



# ***CEO'S REPORT***

## ***(COST & RATES LANDSCAPE)***

*PRESENTED BY:*

**Paula Gold-Williams**

President & Chief Executive Officer (CEO)

October 26, 2020

*Informational Update*

# OBJECTIVES & TAKEAWAYS



- **EXPLAIN HOW OUR VALUE PILLARS GUIDE US**
- **SHOW HOW OUR RESIDENTIAL RATES COMPARE TO THE COMPETITIVE MARKETS IN TEXAS**
- **SUMMARIZE OUR MOUNTING PRESSURES**
- **DEMONSTRATE HOW VELOCITY MATTERS**

# AGENDA



- **GUIDED BY OUR VALUE PILLARS**
- **OUR CUSTOMERS' BILLS**
- **DRIVING VALUE FOR OUR CUSTOMERS**
- **UTILITY ENERGY**
- **BUSINESS PRESSURES**
- **OUR CUSTOMERS**
- **VELOCITY IMPACTS AFFORDABILITY**

# GUIDED BY OUR VALUE PILLARS & FOUNDATION



Reliability



Customer  
Affordability



Security



Safety



Environmental  
Responsibility



Resiliency



**FINANCIALLY  
RESPONSIBLE**

**All business decisions are based on our commitment  
to being one of the best-managed & most  
financially responsible utilities in the nation!**

# GUIDED BY OUR VALUE PILLARS

## WE LISTEN TO OUR CUSTOMERS TO AVOID RISKS



Per frequent surveys, customers tell us that their first priorities are:

### *Reliability*



**We work to prevent  
ROLLING BLACKOUTS!**

### *Customer Affordability*



**We work to prevent  
BILL SHOCK!**

# GUIDED BY OUR VALUE PILLARS

## OUR APPROACH IS SUCCESSFUL



### RELIABILITY:

- We developed our innovative Flexible Path<sup>SM</sup> strategy to ensure we incorporate clean energy proactively & carefully.

### CUSTOMER AFFORDABILITY:

- We have had ONLY 1 Rate Increase in almost 10 years.
- That 1 Rate Increase was 6 Years ago.

# GUIDED BY OUR VALUE PILLARS

## SEE OUR NEW SUSTAINABILITY REPORT



### KEY SUCCESSFUL ENVIRONMENTAL COMMITMENTS TO DATE!

We have multiple accomplishments to be proud of, as members of our passionate San Antonio community, which include the following:

- In 2018, we closed two older coal units early as part of the thoughtful progressive transformation of our power generation fleet to cleaner technologies.
- In 2019, as part of our *Flexible Path*<sup>SM</sup>, we made a foundational commitment to reduce our net carbon emissions profile by 80% by 2040.
- We are now working toward full carbon neutrality by 2050 in support of the City of San Antonio's Climate Action & Adaptation Plan (CAAP); a plan our Board of Trustees endorsed with a resolution on August 26, 2019.

