

CPS ENERGY
MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
HELD ON JUNE 27, 2022

The Regular Meeting of the Board of Trustees of CPS Energy for the month of June was held on Monday, June 27, 2022 in the Board Room on the First Floor of the CPS Energy headquarters located at 500 McCullough, San Antonio, Texas.

I. CALL TO ORDER

Chair Dr. Mackey called the meeting to order at 1 p.m.

Present were Board members:

Dr. Willis Mackey, Chair
Ms. Janie Gonzalez, Vice Chair
Mr. John Steen
Dr. Francine Romero
Mayor Ron Nirenberg (arrived at 1:05 p.m.)

Also present were:

Mr. Rudy Garza, Interim President & CEO
Ms. Shanna M. Ramirez, Chief Legal & Ethics Officer, General Counsel & Board Secretary
Mr. Cory P. Kuchinsky, Chief Financial Officer & Treasurer
Ms. Vivian Bouet, Chief Information Officer
Ms. Lisa Lewis, Chief Administrative Officer
Mr. Benny Ethridge, EVP
CPS Energy staff members
City of San Antonio officials
Interested Citizens

II. SAFETY MESSAGE, INVOCATION AND PLEDGE OF ALLEGIANCE

A safety message, invocation, and the Pledge of Allegiance were delivered by Mr. Kevin Pollo, Vice President, Energy Supply & Market Operations.

III. PUBLIC COMMENT

Dr. Meredith Maguire, Sierra Club, discussed a report from the Rocky Mountain Institute regarding CPS Energy's analysis on generation planning. She also stated that CPS Energy should ask more of the largest users of energy in a new rate structure, and stated it is important to find a way for these businesses to co-invest in the electricity grid.

Mr. Christopher Mayorga, Rewiring America, appreciates the progress CPS Energy has made in sustainability and renewable energy. He further stated that after reading a report from the Rocky Mountain Institute, CPS Energy needs to go further in generation planning and provide transparency in the pricing of renewables.

IV. CHAIR'S REMARKS.

Chair Dr. Mackey thanked CPS Energy's employees for their work during the record heat in the month of June.

V. INTERIM CEO'S REPORT

Mr. Rudy Garza discussed CPS Energy's efforts on communication with customers regarding the summer heat. CPS Energy now has an action-oriented chart to provide the community with information on how to conserve energy and ensure reliability. CPS Energy will continue to interact with customers this summer to build relationships and community awareness. He has also directed staff to conserve energy at buildings.

Mr. Garza then updated the Board of Trustees on material shortages. CPS Energy is seeing supply chain issues similar to other industries. The rate of late deliveries and stock-outs has increased significantly from pre-pandemic levels in 2019. There a multi-department team working to address issues, especially for gas installations. Mr. Garza explained the active mitigation plans for specific gas installation parts.

He then updated the Board on the Alamo Area Regional Radio System (AARRS) project. The improved radio system will allow interoperability between the city, county, state and other agencies in the State of Texas. It will increase safety for CPS Energy employees. The migration the new system was completed on June 9, 2022. Mr. Garza recognized the AARRS Project Team, and invited them up to the dais. The Board of Trustees congratulated the team and took a commemorative photograph.

Mr. Garza provided a recap of the 23rd Annual Kids Fish Day. It was a successful event which local children enjoyed and drew 150 volunteers. CPS Energy has saved-the-date for next year's event.

Finally, Mr. Garza introduced the Monthly Performance Update and noted that all key result targets were met in Q1.

VI. MONTHLY PERFORMANCE UPDATE

Ms. Lisa Lewis provided metrics on CPS Energy efforts to 1) retain and attract talent, 2) complete a digital enterprise resource planning roadmap, and 3) support a growing community and improve reliability. CPS Energy is on target for all metrics through Q1.

Trustee Steen provided comments on bad debt from customer bills, and requested his comments be included in the minutes. Trustee Steen's comments are attached as Attachment "A" to the meeting minutes.

VII. EXECUTIVE SESSION

At approximately 1:39 p.m., Ms. Ramirez announced that the required notice had been posted and that the Trustees, with only necessary parties in attendance, would convene into Executive Session, pursuant to the provisions of Chapter 551 of the Texas Government Code, for discussion of a number of posted items, including the following:

- Attorney-Client Matters (§551.071)
- Real Property (§551.072)
- Prospective Gifts (§551.073)
- Personnel Matters (§551.074)
- Security Personnel or Devices (§551.076)
- Security Audits and Devices (§551.089)
- Confidential Information Under the Texas Homeland Security Act (§418.183(f))
- Economic Development Negotiations (§551.076)
- Competitive Matters (§551.086)

The Board reconvened in open session at 2:50 p.m. The quorum was re-established, and all members were present. Ms. Ramirez reported that only the matters cited above, and no others were discussed, and no votes were taken in Executive Session.

