

Agenda item #4

**CITY OF SAN ANTONIO
FINANCE DEPARTMENT
CITY COUNCIL AGENDA MEMORANDUM**

TO: Sheryl Sculley, City Manager

FROM: Ben Gorzell Jr. CPA, Acting Director of Finance

SUBJECT: Ordinance Approving Proposed Adjustments to CPS Energy Gas Base Rates, Residential All Electric Rate and the Gas Furnace Lighting Fee

DATE: June 15, 2006

SUMMARY AND RECOMMENDATIONS

The proposed Ordinance will approve adjustments to the following CPS Energy rate schedules and miscellaneous fees:

- Gas Class G – Residential/Small Commercial, increase base charge by \$2.96/month
- Gas Class B – Large Commercial, increase energy charge for initial 6,000 ccf from \$0.394/ccf to \$0.416/ccf
- Gas LVG – Large Volume Gas, increase demand charge for winter billing from \$0.80/ccf/day to \$0.92/ccf/day, increase non-winter demand charge from \$0.64/ccf/day to \$0.74/ccf/day, increase energy charge from \$0.265/ccf to \$0.280/ccf
- Gas NGT – Natural Gas Transport Service - increase in the Demand Charge for Winter Billing from \$0.80/ccf day to \$0.92/ccf day and for Non-Winter Billing from \$0.64/ccf day to \$0.74/ccf day and the Energy Charge from \$0.01/ccf to \$0.024/ccf
- Gas Rider G3 – Customers with Alternative Fuel Capability – elimination of rider.
- Residential All Electric rate (RA) – discontinue rate for new premises
- Gas Furnace Lighting Fee, increase from \$7 (October thru January) to \$24 (all months)

Staff recommends approval of the proposed ordinance.

BACKGROUND INFORMATION

This ordinance requests approval of changes to the CPS Energy gas rate schedules that are needed as a result of increased expenses incurred since the last gas base rate adjustment in 1991. During this 15 year period the CPS Energy Gas Business Unit has realized a nationwide trend that includes slow growth in customers, decreased consumption per customer and a significant increase in operating and maintenance costs due to inflation. These factors have caused the Gas Business Unit to operate at a deficit for several years. The proposed rate adjustment is a component of CPS' plan to achieve recovery of the cost of service for the Gas Business Unit.

In January 2006, the CPS Board of Trustees approved a directive for the Gas Business Unit to become cash flow positive within five years. As a result, a plan was developed that includes the following three components: (1) Increase gas market penetration from the current level of 21% to 30-50% over the next 3 years. A concerted marketing effort is being made by CPS Energy to install gas service in new neighborhoods using a Smart Energy theme. (2) Drive cost down in the Gas Business through process and performance improvements – recently completed, current and planned initiatives are expected to eliminate several million dollars of costs. (3) Adjust rates to offset increased costs while maintaining competitive/low rates.

CPS Energy has begun implementation of the first two components of the plan and has been working with City Staff to address the rate increase. The Public Utilities staff has performed a detailed review of the request, focusing on the following areas: trend analysis of O & M costs, cost allocation methodology, revenue projections (consumption and customer growth), CIP (projects and funding), debt service requirements, and fund balance breakdown. The findings of this review support the proposed rate increase in order for the Gas Business Unit to reduce the existing cash flow deficit.

The ordinance also requests the increase of the Gas Furnace Lighting Fee from \$7 (October thru January) to \$24 (all months). This increase is based on a cost of service study and reflects the true costs to CPS Energy. In addition, CPS Energy proposes to discontinue the Residential All-Electric rate (RA). This rate has been offered to customers who live in all electric dwellings. The RA rate will continue to be applied to existing all electric premises, but CPS Energy will discontinue offering the rate to customers moving into new premises. This will enable CPS Energy to better market combined gas and electric service which is a better energy value for ratepayers. The elimination of Rider G3 – customers with alternative fuel capability is recommended due to lack of customer applicability.

Attached, are graphs which reflect the combined residential electric and gas bill comparison for the top ten U.S. cities and select Texas cities. The comparison is based on CPS' average residential usage of 1,000 kwh and 5 MCF and is based on data for the twelve months ended January 2006. As the attached graphs indicate, following the proposed increase, CPS will continue to have the lowest combined residential utility rates of any of these cities.

FISCAL IMPACT

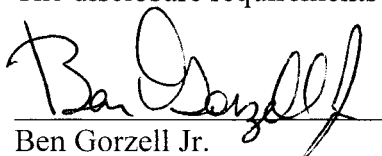
The proposed rate and fee adjustments will generate an estimated additional \$12.8 million in revenue for CPS Energy on an annual basis. The City receives 14% of gross revenues and as such, the City will realize an estimated \$1.8 million increase in City payment on annual basis (in the current fiscal year, approximately \$500,000).

