



FIRST STEP TO IMPROVING OUR RATE DESIGN

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Informational Update



TRENDS IN RATE DESIGN



Why are rate designs changing?

As customer preferences and usage patterns have evolved, utilities throughout the US & the globe are rethinking their approach to rate design. Drivers include:

- Adoption of smart, digital & wireless technologies
- “Greening” of customer tastes
- The desire by customers to have options in rate design
- The rollout of smart meters
- The impact of these items on utility financial models

A measured approach to ratemaking will evaluate all alternatives.

ALTERNATIVE RATE DESIGNS



Unbundled

- Break out fees for each service used
- Optimal alignment with cost
- Complicated & hard to understand

Time-of-Use

- Price for energy ties to the time of day it is used
- Using energy off peak can decrease bill amount
- Can be hard for customers to manage

Inclining Block

- Customers who use more, pay more
- Promotes energy conservation
- Penalizes customers who are unable to conserve

Other

- Residential demand charges
- Buy all/sell all
- Net billing

The right rate structure balances prioritized objectives.

WHAT IS CPS ENERGY'S RATES ROADMAP?



- Rate designs of the future need to be flexible &:
 - Address the needs & wants of customers
 - Be adaptable to future needs
 - Effectively align fixed & variable cost recovery
- RAC will be a part of these discussions through this working group
- A complete rate re-design (e.g., implementing TOU rates) will take 12-24 months to align and implement
- In the immediate term, one low risk adjustment is to increase fixed charges as part of the impending rate request

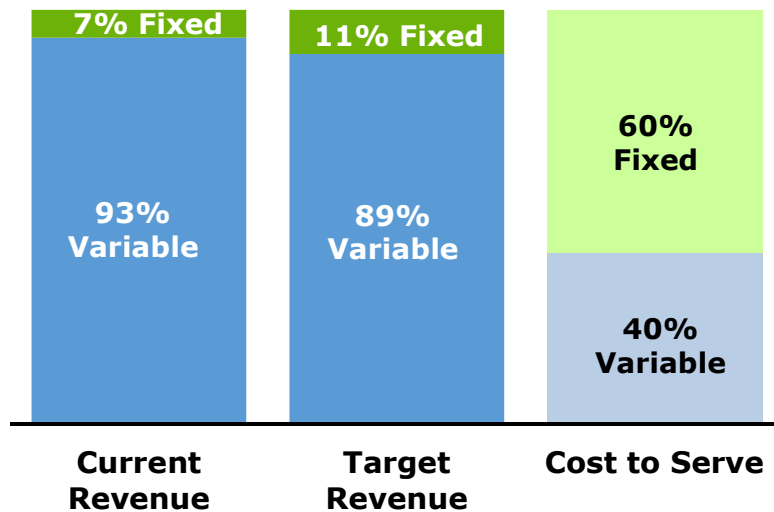
While “future state” discussions with the RAC will take time, we can still take action in the near term.

CHANGING RATES TO IMPROVE REVENUE ALIGNMENT

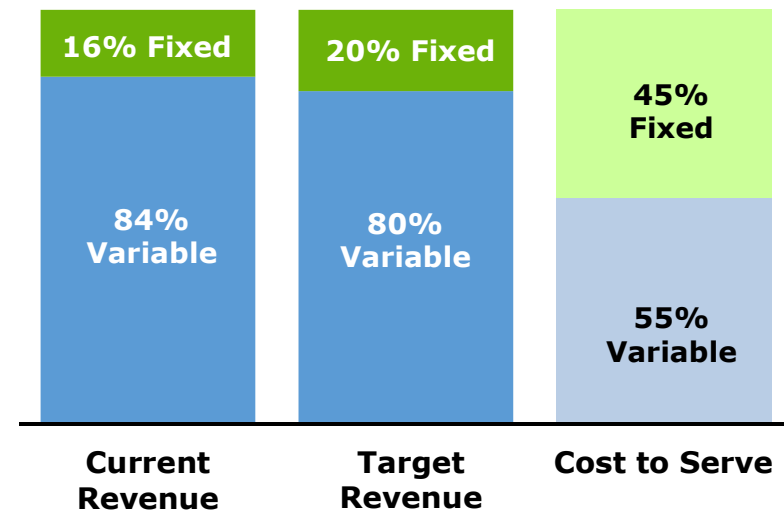
Hypothetical Targets



Residential



Commercial & Industrial



Increasing fixed charges more than variable charges is a small step in the right direction.

BILL IMPACTS OF FIXED CHARGES: SCENARIO 1

Hypothetical Example



100% OF INCREASE BUILT INTO FIXED CHARGE

Residential Monthly Bills

		Rate	500 kWh	1,000 kWh	1,500 kWh
Current:	SAC	\$8.75	\$8.75	\$8.75	\$8.75
	Variable	10.8¢	\$51.78	\$108.04	\$163.51
	Total		\$60.53	\$116.79	\$172.26
New:	SAC	\$20.83	\$20.83	\$20.83	\$20.83
	Variable	10.8¢	\$51.78	\$108.04	\$163.51
	Total		\$72.61	\$128.87	\$184.34
Variance			\$12.08	\$12.08	\$12.08
			20%	10%	7%

All customers share the same dollar impact but low users experience a more significant bill impact.