VIII. APPROVAL OF CONSENT ITEMS

On a motion duly made by Trustee Steen, seconded by Trustee Dr. Romero, and upon affirmative vote by all members present, the following items on the Consent Agenda were unanimously approved:

- A. **Minutes of the Regular Meeting held on April 25, 2022.**
- B. **Minutes of the Regular Meeting held on May 23, 2022.**
- C. **Approval of Payment to the City of San Antonio for May 2022**

Approval of Payment to the City of San Antonio for May 2022

The New Series Bond Ordinance that took effect February 1, 1997 provides for a total cash payment to the City of San Antonio (City) in an amount not to exceed 14% of gross revenue as calculated pursuant to such Ordinance, less the value of other services provided to the City, with the percentage (within the 14% limitation) to be determined by the governing body of the City. The cash transfer to the City for the month of May 2022 is based on actual gross revenue per the New Series Bond Ordinance of \$224,541,403.11, less applicable exclusions. In accordance with the New Series Bond Ordinance, current month revenue was insufficient to meet the City Payment by \$7,367,511.55. Under the previously approved agreement with the City, CPS Energy will advance to the City \$7,367,511.55 against future months' revenues for fiscal year 2023. The revenue for the month of May 2022 is calculated as follows:

Gross revenue per CPS Energy financial statements	
Electric revenue	\$286,537,588.25
Gas revenue	19,427,533.49
Interest and other income	4,989,980.78
Gross revenue per CPS Energy financial statements	<u>310,955,102.52</u>
Excluded revenue	
School and hospital revenue per City Ordinance 55022	(8,753,487.15)

LVG revenue per City Ordinance 100709	(133,369.02)
Fuel cost component of off-system nonfirm energy sales per City Ordinance 61794 and revenue for wholesale special contracts	(31,381,782.13)
Noncash and other income, GASB 31 investment market value change, miscellaneous interest income, gas billing adjustment and unbilled revenue	(46,145,061.11)
Total excluded revenue	<u>(86,413,699.41)</u>
Gross revenue per New Series Bond Ordinance subject to 14% payment to the City	<u>\$224,541,403.11</u>
City payment per Bond Ordinance for May 2022 based upon May 2022 revenue	\$31,435,796.44
City payment per memorandum of understanding (MOU) regarding wholesale special contracts	1,196,907.22
City Payment reduction per gas customer billing adjustment MOU	<u>(12,500.00)</u>
City payment per Bond Ordinance plus adjustments for memorandums of understanding	32,620,203.66 A
Utility services provided to the City for May 2022	<u>(2,823,498.20)</u>
Net amount to be paid from May 2022 revenue to the City in June 2022	<u>\$29,796,705.46</u>

Comparison of City payment per Bond Ordinance (plus adjustments for memorandums of understanding) vs. Budget before deduction for utility services provided to the City:

(Dollars in thousands)

May 2022	Actual	Budget	Variance	
Current Month* A	\$32,621	\$28,869	\$3,752	13.0%
Year-to-Date**	\$123,385	\$110,073	\$13,312	12.1%

* This amount does not include any additional funding authorized by the Board of Trustees.

** Includes a rounding adjustment of \$1 to agree to correctly rounded YTD amount.

Approval of the following resolution is requested:

"BE IT RESOLVED by the CPS Energy Board of Trustees that payment to the City of San Antonio in the amount of \$29,796,705.46 representing 14% of applicable system gross revenues for the month of May 2022, such payment being net of City utility services (\$2,823,498.20), and including the current month deficiency, is hereby approved." The total amount to be recovered from future months' revenues for fiscal year 2023 is \$26,049,049.15.

IX. COMMITTEE REPORTS

On a motion made by Trustee Dr. Romero and seconded by Vice Chair Gonzalez, and upon the affirmative vote by all members present, the inclusion of the following committee reports into the minutes was unanimously approved.

Operation Oversight Committee (OOC) Meeting held on April 13, 2022

A report of the OOC meeting, which took place on April 13, 2022, will be attached (as Attachment "B") to the meeting minutes.

Personnel Committee (PC) Meetings held on April 12, 2022 and May 22, 2022

A report of the PC meetings, which took place on April 12, 2022 and May 22, 2022, will be attached (as Attachment "C") to the meeting minutes.

