2020. Funding requirements for FY21 are \$2.8 Billion. The flow of funds, or how the budget dollars are spent, include Operational Expenses, Fuel & Regulatory Expenses, Debt Requirement Expenses, Repair & Replacement Expenses and the City Payment to our owner the City of San Antonio (COSA), which is estimated to be \$365 Million for FY21. Additionally, we expect approximately \$53 million to come from the sale of buildings this coming year.
- A significant driver, 84% of revenue is projected to come from retail electric sales. New customer growth of +1.8% on the electric side and +1% growth for natural gas is expected. Wholesale revenue was also a significant contributor to revenues in tight electric markets last year and we anticipate similar outcomes from FY21.
- O&M will see an increase from last year representing investment in our power plants, fuel and other initiatives that are driving an increase while we make strides in finding efficiencies to mitigate, manage and curb costs.

- The Capital Plan for FY21 is \$684 million, representing a decrease from last year's \$760 million which was tied to the JBSA electric and gas infrastructure that is now complete. Nonetheless, increased customer growth and power plant investments are requiring capital infusions.
- Further, Gonzalez explained the Capital Financing Plan sets a threshold to remain below a 60% debt ratio. We will strive to pay more with cash and less debt, as the estimated debt ratio is currently at 1.7% in FY' 21.
- Finally, he described two credit rating thresholds. The adjusted debt service coverage is 1.5 where we are estimated to be at 1.6. The Days Cash on Hand threshold is 150 days while our forecast is to be at 161 days.
- We have a positive net income of \$3.9 million which is a signal of strong health in FY' 21. In FY' 22, we know that we will have additional pressures that we will have to address.

New CAC members MaryEllen Veliz and Frank Gonzalez introduced themselves to the group, this being their first meeting.

Staff Updates:

- John Leal, Director, Local Government Relations shared that he will present both Gonzalez & Veliz for BOT approval on March 2, 2020. The Mid-Town substation project continues to proceed, having had a public meeting held on Feb. 4, 2020. Many thanks to Councilman Trevino and H-E-B for their ongoing support and cooperation.
- Matula gave an update on the successful SA to DC trip where team members from CPS Energy participated in the Energy & Sustainability Committee, lead multiple meetings on Capitol Hill, including a meeting with the Department of Energy on the Clean Cities Initiative. Former CAC Chairman, Klaus Weiswurm was also able to participate in this committee work.

March 19, 2020 Meeting

Due to ongoing COVID-19 precautions, the CAC held its regularly scheduled monthly meeting via conference call on Wednesday, March 19, 2020.

John Leal began with a staff update. With the COVID-19 pandemic underway, CPS Energy has begun messaging on social distancing and our announcement on a moratorium of customer disconnects. We will be making payment arrangements during modified hours at call centers and via other avenues to pay bills.

Cory Kuchinsky, Interim VP of Strategic Pricing and Enterprise Risk Management and Chad Hoopingarner, Senior Director of Strategic Pricing and Cost Recovery provided a presentation on Strategic Pricing & Cost Recovery.

- Kuchinsky began by pointing to the pillar of affordability as the one that pricing is focused on most. Customers are classified based on the ways in which they use energy so that customers pay for the unique costs that they drive into the business, i.e. when they pose most demand on the system. Residential customers use more energy when they arrive home vs. commercial customers who demand power throughout the day. As the business changes, this activity becomes more important as we consider fixed vs variable costs of serving customers.

- The components of the bill include the base rate (fixed), and fuel and regulatory adjustments (variable). This team works closely with the Financial team to ensure that pricing will cover all costs to operate.
- Price setting is a process from the bottom up. First, our teams look at the past years actual normalized cost for each customer class. We categorize costs for each line of the business, delivery, generation and transmission, both fixed and variable. We then add them to various charges on the bill, demand, energy and customer charges. Service availability charges and demand charges (kW) are fixed cost recovery, and the energy charges (kWh) are variable charges. There are some fixed costs that are recovered in variable charges but if there are changes in the amount of energy we sell, we DO NOT adjust the fuel adjustment charges because that will recover the wrong costs from the wrong customers.

Julius Moore, Interim Director, Gas Growth & Operational Compliance gave an update on the Renewable Natural Gas, (RNG) project.

- RNG is a new energy product that is pipeline quality gas and fully interchangeable with conventional natural gas. It is environmentally friendly, economically responsible and follows our *FlexiblePath* Strategy. This project reduces greenhouse gases, is reliable, profitable and innovative. It captures biogas consisting of methane which converts to pipeline quality gas that is now considered renewable natural gas delivered to our customers in a cost saving manner.
- This concept was introduced to the BOT in September with hopes to update them again on March 30, 2020 with the intent to finalize and execute March – June timeframe. Julius shared a graphic showing how methane gas is created when organic waste decomposes. The landfill, dairy or waste water plant releases biogas, it is capture and cleaned, conditioned and injected into our distribution system.
- Our internal team will leverage an opportunity with our renewable natural gas operator to provide a solution for our transportation customer and create value for all customers and the community. The Plant owner will build the plant and will manage the tracking of the sale of the renewal natural gas product. CPS Energy will permit the construction of the interconnect with the pipeline system, receive the gas volume and provide the gas to the transportation customer.
- There is an additional market driven incentive (RIN) because this product is used for transportation purposes that will create an opportunity for \$900k in cost savings that will be shared will all customers.

