



Paula Gold-Williams
President & Chief Executive Officer (CEO)

January 6, 2021

Dear Mr. Reed & Mr. Harman,

Thank you for meeting with key members of our CPS Energy Team and me on Friday, December 18, 2020, to discuss the recommendations presented in the report titled "CPS Energy Save For Tomorrow Energy (STEP) Plan Phase 1 Review and Recommendations for Phase 2 (FlexSTEP)." We also want to thank you for your follow-up letter, dated December 21, 2020.

During the meeting, we very much appreciated the opportunity to hear from the author of the report, Mr. Adam Jacobs, who works for Optimal Energy. Our team found it very helpful to have an insightful and productive discussion with him and the both of you, who are key representatives of the Sierra Club.

The meeting on December 18 gave our team a constructive opportunity to share our perspectives with you on the report and your related recommendations and general assertions. During the session, we were also pleased to be able to provide an update on the timing of **FlexSTEPSM**.

FOLLOW-UP REQUEST TO YOU:

We would like to meet with you again in the next week or two to discuss the upcoming FlexSTEP Request for Proposal (RFP). We would like more of your input before we issue it, which is scheduled to occur soon.

In the meantime, the meeting's resource materials; the recording and transcript; your response letter; and this package of materials will be posted on our website. This approach is consistent with our updated and transparent process that was communicated to you and other environmental stakeholders extensively last year.

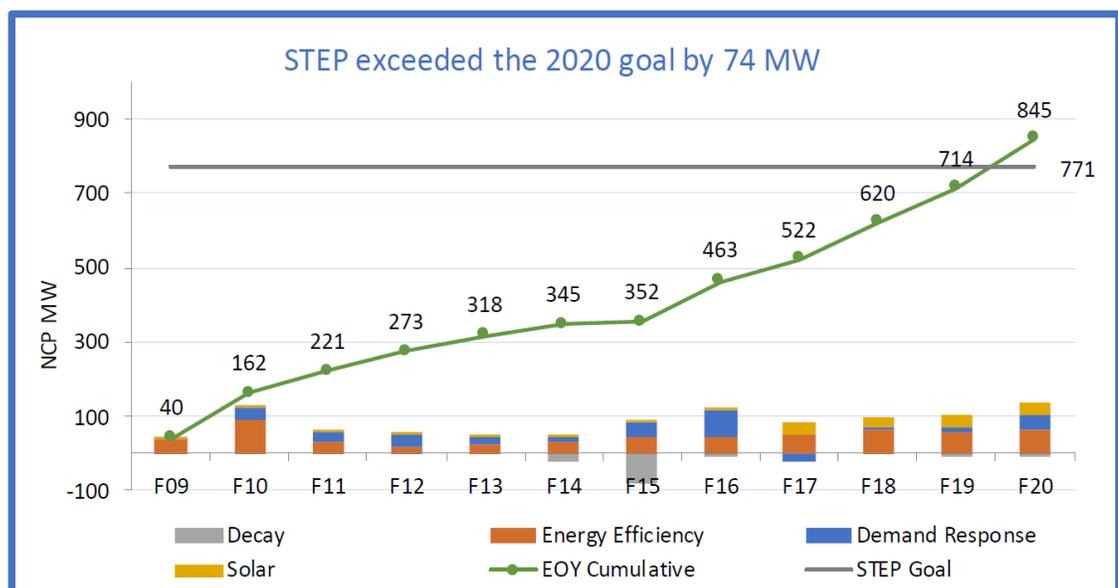
While our meeting was only one hour long, I believe it was constructive and helpful. There were several noteworthy points topically touched upon in the session. Those points, and others, are covered below and include additional crucial context for your continued consideration.

PROGRAM GOALS: In his remarks, Mr. Jacobs opened our December 2020 meeting by saying our STEP Program has been very comprehensive and the envy of others across the nation. From that point forward, most of our conversation was dedicated to assessing how we set our savings goals and the respective measurements.