Audit & Finance Committee (A&F) Meeting held on May 11, 2022

A report of the A&F meeting, which took place on May 11, 2022, will be attached (as Attachment "D") to the meeting minutes.

Employee Benefits Oversight Committee (EBOC) Meeting held on May 11, 2022

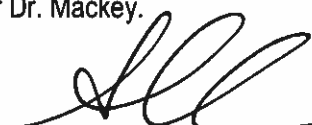
A report of the EBOC meeting, which took place on May 11, 2022, will be attached (as Attachment "E") to the meeting minutes.

X. GENERATION PLANNING UPDATE

Mr. Kevin Pollo, Vice President, Energy Supply & Market Operations, presented an update on the generation planning process. Mr. Pollo noted that the planning process must address the retirement of gaining gas steam units, replacement of coal-fired units, and providing additional capacity for our growing community. Mr. Pollo further presented on portfolio modeling and next steps. The Board of Trustees asked questions and provided feedback.

XI. ADJOURNMENT

There being no further business to come before the Board, upon a motion duly made by Mayor Nirenberg, seconded by Trustee Dr. Romero and upon an affirmative vote by all members present, the meeting was unanimously adjourned at 3:22 p.m. by Chair Dr. Mackey.



Shanna M. Ramirez
Secretary of the Board

6/27/22

STATEMENT BY JOHN STEEN

Let me begin, on the one hand, by complimenting our Interim CEO, Rudy Garza. The onset of summer and the string of days where the temperature has exceeded 100° have been challenging to say the least, and you and your team have risen to the occasion. I know we're not out of the woods, but kudos to you all for keeping the electricity flowing without interruption thus far.

On the other hand, let me reiterate my concerns over the way certain financial matters are being handled. In regard to bad debt from customers bills, we were told at the end of last year that the figure was \$130 million, but then by January 31st, our fiscal yearend, the figure had risen to \$150 million. At our April 14th meeting we were told the figure was close to \$160 million. Today the figure hovers around \$160 million. I understand that tens of thousands of customers roll off while tens of thousands roll on, but the current bad debt represents around 20% of our customers and is trending *up*, not down. We've been repeatedly told there are two things that'll mitigate it. First, \$20 million from the City of San Antonio in the form of American Rescue Plan Act (ARPA) funding. We're in the midst of utilizing these funds, focusing on residential customers only. While these ARPA funds have a meaningful effect on our customers most in need, they don't have a major impact on the big picture financially. Second, we've been assured for months and months that the customer-bad-debt figure would be substantially reduced upon resumption of disconnections of our residential customers. When I inquired months ago – during our rate-increase effort – you consistently said we'd have a good idea of the financial impact of those unpaid debts by March or the latest April. Here we are on June 27th, and I'm still respectfully waiting for a clearer picture of the financial repercussions of this customer debt. Why is this important? Let's focus on the three key financial metrics that the credit rating agencies closely monitor, starting with days cash on hand. The FY2023 Tier 1 Metric Report you sent me last Friday illustrates how concerning this issue is. Obviously, the higher the days-cash-on-hand number the better, but it's a red flag if the number drops below 150 days. The last two fiscal years it's been well above 150: 209 for FY2021 and 182 for FY2022. But as of May 31, 2022, that number is 124. Furthermore, in regard to the second critical metric, debt service coverage, there's also concern. It's a red flag if the ratio drops below 1.50. Our last two fiscal years, it's been above that threshold: 1.59 for FY2021 and 1.66 for FY2022. But, as of May 31, 2022, that number is 1.45. The last of the three key financial metrics is the debt-to-capital ratio. I wasn't provided that number, but we've already been told CPS Energy will not meet that threshold of less than 60 % by the end of the fiscal year. This is a metric where the lower it is, the better, and CPS Energy is planning not to meet this metric by budgeting it at 61.66%. So in terms of how we're viewed by the rating agencies, at this point we're currently coming up short on each of the three key financial metrics, and this is happening in an environment where we've already been downgraded by the Big Three, Fitch, Moody's and S&P, and two of the three have proclaimed our outlook as "Negative" while the other pegs us at "Stable" when the highest rating is "Positive." Mr. Garza earlier in the year, I asked why you had eliminated a regular financial presentation from our board agendas. You responded by agreeing to a financial presentation at every *third* meeting. But we should be addressing this at *every* board meeting.

