

CPS ENERGY BOARD OF TRUSTEES

NOTICE OF SPECIAL MEETING

BY TELEPHONE CONFERENCE

RECEIVED
CITY OF SAN ANTONIO
CITY CLERK

20 MAY 14 PM 2:01

Pursuant to section 551.127 of the Texas Government Code, and in conjunction with the guidance and provisions provided by the Governor of Texas in the declaration of disaster and subsequent executive orders altering certain Open Meetings Act requirements, notice is hereby given of a Special Meeting of the CPS Energy Board of Trustees convening as the Risk Management Committee, to be held on Wednesday, May 20, 2020, at 1:00 p.m., by telephone conference in order to advance the public health goal of limiting face-to-face meetings (also called "social distancing") to slow the spread of the Coronavirus (COVID-19).

This is an informational meeting at which the Board will receive an update on COVID-19 and business continuity matters, as well as the current management and operation of the municipal electric and gas systems, including the acquisition of real property and interest therein, by purchase and condemnation, the facilities, financing, the handling and administration of funds and accounts, consideration of matters relating to operations and administration and such other matters as may be brought before the meeting by the Trustees of the Board, and specifically those matters referred to in the attached agenda, which is incorporated herein.

There will be no in-person public access to the meeting.

The meeting will be audio-streamed on cpsenergy.com.

The meeting is also available by calling toll-free 855-962-1328.

Those wishing to speak on an agenda item during the Public Comment portion of the meeting must register on the day of the Board meeting by phone at 210-353-4662. Registration is open for 1 hour, from 11:00 a.m. CT to 12:00 p.m. CT. Those registering to speak should be prepared to provide the following information:

- First & last name / group or organization
- City & state of residence
- Phone and/or email address
- Agenda item # about which they are speaking
- Group for which the individual is speaking
- Any required translation service

Speakers will be called to speak in the order that they register.

The agenda packet is attached. It and other informational material may be found at:

<https://www.cpsenergy.com/en/about-us/who-we-are/trustees/board-meetings.html>

A recording of the telephonic meeting will be made and will be available to the public in accordance with the Open Meetings Act upon written request.

At any time during the Board Meeting, and pursuant to the provisions of Chapter 551 of the Texas Government Code, the Board may meet in executive session for consultation concerning attorney-client matters under Section 551.071; for deliberations and other authorized action on real property under Section 551.072; on prospective gifts or donations under Section 551.073; on personnel under Section 551.074; on security personnel or devices under Section 551.076; on economic development negotiations under Section 551.087; to deliberate, vote, or take final action on competitive matters under Section 551.086; to deliberate regarding security audits and devices under Section 551.089; or to deliberate under Texas Government Code Section 418.183(f) about confidential information under the Texas Homeland Security Act.

Carolyn E. Shellman
Carolyn E. Shellman
Secretary of the Board
May 14, 2020
with permission by
Ky



**SPECIAL MEETING OF THE CPS ENERGY BOARD OF TRUSTEES
CONVENING AS THE RISK MANAGEMENT COMMITTEE
TO BE HELD ON MAY 20, 2020 AT 1:00 PM
BY TELEPHONE CONFERENCE
(855) 962-1328**

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ITEM	TOPIC	ACTION	PRESENTER/ SPONSOR
1	CALL TO ORDER	Execute	Mr. John Steen
2	SAFETY MESSAGE	Execute	Ms. Paula Gold-Williams
3	INVOCATION	Execute	Mr. Richard Lujan
4	PUBLIC COMMENT <ul style="list-style-type: none"> Chair's Announcements Comments 	Discuss	Mr. John Steen
5	CEO'S REMARKS	Discuss	Ms. Paula Gold-Williams
RISK MANAGEMENT COMMITTEE			
6	RISK MANAGEMENT COMMITTEE CHAIR'S REMARKS	Discuss	Dr. Willis Mackey
7	RISK MANAGEMENT COMMITTEE UPDATE	Discuss	Mr. Cory Kuchinsky
CONVENE TO EXECUTIVE SESSION			
8	EXECUTIVE SESSION: Please see the narrative list at the top of this agenda for potential discussion topics.	Discuss	Dr. Willis Mackey
RECONVENE TO OPEN SESSION			
9	ADJOURNMENT	Execute	Mr. John Steen
If the Board meeting has not adjourned by 3:45 PM, the presiding officer shall entertain a motion to continue the meeting, postpone the remaining items to the next Board meeting date, or recess and reconvene the meeting at a specified date and time.			

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RISK MANAGEMENT COMMITTEE UPDATE

PRESENTED BY:

Cory Kuchinsky

Interim VP, Strategic Pricing & Enterprise Risk Management & Solutions
(ERMS)

Risk Owners

May 20, 2020

Informational Update




OBJECTIVES & TAKEAWAYS cps ENERGY

- **WE ARE:**
 - **MAINTAINING STRONG OPERATIONS IN LIGHT OF A PANDEMIC**
 - **PROACTIVELY PLANNING USING A RISK PRISM**
 - **PREPARING FOR WORSENING CONDITIONS, SHOULD THEY OCCUR**
 - **PLANNING FOR A NEW NORMAL**
 - **MONITORING FINANCIAL IMPACTS REGULARLY AS THE SITUATION CONTINUES TO EVOLVE**

AGENDA



- ENTERPRISE PREPARATION FOR RISK
- PANDEMIC RISK 
- OPERATIONAL PERSPECTIVE
- SEQUESTRATION PLAN
- RETURN TO OFFICE PLAN
- CREDIT RATING RISK
- RECAP



ENTERPRISE PREPARATION cps ENERGY

The enterprise leadership & strategy on risk has positioned us well in the face of COVID-19.



- Strong leadership & knowledge sharing
- Multi-dimensional risk consideration
- Multiple supporting programs

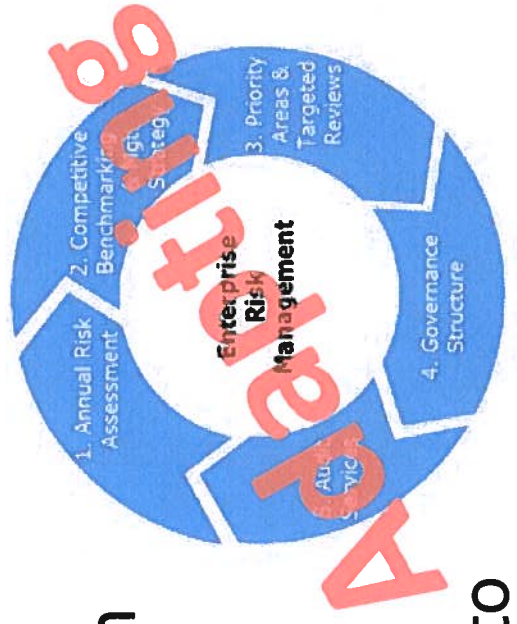
MANAGING RISK VELOCITY cps ENERGY

- Velocity of risk is rapidly accelerating
- The tools in place enable successful response & prioritization of risk responses



ENTERPRISE ADAPTATION

- By continuing to adapt, we are:
 - Facilitating the enterprise through the current pressures
 - Building resiliency in supporting risk & business functions
 - Expect long-term improvements to our processes