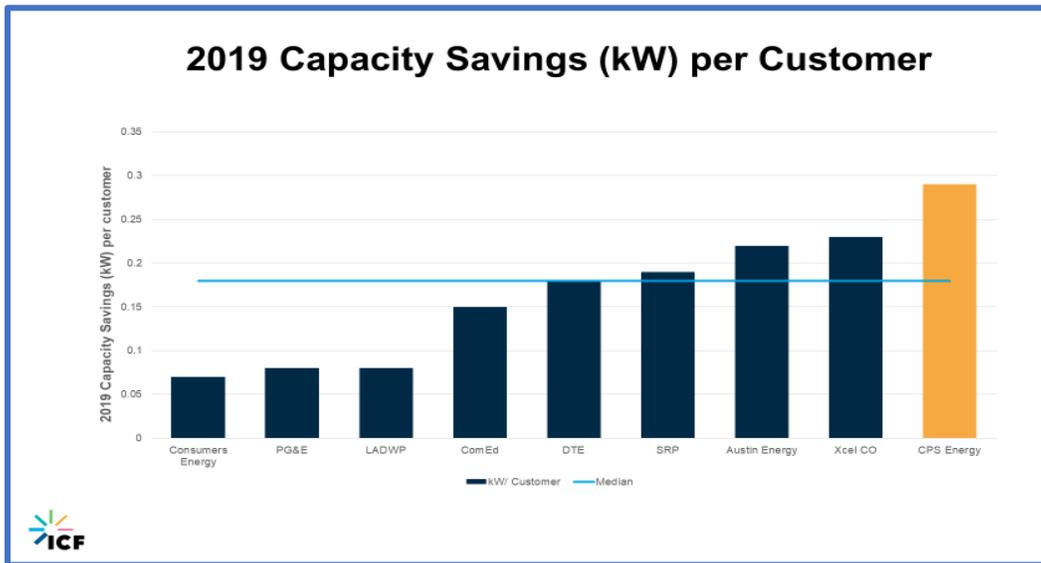
- **KEY POINT – We continue to believe that it is helpful to partially focus on energy capacity:** In San Antonio, for more than 10 years, we have primarily focused on saving megawatts (MW) of energy capacity. Importantly in 2008, our program was aggressively designed to help us defer building the capacity equivalent to a new power plant. While we agree that much more progress is needed, the capacity deferment also gave us more time to monitor notable improvements in energy markets and technology. See the excerpt to the right from our latest **Sustainability Report**. You can access the full **Sustainability Report** [here](#).

STEP bridged the transition to our more diverse generation portfolio and is a key aspect of our dynamic Flexible Path strategy. We accomplished 845 MW of cumulative demand reduction without debt or capital spend for 13 years.

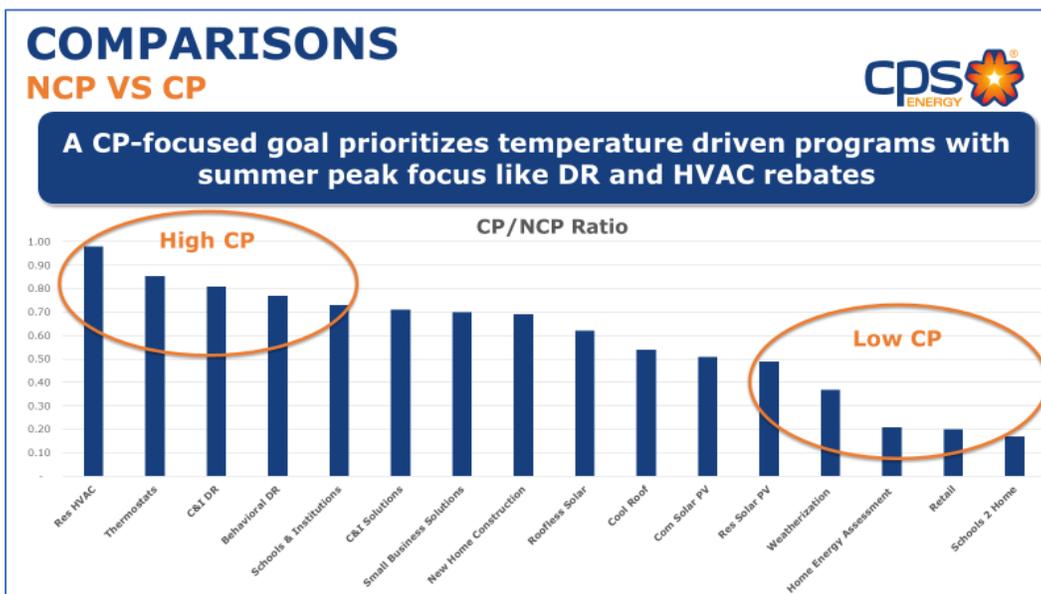
As noted in the chart below, our nationally recognized and award-winning program exceeded its MW capacity goal by almost 10%. We were also able to successfully exceed our MW reduction goal for less money than budgeted! See the summary performance chart that follows:



