



# ***RATE REQUEST OVERVIEW***

*PRESENTED BY:*

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*Informational Update*



# AGENDA



- Base Rate Increase
- Regulatory Asset

# FEEDBACK FROM THE RAC



- We should wait to recover the cost of bad debt related to the pandemic until we know the outcome of assistance efforts
- Rate design adjustments need more discussion
- We need to think more broadly about the impact of energy cost on low income customers
- CPS Energy should more fully engage the RAC and community on generation issues

**We have incorporated this helpful feedback into the proposed rate request.**

# RATE REQUEST: PROPOSAL



**Base Rate**  
**Increase<sup>(1)</sup>**

**3.85%**

**Revenue**  
**Increase**

**~\$73M**

*Rate increase planned for March 1, 2022 effective date.*

**After listening to feedback and input, we have revised our rate request to meet immediate financial needs.**

(1) Applies only to base portion of bill & does not apply to fuel and regulatory charges.

# WHAT'S INCLUDED?



|                       |   |              |
|-----------------------|---|--------------|
| <b>Weatherization</b> | • Generation and distribution projects to support operations during extreme weather | <b>\$31M</b> |
| <b>Technology</b>     | • Design the future state of our technology platform                                | <b>\$16M</b> |
| <b>Growth</b>         | • Support to keep up with the community's continued strong growth                   | <b>\$14M</b> |
| <b>People</b>         | • Funding for stabilizing staffing levels   | <b>\$13M</b> |

**~\$73M**

**The rate request supports the incremental critical investments needed to continue serving our community.**

# WHAT'S NOT INCLUDED IN THE RATE INCREASE?



|   |   |
|---|---|
| <p><b>Early Collection of Pandemic Bad Debt</b></p> | <p>The City of San Antonio has voted to provide \$20M in American Rescue Plan Act (ARPA) funding. That will help address our customers most in need. Further, it allows us to continue the resumption of our disconnection process, which will likely drive in additional revenue.</p>  |
| <p><b>Fuel Costs from Winter Storm Uri</b></p>      | <p>Recovery of the \$418M in winter storm <i>fuel cost that has been paid to date</i> is not included in the base rate increase. This will flow through the fuel adjustment beginning in March if the regulatory asset is approved. Also, we are not going to ask our customers for recovery of the <i>still disputed fuel cost</i> from winter storm Uri (disputing \$587M or ~60% of total Uri fuel costs).</p> |
| <p><b>Future Generation Decisions</b></p>           | <p>We recognize future generation decisions will have a big impact on the community. By shoring up our financials for the next couple of years, it will allow the Board, RAC, CAC and broader community to engage in thoughtful discussion and analysis on the future generation decisions. When those decisions are made, we can then build those cost into our rates.</p>                                       |
| <p><b>Other Assumed Costs</b></p>                   | <p>Rather than funding estimated future large expenditures, such as replacing our ERP platform, this rate request includes near term funding to launch these projects and allow time to better evaluate our needs.</p>  |
| <p><b>Rate Design Changes</b></p>                   | <p>No rate design changes are included. Additional time is needed to continue working with the RAC to evaluate optimal rate designs.</p>  |

# BENEFITS OF THIS APPROACH



**Ensures our financial health** & *strengthens financial metrics*

**Allows time to rebuild relationships** *with our customers and community before seeking rate support for future needs*

**Mitigates impact on low income customers** *by ↑ADP discount (provides time to study energy burden)*

**Allows strategic decisions & investments** *to be determined with community input*

**Rate designs are unchanged**, *allowing adequate time for discussion and input from Rate Advisory Committee*

# WINTER STORM URI FUEL COSTS



- \$587M in Uri fuel costs remain in dispute; once litigation has concluded, we will seek cost recovery of remaining fuel costs, if any
- We have paid \$418M in reasonable, validated Uri fuel costs for winter storm Uri; we propose recovering these costs over 25 years beginning on March 1, 2022 through the fuel adjustment on bills

**Annual  
Cost**

**~\$24M**

**Bill  
Impact**

**~\$1.26/mo.**



# TOTAL RESIDENTIAL BILL IMPACT



|                              | <u>Bill Impact</u><br>\$ | <u>Bill Impact</u><br>%(1) |
|------------------------------|--------------------------|----------------------------|
| <b>Rate Increase:</b>        | <b>~\$3.84/mo.</b>       | <b>2.5%</b>                |
| <b>Uri Fuel Costs:</b>       | <b>~\$1.26/mo.</b>       | <b>0.8%</b>                |
| <hr/>                        |                          |                            |
| <b>Total Bill Impact(2):</b> | <b>~\$5.10/mo.</b>       | <b>3.3%</b>                |

(1) Includes base revenue + fuel & regulatory revenue

(2) Represents average bill impact to residential electric & gas customer.

