

**CITY OF SAN ANTONIO
PUBLIC UTILITIES DEPARTMENT
CITY COUNCIL AGENDA MEMORANDUM**

TO: Mayor and City Council

FROM: Ben Gorzell Jr., Director of Public Utilities

SUBJECT: Ordinance Authorizing Revisions to the CPS Energy Policy for Line/Main Extensions and Service Connections

DATE: December 15, 2005

SUMMARY AND RECOMMENDATION

This Ordinance authorizes revisions to the CPS Energy (CPS) Policy for Electric Line Extensions and Service Connections and Gas Main Extensions and Service Connections and provides for an effective date of January 1, 2006.

Approval of this Ordinance is recommended.

BACKGROUND INFORMATION

CPS provides electric and natural gas service to customers within the greater San Antonio metropolitan area. In order to serve new growth, CPS makes extensions of new electric lines and gas mains, provides facilities, and alters existing electric lines and gas mains in order to provide electric and gas service to Customers. The "CPS Energy Policy for Electric Line Extensions and Service Connections" and "Policy for Gas Main Extensions and Service Connections" establish the basic conditions and requirements for adding facilities to existing electric lines and gas mains to supply electricity and natural gas for customer installations.

The cost of standard facilities for line extensions are funded through CPS' monthly services rates. These standard design facilities include standard overhead line extensions, pole mounted transformers, standard meter size, and gas mains of adequate capacity and pressure. The majority of standard design facilities are provided to customers at no additional charge. These customers pay the monthly services rates which are designed to recover the cost of standard facilities for line extensions and connections as well as provide for maintenance and replacement of these facilities in the future.

The electric and natural gas line extension and service connection policies establish the level of additional charges for the excess costs associated with non-standard facilities to be paid by new customers. These customers, primarily developers, pay these costs through "contributions in aid of construction" to CPS. The costs for oversizing facilities and system improvements resulting from CPS planning are recovered through CPS' monthly service rates. The current line extension policy for electric service has been in place since 1986 while the policy for natural gas service was last updated and approved in 1995.

In early 2005, CPS staff began to review its line extension charges with following goals and objectives:

- Fairness and equity between existing and new customers;
- Simplify the process for ease of administration;
- Allow flexibility in application of policy to accommodate a competitive and changing environment; and
- Growth pays for itself (New load pays its own way);

Electric Line Extension Policy

Based on the review of its line extension costs, CPS determined that the current electric line extension policy was not fully recovering the costs of upgraded or non-standard services. This under recovery is primarily related to costs for trenching and pad mounted transformers (transformers placed on a concrete slab on the ground).

Under the proposed policy, market based prices for trenching and conduit installation are being recommended rather than a fixed schedule of charges. Some of the advantages of this approach are that costs will automatically remain more current because they will be based on market prices thereby eliminating the need to periodically adjust a schedule of charges. The developer or builder will also have the option to perform their own trenching and conduit installation providing greater control over construction scheduling. However, if the developer chooses this option, CPS will inspect the work of contractors to ensure adherence to CPS construction standards and CPS will also continue to perform the critical installation of electrical cabling.

Currently, CPS recovers approximately \$4.2 million under the existing electric line extension policy. Through analysis of costs, it has been determined that the amount CPS should be recovering through contributions in aid of construction under the electric line extension policy is approximately \$11.4 million taking into consideration market based pricing for trenching and conduit installation. Under the proposed policy, a phase-in of the full increase is being recommended to occur over a three year period. The impact of the phase-in is reflected in the following table with contributions in aid of construction increasing from \$4.2 million currently to \$11.4 million at the end of the phase-in period.