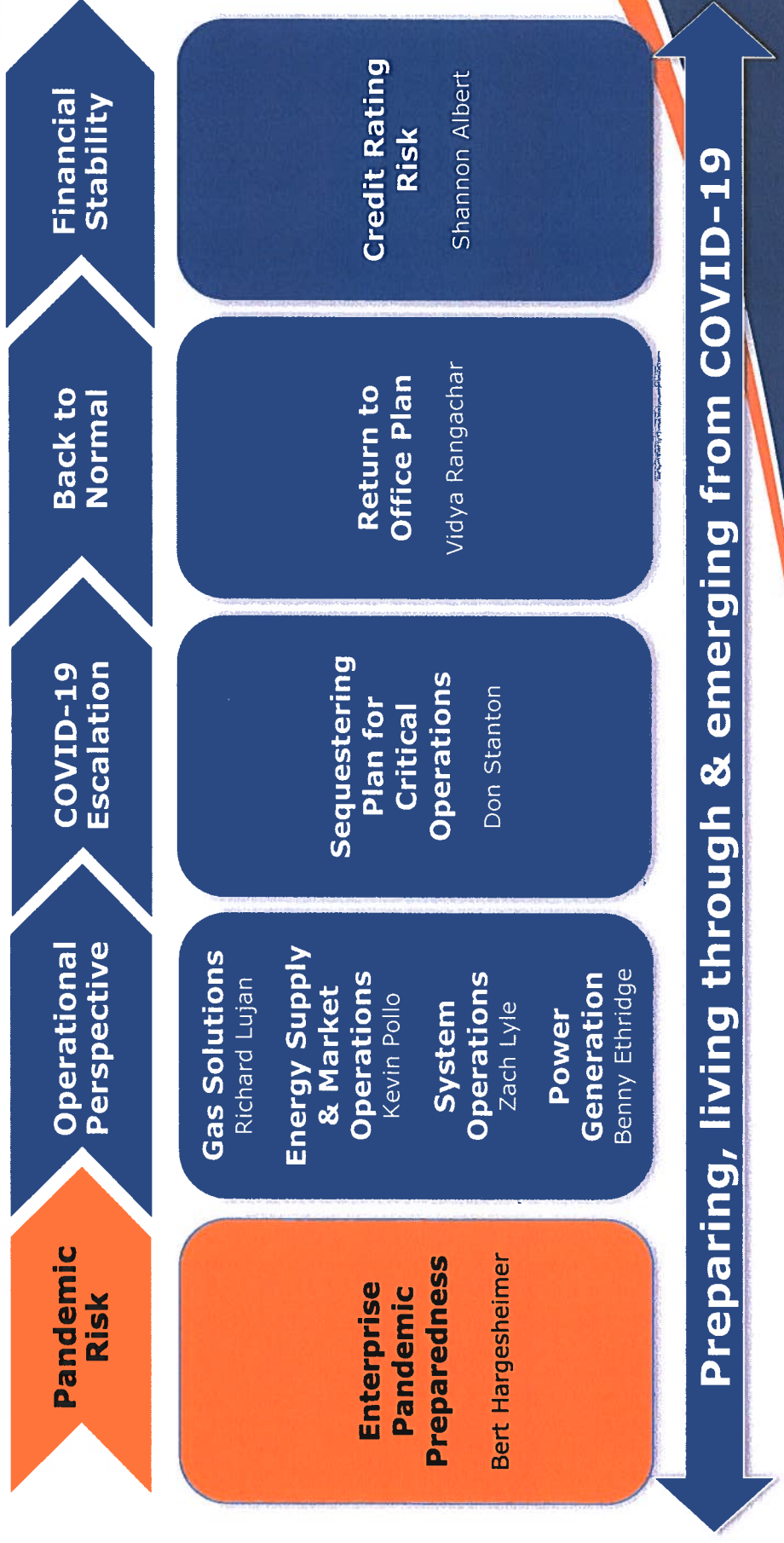




OVERVIEW QUESTIONS?

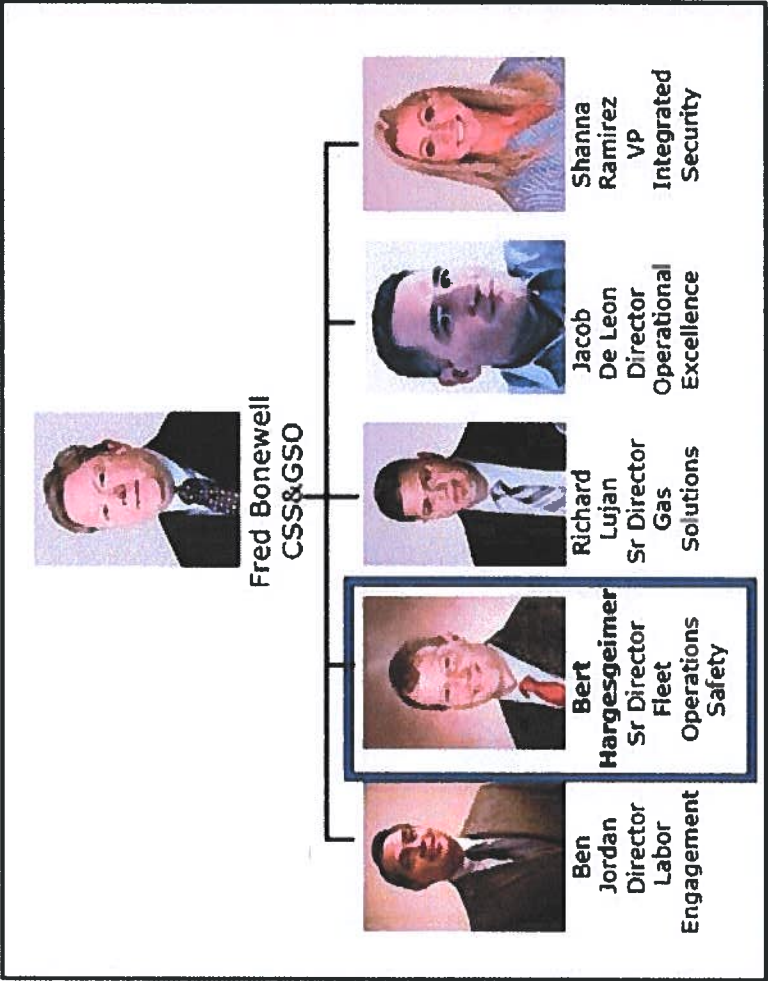


PANDEMIC RISK



PANDEMIC RISK SPEAKER

**cps**
ENERGY



PANDEMIC RISK

RISK EVOLUTION (COVID-19)



Strategic
stockpile
access

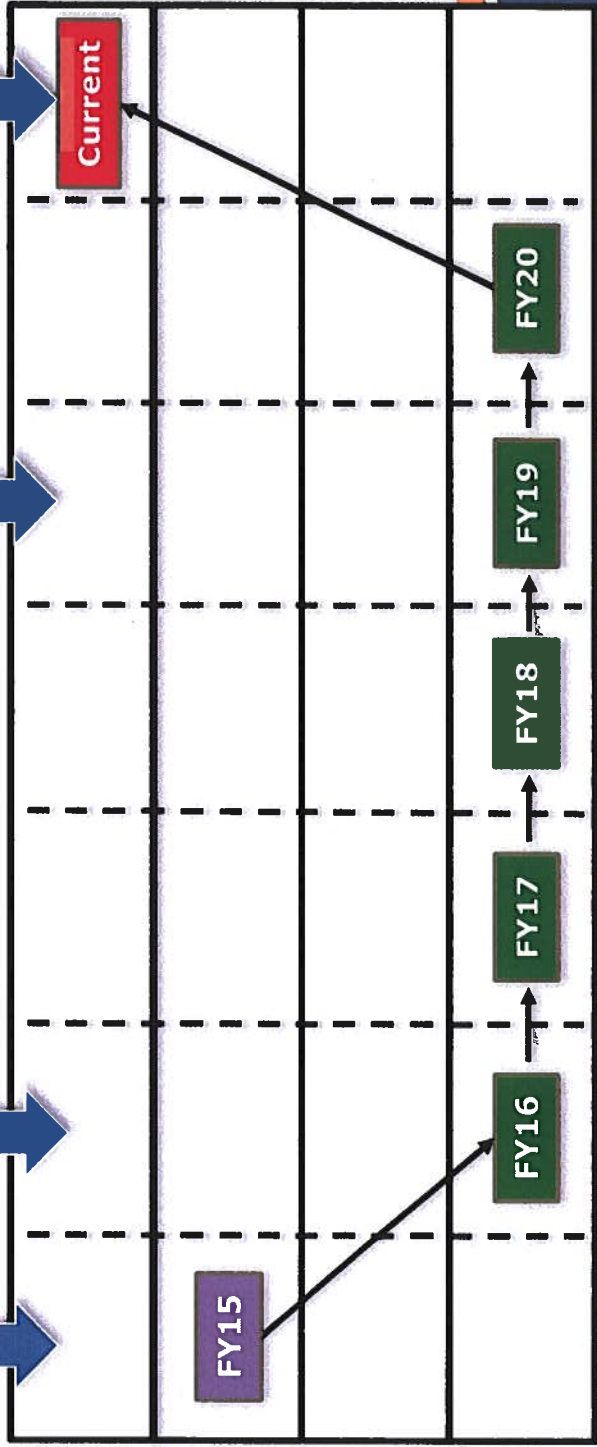
Updated
plan

Pandemic
Exercise

COVID-19
Impact

Risk Level

High	Swan	Med	Low
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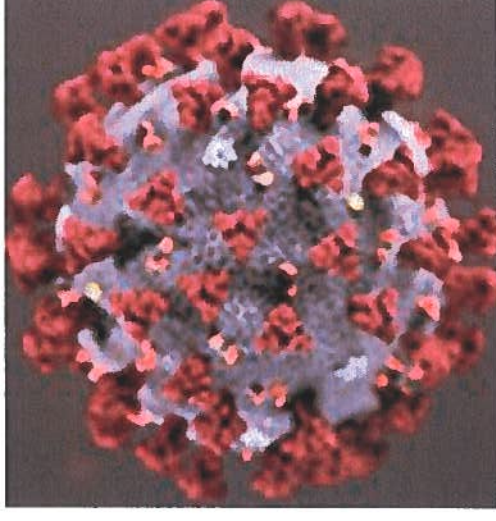


