



RATE REQUEST OVERVIEW

PRESENTED BY:

Cory Kuchinsky

Chief Financial Officer (CFO) & Treasurer

December 2, 2021

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⁽¹⁾**

3.85%

**Revenue
Increase⁽²⁾**

~\$73M

Rate increase planned for March 1, 2022 effective date.

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

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

(2) Represents annualized amount. FY2023 actual revenue increase of ~\$67M due to start in March (only 11 months).

WHAT'S INCLUDED?



Infrastructure Resiliency	• Generation & distribution projects to support operations during extreme weather	\$31M
Technology	• Design the future state of our technology platform	\$15M
Growth	• Support to keep up with the community's continued strong growth	\$14M
People	• Funding for stabilizing staffing levels	\$13M

~\$73M

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

WHAT'S NOT INCLUDED IN THE RATE INCREASE?



Early Collection of Pandemic Bad Debt	CoSA to contribute \$20M in American Rescue Plan Act (ARPA) funding to help our customers. Resuming disconnection process will likely drive additional revenue.
Disputed Fuel Costs from Winter Storm Uri	\$587M in Uri fuel costs remain in dispute. Once resolution occurs, we will communicate if there is any additional impact to customers.
Future Generation Decisions	Shoring up our financials now will allow the Board, RAC, CAC & broader community to engage in thoughtful discussion & analysis on future generation decisions.
Other Assumed Costs	Future large expenditures will not be included in our budget until their costs are known.
Rate Design Changes	No rate design changes are included, allowing additional time to work with the RAC to evaluate optimal rate designs.

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



We have paid \$418M in reasonable, validated 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

**Residential
Bill Impact⁽¹⁾**

~\$1.26/mo.

(1) Paid Uri costs will be recovered as a kWh/CCF adder; bill impact depends on usage.

TOTAL RESIDENTIAL BILL IMPACT



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

(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>
Monthly Charge	\$8.75	\$9.10
Energy Charge	6.91¢/kWh	7.188¢/kWh
Peak Capacity Charge <small>(only applied during the summer)</small>	1.98¢/kWh	2.06¢/kWh



Gas Pricing

	<u>Current</u>	<u>Proposed</u>
Monthly Charge	\$9.55	\$9.95
Energy Charge	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>
Debt Service Coverage Ratio	1.79	1.67	
Debt Capitalization Ratio	61.66%	62.28%	
Days Cash On Hand	170	170	<i>Flat</i>

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