COORDINATION

This item has been coordinated with the City Attorney's Office and CPS Energy. The CPS Board of Trustees approved the proposed rate adjustments on May 22, 2006.

SUPPLEMENTARY COMMENTS

The disclosure requirements of the City's Ethics Ordinance are not applicable.



Ben Gorzell Jr.
Acting Director of Finance

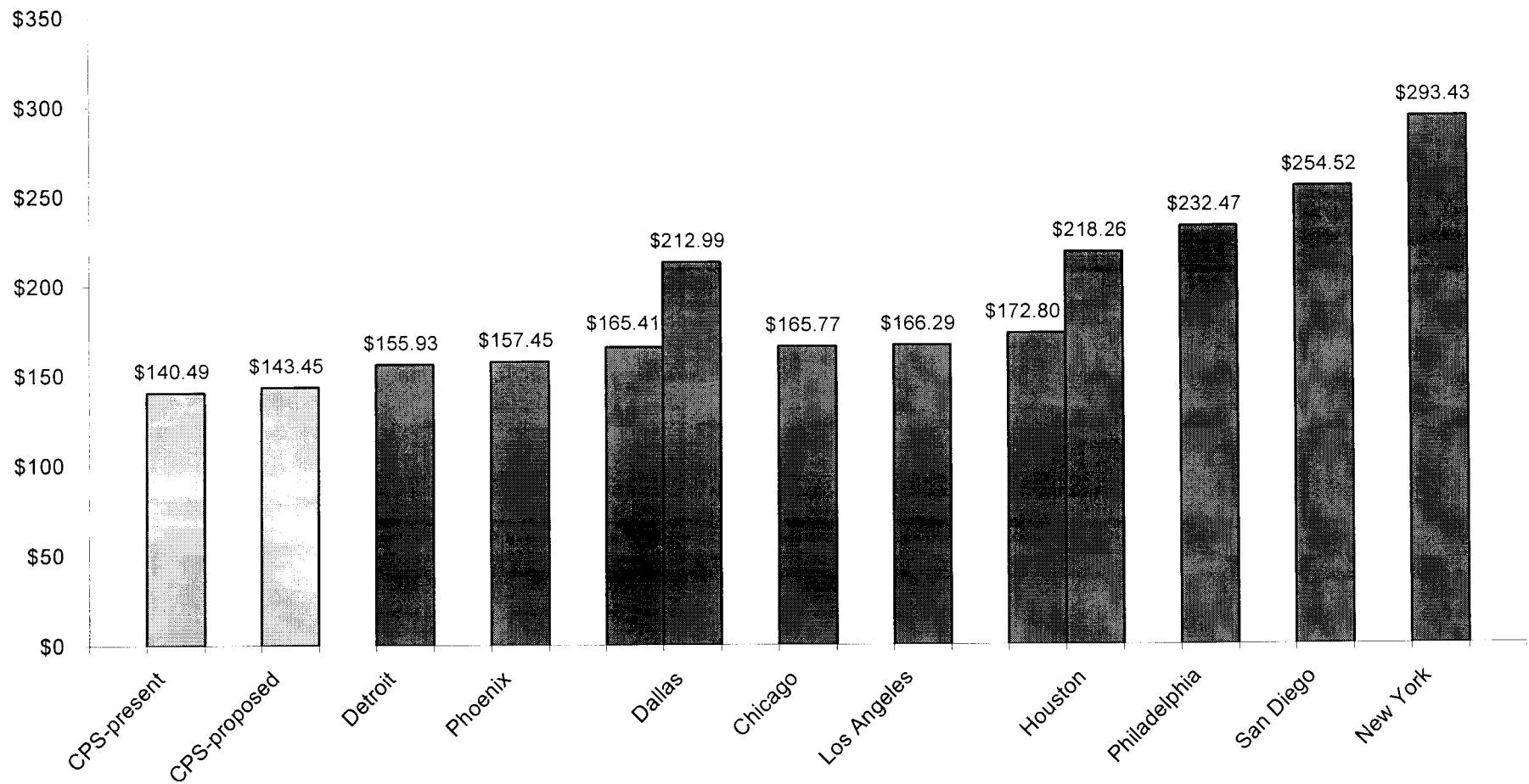
Approved for Council Consideration:



Sheryl Sculley
City Manager

Average Residential Bills – Top 10 US Cities

Average Residential Electric and Gas Bill
for the 10 Largest U.S. Cities
for 1,000 kWh and 5 MCF
12 Months Ended January 2006



Average Residential Bills – Texas Cities

Average Residential Electric and Gas Bill
Major Texas Cities
for 1,000 kWh and 5 MCF
12 Months Ended January 2006