PANDEMIC RISK

RISK EVOLUTION



- The regional impact & velocity of COVID-19 is greater than expected so the risk was elevated to high
 - Economy reduced to essential operations
 - PPE is not readily available
 - Medical stockpile does not exist
 - COVID-19 understanding is still developing



The impact of COVID-19 has been swift & strong.

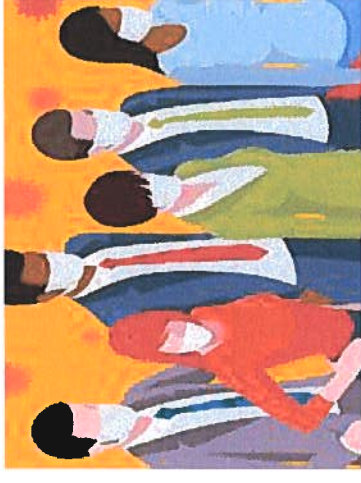
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PANDEMIC RISK

ORGANIZATIONAL ACTION



- Tone at the top
- People & Culture – Occupational Health partnership
- Enterprise Resiliency Team
- Chief oversight & involvement
- Operational preparation & readiness
- Proactive contingency planning



Early awareness & action has helped us be responsive to the current crisis.

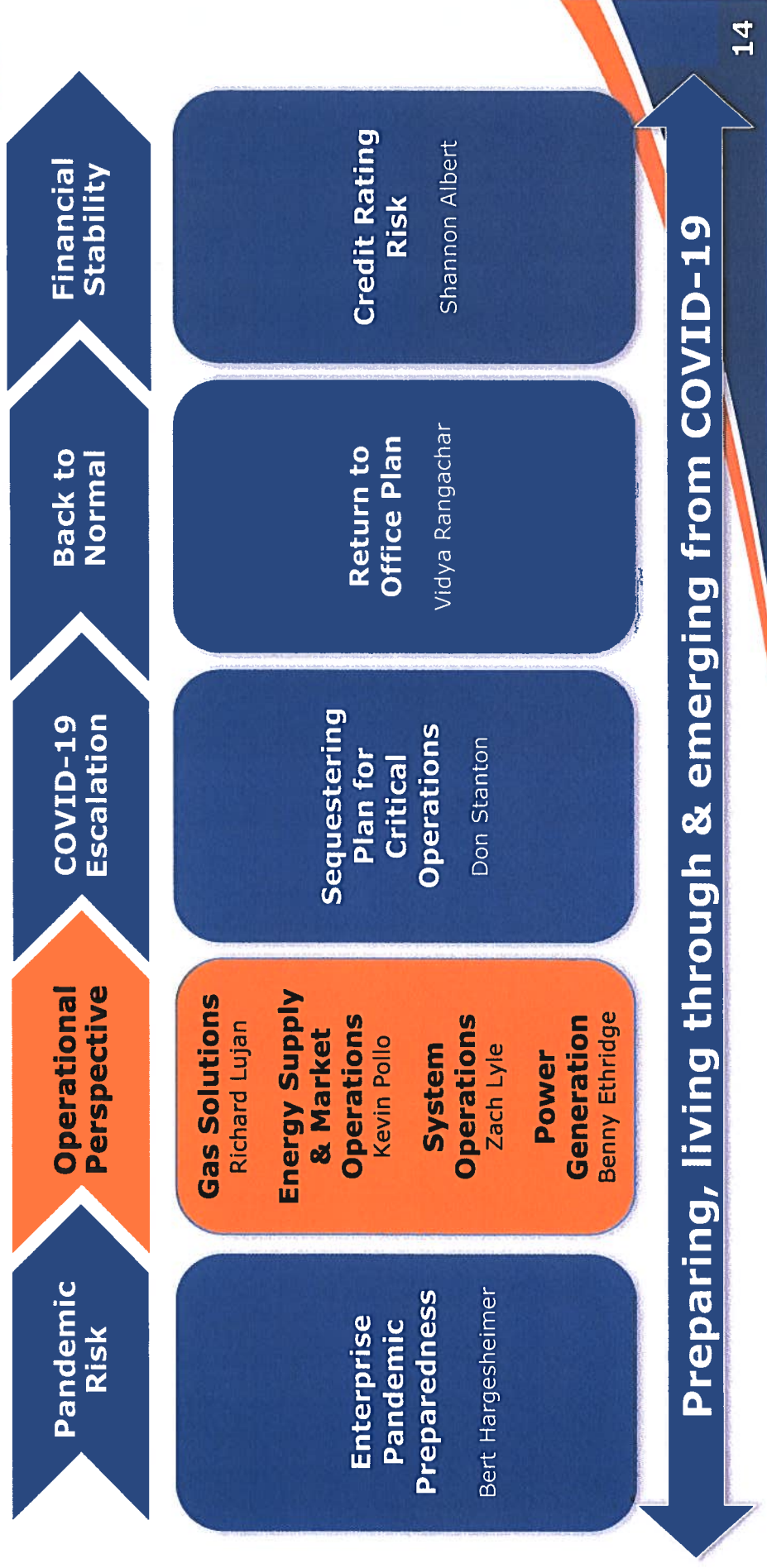


PANDEMIC RISK QUESTIONS?

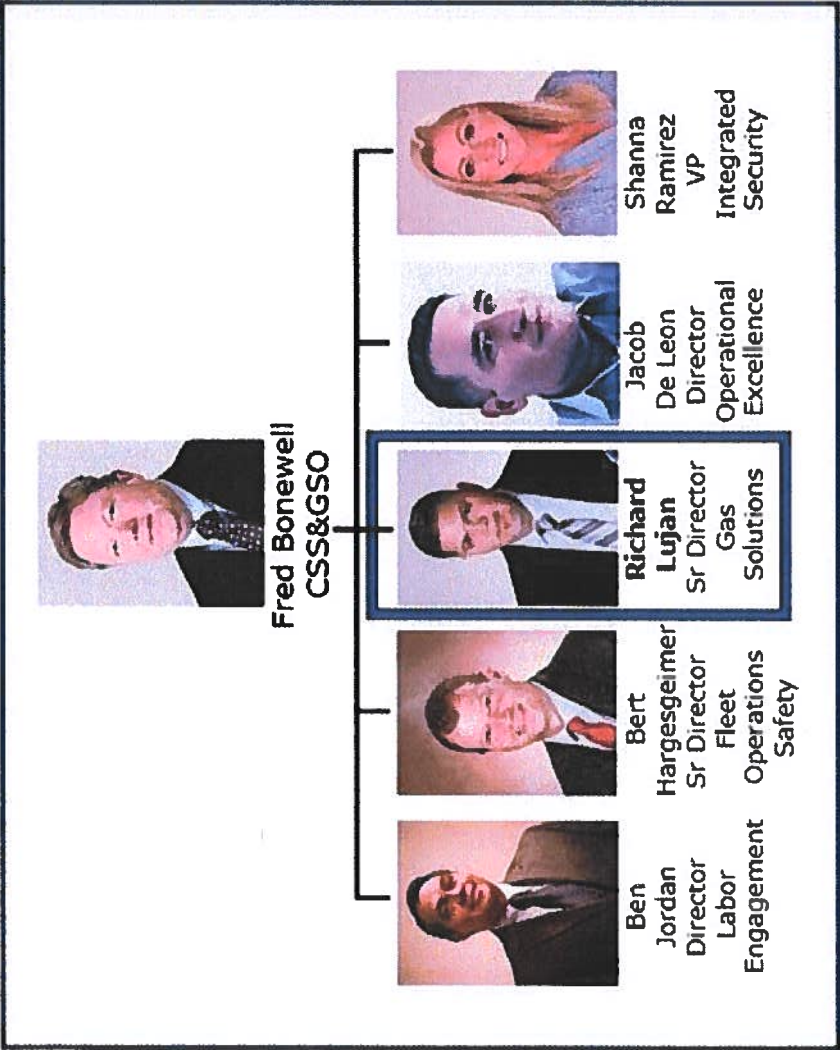


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OPERATIONAL PERSPECTIVE CPS ENERGY