While other companies may not promote a capacity measure, we have found that it is benchmarkable. As noted in the graph below, in comparison to a representative group of our industry peers, we have performed well relative to energy capacity savings.

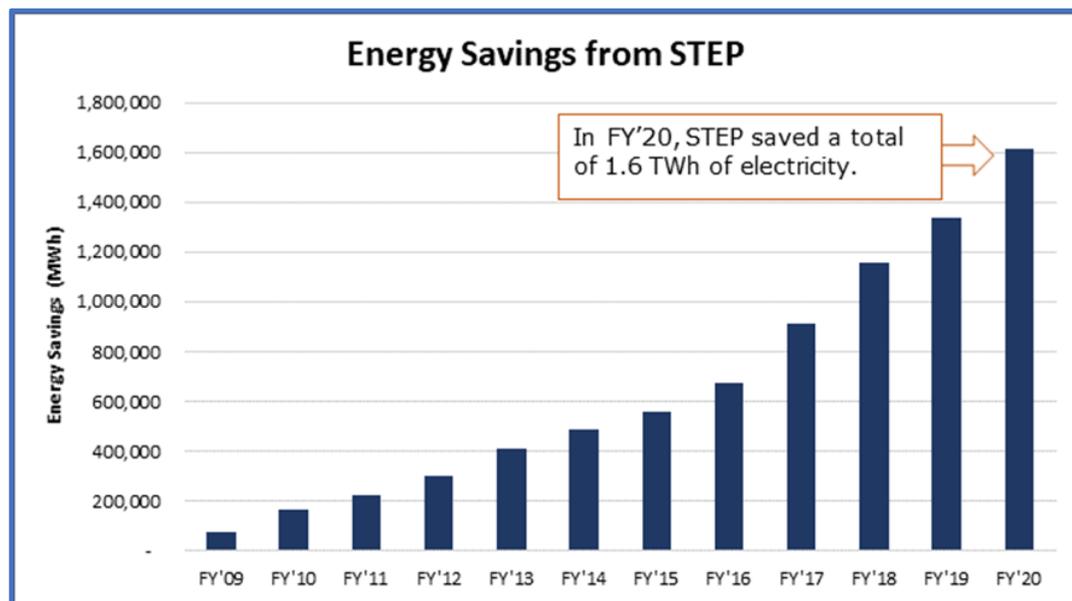


- KEY POINT – We also had a very constructive discussion with you about our focus on saving energy throughout the year.** We have a full range of programs that help reduce the need for electricity during the hottest times of the year – when our system’s energy coincident peaks (CP) are very high – and during the coldest times of the year – when our system’s energy coincident peaks are very low.



This is important so that there is a broad range of offerings for our diverse community. Additionally, this supports our customers consciously thinking about energy efficiency and conservation all year long, not just during the summer.

- **KEY POINT – Over the years, we also measured the amount of energy hours saved.** During the meeting, you collectively expressed a concern that under our program, we do not measure the megawatt hours (MWh) saved. As pointed out during our discussion, we actually do. Energy savings information is included in the annual independent reports that we obtain. For example, please note below the cumulative energy savings that we have been able to achieve through our successful STEP program through January of 2020, the end of our prior fiscal year.

