

TO: Chamber Board of Directors
FROM: Public Policy Council
SUBJECT: CPS Energy Proposed Rate Increase / Adjustment



STATUS: ADOPTED **DATE: December 16, 2021**

RECOMMENDATION:

The San Antonio Chamber of Commerce Board of Directors adopts the following position statement as policy.

STATEMENT:

The Chamber supports CPS Energy’s proposed base rate increase of 3.85% and a fuel cost adjustment of .8% as a mechanism to maintain the utility’s financial stability and as a method to maximize reliability. CPS Energy has paid \$418 million in validated fuel costs for Winter Storm Uri and will recover these costs over a 25-year period through the .8% increase. This rate increase is planned for an effective date of March 1, 2022.

The San Antonio Chamber of Commerce has a long history of advocating for policies and projects that focus on strengthening San Antonio’s diverse business base, that improve quality of life, and that promote an economic development climate conducive to job retention and expansion. Our community’s economic success has been driven, in part, by our low-cost and reliable energy. With this rate increase, our energy costs will remain some of the lowest in country.

BACKGROUND:

CPS Energy is the largest municipally owned utility in the country. For decades, CPS Energy has demonstrated its commitment to investing in technologies and projects that protect our environment, making it one of the most sustainable public utilities in the nation. CPS Energy’s mission is to serve as both a provider of essential services to all in our region and as an economic generator supporting the growth and expansion of business in our community. CPS Energy is committed to remaining one of the best-managed and most fiscally responsible utilities in the nation, and it is founded on reliability, customer affordability, security, safety, environmental responsibility, and resiliency.

CPS Energy is a community asset, owned by the residents of San Antonio. Each year, CPS Energy gives 13 percent of its revenue to the city of San Antonio, which goes into the city’s General Fund. That revenue is essential for keeping property taxes low while maintaining quality of life and the level of city services. CPS Energy’s contribution of \$361 million constitutes 27 percent of the city’s \$1.36 billion FY22 General Fund.

CPS Energy has not increased its rates since 2014. The operating environment has become significantly more challenging, and consequently the utility has experienced varied circumstances since 2014.

Despite the continued challenges that CPS Energy has experienced, it has successfully increased the contribution to the City's General Fund. Regarding the COVID-19 Pandemic and Winter Storm Uri, CPS Energy understands the importance of a financially healthy recovery for its customers. This rate request includes gathering feedback from community and business stakeholders. The rate increase meets CPS Energy's immediate financial needs. This proposed rate increase will assist in improving reliability, sustaining operations and achieving financial stability.

CPS Energy's Rate Request Proposal of 3.85% CPS Energy will generate increased revenue of \$73 million annually. Without this rate increase, service levels will decline, and bond rating agencies may lower their assessments of the financial strength of the utility, with a corresponding impact on the credit rating of its owner, the city of San Antonio.

The Proposed Base Rate Increase breakdown includes:

- 42.5% annually (\$31 million) for Infrastructure Resiliency — generation and distribution projects to support operations during extreme weather
- 20.5% annually (\$15 million) for Technology — design for the future state of our technology platform
- 19.2% annually (\$14 million) for Growth — support to keep up with the community's continued strong growth
- 17.8% annually (\$13 million) for People — funding for stabilizing staffing levels

The Rate increase does not include funding for:

- Early collection of pandemic bad debt
- The \$578 million in disputed fuel costs from Winter Storm Uri
- Future generation decisions — Shoring up financials now will allow the CPS Energy Board of Trustees, Rate Advisory Committee, Citizens Advisory Committee, and the broader community to engage in thoughtful discussion and analysis on decisions regarding the mix of future energy generation methods
- Rate Design Changes – No rate design changes are included, allowing additional time to work with the RAC to evaluate optimal rate designs

The CPS Energy rate increase will go to the San Antonio City Council in January 2022. The Chamber believes this rate increase is critical to stabilizing CPS Energy's daily operations and is necessary to maintain CPS Energy's status as one of the best-managed municipally owned utilities in the nation.

REASONS TO SUPPORT THE PROPOSED RATE INCREASE:

- A rate increase is critical to support CPS Energy's daily operations:
 - CPS Energy is committed to sustaining operations. This means enhancing system reliability and resiliency; keeping up with growth and community improvement projects; driving efficiency and keeping operational service levels strong; maintaining financial stability and controlling costs; improving new products and services; and serving and protecting customers.
- CPS Energy values Customer and Stakeholder engagement, Business and Technology Excellence and Integrated Security
 - Customers are priority in day-to-day activities and budget
 - Investments in aging assets and systems are needed to better serve customers
 - Priority focus is to protect customers and assets from physical and cyber threats
- CPS Energy recognizes the importance of: Power Sustainability and Business Operations, Grid Optimization and Resiliency, Gas Solutions
 - Necessary to improve reliability for CPS Energy customers
 - Must invest in new technology and fund expenditures to give CPS Energy customers more grid reliability and resiliency
 - Customer growth is a top priority. CPS Energy currently serves approximately 370,000 gas customers and expects a 10% increase in the next five years.
- CPS Energy recognizes that Workforce Retention & Growth are critical
 - Must retain and hire talent to improve business and better serve CPS Energy customers

IMPLEMENTATION:

The San Antonio Chamber of Commerce will support CPS Energy's Proposed Rate Increase to stabilize the utility and support incremental critical investments needed to continue serving our community.

The Chamber will take a proactive approach to communicate this position to the business community, the media, and other Chamber members through action and news alerts, and publication in the Chamber's newsletter, *Chamber Today*.