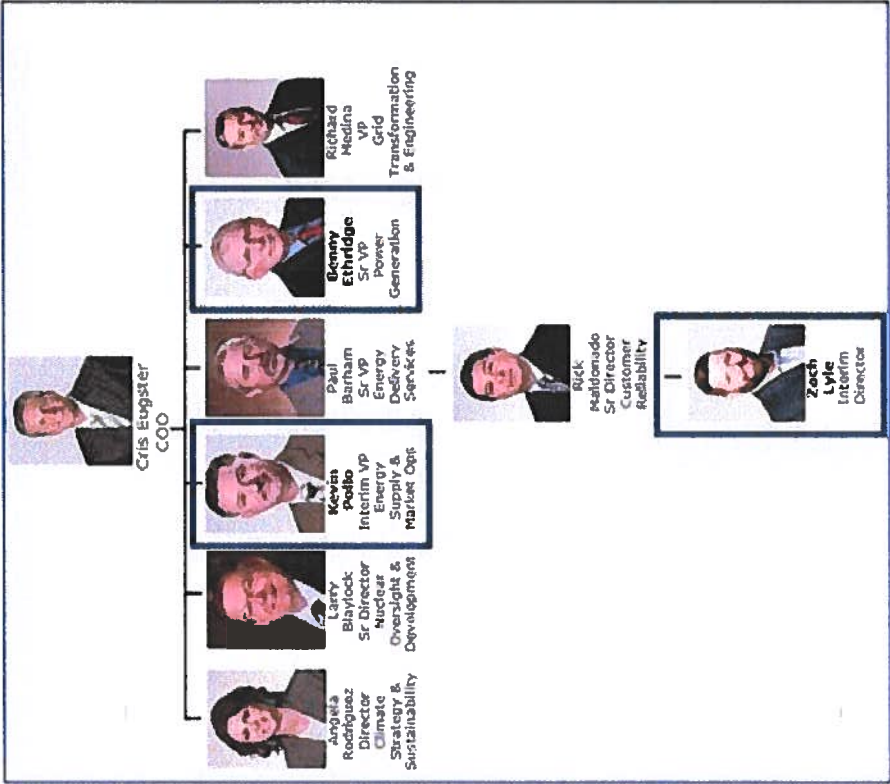


OPERATIONAL SPEAKERS



OPERATIONAL SPEAKERS

**cps**
ENERGY

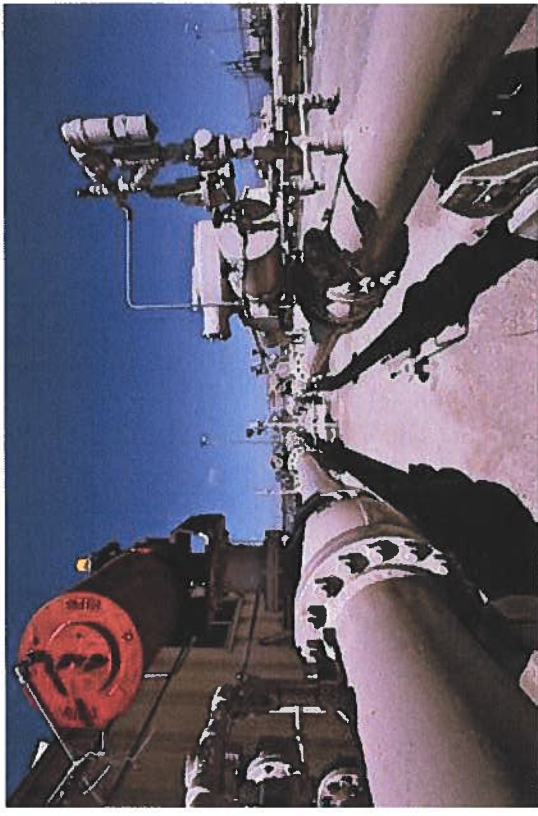


GAS SOLUTIONS

LEADER – RICHARD LUJAN



- Deliver natural gas to over 358,000 customers & our power plants
- Our 230 employees are responsible for the installation & maintenance of 5,700 miles of distribution mains & 89 miles of transmission mains
- Regulated by the Railroad Commission of Texas & the U.S. Department of Transportation Pipeline & Hazardous Materials Safety Administration



Since 1860, our Gas business has provided safe & reliable natural gas service to our community.

GAS SOLUTIONS

LEADER – RICHARD LUJAN



COVID-19 Pandemic Risks	
BU/BA	<u>COVID-19 Risk Concerns</u>
Gas Solutions	<ul style="list-style-type: none"> Inability to meet customer needs or respond to gas system failure or leak due to lack of available personnel as a result of increased COVID-19 exposure
<u>RMP Focus:</u> <ul style="list-style-type: none"> Enhanced social distancing – work from home, deploy from home, separate crew base locations Develop modifications for in-home gas visit procedures with increased safety precautions to reduce risk of exposure Develop operational specific temperature / wellness check process Coordinate handling of increased absenteeism with People & Culture, Labor Relations & Union leadership Continue to assess how work can be executed to mitigate contact with COVID-19 	



GAS SOLUTIONS? QUESTIONS?

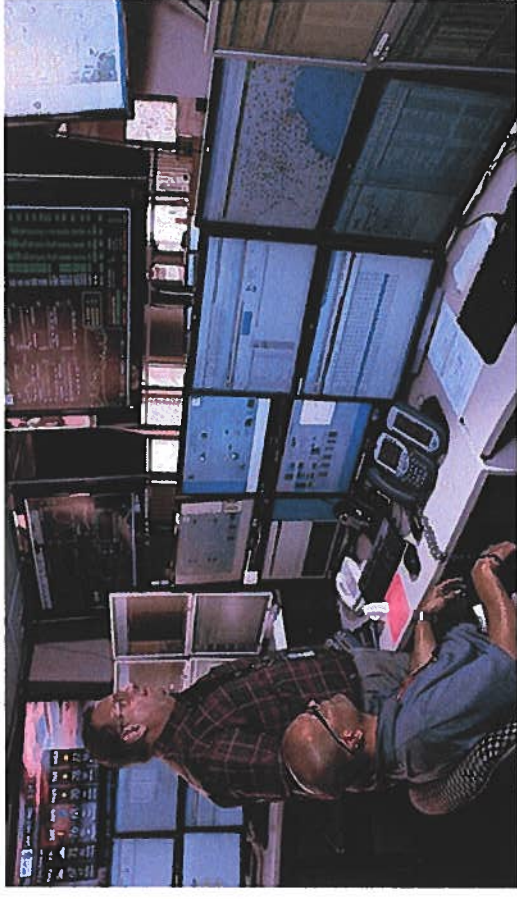


ENERGY SUPPLY & MARKET cps ENERGY

OPERATIONS (ESMO)

LEADER – KEVIN POLLO

- Dispatch our generating units into the ERCOT wholesale market
- Minimize exposure to market volatility
- Manage interactions with ERCOT
- Monitor & control natural gas transmission & distribution system



Overall objective is to provide reliable & affordable energy for our customers.