I'll note too that back during our rate increase discussions, this debt, now totaling, \$160 million and rising, was not considered to be an "immediate financial pressure," and so was not factored into our rate-increase request. I said it then, and I repeat: that was a mistake. Further, the delay and tentativeness in reinstating disconnections have been and are sending mixed signals to our customers. Sure we've got

Attachment "A" to the June 27, 2022
Regular Board Meeting Minutes

certain customers who are struggling and, of course, we need to be mindful of that, but, I think our messaging has also been telling our broad customer base, in effect, you need not prioritize paying your CPS Energy bill. The way communications surrounding this issue have been handled by the company leaves much to be desired. For an outstanding article that lays out the dimensions of this problem, I refer you to Diego Mendoza-Moyers's May 31, 2022, article in the *San Antonio Express-News* wherein he characterizes total past-due bills as "soaring."

We had the chance to ease the pressure on our customers by pausing the STEP program, which was a 10-year program that staff announced had reached its goals two years ago. Because STEP represents an average of 3 to 4.5% of a customer's bill, suspending the program would have for many customers negated the 3.85% rate increase implemented March 1st. (Yes, there would have been a lag, but this would have happened.) All this amounts to a business-as-usual approach to CPS Energy matters when we as a company and so many of our customers are facing significant financial challenges.

To get a really good sense of how our customers are being weighed down, I direct each of you to an excellent article by Timothy Fanning assisted by Shelby Webb that appeared a week ago in the [San Antonio Express-News](#), that is, in the June 20, 2022, edition. The reader is introduced to CPS Energy customer Sara Belsick whose monthly electric bill for the 1100-square-foot home near Leon Valley where she lives with her three-year-old daughter has increased from \$140 to \$253. Combined with inflation and other factors driving up the cost of living, this single mom is worried, struggling to stay afloat and is being forced to look for a second job. Yes, there are things we can't control like record heat – throughout May and continuing through today, we're experiencing daily temperatures over 100° when our city typically doesn't experience its first triple-digit day until July. In regard to the surging price of natural gas, which has contributed significantly to our customers' bill shock, a recent presentation by our CFO Cory Kuchinsky indicates we're doing what we can to protect our customers including employing strategic financial hedging, utilizing our prepaid long-term natural gas arrangement, increasing natural gas storage and baseload gas purchases, and generally taking advantage of our diversified fuel strategy. But we're falling short on the things we can control such as the failure to pause STEP.

So let me attempt to pull all this together because there's a thread that connects a series of questionable actions. We have a crisis in that today roughly 20% of our customers are at least 30 days past-due on their CPS Energy payments. We were told numerous times at the end of last year and throughout the first half of the year that this financial problem would be quantified and well under control by now – but it isn't. At the same time, CPS Energy is not doing nearly enough to reduce customers bills. We had the opportunity to do so by pausing the STEP program, but failed to do so even when a pause was supported by a plurality of our Rate Advisory Committee.

Mr. Garza I'm pulling for you to get on top of these problems, but I'm not encouraged by what I see.

In closing, I request that this statement be included in full in the minutes of today's meeting.



OPERATIONS OVERSIGHT COMMITTEE (OOC) MEETING

EXECUTIVE SUMMARY AND CHAIR REPORT FROM THE APRIL 13, 2022 MEETING PREPARED FOR COMMITTEE CHAIR, DR. FRANCINE ROMERO FOR REPORT AT THE JUNE 27, 2022 BOARD OF TRUSTEES MEETING

The Operations Oversight Committee met on April 13, 2022. As part of the agenda, the Committee:

- A. Approved meeting minutes from the prior meeting held on November 8, 2021.
- B. Received a preview of the Procurement item for Managed Service Provider – Staff Augmentation that included:
 - a. An overview of the Managed Service Provider (MSP) Program and the current provider; and
 - b. An update on the Request for Proposal (RFP) on the MSP contract.
- C. Received a preview of Procurement items for Operations that included:
 - a. An update on the Power Generation Millwright Maintenance Services RFP; and
 - b. An update on the Energy Delivery Services (EDS) Joint Trench Facilities RFP; and
 - c. An update on the EDS New Subdivision Electric & Gas Install RFP.
- D. Received an update on Security that included:
 - a. An introduction of Mr. Jonathan Homer as CPS Energy's new VP of Integrated Security; and
 - b. An introduction of Mr. John Dickson, VP of Security Solutions Architecture for Coalfire & their project's anticipated outcomes.
- E. Received an update on the Energy Efficiency & Conservation Program that included:
 - a. A recap of key decision points that will shape the future program;
 - b. An overview of program design options to align the program to corporate goals; and
 - c. An open session for feedback & discussion.
- F. Received an update on the Historical Generation Mix that included:
 - a. An update of 50+ years of activities related to diversification of the Generation Portfolio;
 - b. An overview of benefits of diversification; and
 - c. An update on the Generation Plan including the proposed timeline and next steps.
- G. Received a Regulatory Update that included:
 - a. A review of the regulatory processes & policy objectives;
 - b. An update on the volume & pace of regulatory changes at the State level; and
 - c. An overview of various policy topics & how we engage with the Legislature & PUC.