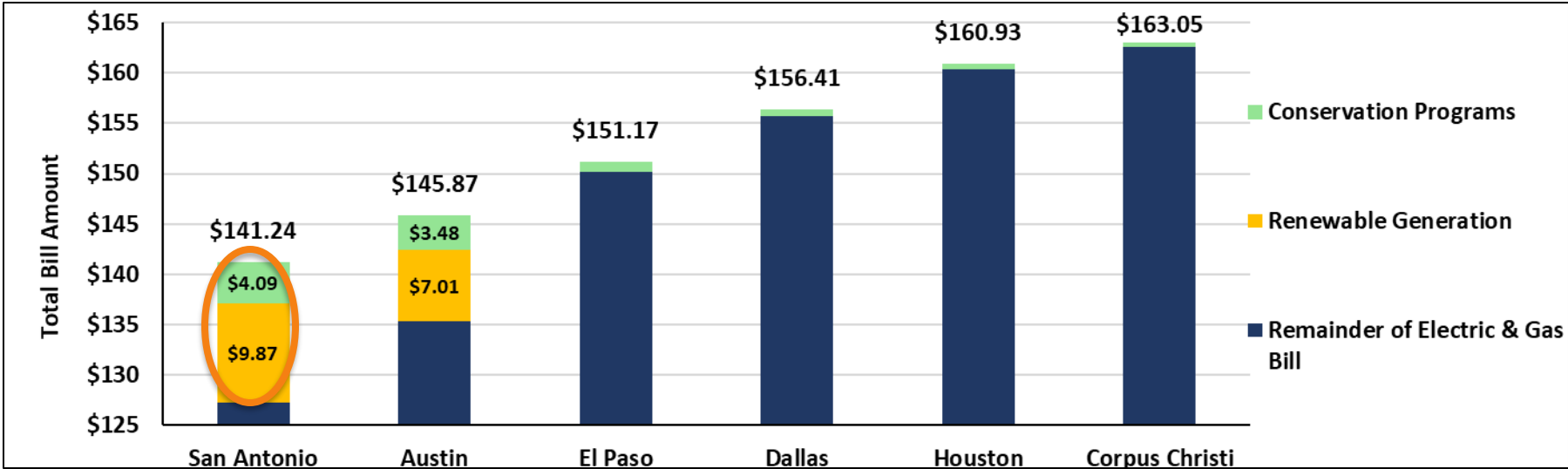
# DRIVING VALUE FOR CUSTOMERS

## GET MORE FOR THEIR MONEY - MONTHLY



**TODAY: We have the most attractive pricing, while spending the most in Texas on renewables & conservation.**

**Texas Cities Residential Monthly Bill Comparison**

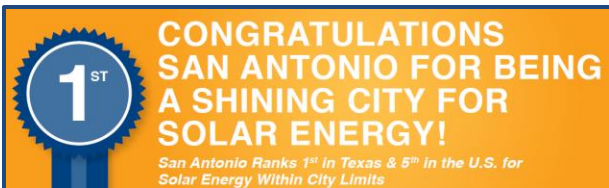


Note: Bills reflect 12-month average pricing through August 2020; shown at average monthly usage of 1,000kWh & 5MCF.



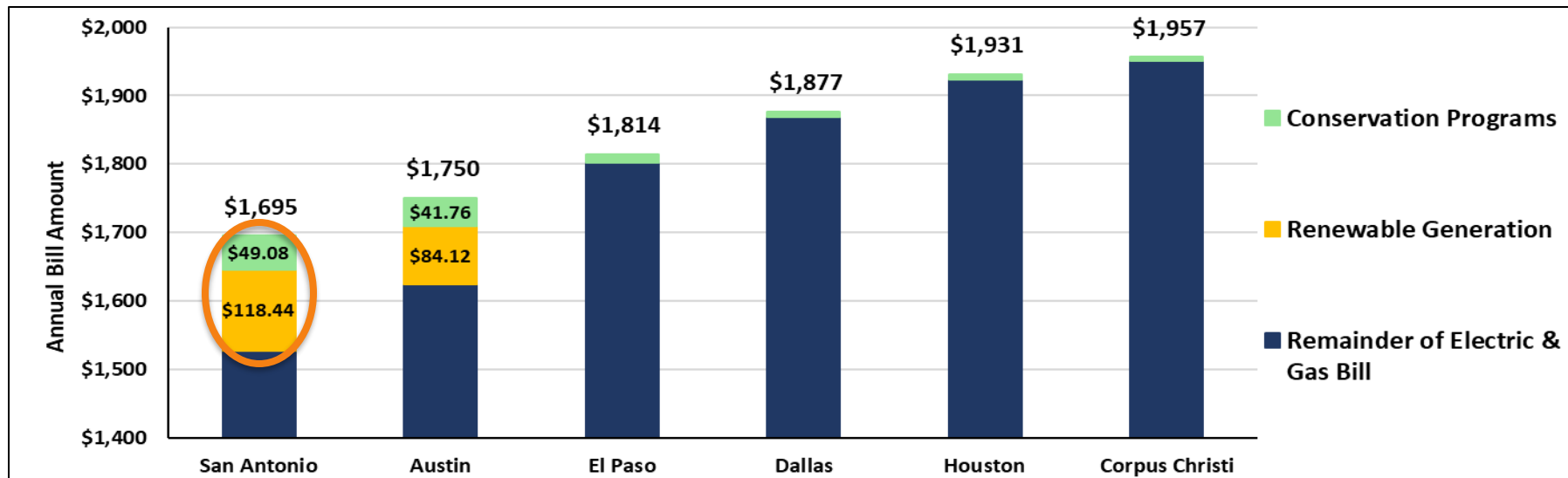
# DRIVING VALUE FOR CUSTOMERS

## GET MORE FOR THEIR MONEY – ANNUALLY



**~10% of customers' bills goes to funding  
our commitment to sustainability  
(vs. <1% in some Texas cities).**

### Texas Cities Residential Annual Bill Comparison



Note: Bills reflect 12-month average pricing through August 2020; shown at average monthly usage of 1,000kWh & 5MCF.