ENERGY SUPPLY & MARKET OPERATIONS (ESMO)

LEADER – KEVIN POLLO

COVID-19 Pandemic Risks	
<u>BU/BA</u>	<u>COVID-19 Risk Concerns</u>
ESMO	<ul style="list-style-type: none"> • Lack of critical control room operations staff due to COVID-19 spread
<u>RMP Focus:</u> <ul style="list-style-type: none"> • Conducted Real-Time operations utilizing back-up control room with remote shift turnovers • Split Day-Ahead operations between both primary & back-up control rooms • Restricted control room access to essential staff only • Increased cleanings of work areas & common touchpoints with weekly electrostatic cleaning • Established temperature screens at back-up control room for all staff entering the facility • Encouraged self-health assessments • Implemented work from home strategy • Developed sequester plan to protect energy controller teams 	



ESMO OPERATIONS QUESTIONS?



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SYSTEM OPERATIONS

LEADER - ZACH LYLE



- Responsible for the operation of our Transmission & Distribution systems
- Manage the response to normal & emergency system conditions
- Act as the operational point of contact for the City of San Antonio & surrounding areas

System Operations is critical to delivering safe & reliable power.



SYSTEM OPERATIONS

LEADER – ZACH LYLE

COVID-19 Pandemic Risks	
<u>BU/BA</u>	<u>COVID-19 Risk Concerns</u>
System Operations	<ul style="list-style-type: none"> • Lack of critical electric system operations personnel due to COVID-19 spread
<u>RMP Focus:</u> <ul style="list-style-type: none"> • Created awareness around social distancing guidelines with a focus on communicating to every employee • Activated an enhanced workforce protection plan that addressed additional sanitation measures • Introduced a modified shift rotation to limit human interaction utilizing separate control rooms • Developed a strategic work plan to limit human interaction • Established a sequestration plan to be used as needed if community COVID-19 spread intensifies • As a contingency we are developing an isolated work location strategy to enhance social distancing 	



SYSTEM OPERATIONS QUESTIONS?



POWER GENERATION LEADER – BENNY ETHRIDGE



POWER GENERATION

LEADER – BENNY ETHRIDGE



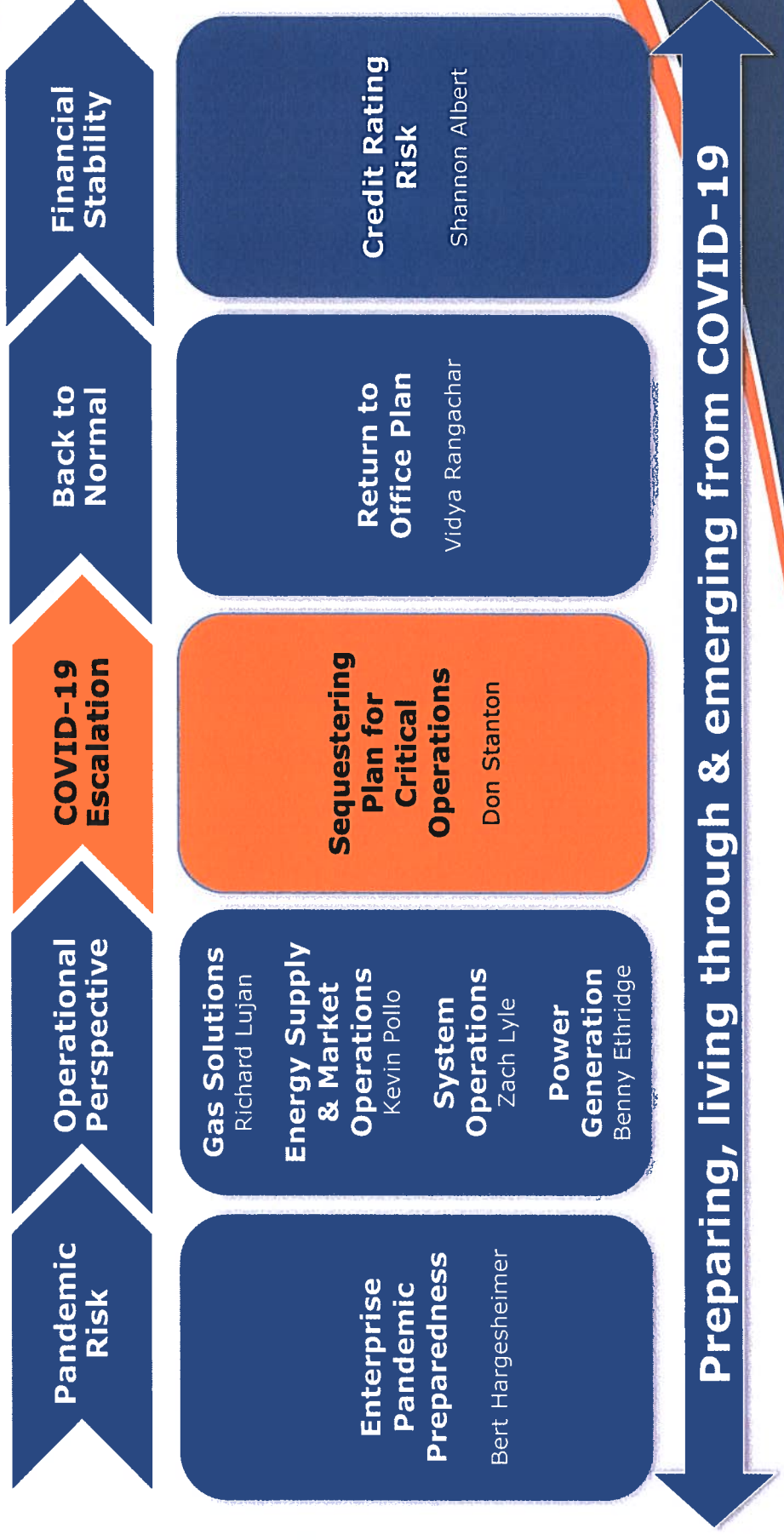
COVID-19 Pandemic Risks	
<u>BU/BA</u>	<u>COVID-19 Risk Concerns</u>
Power Generation	<ul style="list-style-type: none"> Lack of critical control room operations staff due to COVID-19 spread leads to inability to safely operate power plants
<u>RMP Focus:</u> <ul style="list-style-type: none"> Performed operational contact-based risk assessment Implemented enhanced workforce protection plans based on risk assessment & CDC guidance Restructured operations groups to create isolated relief teams ready to fill vacancies Developed sequestration plans to protect plant operations teams if spread of COVID-19 intensifies in the community 	



POWER GENERATION QUESTIONS?



COVID-19 ESCALATION



ENTERPRISE RESILIENCY



SR CHIEFS

ENTERPRISE RESILIENCY PROGRAM (ERP) TEAM					
					
CEO	CLO&GC	COO	CABDO	CIO	CSS&GSO
					CCEO
					CBE

SPEAKERS

		
Don Stanton	Vidya Rangachar	Shannon Albert
Sequestration Plan	Return to Office Plan	Credit Rating Risk

SEQUESTRATION PLAN

LEADER – DON STANTON



Sequestration requires thoughtful planning from the entire organization.



SEQUESTRATION PLAN

LEADER – DON STANTON



Health & safety of our employees & customers is our primary focus while continuing to deliver reliable electricity & natural gas.

- Established a cross-functional team to develop a comprehensive sequestration plan
 - Plan is designed to ensure availability of mission-critical personnel during the COVID-19 pandemic
 - Focused on operations personnel in ESMO, Power Generation & System Operations
 - A tabletop exercise will be conducted to ensure plan effectiveness



SEQUESTRATION PLAN

LEADER – DON STANTON

COVID-19 Pandemic Risks	
<u>BU/BA</u>	<u>COVID-19 Risk Concerns</u>
People	<ul style="list-style-type: none"> • Deterioration in employee mental & physical well-being • Employee's family well-being is negatively impacted by COVID-19 • Employees not willing to participate in sequestration • Attempt to execute sequestering plan encounters significant challenges • Failure to maintain consistent & safe employee behavior during sequestration
<u>RMP Focus:</u>	<ul style="list-style-type: none"> • Developed medical screening procedures to ensure employee health & safety • Identify & procure resources to support well-being of employees & their families • Create sequester guidelines & code of conduct for potential implementation

SEQUESTRATION PLAN

LEADER – DON STANTON



Care & support for our employees while in the program is our primary focus.

