

THIS IS A DRAFT AND WILL BE REPLACED BY THE FINAL, SIGNED ORDINANCE OR RESOLUTION ADOPTED BY CITY COUNCIL.

AN ORDINANCE

AUTHORIZING A RATE INCREASE OF 4.25 PERCENT TO THE CPS ENERGY ELECTRIC AND GAS BASE RATES (SYSTEM AVERAGE); TARIFF AMENDMENTS TO IMPLEMENT THE RATE ADJUSTMENTS; AND AMENDMENTS TO THE AFFORDABILITY DISCOUNT RATE PROGRAM FOR QUALIFYING LOW-INCOME CUSTOMERS

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WHEREAS, pursuant to Chapter 1502 of the Texas Government Code, the City Council, acting in its regulatory capacity, has original jurisdiction over the rates of CPS Energy and shall establish rates that are equal and uniform; and

WHEREAS, Chapter 1502 requires City Council to set rates sufficient to cover all operating, maintenance, depreciation, replacement, improvements, and interest charges in connection with CPS Energy’s utility system, and such rates shall cover all outstanding debt against the system, including any sinking funds established to pay outstanding public securities; and

WHEREAS, the City Charter created the position of Supervisor of Public Utilities authorized to oversee the activities of CPS Energy and with regards to proposed rate adjustments, review and assemble the facts which are essential to the proper determination of cost of service necessary for the City Council to establish reasonable and prudent utility rates; and

WHEREAS, CPS Energy operates a combined electric and gas utility system on behalf of the City of San Antonio with management by the CPS Energy Board of Trustees as an independent body with control over the utility system’s revenues and day-to-day operations; and

WHEREAS, the City Council approved the last CPS Energy rate adjustment on February 18, 2010 - a 7.5% increase in electric and gas base rates – and at the time CPS Energy projected a subsequent 4.9% rate increase in 2012, which was postponed as a result of implementing cost efficiencies found through staffing attrition, business process improvements, reducing capital projects, and avoidance of health care costs; and

WHEREAS, for fiscal year 2015, CPS Energy had projected a 5.2% rate increase, which was reduced to 4.75% as a result of further efficiencies found through reducing operating expenses, and further business process improvements; and

WHEREAS, in 2013, CPS Energy presented the City Council a request for a proposed rate increase of 4.75%, but following discussions with the City’s Office of Public Utilities and other considerations, CPS Energy agreed to reduce the proposed increase in current electric and gas base rates to 4.25% (system average) in order to maintain the utility system’s financial integrity; and

WHEREAS, on October 8, 2013, the CPS Energy Board of Trustees approved the adjusted rate proposal from 4.75% down to 4.25% incorporating a reduction for project deferrals and the following reductions for Employee Incentive Plan (EIP) payouts: (1) 16% reduction in fiscal year 2014; (2) 50% reduction in fiscal year 2015; and (3) 50% reduction in fiscal year 2016; and

WHEREAS, in order to address customer growth, environmental compliance, and system maintenance, CPS Energy is undertaking infrastructure projects over the next five years that includes capital investments in the following areas: (1) upgrade and modernization of several power plant facilities; (2) expansion of and upgrades to the electrical transmission and distribution and systems; (3) grid optimization; (4) expansion of the gas distribution system; and (5) investment in civic improvements, pole replacement, and cable rehabilitation; and

WHEREAS, in order to meet the financial demands of these infrastructure projects, CPS Energy foresees the need for a rate increase every other year over the next ten years; and

WHEREAS, the CPS Energy bond ordinances require system revenues to be expensed based on the following flow of funds priority: (1) operating expenses; (2) debt service; (3) 6% to the Repair & Replacement Account (R&R Account); (4) city general fund transfer; and (5) remainder to the R&R Account; and

WHEREAS, CPS Energy's revenue requirement for fiscal year 2015, including the proposed 4.25% system average rate increase, is estimated to be \$2,490 million allocated among the flow of funds categories; and

WHEREAS, the proposed 4.25% system average rate increase, which would become effective February 1, 2014, will result in additional annualized revenues for fiscal year 2015 of \$67.8 million - \$61.9 million in electric base rates, and \$5.9 million in gas base rates; and

WHEREAS, the City Council held two meetings regarding the proposed rate increase – the first on September 18, 2013 addressing the utility system's revenue requirement (attached as **Exhibit A**), and the second on October 3, 2013 covering rate design and bill impact (attached as **Exhibit B**); and

WHEREAS, on October 16, 2013, the City Council held a "B" Session in which it heard the recommendation of the Supervisor of Public Utilities supporting the adjusted 4.25% system average rate increase (the presentation is attached as **Exhibit C**), and in which CPS Energy answered questions from council members; and

WHEREAS, the Supervisor of Public Utilities and his staff conducted a comprehensive analysis of the financial data supporting the proposed rate adjustment, including examination of the following information: (1) demand forecasts and revenue projections; (2) revenue requirement; (3) capital budget; (4) operation and maintenance costs; (5) financing plan (including cash flow analysis, debt financing, and credit considerations associated with debt financing); (6) cost allocation among rate classes and rate design alternatives; (7) affordability program for qualifying low-income customers; and (8) off-system sales analysis; and