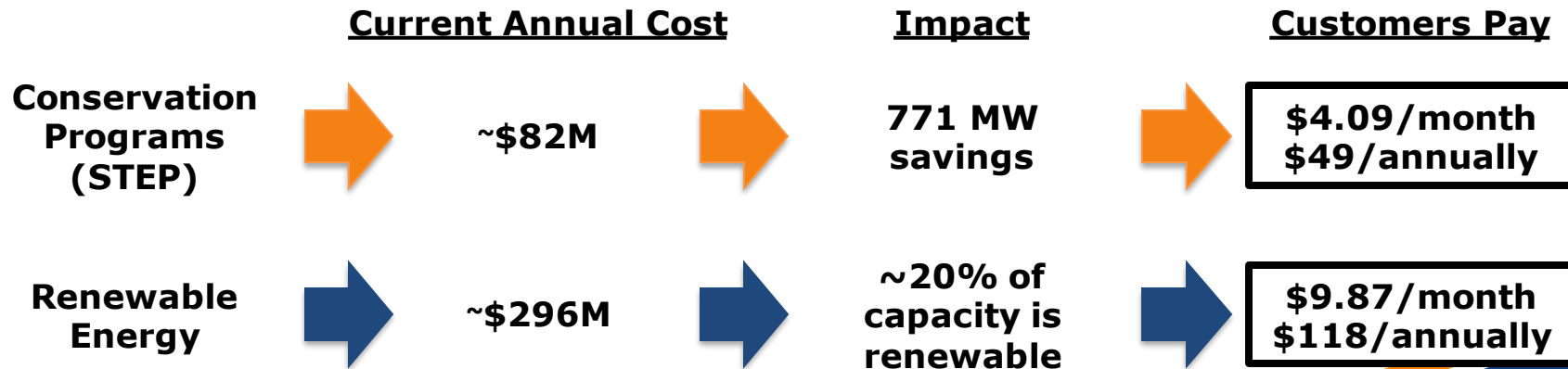
# DRIVING VALUE FOR CUSTOMERS

## HOW WE SPEND MATTERS



### EVERYTHING COSTS MONEY:

- ~10% of customers' bills goes to funding our commitment to sustainability (vs. <1% in some Texas cities).
- We are engaging our community to design the future of these programs.



# UTILITY ENERGY

## THIS BUSINESS IS VERY COMPLEX



TYPE →

RETAIL

WHOLESALE

SYSTEMS →

**ELECTRIC**

**GAS**

**We work to  
give the  
benefits of  
Competition!**

**Competitive**

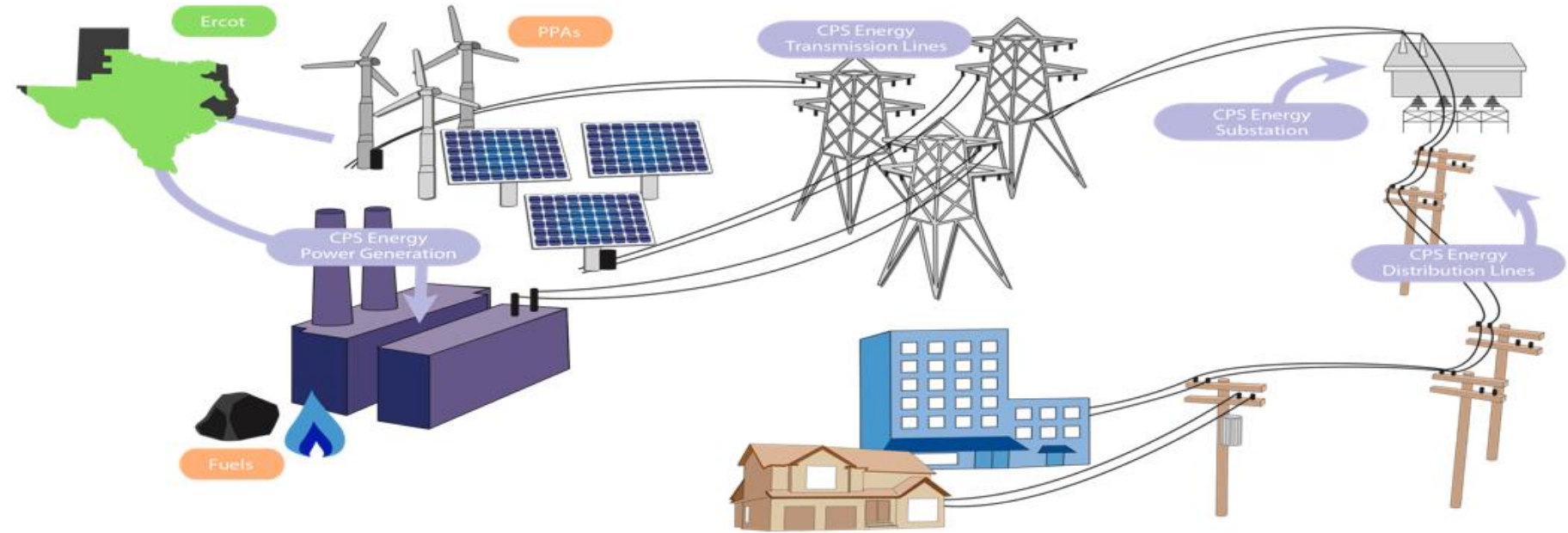
- Our sources of revenues come from our customers.
- We do not get tax credits or Federal Funds like CARES<sup>1</sup>.
- Statutorily, we must charge "rates sufficient."
- Our competitive businesses help offset costs / add value to retail electric customers!

# UTILITY ENERGY

## MAKE IMPORTANT INVESTMENTS



**AGAIN, TO SUPPORT *RELIABILITY & AFFORDABILITY*,**  
**we fulfill our obligation to serve by building & maintaining**  
**infrastructure. This is a significant part of our overall cost structure.**