- Key areas of the plan include:

- Sequestration Triggers
- Lodging Arrangements
- Cleaning & Sanitation
- Medical, Safety & Security Services
- Employee Wellness & Requirements
- Meals & Laundry
- Information Technology
- Transportation
- Communication



SEQUESTRATION PLAN QUESTIONS?



BACK TO NORMAL



Enterprise Pandemic Preparedness
Bert Hargesheimer

Gas Solutions
Richard Lujan

Energy Supply & Market Operations
Kevin Pollo

System Operations
Zach Lyle

Power Generation
Benny Ethridge

Sequestering Plan for Critical Operations
Don Stanton

Return to Office Plan
Vidya Rangachar

Credit Rating Risk
Shannon Albert



RETURN TO OFFICE PLAN

LEADER - VIDYA RANGACHAR



- Created a Cross-functional “New Normal Team” to develop a thoughtful plan

- Includes diverse group of employees (Orange, White & Blue Teams)

- Aligns with other key teams:

- Headquarters
- Training
- Safety
- Communications
- Change Management
- Facilities

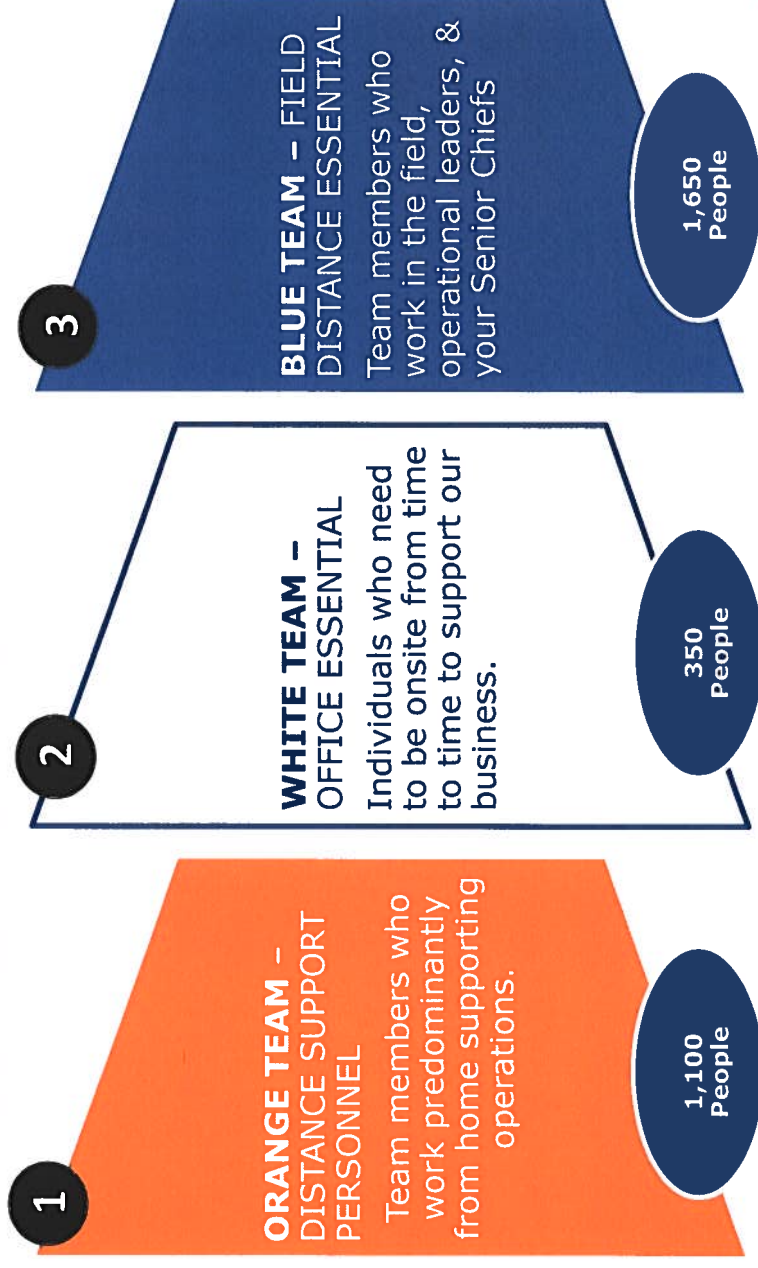


Returning our employees safely to our facilities is a key focus of our plan.



RETURN TO OFFICE PLAN

LEADER – VIDYA RANGACHAR



- Deployment of 1,200 team members (Orange Team + some White Team) over 3 days
- Minor adjustments identified

RETURN TO OFFICE PLAN

LEADER – VIDYA RANGACHAR



- Monitor available guidance
- Continue mitigating risk
 - Maintain hygiene practices
 - Allow continued remote work, where possible
 - Limit size of gatherings in public spaces
 - Screen employees (temperature checks, symptom questions)
 - Minimize non-essential travel
- Further optimize team approach
 - Continue strong communication & education



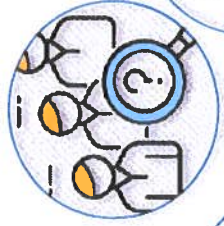
RETURN TO OFFICE PLAN

LEADER – VIDYA RANGACHAR

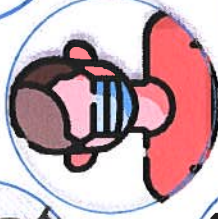
A flexible, multi-layered approach to keep our people safe with the ability to react to dynamic situations.

Layer 1 – Screening Plan:

- Verbal screening
- Temperature check



WELCOME
TO THE
OFFICE

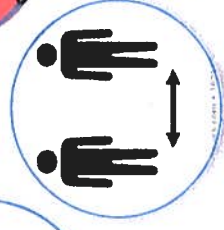


Layer 2 – Face Coverings:

- Continue to require masks
- Monitor city/state guidelines

Layer 4 – On-site changes:

- 25-50% Occupancy on-site
- Guidelines for public space usage



Layer 3 – Social Distancing:

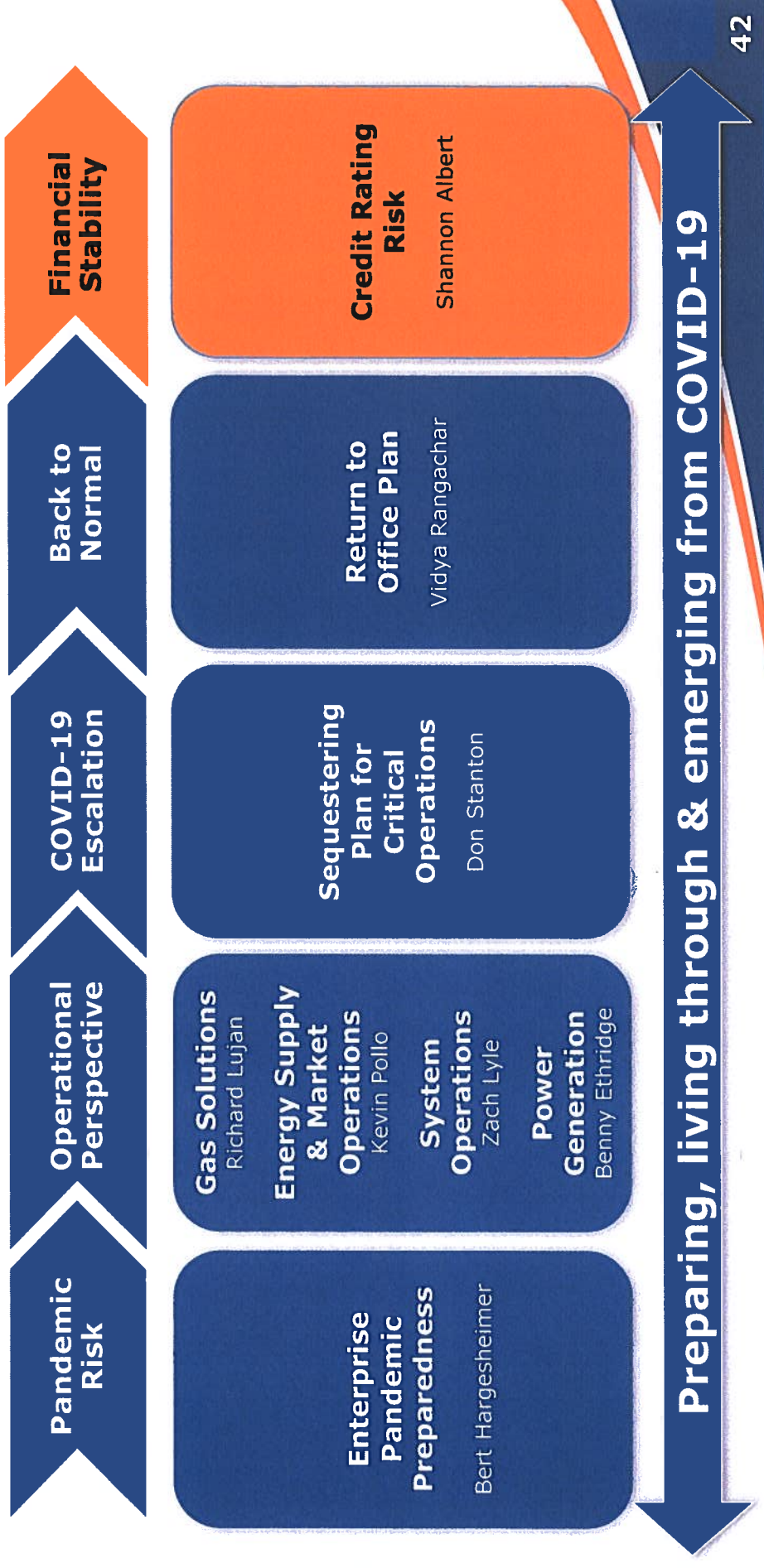
- Reduced staffing on-site
- Clear direction