<u>Electric Line Extension Policy</u>	<u>Total Estimated Contributions (\$ Millions)</u>
Present Policy	\$ 4.15
Proposed Policy:	
Calendar Year 2006	\$ 4.92
Calendar Year 2007	7.01
Calendar Year 2008	10.35
Calendar Year 2009	11.35

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CPS developed the phase-in of the update to the electric line extension policy through coordination with the developers and builders. The proposed phase-in took into consideration that the policy had not been updated since 1986 and that it would not adversely impact CPS' financial position. While the update is important to maintain equity between existing and new customers, the estimated contributions in aid of construction of \$11.4 million under the proposed policy represent approximately 1% of CPS' annual revenue of \$1 Billion, exclusive of fuel. As such, it was determined that the phase-in mechanism would be feasible. Attachment I provides a comparison of the current and proposed charges for the electric system for the Electric Main Extensions and Service Connections Policy.

Gas Line Extension Policy

As noted earlier, the existing Policy for Gas Main Extensions and Service Connections was updated and approved in 1995. Unlike electric utilities, gas utilities are not granted exclusive service areas. The revision of the gas extension policy was driven by competitive pressure from other gas distribution utilities. Construction cost analysis showed that CPS could reduce the cost of extensions to new customers or development while retaining competitive gas rates for existing customers. The existing gas policy makes most extensions and services available at no charge to new customers.

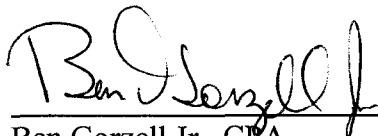
The proposed gas main extension policy will change only the footage allowance to serve a new address. The current policy allows for 100 ft. to be included in standard service. The proposed policy would allow for a gas service allowance based on the number and types of gas appliances to be included. This is important change will encourage new development to install more gas appliances if they are to request gas service infrastructure for their development. As such, CPS is then able to recover its extension costs over a reasonable period of time and extend gas infrastructure in a more cost effective manner. Attachment II provides a comparison of the current and proposed charges for the gas system for the Gas Main Extensions and Service Connections Policy.

FISCAL IMPACT

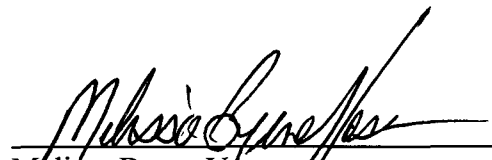
The City of San Antonio receives 14% of gross revenues from CPS Energy. Contributions in aid of construction, such as extension charges and service connections, are not included in the calculation for the City's payment of 14% from CPS Energy. Therefore, there is no financial impact to the City. The impact to CPS will be an increase in contributions in aid of construction from approximately \$4.2 million currently to approximately \$11.4 million by the end of the three year phase-in period.

COORDINATION

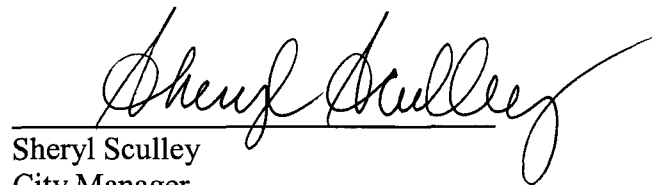
This item has been approved by the CPS Board of Trustees and the CPS Citizens Advisory Committee and has been coordinated with CPS Staff and the City Attorney Office. The City Council Intergovernmental Relations Committee was briefed on September 21, 2005 and November 16, 2005.



Ben Gorzell Jr., CPA
Director of Public Utilities



Melissa Byrne Vossmer
Assistant City Manager



Sheryl Sculley
City Manager

ATTACHMENT I
Electric Policy

	<u>Present</u>	<u>Proposed</u>
Meters	No Charge	No Charge
<u>Services</u>		
Overhead	\$16 + \$0.16 per ft.	0 to 100 ft. - No charge Over 100 ft. - Excess cost
Underground	\$35 + \$0.40 per ft. in dirt \$35 + \$1.60 per ft. in rock	trench/conduit costs plus excess costs over 100 ft OH equivalent
<u>Transformers</u>		
Overhead	No Charge	No Charge
Underground	\$25/cust.	Cost less OH equivalent cost
<u>Extensions</u>		
Overhead	\$2 per ft. + excess of poles set in rock	costs over \$767 per lot
Underground	\$3.65 per ft. in dirt \$4.95 per ft. in rock	trench/conduit costs plus excess costs over \$767 per lot

