



City of San Antonio

Agenda Memorandum

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Agenda Item Number: 18.

Agenda Date: 1/14/2021

In Control: City Council A Session

DEPARTMENT: Finance

DEPARTMENT HEAD: Troy Elliott, Deputy Chief Financial Officer

COUNCIL DISTRICTS IMPACTED: City Wide

SUBJECT:

Request for an 18-month extension and funding of CPS Energy's Save for Tomorrow Energy Plan (STEP program), currently authorized through January 31, 2021, to grant additional time for achievement of program goals delayed due to COVID-19 and allow CPS Energy to align its *FlexSTEP* recommendation with the timing of other *Flexible Path* strategic initiatives.

SUMMARY:

This item requests approval of an ordinance to extend CPS Energy's STEP program for an additional 18 months, through July 31, 2022. The STEP program was created in 2009 as a progressive energy efficiency and conservation program. When CPS Energy met the STEP goal of 771 megawatts (MW) of demand reduction savings one year ahead of schedule, City Council extended the STEP program for one year through January 31, 2021, to provide program continuity until the development of a successor program - *FlexSTEP*. Due to COVID-19 related impacts, the *FlexSTEP* program is still in development and has not been taken to City Council for approval. Accordingly, CPS Energy is requesting a STEP program extension with authorization to expend up to an additional \$70 million for energy efficiency and conservation programs with a goal of achieving an estimated 75 MW of additional demand reduction. The ordinance allows CPS Energy to continue the program's historical practice of recovering STEP costs through an adjustment in the fuel surcharge.

CPS Energy anticipates developing the *FlexSTEP* program and taking it to City Council within the next year; however, the requested authorization for 18 months is due to uncertainties related to COVID-19. Much like the original STEP program launched in 2009, the *FlexSTEP* program will be a long term, 10-year energy efficiency and conservation program. The *FlexSTEP* program will include programs to help customers save energy through weatherization, home energy assessments, small business, commercial and industrial solutions for energy savings, smart thermostats, solar program rebates, and other offerings - all while maintaining focus on

affordability and alignment with the Climate Action & Adaptation Plan (CAAP).

BACKGROUND INFORMATION:

CPS Energy's STEP program was created with a community goal of reducing energy demand by 771 MW between 2009 and 2020. The 771 MW reduction is the equivalent amount of energy produced by a large power plant. CPS Energy achieved the original 771 MW goal a full year ahead of schedule and \$130 million under the initial \$849 million approved budget.

In the STEP Ordinance [2009-05-21-0399], City Council approved the STEP program and created a mechanism for CPS Energy to invest in energy efficiency and conservation as an alternative to traditional generation sources and recover its STEP costs through the fuel surcharge. A portion of annual STEP costs, approximately \$9 million, is recovered from base rates, and the remainder is recovered through an adjustment in the fuel surcharge. The recovery occurs in the following fiscal year only after a third-party consultant has verified actual energy savings resulting from implementation of the STEP program. The annual report is reviewed and approved by City staff.

Through the STEP program, CPS Energy has implemented over 20 energy efficiency and conservation products and services that provide financial incentives, rebates and programs to residential and commercial customers for energy saving enhancements (weatherization) and appliances; undertake energy conservation measures (demand response); and participate in solar programs. Since inception, the STEP program has delivered community benefits, including:

- 845 MW of customer demand savings from energy behavior modification and efficiency improvements to homes and businesses;
- Nearly 30,000 homes have been weatherized through the Casa Verde program, helping families save approximately \$400 on their electric bill every year;
- 150,000 smart thermostats have been installed in customer homes, helping reduce energy demand on the hottest days of summer;
- 22,500 solar systems have been installed on homes and businesses across the City, supporting a solar industry that has grown to 75 installers employing 850 local workers; and
- Significantly enhanced air quality in the Greater San Antonio area through emissions reductions.

CPS Energy is committed to continuing to provide opportunities for customers to save energy and money through energy efficiency and conservation. The STEP program enables customers of all economic statuses to benefit. Even those customers who do not directly participate benefit because lower energy usage reduces the overall system cost of generation and fuel.

Based on the highly successful results of the STEP program, on January 30, 2020, Council approved Ordinance 2020-01-30-0044, which continued the STEP program for an additional year through January 31, 2021. The extension of the STEP program was intended to provide continuity in energy efficiency and conservation programs until the next program, *FlexSTEP*, is fully developed and approved by Council. The *FlexSTEP* program is envisioned as the next generation energy management and conservation program that aligns with CPS Energy's *Flexible Path* strategy as it balances tried and true practices and solutions with new technologies.

Due to COVID-19 related impacts, the *FlexSTEP* program is still in development and has not been taken to City Council for approval. Therefore, without an extension, the STEP program would pause until a replacement program is approved. CPS Energy is requesting a STEP extension to July 31, 2022, with another tranche of funding up to an additional \$70 million and a goal of achieving an estimated 75 MW of additional demand reduction. Although CPS Energy anticipates bringing *FlexSTEP* to City Council sooner, an extension

of 18 months is requested because of uncertainties related to the progression of COVID-19. If City Council approval occurs prior to July 31, 2022, the extension will transition to the *FlexSTEP* program.

CPS Energy has also embarked on multiple strategic initiatives under its *Flexible Path* approach, such as the *FlexPOWER* Bundle that will significantly expand CPS Energy's commitment to renewable energy. The STEP extension will allow for alignment of these major initiatives and develop a comprehensive view of their combined impact to Customer Affordability, Reliability, and Environmental Responsibility. During the extension, CPS Energy will also continue to comprehensively consider all stakeholder and customer feedback and input to inform the development of the *FlexSTEP* program.

ISSUE:

1. The STEP Ordinance set a community goal of saving 771 MW at an approved budget of \$849 million between 2009 and 2020. CPS Energy achieved the STEP goal one year early and \$130 million below the original budget.
2. On January 30, 2020, Council approved an ordinance [2020-01-30-0044] to continue the STEP program for a "bridge" year through January 31, 2021. The extension was intended to provide continuity in energy efficiency and conservation programs until the next program, FlexSTEP, is fully developed and approved by Council.
3. Due to COVID-19 related impacts, the FlexSTEP program is still in development and has not been taken to City Council for approval. CPS Energy is requesting an extension of the STEP program with funding up to an additional \$70 million and a goal of achieving an estimated 75 MW of additional demand reduction, authorized through July 31, 2022
4. Extending the STEP program will allow CPS Energy to continue to gather community and stakeholder input and formulate a comprehensive long-term FlexSTEP program.

ALTERNATIVES:

City Council could choose not to extend the STEP program, but termination would have a negative impact on customers and businesses that support energy efficiency, weatherization and conservation across our community.

FISCAL IMPACT:

The current impact of STEP to the average customer is \$3.84 per month (\$0.00384/kWh) based on \$82 million of STEP costs incurred through January 31, 2020. STEP costs are recovered a year in arrears. With this extension, the STEP adjustment will be approximately \$3.21 per month (\$0.00321/kWh) based on \$70 million of STEP costs.

RECOMMENDATION:

Staff recommends approval of the ordinance extending the STEP program to allow CPS Energy time to align the timing of its *FlexSTEP* recommendation with its other *Flexible Path* strategic initiatives.