RETURN TO OFFICE PLAN QUESTIONS?



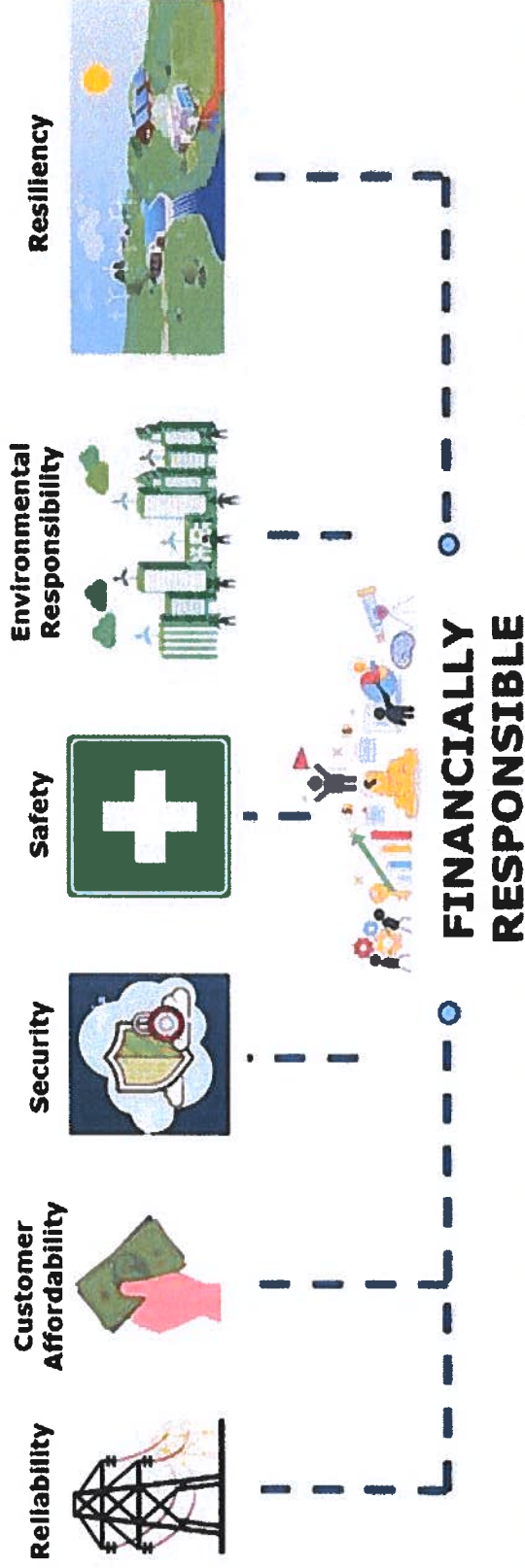
FINANCIAL STABILITY





OUR GUIDING PILLARS & FOUNDATION

LEADER – SHANNON ALBERT



All business decisions are based on our commitment to being one of the best-managed & most financially responsible utilities in the nation.

CREDIT RATING RISK

LEADER - SHANNON ALBERT



- We are starting from a good place
 - Excellent credit ratings
 - Solid financial metrics, including our cash position
 - Access to additional liquidity, if needed
- We are proactive in our communications
 - Shared COVID-19 financial impact analysis that was presented at the April 27, 2020 Board Meeting
 - CEO & Senior Chiefs, along with Financial Services leadership participated in recently held COVID-19 focused discussions

Regularly communicating our COVID-19 response with the Ratings Agencies ensures transparency & demonstrates our resilience.



CREDIT RATINGS QUESTIONS?



RECAP



- We continue to deliver reliable services & are maintaining operations by focusing on enterprise risk & proactive planning
- We are prepared to adapt to worsening conditions & an eventual return to a new normal
- We continue to monitor the evolving financial & operational impacts





Thank You






Appendix



GLOSSARY / DEFINITIONS

Acronym or Word	Definition
	Represents Board of Trustee feedback that has been implemented into the Risk Program
BU / BA	Business Unit / Business Area
CDC	Center for Disease Control & Prevention
COVID-19	Coronavirus
ERMS	Enterprise Risk Management & Solutions
ESMO	Energy Supply & Market Operations
PPE	Personal Protective Equipment
RMP	Risk Mitigation Plan

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**CPS ENERGY
MINUTES OF SPECIAL MEETING OF THE BOARD OF TRUSTEES
MEETING AS THE RISK MANAGEMENT COMMITTEE**

Meeting held on December 6, 2019

A Special Meeting of the CPS Energy Board of Trustees meeting as the Risk Management Committee was held on Friday, December 6, 2019, in the CPS Energy Training Center located at 4514 Frank Bryant Lane, San Antonio, Texas. Chair Steen called the meeting to order at 1:00 p.m.

Present were Board members:

Mr. John Steen, Chair
Dr. Willis Mackey, Vice Chair
Mr. Ed Kelley
Ms. Janie Gonzalez (joined the meeting after it began)

Also present were:

Ms. Paula Gold-Williams, President & CEO
Dr. Cris Eugster, Chief Operating Officer (COO)
Ms. Carolyn Shellman, Chief Legal Officer (CLO) & General Counsel and Board Secretary
Mr. Fred Bonewell, Chief Security, Safety & Gas Operations Officer (CSSGO)
Ms. Felecia Etheridge, Chief Customer Engagement Officer (CCEO)
Ms. Vivian Bouet, Chief Information Officer (CIO)
Ms. Delores Lenzy-Jones, Chief Financial Officer (CFO) & Treasurer

CPS Energy Staff Members
City of San Antonio officials

I. SAFETY MESSAGE

The Board meeting began with a safety message delivered by Ms. Eunice Lopez, Interim Senior Manager, Enterprise & Public Safety, Security Safety & Gas Solutions.

II. PUBLIC COMMENT

No members of the public registered to speak, so there were no public comments.

III. INVOCATION AND PLEDGE OF ALLEGIANCE

An invocation and the Pledge of Allegiance were delivered by Ms. Lopez.

IV. CHAIRMAN'S REMARKS

Chair Steen did not provide remarks.

V. RISK MANAGEMENT COMMITTEE CHAIR'S REMARKS

At this time, Chair Steen turned over the meeting to Dr. Mackey, Chair of the Risk Management Committee, who proceeded with the Committee's agenda.

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VI. BOARD GUIDANCE DOCUMENTS

Ms. Gold-Williams informed the Committee that management is currently reviewing numerous Board policies and will recommend further action on them at a future meeting.

Trustee Kelley commented that the Board receives a lot of materials and he appreciates that the experts, such as Ms. Gold-Williams and management, review the policies and raise any issues to the Board.