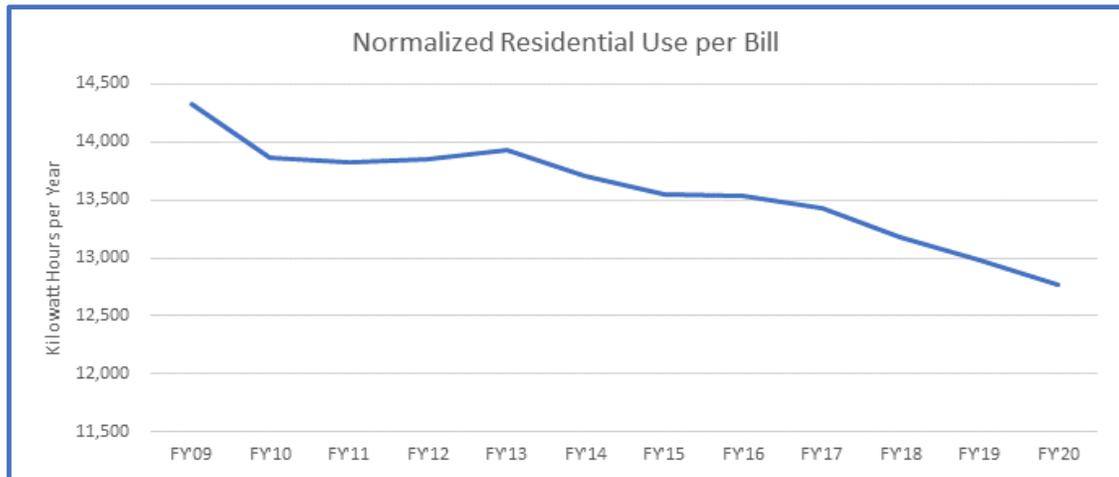


Our collaborative STEP program saved a gross total of 1.6 terawatt-hours (TWh) of electricity in FY 2020. This is enough energy to power 123,000 Greater San Antonio area households for one year. Since inception, STEP has delivered 7.9 TWh of electricity savings.

- **KEY POINT – STEP has been very effective at helping us reduce Residential Use per Bill:** We ran out of time in our December meeting to talk about more items. For example, we did not have time to respond to your comment that we are holding our average energy use per customer flat.

To the contrary, we are not holding use per customer flat. This is not a strategy that is being pursued – directly or indirectly. Please see the chart below that

appropriately adjusts each year for the varying impacts of temperature. **It shows that since fiscal year 2009, we have been able to partner with our community to notably reduce Greater San Antonio’s residential usage per customer.**



We have heard an element of this perceived criticism about San Antonio’s electric energy usage, which has been attributed to a company named Sense. That company monitors in-home energy consumption through machine learning applications and other tools. We applaud them for their interest in driving improvements in the energy industry; however, we believe their report on this subject is misleading. They, too, unfortunately rank electric usage without regard to regional temperatures.