BILL IMPACTS OF FIXED CHARGES: SCENARIO 2

Hypothetical Example



75% OF INCREASE BUILT INTO FIXED CHARGE			Residential Monthly Bills		
			Rate	500 kWh	1,000 kWh
Current:	SAC	\$8.75	\$8.75	\$8.75	\$8.75
	Variable	10.8¢	\$51.78	\$108.04	\$163.51
	Total		\$60.53	\$116.79	\$172.26
New:	SAC	\$17.85	\$17.85	\$17.85	\$17.85
	Variable	11.0¢	\$52.98	\$110.57	\$167.35
	Total		\$70.83	\$128.42	\$185.20
Variance			\$10.30	\$11.63	\$12.94
			17%	10%	7.5%

As more of the revenue increase is put into variable charges, the impact on low usage customers begins to come down.

BILL IMPACTS OF FIXED CHARGES: SCENARIO 3

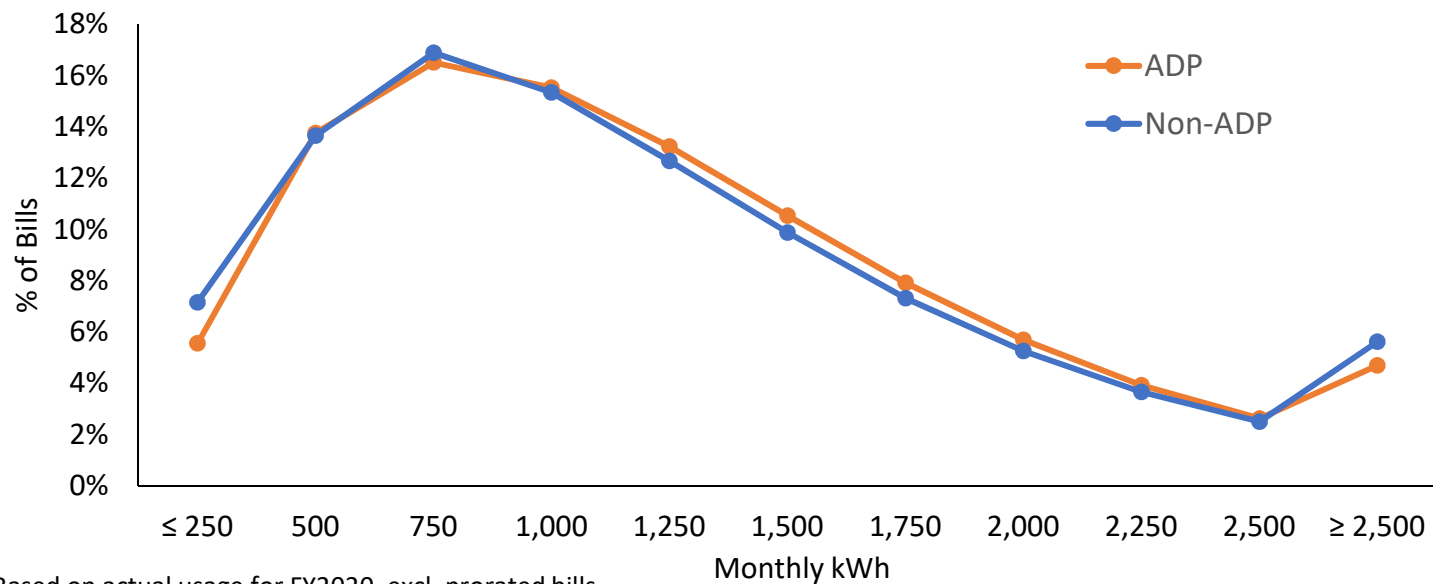
Hypothetical Example



50% OF INCREASE BUILT INTO FIXED CHARGE			Residential Monthly Bills		
			Rate	500 kWh	1,000 kWh
Current:	SAC	\$8.75	\$8.75	\$8.75	\$8.75
	Variable	10.8¢	\$51.78	\$108.04	\$163.51
	Total		\$60.53	\$116.79	\$172.26
New:	SAC	\$15.00	\$15.00	\$15.00	\$15.00
	Variable	11.3¢	\$54.27	\$113.17	\$171.25
	Total		\$69.27	\$128.17	\$186.25
Variance			\$8.74	\$11.38	\$13.99
			14%	10%	8%

Splitting the increase evenly between bill components helps low usage customers, but does little to correct our cost/revenue alignment.

DO LOW INCOME CUSTOMERS HAVE LOW USAGE LEVELS?



There is no indication that low income customers will be disproportionately impacted by this change.

NEXT STEPS



- Full RAC committee meeting on 9/16
- Working group meetings on 9/23
 - Will share actual recommended pricing that moves more into fixed charges on the bill



Thank You