## OUR APPROACH TO GENERAL RATE DESIGN

**Bills must be designed to recover our total system costs.**

**Revenue  
Requirements**

**Consider:**

- Current customers
- Growth
- Financing

**Rate Design**

**Designed to be:**

- Affordable/Competitive
- Fair
- Equitable

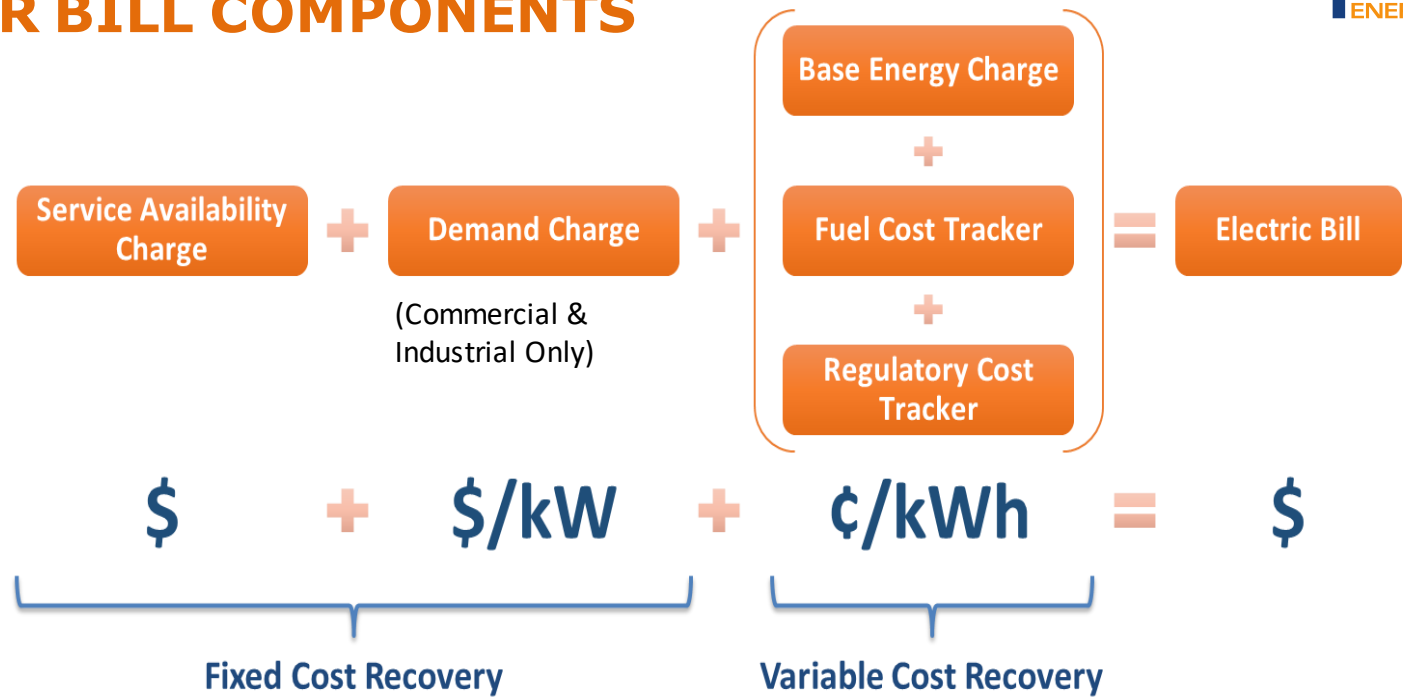
**Bills**

**Recovery Thru:**

- Monthly Billing

# UTILITY ENERGY

## CUSTOMER BILL COMPONENTS

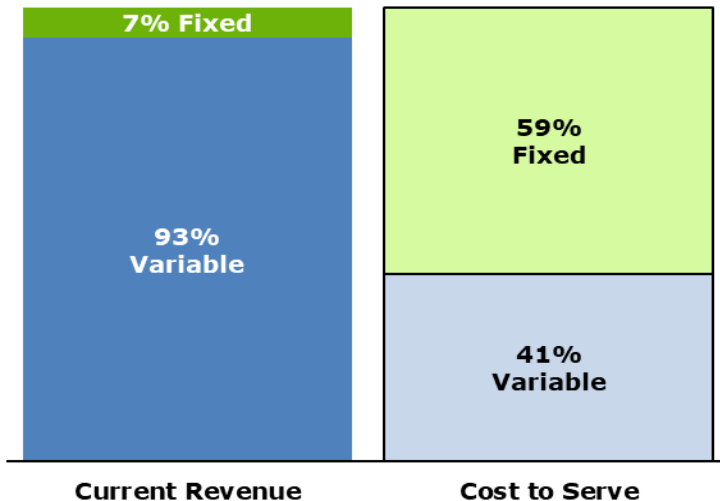


**Customers' bills have a fixed component & a variable component. However, those charges do not align with our cost structure.**