# BILL IMPACT OF CHANGING FUEL COSTS



- Commodity fuel costs (e.g., natural gas, coal) are volatile and largely unpredictable; CPS Energy uses a “cost tracker” (i.e., fuel adjustment) to ensure full cost recovery of fuel costs
- Even when fuel costs are seemingly trending higher, there isn’t always a corresponding bill impact due to:
  - Supplier diversity: location-specific pricing can differ greatly
  - Hedging strategy: financial and physical hedges can insulate against cost trends
  - Generation mix: diverse generating portfolio reduces exposure to cost increase for a specific fuel type
  - Weather: higher fuel costs can be unexpectedly offset by mild weather

# LOOKING FORWARD



- Our proposed financial plan includes a rate evaluation every two years into the future; we will partner with CoSA to ensure more frequent evaluations of our financial health
- We will continually monitor other issues that may impact customer bills such as:
  - Disputed fuel costs from winter storm Uri
  - Past due balances resulting from pandemic
  - Decisions about our future generation sources
  - Our long term technology needs
  - Rate designs

# AGENDA



- Base Rate Increase

- Regulatory Asset

# WHAT IS A REGULATORY ASSET?



- An accounting mechanism that allows us to capitalize cost on the Balance Sheet & expense (and recover) the cost over time
- Matches revenue from customers with recognition of expenses over a ***defined time period***
- Based on guidance provided in ***GASB 62***, which states the ***utility's regulator must approve*** the establishment & cost recovery of a regulatory asset
- This is a common practice among utilities, and use of this tool is viewed favorably by financial stakeholders

**A regulatory asset acts as a financial tool to smooth cost to customers.**

# WHY DO WE NEED IT?



- Enables us to smooth out customer bill impact
- Demonstrates our financial strength to the financial markets, and signals our intention & capability to pay **up to the full amount** of winter storm Uri costs (which supports Credit Rating Agency & Auditor review)
  - Paid Amount: \$418M
  - Disputed Amount: \$587M

# REGULATORY ASSET GUARDRAILS



- There are checks and balances from our regulator in order to use it; only specifically approved costs may be recovered through this tool
- CPS Energy must also acquire Board & City Council approval in order to issue long term debt needed to pay for winter storm Uri fuel costs
  - Paid Fuel Costs (\$418M): We expect to request approval on a financing transaction next spring
  - Disputed Fuel Costs (\$587M): We will seek approval once litigation is concluded

**This financial tool can only be used for actual, validated winter storm fuel costs.**



***Thank You***







## ***Appendix***



# RESIDENTIAL PRICING



## Electric Pricing

|  | <u>Current</u> | <u>Proposed</u> |
|--|----------------|-----------------|
| <b>Monthly Charge</b>  | \$8.75         | \$9.10          |
| <b>Energy Charge</b>   | 6.91¢/kWh      | 7.188¢/kWh      |
| <b>Peak Capacity Charge</b><br><small>(only applied during the summer)</small> | 1.98¢/kWh      | 2.06¢/kWh       |



## Gas Pricing

|                       | <u>Current</u> | <u>Proposed</u> |
|-----------------------|----------------|-----------------|
| <b>Monthly Charge</b> | \$9.55         | \$9.95          |
| <b>Energy Charge</b>  | 49¢/CCF        | 51.062¢/CCF     |

*All pricing raised by roughly the same percentage to provide the same bill impact across the board, from low energy users to high energy users.*

# METRICS



|                                    | <u>FY2023</u> | <u>FY2024</u> | <u>Subsequent Trend</u>   |
|------------------------------------|---------------|---------------|---|
| <b>Debt Service Coverage Ratio</b> | <b>1.79</b>   | <b>1.67</b>   |  |
| <b>Debt Capitalization Ratio</b>   | <b>61.66%</b> | <b>62.28%</b> |  |
| <b>Days Cash On Hand</b>           | <b>170</b>    | <b>170</b>    | <i>Flat</i>   |

The additional revenue generated from this level of rate increase ensures our financial health continues.