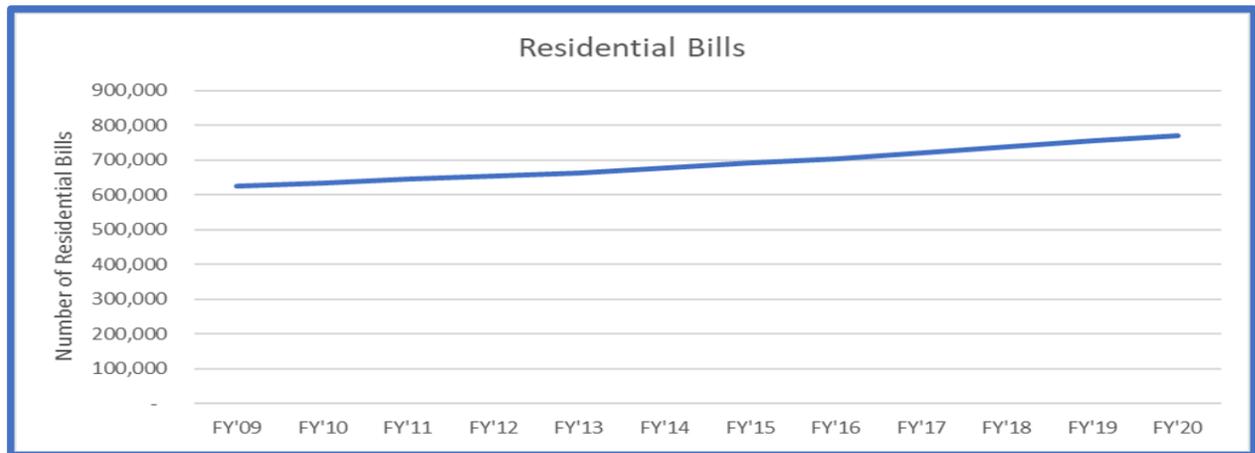
Least Electricity Usage		Most Electricity Usage	
1	Burlington, VT	1	Phoenix, AZ
2	Concord, CA	2	San Antonio, TX
3	San Jose, CA	3	Dallas-Fort Worth, TX
4	Sacramento, CA	4	Tampa, FL
5	San Francisco-Oakland, CA	5	Austin, TX
6	Madison, WI	6	Palm Bay--Melbourne, FL
7	San Diego, CA	7	Houston, TX
8	Seattle, WA	8	Miami, FL
9	Portland, OR	9	Pittsburgh, PA
10	Providence, RI	10	Columbus, OH
11	Denver-Aurora, CA	11	Kansas City, KS
12	Los Angeles--Long Beach--Anaheim, CA	12	Atlanta, GA
13	Boston, MA	13	Orlando, FL

Figure 1: Selected Cities Electricity Usage Ranking
 Source: Sense Article, April 22, 2019, Cision PR Newswire

More specifically, please see their rankings in the table to the left. Note how cities categorized as having the "Least Electricity Usage" are primarily in cooler, northern and/or coastal locations, while the cities noted as having "Most Electricity Usage" are predominantly in locations that are historically and naturally hotter. In addition to not normalizing its data, Sense also tends to interchangeably refer to total energy instead of consistently focusing on electricity. This, too, can be very misleading for the reader of their report.

More helpful context can be found within a White Paper on this subject which is attached to this letter.

- **KEY POINT – On an annual basis, we have been able to save MW, even though our population and our number of electric customers (as shown below), have grown.**



AGREEMENT WITH YOU:

After listening carefully to your comments on December 18, 2020, I conveyed our willingness to further highlight a focus on the secondary measure of kilowatt hours (kWh) of energy saved. This will be in addition to our historical focus on saving energy capacity (kilowatts or kW).

STEP PROGRAM FUNDING VS. OTHER IMPORTANT INITIATIVES:

- **KEY POINT - We also spent time discussing how STEP was one component of our comprehensive environmental work and that CPS Energy must keep everything balanced across all of its Value Pillars.** Our team explained that all customers fund this program entirely through our Fuel Factor charge. We remain mindful that increasing the size of STEP would raise ALL customers' bills, as well as potentially compete with other requests, like those you are seeking related to the potential early retirement of our two remaining younger coal plants. Even so, it is important to remember that as a culmination of a six-year transition plan, in 2018 CPS Energy closed two older coal units, 15 years earlier than planned.
- **KEY POINT - While more discussion would be helpful, we did appreciate your comment that the Sierra Club was not necessarily stating an expectation that we need to triple or double the size of STEP, particularly**

when you acknowledged the projected monthly increase on customer bills.

We feel this is exceptionally important because, as noted in the tables below, residential customers currently spend \$3.69 a month on this program. Business customers spend approximately 10 times more on this program a month. To triple the program, a residential customer charge would increase to \$11.07 a month. This is well above what San Antonio customers have indicated in prior surveys would be acceptable for them.

FlexSTEP PROGRAM

BILL IMPACT



Energy efficiency program funding must be balanced with customer affordability

Monthly Bill Impact per 1,000 kWh

	Total Program Cost	Annual Program Cost	Monthly Bill Impact	Annual Bill Impact
Current Proposed	\$700M	\$70M	\$3.69	\$44.28
\$1 Billion	\$1.0B	\$100M	\$5.27	\$63.24
Double STEP	\$1.4B	\$140M	\$7.38	\$88.56
ESG Targets	\$1.5B	\$150M	\$7.91	\$94.92
Triple STEP	\$2.1B	\$210M	\$11.07	\$132.84

For every \$1B spent on energy efficiency & conservation, customers will pay ~\$5.27 per 1,000 kWh bill.