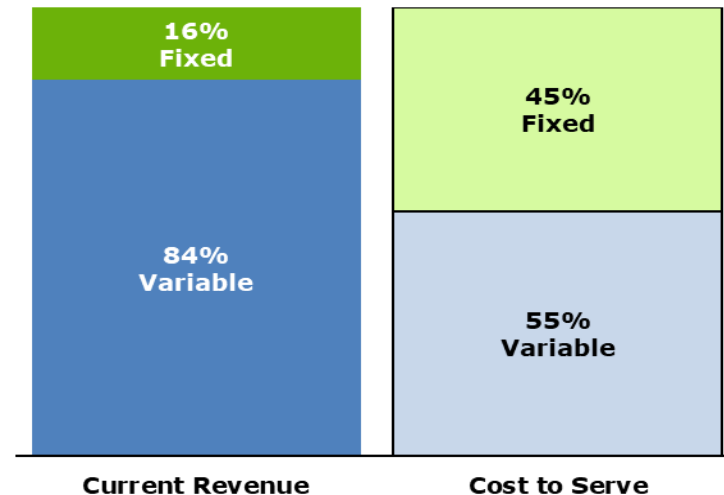
# UTILITY ENERGY

## SA NEEDS BETTER COST-TO-BILL ALIGNMENT

### Residential



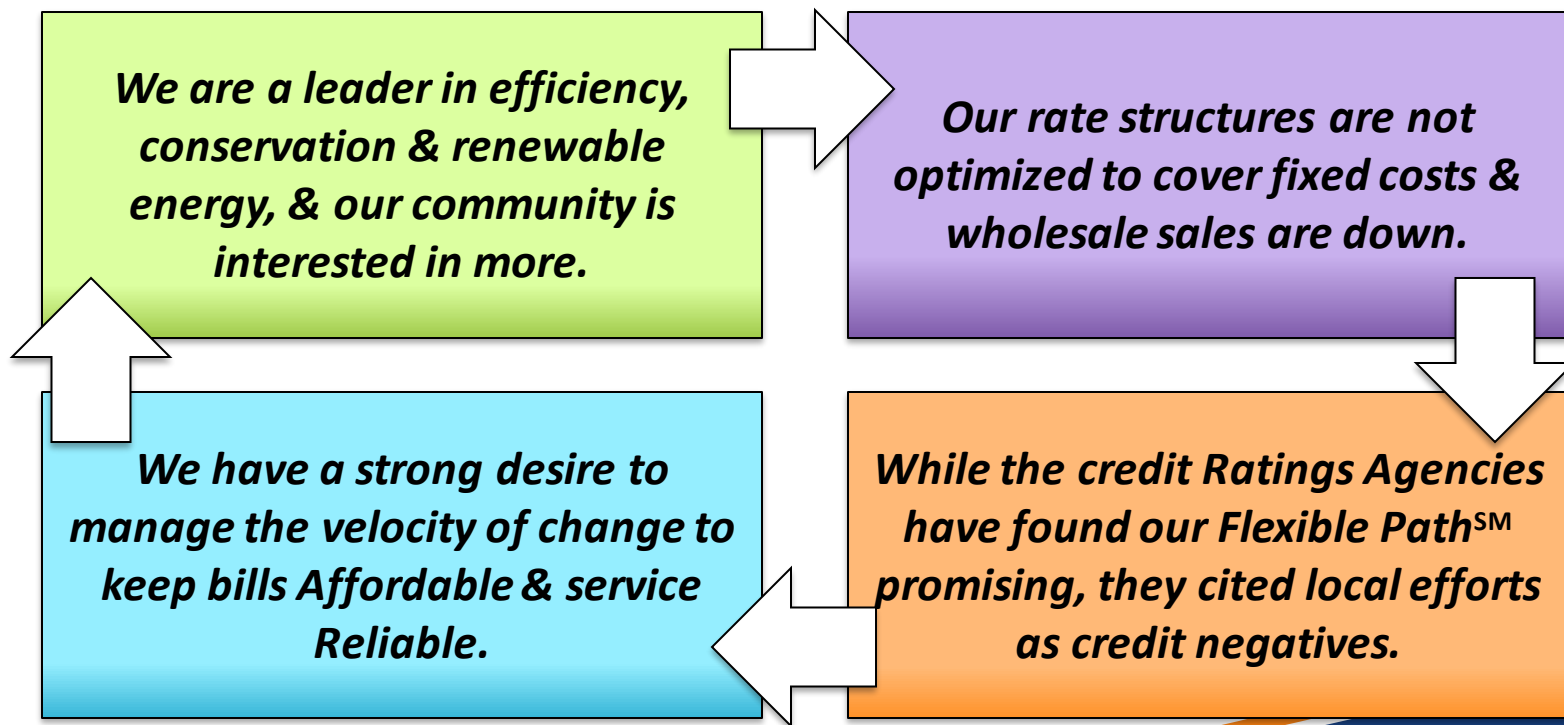
### Commercial



**It will be good to restructure our rates!**  
**However, rates are like a balloon; costs moved from one part of the business must be absorbed by other parts of the business.**

# BUSINESS PRESSURES

## WE ARE FACING INCREASING CHALLENGES





# BUSINESS PRESSURE

## SA's IMPORTANT CREDIT RATINGS



Ratings Agencies are watching our financial performance & local issues that could impact our governance.