The next meeting of the Operations Oversight Committee meeting is scheduled for June 15, 2022.



PERSONNEL COMMITTEE

**EXECUTIVE SUMMARY AND CHAIR REPORT FROM THE APRIL 12 AND MAY 22, 2022 MEETINGS
PREPARED FOR COMMITTEE CHAIR JANIE GONZALEZ
FOR REPORT AT THE JUNE 27, 2022 BOARD OF TRUSTEES MEETING**

The Personnel Committee met on April 12, 2022 and May 22, 2022. Both meetings were executive sessions to discuss personnel matters.

The next meeting of the Personnel Committee is to be determined.



AUDIT & FINANCE COMMITTEE (A&F)

EXECUTIVE SUMMARY AND CHAIR REPORT FROM THE MAY 11, 2022 MEETING

PREPARED FOR COMMITTEE CHAIR JOHN STEEN

FOR REPORT AT THE JUNE 27, 2022 BOARD OF TRUSTEES MEETING

The Audit & Finance Committee met on May 11, 2022. As part of the Audit & Finance Committee agenda, the Committee:

- A. Approved meeting minutes from the prior meeting held on January 20, 2022.
- B. Received the overview of FY2022 financial reporting and audit process and informed audit work and agreed upon procedures work were substantially completed and that the SA Energy Acquisition Public Facility Corporation (PFC) audit, including an integrated audit, was in progress. Discussed status of performing an internal controls audit for all of CPS Energy.
- C. Received the overview of external audit results. No significant deficiencies were identified and there was one uncorrected misstatement and one corrected misstatement. KPMG plans to issue an unmodified "clean" audit opinion.
- D. Received the compliance quarterly report which provided an overview of the environmental risk summary and reviewed risk mitigation tactics related to water rights and supply and environmental events
- E. Received an update on the Ethics Program, including a summary of cases that were opened and closed through March 31, 2022, and a trend analysis for FY2021 fourth Quarter versus FY2022 fourth Quarter.
- F. Received an overview of the managed service provider (MSP) program. Informed that the next step in the RFP process is to seek approval of the selected vendor on the May 2022 Board Meeting consent agenda. A 3-year contract for \$70 million is being provided for approval.
- G. Provided the status of audit projects for FY2022 and FY2023. Reviewed results of three projects completed since the last Committee meeting. Provided an overview of the Quality Assurance & Improvement Program (QAIP), including being informed that the QAIP had been formally documented and independent assessments of Audit Services had been performed.
- H. Received an update on the revamped annual audit planning process which includes Audit Services aligning with the Enterprise Risk Landscape. Also, the list of proposed audit projects was approved.
- I. Received a status update on a management action plan from the Audit of IT Asset Management (Software, Hardware) that was not completed by the target completion date of February 22, 2022. A revised action item has been developed and has a target completion date of August 31, 2022.
- J. Discussed the STEP program and types of audits performed for the program.

The next meeting of the Audit & Finance Committee will be held in July 2022.



EMPLOYEE BENEFITS OVERSIGHT COMMITTEE (EBOC)

EXECUTIVE SUMMARY AND CHAIR REPORT FROM THE MAY 11, 2022 MEETING PREPARED FOR COMMITTEE CHAIR JOHN STEEN FOR REPORT AT THE JUNE 27, 2022 BOARD OF TRUSTEES MEETING

The EBOC met on May 11, 2022. As part of the EBOC agenda, the Committee:

- A. Approved meeting minutes from the prior meeting held on January 20, 2022.
- B. Reviewed the Action Item list from the January 20, 2022 Meeting.

The Committee also received presentations regarding:

- C. A Benefits Plans Administrative & Financial Update, which highlighted the following: investment performance for CY 2021, since inception and YTD 2022 thru February; CY 2021 audit results with an unmodified ("clean") opinion by BDO USA, LLP for each plan (Pension, Health, Life & Disability); and an update on the ongoing Administrative Committee Improvement Plan to address gaps and shortfalls in areas of people, performance (investment), and policies, practices and controls.
- D. An Employee Benefits Update, which highlighted a request for a one-time renewal of the 5-year actuarial services contract with Milliman Inc. set to expire on January 31, 2023.

The next meeting of the EBOC will be held in July 2022.