RATE REQUEST

Presentation to the Board of Trustees

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July 31, 2013

PURPOSE OF PRESENTATION

This presentation is an update on CPS Energy's Rate Request plans. Support and endorsement to initiate public communication of Rate Requirements for Calendar Year 2014-2015 will be requested of the Board.

AGENDA:

- Overview / Rate Request History
- Performance Overview / Customer Assistance Programs
- Rate Plan Alignment / Key Drivers Impacting Rate
- Proposed Rate request

OVERVIEW

While managing CPS Energy's risks through the pursuit of affordable, lower carbon emitting generation resources combined with affordability,

CPS Energy is able to propose a rate increase request that:

- Assumes a total increase amount (over an eight year period) that has been reduced by 32% from 2010 Rate Plan
- Continues to *meet all regulatory requirements and Vision 2020 goals*
- *Maintains commitments to reliability* and manageable operational risks
- Maintains commitment to *top tier Customer Satisfaction*

RATE REQUEST HISTORY

Calendar Year	2010 Rate Plan	Revised Rate Plan
~~Calendar years 2012-2013~~	~~4.90%~~	~~0%~~
Calendar years 2014-2015	~~5.25%~~	4.75%
Calendar years 2016-2017	~~5.45%~~	5.25%*
Calendar years 2018-2019	~~5.50%~~	4.50%*
Eight year total	~~21.1%~~	14.50%*

**Projections of future increases are subject to change as a result of changes to assumptions in CPS Energy's Financial Plan including market conditions, regulatory and/or legislative requirements and financial market conditions.*

PERFORMANCE OVERVIEW

- J.D. Power recognition as *top large electric utility for Customer Satisfaction*
- *Improved reliability* to top quartile of the industry
- *Substantial emission reductions*, on track to reduce emissions by an amount equivalent to 1 million cars off the road by the year 2020
- Recognized for having the *premier credit rating in the industry* by Bank of America Merrill Lynch
- *Lowest rates* among large/major Texas cities
- *Over 250 SA jobs created;* several million dollars committed to local education through New Energy Economy efforts

CUSTOMER ASSISTANCE PROGRAMS

- *10 active support programs* for CPS Energy customers
- *Expanding Affordability Discount program* to assist 45,000 electric and 35,000 gas customers (increase of 5,000 electric and 5,000 gas customers in 2013), $8.55 and $3.75 monthly discount respectively
- *Over 250,000 customers received a form of assistance* from CPS Energy in FY 2013
- *Approximately $5.9 Million* in financial assistance was provided in FY 2013

RATE PLAN ALIGNMENT

- Reflects plan to protect CPS Energy customers by *actively managing risk through generation diversification*
- Supports the objectives of *CPS Energy Vision 2020 and SA 2020*
  - *Leveraging Clean Energy Development & Energy Efficiency Initiatives to Create Economic Opportunity in San Antonio*
- Absorbs the impact of *Government Accounting Standards Board (GASB) financial regulations*