**S&P Global**  
Ratings

**Fitch Ratings**

**CPS Energy Rating:**

**Aa1**

Outlook: Stable

**AA**

Outlook: Stable

**AA+**

Outlook: Negative

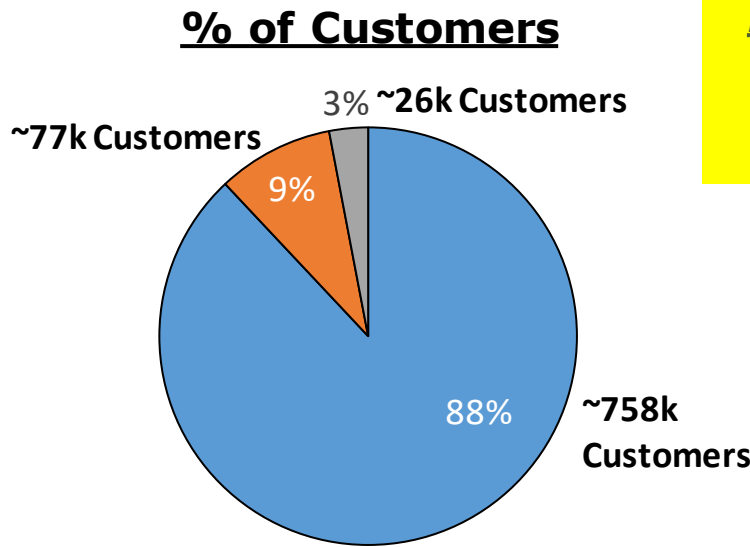


*"The Negative Outlook reflects Fitch's concern that rate increases required to maintain a financial profile consistent with the current rating may not materialize..."*

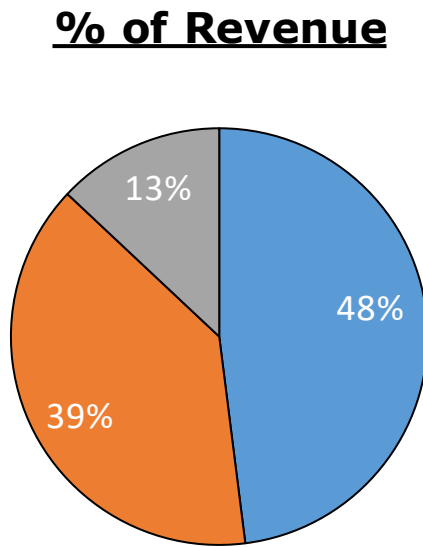
*A recent petition was proposed... that would revise the governance & management structure of the utility, as well as institute certain carbon reduction & rate policies. Fitch views the proposed governance change as a potential asymmetric additive risk consideration."*

# OUR CUSTOMERS

## RETAIL REVENUE CHARACTERISTICS



**Excludes our  
Competitive  
Wholesale  
business**



■ Residential   ■ Commercial & Industrial   ■ Other

**Residential customers make up nearly ~90% of our customers, but contribute less than 50% of all revenue.**

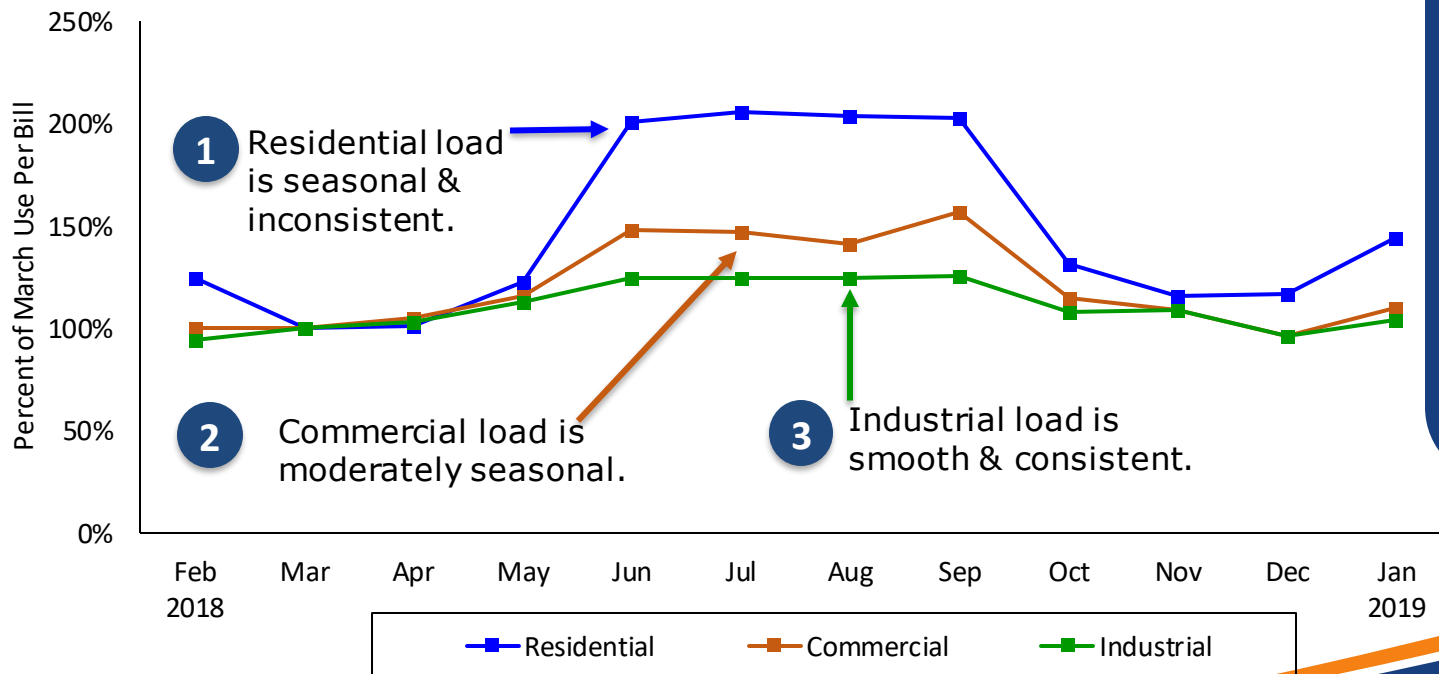
Other – Includes Streetlights & Public Authorities, such as the Military