WHEREAS, over the next five years, CPS Energy's capital budget calls for an investment of \$2.8 billion in infrastructure projects covering the following areas: (1) electrical distribution system (\$822.2 million), (2) gas system (\$114.1 million), (3) transmission system (\$303.2 million), (4) grid optimization (\$208 million), (5) STP modernization (\$118.4 million), (6) utility relocation civic improvements (\$100 million), (7) pole replacement (\$61.6 million), (8) cable rehabilitation (\$101.5 million), (9) generation related upgrades (\$612.6 million), and (10) other projects (\$377.7 million); and

WHEREAS, the Supervisor of Public Utilities focused its capital budget analysis on the capital projects over the next two years, which amounts to \$1.1 billion, and working with CPS Energy prioritized capital projects into three categories: (1) mandated projects (29%); (2) projects requiring some discretion on timeframe (69%); and (3) projects not required, but providing customer benefits (2%) – and supports maintaining CPS Energy's strong bond ratings advantageous to the financing of such capital projects; and

WHEREAS, based on the analysis of CPS Energy's proposed budget, the Supervisor of Public Utilities recommends that CPS Energy: (1) commit to working collaboratively with the City to study CPS Energy's pension and benefits plans and associated costs; (2) continue to enhance capital project prioritization process; (3) continue efforts to address customer service issues in Billing and Call Center Departments; and (4) review fuel hedging program taking into consideration costs and potential benefits of the program; and

WHEREAS, CPS Energy has developed multiple Customer Assistant Programs, including: (1) Affordability Discount Program; (2) Burned Veterans' Discount Program; (3) Residential Energy Assistant Program (REAP); (4) Project WARM; (5) Senior Citizens Billing Program; (6) Disabled Citizens Program; (7) Critical Care Program; (8) Budget Payment Plan; (9) Installment Plans; and (10) Weatherization Program; and

WHEREAS, CPS Energy proposes the following adjustments to the Affordability Discount Program: (1) increase electric customer enrollment from 40,000 to 50,000, and gas customer enrollment from 30,000 to 40,000; and (2) increase electric customer average monthly discounts from \$6.55 to \$8.55, and gas customer average monthly discounts from \$3.15 to \$3.75; and

WHEREAS, as a result of its overall financial analysis, the Supervisor of Public Utilities recommends a system average rate increase of 4.25% to CPS Energy electric and gas base rates in order to maintain the financial integrity of utility system; and

WHEREAS, the proposed rate increase to CPS Energy's system average electric and gas base rates, and the proposed amendments to the Affordability Discount Program are consistent with Section 1502.057 of the Texas Government Code which requires municipal utility rates to recover all operating, maintenance, depreciation, replacement, improvement, and interest charges in connection with the utility system; and any outstanding debt against the system; **NOW THEREFORE:**

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO:

SECTION 1. After holding public hearings and consideration of the CPS Energy proposed rate adjustment, the City Council hereby approves a system average rate increase of 4.25% to electric and gas base rates, as discussed above, which will generate an additional estimated \$67.8 million annually in electric and gas base rate revenues.

SECTION 2. All other recommendations of the Supervisor of Public Utilities are approved.

SECTION 3. Concerning CPS Energy's pension plan liability, the City Council recognizes the creation of a regulatory asset and the subsequent amortization of this liability which relates to CPS Energy's implementation of Government Accounting Standards Board (GASB) Statement No. 68.

SECTION 4. The revised tariff sheets attached as **Exhibit D**, which are incorporated into this Ordinance for all purposes, are hereby approved in order to implement the rate increase among CPS Energy electric and gas customer classes.

SECTION 5. The rate adjustments by customer class outlined in **Exhibit E**, which are incorporated into this Ordinance for all purposes, are reflected in the revised tariff sheets and are hereby approved.

SECTION 6. The Affordability Discount Program, incorporated into **Exhibit D** as Rider E17 (electric service tariffs) and Rider G4 (gas service tariffs), is hereby approved and will provide discount rates to an additional 10,000 qualifying low-income by class to electric and gas customer by increasing eligibility to 50,000 electric customers and increasing eligible to 40,000 gas customers.

SECTION 7. The City Council finds that CPS Energy revenue requirement is reasonable and the proposed expenditure of funds is prudent and necessary in order to maintain the current level of quality service to ratepayers.

SECTION 8. The revised electric and gas rates and fees have been adopted after consideration of relevant facts and policy issues, and based on such consideration, the City Council hereby finds that said rates and fees are in the public interest, fair and reasonable, equal and uniform, nondiscriminatory, and necessary to meet the operating and maintenance expenses of the combined electric and gas system and pay the principal and interest on utility revenue bonds.

SECTION 9. The City Council hereby finds that the amendments to Affordability Discount Program and other Customer Assistant Programs to provide discounts to low-income electric and gas customers is in the public's interest, fair and reasonable, and nondiscriminatory.

SECTION 10. This Ordinance shall become effective immediately upon passage by eight (8) votes of the City Council and if passed upon fewer than eight (8) votes after the tenth (10th) day after passage thereof. The revised electric and gas rates and fees set out in the attached tariff sheets, incorporated as **Exhibits D and E**, shall become effective at 12:01 a.m. on February 1, 2014.

GG

Item No. _____

PASSED AND APPROVED, this _____ day of November, 2013.

M A Y O R
Julián Castro

ATTEST:

APPROVED AS TO FORM:

Leticia M. Vacek, City Clerk

Michael Bernard, City Attorney

DRAFT