KEY DRIVERS IMPACTING RATE

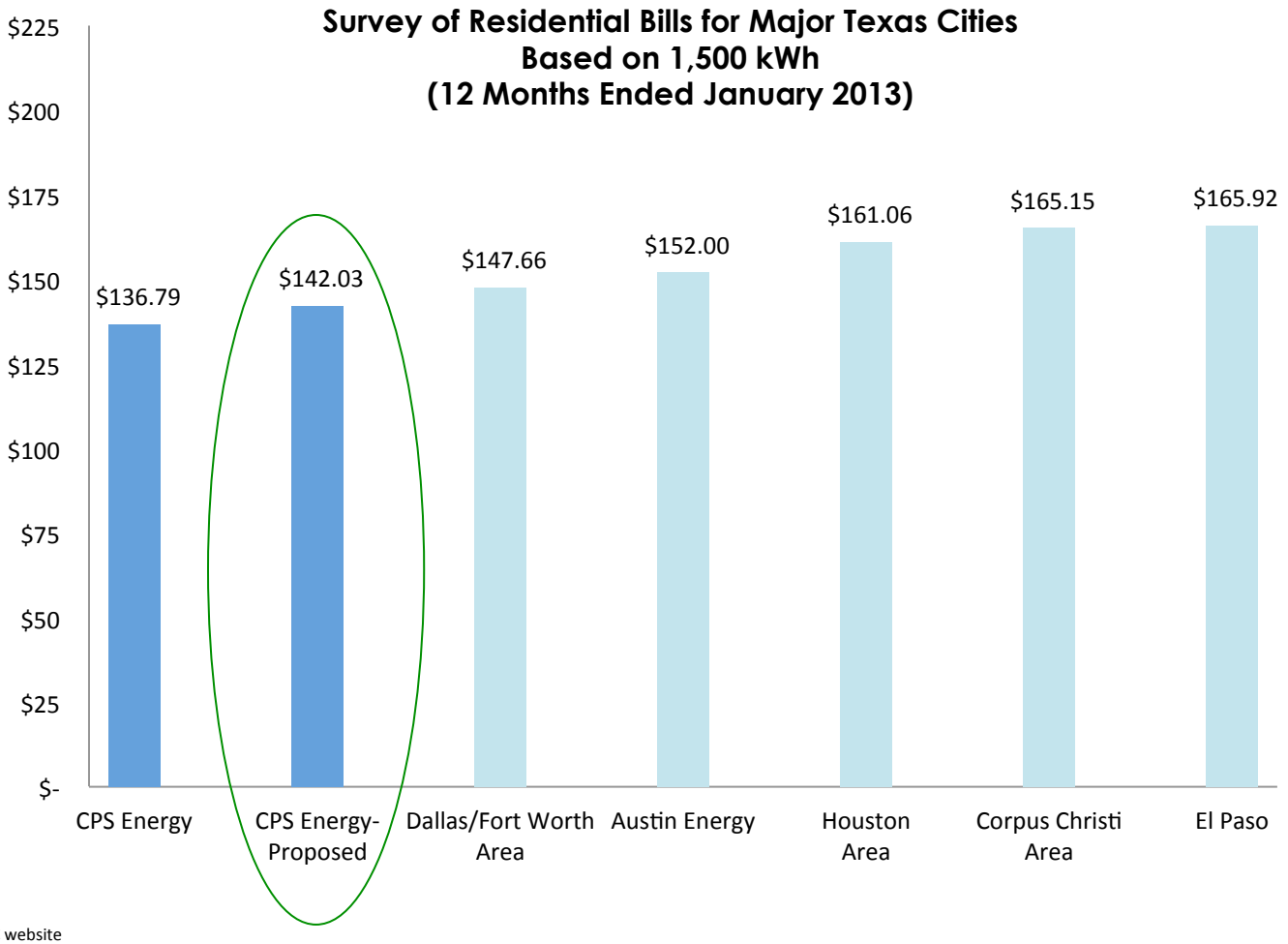
Drivers	Major Projects	Dollar Value FYE2015 & FYE2016
Infrastructure Modernization = Invest in aging infrastructure through asset management analysis, ensuring reliability and prioritizing the key equipment needing replacement each year in our power plants, distribution and transmission infrastructure	• Spruce 1 Turbine Upgrade ($14.1M) • Rio Nogales SCR ($10.0M) • Von Rosenburg LTSA Hot Gas Path ($6.1M) • Braunig 3 Superheater and Reheater Replacement ($6.0M) • Braunig 1 Superheater and Reheater Replacement ($6.0M) • Underground cable replacement/injection ($38.9M) • Pole replacements ($24.5M) • Transmission Line Upgrades ($12.3M) • Distribution Circuit Upgrades ($10.2M) • Overhead Emergency Replacements ($6.4M)	$267M
Grid Optimization Project = Mesh network solution that will improve reliability, enhance communications and notifications to customers during outages and also allow for customers to more effectively manage energy use and save money	• Meter Purchases (49.6M) • Silver Spring Mesh Network ($42.0M)	$131M
GASB = Establishment of Regulatory Asset to address the pension liability required by GASB 68	•Based on analysis by actuarial studies, the annual impact will be $8.1M	$16M

RATE REQUEST / BILL IMPACT

- Management analysis indicates a need for a rate case with a February 1, 2014 effective date in the ***amount of 4.75%***, comprised of:
    - *Base Rate Adjustment* *4.19%*
    - *GASB Recognition* *0.56%*

- ***Monthly Bill Impact of $5.19*** for the Average Residential Combined Bill
    - *Electric Monthly Bill Impact = $3.98*
    - *Gas Monthly Bill Impact = $1.21*

BILL COMPARISON



•Comparison data from PUC website
•1500 kWh average used for comparison by PUC website

PROPOSED RATE REQUEST TIMELINE

• Individual Board Briefing Sessions	*August 1 – 20*
• Conversations with City Staff	*Ongoing*
• Customer Care Fairs/Customer Education	*July 31 – October 15*
• Public Input Session	*August 26*
• City Council Presentations	*September 18 – October 16*
• City Council Vote	*October 31*
• Proposed Implement Date	*February 1, 2014*

BOARD ACTION

Management analysis indicates a need for a rate case with a February 1, 2014 effective date in the ***amount of 4.75%***, comprised of:

- *Base Rate Adjustment* *4.19 %*
- *GASB Recognition* *0.56%*

Rate request will generate approximately $65 million annually in additional revenue needed to fund more than $500 million annually in capital projects.

Support and endorsement to initiate public communication of Rate Requirements for Calendar Year 2014-2015, leading to a vote by Council in October, 2013 is requested of the Board.

SUPPORTING SLIDES

KEY FINANCIAL METRIC SUMMARY

Metrics – Projected	2014	2015	2016	2017	2018	2019	2020
Debt Service Coverage (1.5 target)	1.60	1.63	1.59	1.68	1.75	1.79	1.87
Debt / Equity (<=60% by FYE 2020)	62.2	61.9	62.3	62.0	62.0	61.6	60.1
Days Cash on Hand (150 Days)	172	152	152	161	153	155	155

Financial metrics will continue to trend positively, which is essential to maintaining the premier credit rating in the industry

HISTORICAL FINANCIAL METRICS

Metrics – Historical	2009	2010	2011	2012	2013
Debt Service Coverage (1.5 target)	1.52	1.51	1.59	1.54	1.43
Debt / Equity (<=60% by FYE 2020)	55.9	58.2	60.2	59.2	61.3
Days Cash on Hand (150 Days)	151	199	219	192	162