# OUR CUSTOMERS

## OPERATIONAL EFFICIENCY IS THE KEY TO COST EFFECTIVENESS



### How You Use Energy Matters



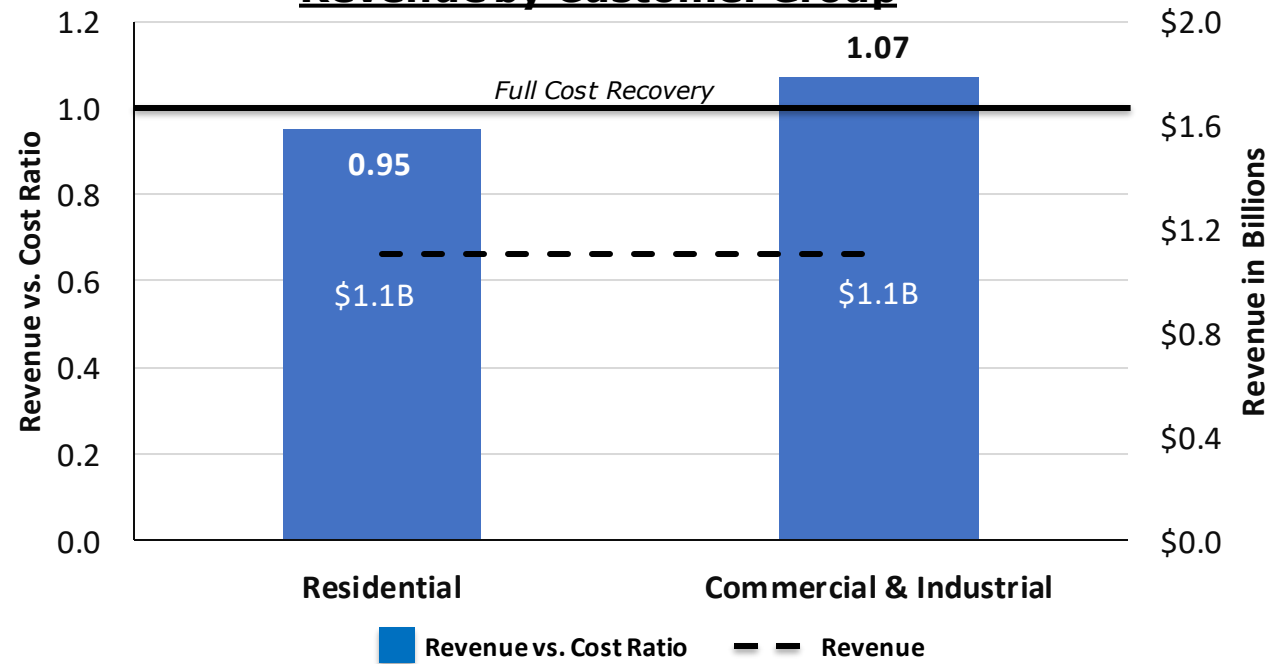
Customers with consistent load use infrastructure efficiently & that cost is spread over higher sales volumes (i.e., more kWh's).

# OUR CUSTOMERS

## BUSINESSES ALREADY HELP RESIDENTS



**Revenue as % of Cost to Serve (CoS) & Revenue by Customer Group**



- Even though C&I customers pay a lower effective price per kWh, they are actually contributing more than their CoS.
- As a regulatory standard, no Customer Group should pay more than 110% of their CoS.

Note: Based on FY2017 Cost of Service Model; Residential includes RE, RA, & RCE; Commercial & Industrial (C&I) includes PL, LLP, ELP, LPT & SLP (including Public Authorities); Excludes all lighting groups