April 8, 2020 Meeting

On Wednesday, April 8, 2020 the CAC held its regularly scheduled monthly meeting via WebEx. The meeting began by introducing two new CAC members:

- Ms. Raquel Zapata introduced herself to the CAC, as a San Antonio native. She is a Program Manager at DAWSON with a background in corporate finance and Department of Defense federal operations.
- Mr. John Kelly introduced himself as a retired District engineer with TxDOT, having moved to San Antonio in 1993. He is a civil engineer, retired 5 years ago. He is looking forward to working with the CAC and CPS Energy.

President & CEO Paula Gold Williams gave the CAC an update on the utility's preparedness and ongoing response to COVID-19.

- Gold-Williams noted that the CPS Energy team was honored to answer the call of beginning a moratorium for customer disconnects during a time when many will be experiencing hard economic times here locally and globally. We knew the impact would be unlike anything we have ever seen, and it is necessary to partner together. The utility suspended disconnects and worked harder, more than ever before, to provide payment plans to customers. This is not a forgiveness program, but we all believe this action will get us and our customers through this unprecedented time. She noted it appears most utilities regionally and throughout the county are following the same path.
- Late Fees will be waived only if a customer gets on a payment plan. This decision will require BOT approval to ratify tariffs to waive late fees and ultimately our regulator, the San Antonio City Council. CPS Energy employees are considered essential and were excluded from the Mayor & Judge's *Stay Home, Work Safe* emergency orders. The utility is taking all precautionary measures for the health and safety of our employees and customers.
- The workforce of 3,100 employees has been broken down into three teams, the Orange, White and Blue teams:
 - The Blue team is made up of Senior Chiefs and approximately 1,600 field employees responsible for continued operations with close oversight on employee safety;
 - The White team is made up of approximately 300 + employees that are working in shifts;
 - The Orange team is the remainder of the workforce, who are situated to work from home and fully supported with the technology needed.
- **Fiscal Outlook:** it remains too early to tell and depending on the duration of the pandemic, there may be implications. We are forecasting our revenues to be down less than 10%, but that is with only one month into the pandemic.
- We continue to treat all employees as 'mission critical.' We will push out capital projects, reprioritize our work, try to recover collectibles and recover some of our costs from FEMA. This likely stalls our **FlexPOWER** Bundle as it requires global attention and will likely not attract many bids. However, we will still pay attention to the evolution of technology. Even so we will have to focus on local solutions, for example distributed solutions, etc. Again, our priority will be on current operations.

Mr. Rudy Garza, Interim Chief Customer Engagement Officer introduced Justin Chamberlain, Manager of Technology and Product Innovation to present on the Save for Tomorrow Energy Plan (STEP) Updates and **FlexSTEP**.

- Garza noted the successful approval from the San Antonio City Council on January 30, 2020 to extend the existing STEP program for a 'bridge year' prior the establishment of the **FlexSTEP** program. Work continues to ensure we receive community input on product offerings that customers would like to see in future energy efficiency programs.

Chamberlain then provided the full presentation.

- STEP, established in 2009, has now completed:

- The original STEP program added diversity to our generation mix by adding energy efficiency known also as the 5th fuel;
- Helped avoid additional capital costs, having removed the need to construct a new power plant;
- Reduced our dependence on fossil fuels;
- STEP Program specifics:
 - Goal: achieve 771 MW in demand savings
 - Achieved: 833 MW
 - Budget: \$849M
 - Achieved: \$130M Under Budget
 - Goal: 10-year program
 - Achieved: Completion One Year Early
- Customers have 18+ programs and product choices, many delivered through partnerships with leading technology providers.
- Focused on partnerships; i.e. HEB sold 1.8 million CFLs in 2009, first ISD received an incentive for demand response, Casa Verde grew to the largest savings program in 2014 and brought new solar offerings to all our customers in 2016.
- At the end of the program we were able to bring many low cost/no cost offerings to conclude the program and surpass the established STEP goal.
- COVID-19 has made impacts already. All of our onsite programs are on pause, but we continue to take applications from our customers and provide rebates for energy efficiency measures.
- STEP Bridge provides for continuity of customer programs as we transition to the new energy efficiency offerings of **FlexSTEP**:
 - STEP Bridge specifics
 - Goal is to achieve 75 MW demand savings
 - Our budget: \$70 million
 - Completion within 1 year
 - STEP Bridge programs will have a monthly bill impact on average of \$3.43.
 - These new STEP Bridge programs will continue to promote energy efficiency and new technology, balancing the tried and true with new clean innovated technologies.
- Ultimately, we work to develop the new **FlexSTEP** Program offerings with the continued help of customer feedback.
 - Program represents significant commitments to clean energy by reducing emissions with diverse program offerings at all income levels.

- The **FlexSTEP** Program specifics
 - Goal is to achieve 600 MW in demand savings
 - Our budget: \$700 million
 - Completion within the next 10 years
- Examples of new programs are new solar programs, expand our medium to low income program offerings, electrification, battery storage, dynamic load management and behavioral based programs
 - **FlexSTEP** will represent a commitment to clean energy and reduced emissions. The cost of this program could be .48 cents – \$5.15 for a monthly average bill impact of \$2.78
 - We continue to seek customer feedback through the **FlexSTEP** survey via various channels such as City Council District newsletters, Facebook and other digital platforms, as well as other stakeholder groups.
- **FlexSTEP** Timeline
 - Customer feedback will continue through July with plans to take **FlexSTEP** to the Board of Trustees in September, and to the City Council for final approval in October of this year.