



# Operational Efficiency Review of CPS Energy

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PREPARED FOR: CPS ENERGY  
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# CPS Energy operational review scope

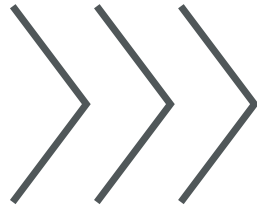
Daymark reviewed and analyzed CPS Energy from three perspectives.



# CPS Energy recognizes that it can no longer rely on past strategy

## Historically positive outcomes

- Competitive rates
- Good standing with credit agencies
- Good electric reliability performance
- Revenue from surplus generation capacity
- Growing customer base
- Significantly engaged with and in the community



## Challenges CPS is changing to address

- ERP
- Winter Storm Uri costs
- Decarbonization Supply Objectives
- Pandemic Past Due Balances
- Rebuilding and up-skilling staffing levels

**Unsustainably  
aggressive  
budget  
management**

\* ERP stands for Enterprise Resource Planning

# Key recommendations broadly affecting the CPS Energy organization



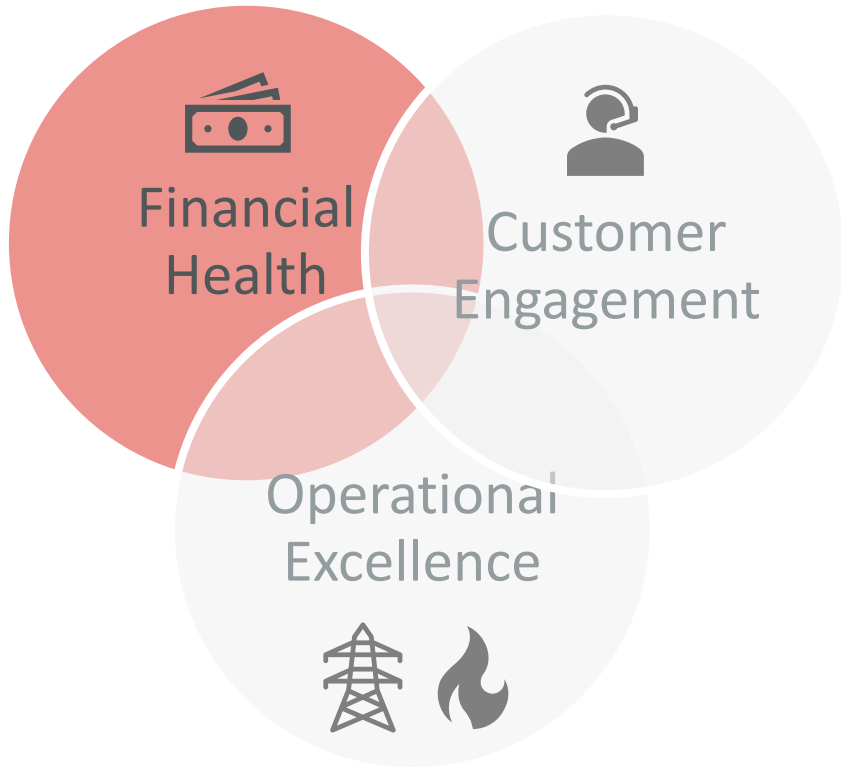
## Key risks

- **Technology transition:** Necessary, but also high risk and resource intensive.
- **Short-term resource constraints:** Demands on CPS Energy’s staff will grow with the technology transition. Meeting and maintaining staffing goals will be critical.
- **Long term financial sustainability:** Costs of rate increases, supply portfolio transition, technology transformation, and other costs to provide adequate resiliency will add up over the long term.

## Recommendations

- Focus on balancing the risk of end-of-life software with the risk of managing execution of new technology in a risk mitigation plan.
- Prioritize attracting, sustaining, and up-skilling staffing to goal levels to support CPS Energy priority objectives.
- Work with the Board to develop scenarios and contingency plans for implementation of Vision 2027 (and a few years beyond) to assess and manage this macro risk.

# Key recommendations for Financial Health



- CPS Energy is in **stable financial position with a debt capitalization ratio comparable to other peer utilities** despite the growth in overdue customer accounts. CPS and the Board should continue their efforts in this area. If necessary, growth in overdue customer accounts should be **considered in future rate increases**.
- CPS Energy **existing end-of-life software and systems are hindering operational efficiency** and make internal controls more difficult to implement and monitor. The Board of Trustees should exercise due diligence in its oversight to help to make the transition successful.
- CPS Energy should **work with the Board to build on Vision 2027 to develop a medium- and long-term financial strategic planning process** separate from the budget and rate request processes.

# Key recommendations for Electric Operations



- Utilize circuit-level and root cause type reliability data to **refine system investment strategy** and document within the **Reliability and Power Quality Report**.
- Undertake an analysis **of contracted resource usage** within the electric operational units; we suggest one goal of such a review to be the establishment of decision criteria pertaining to outsourcing strategy.
- The Board and management should establish metrics which allow management and stakeholders to **track the achievement of benefits that the grid modernization / OT / SCADA\*** set of investments are intended to deliver.
- **Resolve technological barriers** to acting on circuit-level asset condition work orders.
- **Develop a major outage restoration plan** to establish necessary investments, practices and procedures.
- **Expand the justification and benefits descriptions for balancing O&M and non-critical projects** within capital planning process.
- CPS Energy staff are actively engaged in ERCOT\* stakeholder processes; however, **CPS Energy should consider whether there are ways to enhance internal processes to ensure CPS Energy reaps the full potential benefit of this engagement.**

\* ERCOT stands for Electric Reliability Council of Texas

\* OT stands for operational technology; SCADA stands for Supervisory Control and Data Acquisition

# Key recommendations for Gas Operations



- **Develop a more formal written winter season management plan**, including investments, practices and procedures, and automated reporting to executive management.
- Due to recent investment in new technology, **we recommend, in addition to the existing gas metrics, establish a Tier 1 Metric** that tracks industry standard leaks that remain open for repair at year end with the objective that this will be **limited to those identified within the last 45 days**.
- **Investigate adding to Gas division staff:** a preliminary review indicates this can be done cost effectively to support Tier 1 metric.
- Develop and/or partner with workforce organizations to create an **in-house training program to attract more junior employees** cost-effectively.

# Key recommendations for Customer Engagement



- Establish a **three to five-year plan** for customer engagement budget, staffing, and improved data gathering and analytics.
- **Commit to ERP\*** specifications that support the tasks necessary to improve customer data gathering, storage, and analytics.
- Rework customer satisfaction related surveys to make detailed **customer segmentation** analysis possible.
- Integrate energy efficiency, customer sited renewables, energy burden programs into **resource planning processes and rate design** to determine right-size funding while assuring energy equity.

\* ERP stands for Enterprise Resource Planning



## **DAYMARK ENERGY ADVISORS**

Our team brings deep knowledge and an integrated view of energy infrastructure, regulation, and markets to help our clients succeed in the face of uncertainty and transformative change.