FlexSTEP PROGRAM

BILL IMPACT



Energy efficiency program funding must be balanced with customer affordability

Monthly Bill Impact per 1,000 kWh

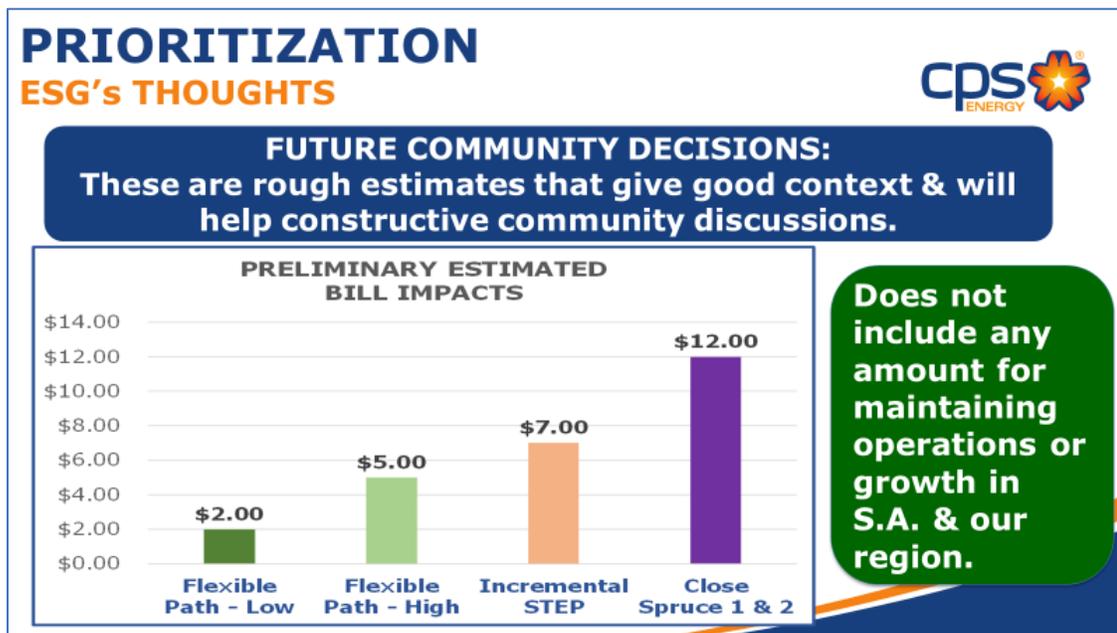
Total Program (\$M)	Annual Spend (\$M)	Avg. Monthly Bill Impact	Annual Customer Bill Impact
\$500	\$50	\$2.64	\$31.68
\$700	\$70	\$3.69	\$44.28
\$900	\$90	\$4.75	\$57.00
\$1,100	\$110	\$5.80	\$69.60
\$1,300	\$130	\$6.86	\$82.32
\$1,500	\$150	\$7.91	\$94.92
\$1,700	\$170	\$8.96	\$107.52
\$1,900	\$190	\$10.02	\$120.24
\$2,100	\$210	\$11.07	\$132.84

Going from a \$700M to \$2.1B program increases customer bill impact by 200%, or \$88.56 annually.

Mr. Jacobs questioned whether customers would be interested in paying more if they have more detailed information about the program and about climate implications. While we believe this is possible and that these points call for additional consideration, we also believe any bill increase needs to be tempered by the deep implications associated with COVID-19. Many people have been impacted economically during this pandemic and it appears customers are less interested in paying more for any programs at this time.

- **KEY POINT - As discussed briefly in our meeting, it must also be noted that program costs need to be prioritized against potential spend and customer bill impacts related to other requests such as:**
 - Potential future coal unit retirements, which you and the Environmental Stakeholder Group (ESG) have expressed is also a top priority,
 - Thoughtful plant replacements through the **FlexPOWER BundleSM**, and
 - Normal rate increases that must support on-going operating and maintenance requirements.