ATTACHMENT II
Gas Policy

	<u>Present</u>	<u>Proposed</u>
Meters	No Charge	No Charge
Services	Cost less: 100 ft.	Cost less: footage allowance per appliance
Extensions	Cost less: \$17 per annual MCF [\$850]	same as present

CPS Energy Extension Policies

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Background

- Line Extension is defined as construction of new facilities or upgrade of existing facilities to provide energy delivery service to a retail electric or gas customer
 - Primarily to serve growth
 - Cost of standard facilities for line extensions are funded through general monthly rates
 - A portion of line extension costs are paid by developers
 - Does not impact general monthly rates

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Background

- Policy for Electric Line Extensions and Service Connections has been in place since 1986
- Policy for Gas Main Extensions and Service Connections last updated and approved in 1995
 - Revisions were driven at that time by competitive pressures from other gas distribution utilities

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CPS' Goals/Objectives

- Update line extension charges
- Fairness and equity between existing and new customers
- Simplify process for ease of administration
- Allow flexibility in application of policy to accommodate competitive and changing environment

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CPS' Approach/Philosophy

- Growth pays for itself (New load pays its own way)
- Costs of most standard facilities, overhead, necessary to serve a new customer should be recovered through general rates (monthly rates)
 - Includes metering and standard transformer costs

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CPS' Approach/Philosophy

- New customer through line extension charges should pay excess costs for non-standard facilities (trenching, conduit, additional facilities, etc.)
- Costs for oversized facilities and system improvements as a result of CPS planning should be recovered through general rates

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Proposed Changes

- Instead of a schedule of fixed charges for underground extensions and services, proposal reflects market based prices for trenching and conduit installation
 - Flexibility to recover more of actual costs
 - Allows developers or builders the option to perform their own trenching and conduit installation

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Proposed Changes

- CPS will continue to inspect contractors work to ensure adherence to CPS construction standards
- CPS will continue to perform the critical installation of electrical cabling
- Gas service allowance is based on number and types of gas appliances

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Overall Summary of Cost Recovery (\$ millions)

Electric					
	Total Costs	Extensions	Transformers	Services	Total
Current Policy (CPS cost)	\$26.0	\$2.7	\$0.25	\$1.2	\$4.2
<u>Proposed Policy</u>					
Mkt trench & conduit – 100%	\$22.2	\$3.4	\$4.0	\$4.0	\$11.4
Gas					
	Total Costs	Extensions	Services	Total	
Current Policy (CPS cost)	\$3.0	\$0.024	\$0.0	\$0.024	
<u>Proposed Policy</u>					
Substitute Mkt trench	\$2.1	\$0.0	\$0.0	\$0.0	

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Customer Contributions per Year - Electric System (\$ millions)

	Extensions	Transformers	Sub-total Extensions	Services	Total
Present	\$2.68	\$0.25	\$2.93	\$1.22	\$4.15
Proposed					
CY 2006	\$2.68	\$0.25	\$2.93	\$1.99	\$4.92
CY 2007	\$3.02	\$1.01	\$4.03	\$2.98	\$7.01
CY 2008	\$3.36	\$3.02	\$6.38	\$3.97	\$10.35
CY 2009	\$3.36	\$4.02	\$7.38	\$3.97	\$11.35

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Phase - In

- Phase-in mechanism will not adversely impact CPS Energy's financial position
 - Annual Revenue (Excl. Fuel): \$1 Billion
 - Extension Policy Contributions \$11.4 Million
 - % of Annual Revenue 1%
- CPS Energy and affected parties have reached agreement on phase-in methodology
- Must have pre-construction meeting within 2 years of plat date or move to the full rate

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Community Outreach

- Met with key Community Leaders
- Conducted Developer/Builder Focus Groups
- Conducted Citizens Advisory Committee work-session
- Conducted Board work-session
- Met with Community Housing Development Organizations to obtain feedback with alternative option under consideration
- Briefed Intergovernmental Relations City Council Committee

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CPS Energy Extension Policies

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