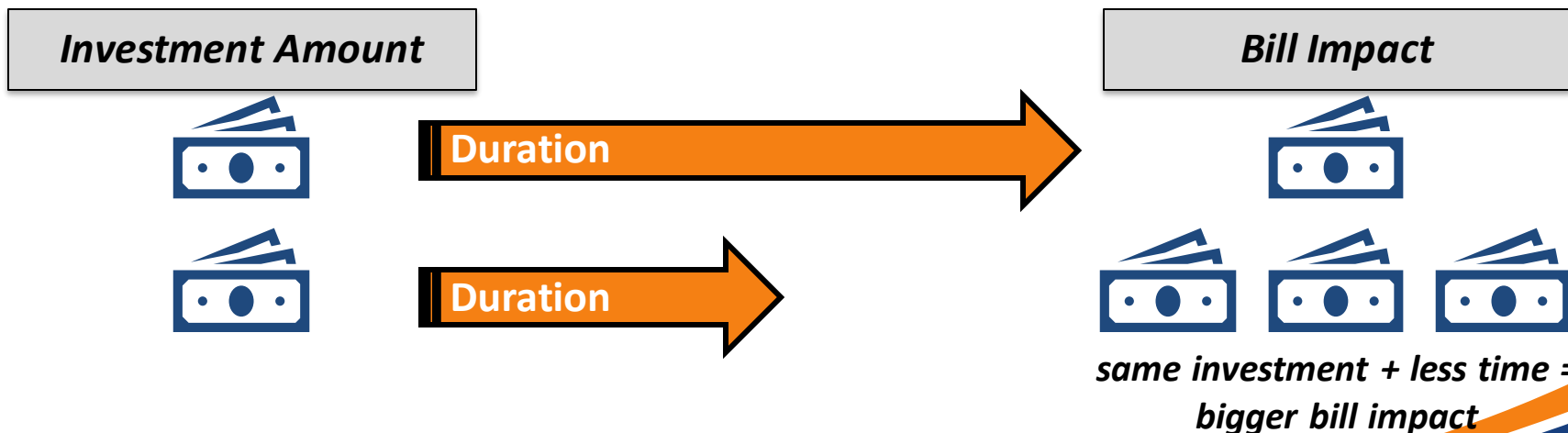
# OUR CUSTOMERS

## THE VELOCITY OF CHANGE MATTERS



### TODAY & TOMORROW:

As we design the future of our conservation & renewable energy programs, balancing the sequence & timing of investment is important to ensure bills remain *Affordable*.

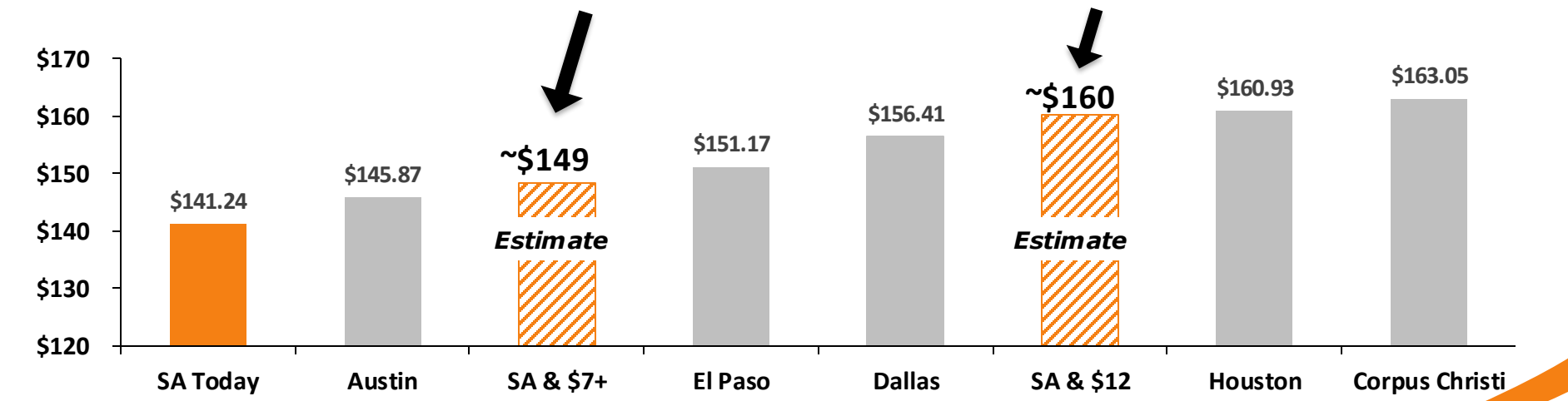


# VELOCITY IMPACTS AFFORDABILITY

## PRELIMINARY ESTIMATE VIEW



**Bill Impact of...**      *...triple spending on conservation.*      *...plus accelerating coal unit retirements.*



Note: Data represents trailing 12 month averages ending August 2020; deregulated markets electric data from powertochoose.org (Terms 12; 4&5 star rated REPs); bills calculated at average monthly usage of 1,000kWh & 5MCF.

# VELOCITY IMPACTS AFFORDABILITY

## AGAIN, EVERYTHING COSTS MONEY



### THERE WILL BE MORE DISCUSSIONS ABOUT THE IMPACTS OF:

- Energy Efficiency,
- Renewables,
- Storage Technologies,
- Fossil Fuels,
- Customer Assistance Programs, etc.

***MORE TO COME...***



***Thank You***





# ***Appendix***

# GLOSSARY / DEFINITIONS

## (1 OF 2)

Acronym or Word	Definition	Acronym or Word	Definition
Residential	Revenues billed on RE, RA, & RCE Rates	SB	Small Business
RE	Residential Service Electric Rate	PL	Power & Light Electric Rate
RA	Residential All Electric Service Electric Rate	LCI	Large Commercial & Industrial
RCE	Large Use Residential Capacity Energy Electric Rate	LLP	Large Lighting & Power Service Electric Rate

# GLOSSARY / DEFINITIONS

## (2 OF 2)

Acronym or Word	Definition	Acronym or Word	Definition
ELP	Extra Large Power Service Electric Rate	TS & STLT	Revenues billed on Traffic Signal, Streetlight, & ANSL Rates
LPT	Large Power Time of Use Electric Rate	TS	Traffic Signal Service Electric Rate
SLP	Super Large Power Service Electric Rate	STLT	Streetlight & ANSL Rates
Resi + SB	Combined Residential & Small Business	ANSL	All Night Security Light Electric Rate