See the next chart that provides a general visualization of our community's options.



In the meeting, I casually asked you what you would prioritize. As noted above, this is when you indicated that your full focus was not on increasing the size of STEP.

FOLLOW-UP REQUEST TO YOU:

We look forward to further engaging you on this subject.

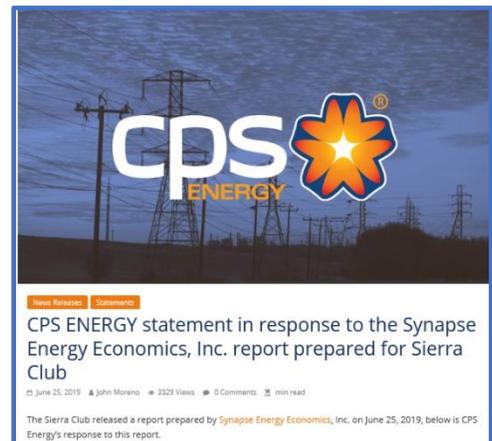
- **KEY POINT – Helping customers, continues to be our primary objective. We have multiple assistance programs that we offer. See the summary table to the right. This includes proactively calling customers to ensure they know about our offerings, as well as the programs of other community-focused organizations. To date, we have called about 53,000 customers and provided more than \$18 million in assistance.**

We also noted your additive comments in your letter about abolishing certain utility disconnections. While this item was not discussed during this meeting, we want to offer some responsive information in this regard. See the attached file, which is also on our website, about our [Customer Programs: From Affordability Assistance to Billing, Including Collection & Disconnects](#).

- **KEY POINT - Discussions need to continue related to coal.** While we did not spend time on this in the meeting, on June 25, 2019, we responded generally and publicly to a report that was prepared by *Synapse Energy Economics* and sponsored by the Sierra Club. This report and our commentary response is noted on our website:
 - [CPS Energy statement in response to the Synapse Energy Economics, Inc. report prepared for Sierra Club](#)

Helpful Links

- ▶ COVID-19 Updates
- ▶ REAP / Utility Assistance
- ▶ Affordability Discounts
- ▶ Budget Payment Plan
- ▶ Critical Care
- ▶ [Casa Verde](#)
- ▶ Disabled Billing Program
- ▶ Emergency Assistance Programs
- ▶ First Responders with Burn Injuries Discount Program
- ▶ Reconnection of Service (Self-Serve)
- ▶ Senior Citizen Billing Program
- ▶ Senior Citizen Late Fee Waiver
- ▶ Veterans Discount



In addition to the offer extended to you in the meeting, our team again invites you to continue our conversations. We believe there are many possible synergies that can benefit our community, as we pursue additional opportunities to collaborate.

Most Sincerely,

Paula

Copy Optimal Energy:

- Mr. Adam Jacobs

CPS Energy:

- Board of Trustees
- Mr. Cris Eugster, Chief Operating Officer (COO)
- Mr. Rudy Garza, Interim Chief Customer Engagement Officer (CCEO)
- Sr. Chiefs
- Ms. DeAnna Hardwick, VP of Customer Success
- Mr. Drew Higgins, Sr. Director of Products & Services
- Mr. Rick Luna, Director of Technology & Product Innovation
- Ms. Kathy Garcia, VP of Government Relations, Regulatory Affairs & Public Policy
- Ms. Loretta Kerner, Interim Director of Board Relations & Chief of Staff to the CEO

Copy the City of San Antonio:

- City Council
- Mr. Erik Walsh, City Manager
- Mr. Ben Gorzell, CFO & Supervisor to Public Utilities
- Ms. Ivalis Meza, Chief of Staff to the Mayor
- Ms. Michelle Lugalia-Hollon, Director of Policy

Attachments:

- Email from Greg Harman, December 21, 2020
- *White Paper: Energy Use Per Customer*
- *Customer Programs: From Affordability Assistance to Billing, Including Collection & Disconnects*