Ms. Gold-Williams stated that a Senior Chief or designee is responsible for reviewing and proposing future action on each Board policy; some policies may no longer be needed. Legal and Board Relations would also provide input on the recommendations to the Board. She made a commitment to consistently monitor the policies.

Chair Steen and Ms. Gold-Williams discussed potential updates to the Travel and Non-Travel Expense Policy and other Board policies and procedures. Ms. Gold-Williams noted that both policies and procedures would be considered in recommending future action on Board policies. In response to Dr. Mackey's request, she noted that attachments and forms would be included with the policies and brought back to the Board.

Trustee Gonzalez joined the meeting at this time.

VII. RISK MANAGEMENT COMMITTEE UPDATE

Mr. Cory Kuchinsky, Interim Vice President, Strategic Pricing & Enterprise Risk Management & Solutions, provided the Committee an update on Enterprise Risk Management Solutions (ERMS). He reviewed the alignment between multiple stakeholders and explained how CPS Energy considers different frameworks, such as those promulgated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the International Organization for Standardization (ISO), when developing an ERMS framework, part of which entails evaluating risks and best practices.

Mr. Kuchinsky stated that in FY20, enhancements have been made to the risk mitigation plans (RMPs) for identified risks. The RMPs now address key drivers and funding status, measurably define success and consider gaps in plan design. They are "living" documents, continuously reviewed during the year. In response to a comment about ISO by Trustee Gonzalez, he stated that ERMS uses only those components from COSO and ISO frameworks that fit us best. Monthly touchpoints with risk owners ensure the flexibility to pivot. Dr. Eugster commented that a recent project involved the use of more than one framework. Ms. Lenzy-Jones stated that ERMS does not get stuck on any one framework, but rather triangulates several different vantage points, such as risk calibration by management. Ms. Gold-Williams added that RMPs are designed to be what is needed to make a change, but since horizons may shift, we focus on agility and the most effective and quickest mitigation. Trustee Gonzalez indicated that her concern was addressed.

Mr. Kuchinsky discussed the impact RMP development and execution have on internal controls. Ms. Jennifer Barrera, Manager of Internal Controls, recently joined the ERMS team to promote an increased understanding of internal controls throughout the organization, and ensure internal controls resulting from RMPs are identified and documented.

He also discussed how ERMS leverages key relationships with business units to make the risk management program successful. Mr. Shane Bernis, Interim Senior Manager, Generation Duty Office, highlighted an example whereby Power Generation and ERMS partnered on a combustible dust risk. The

6400

teams anticipated risks earlier to optimize mitigation strategy, enhance analytics, improve responses to deviations in critical component data, and improve collaboration, trust, and information-sharing. The resulting RMP includes a third-party engineering assessment to identify and prioritize projects in a multi-year phased approach. The combustible dust risk level has been reduced from "high" to "medium".

The Committee and Mr. Shane Bemis, Interim Senior Manager, Power Generation, discussed the specific risk and RMP. Dr. Eugster clarified that Power Generation had existing risk mitigation efforts at the time that the RMP was developed. Combustible dust is a known issue in the industry and we worked with our property insurance carrier, FM Global, to gather information about best mitigation practices.

Ms. Gold-Williams pointed out that each CPS Energy power plant has its own risk profile. FM Global's model looks at actual execution and best in class technology for each type of plant. In this case, FM Global's input helped us to refine the combustible dust RMP. We keep refining the process addressing each plant based on its risk profile.

The Committee discussed the benefits of partnering with FM Global, including positive effects with the rating agencies, to develop and implement RMPs.

Mr. Bemis also briefed the Committee on the plant-specific risk registers used to mitigate risks on Power Generation assets. Asset 360 is a tool used to monitor plant-specific data to identify trends and proactively address risks.

Mr. Bemis and Mr. Kuchinsky reiterated the ways and benefits that collaboration with FM Global has reduced potential risk exposure. ERMS also engages in similar ways with our liability insurance carrier, Associated Electric and Gas Insurance Services, Ltd. (AEGIS).

In conclusion, Mr. Kuchinsky stated that ERMS plans to grow existing partnerships with business units and continue developing and executing on RMPs with an engaged management team.

The Committee and staff discussed the risk register and selected risks - cybersecurity and brand management.

VIII. BENEFIT PLAN REVIEW: DELIVERING VALUE

Ms. Debra Wainscott, Senior Director, People Services, began the benefit plan review by introducing Mr. Rob Appling of Wilshire Associates (Wilshire) and Mr. Jake Pringle of Milliman, consultants to the CPS Energy Pension Plan (Plan), who were present for the review.

Ms. Wainscott explained that the Plan is an important tool used to attract and retain highly-skilled, mid-career employees at all levels. One reason for that is that defined benefit pension plans are more prevalent in the utility industry. Thus, a good benefits plan, along with technical training and long-term development, is very important to keep employees engaged in the workforce.

Currently, the Plan is about 81 percent funded, which is relatively healthy compared to other Texas public pension plans. Chair Steen asked for additional perspectives about other Texas plans. Ms. Wainscott stated that many are less funded than our Plan, but there are some plans, primarily much smaller plans, that are funded at 100 percent.

Ms. Wainscott provided a snapshot of workforce demographics as of December 31, 2018, highlighting the utility industry's shift as an increasing number of workers become eligible for retirement and

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retire. Thirty-seven percent of CPS Energy employees will be eligible for retirement within three years. Competition for science, technology, engineering and math (STEM) jobs in San Antonio remains fierce, with unemployment remaining steady at three percent, with some job types experiencing zero percent unemployment. She emphasized the retention of our skilled craft employees, noting that we invest more than eight years and more than \$400,000.00 to "make" a proficient, card-carrying electric journeyman. A graph showing the development and progression of an overhead journeyman was distributed to the Committee.

In response to Trustee Gonzalez' question, Ms. Gold-Williams stated that approximately 10 percent of CPS Energy's workforce are veterans.

Ms. Wainscott highlighted that retention of employees with instrumentation and electrical (I&E) skills is critical since I&E easily transfer to other industries, creating many other job opportunities for them.

Trustee Gonzalez suggested alternate ways to retain millennials by providing pay increases throughout the year rather than only at year end.

In response to Chair Steen's inquiry, Ms. Lisa Lewis, Vice President People & Culture, explained the apprentice program used by CPS Energy and accredited by the United States Department of Labor (DOL). Chair Steen noted the challenge that when our employees receive their DOL card, they can use it to get another job elsewhere.

Ms. Wainscott showed a graph indicating the ages and tenure of retirement-eligible employees. Ms. Gold-Williams explained why utility employees often retire before the age of 60. She noted that, given the very physical and stressful nature of utility work, it is not reasonable to expect someone to do it for a very long period, such as 50 years. Utility employees in office positions can also encounter stress because of the changing industry.

Chair Steen shared a personal anecdote highlighting the round-the-clock work required of utility employees. He recognized that being away from one's family on holidays can take a toll on a person.

Ms. Wainscott reviewed the history and governance of the Plan. The Plan has been offered since 1982. It is a defined benefit plan that uses a formula based on age, years of service and average compensation to calculate a retiree's benefit. A graph showing the 10-year historical trend of active employee and retiree participants in the Plan was distributed to the Committee. Since 2015, the number of both active employee and retiree participants has steadily increased.

Ms. Wainscott provided information about vesting and pension payment options. She noted that very few retirees opt for a lump-sum payment; most select an annuity option.

Next, Ms. Wainscott reviewed the governance structure of the Plan and the responsibilities of the Board, the Employee Benefits Oversight Committee (EBOC), the President & CEO, and the Administrative Committee. She noted that the Administrative Committee meets three to four times per month and uses Wilshire as an investment manager and consultant. She explained the expected rate of return (EROR) as an example of a closely-monitored assumption.

The Committee and staff discussed a media story about the Plan that included only partial facts and led to confusion about the health of the Plan. Ms. Gold-Williams commented that the story allowed her to author an editorial and a letter to retirees with clarifying information.

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In response to an inquiry from Trustee Gonzalez, Ms. Wainscott and Ms. Gold-Williams explained how employees and specifically journeymen are educated and informed about the Plan, their participation in it, Social Security and the voluntary 457 deferred compensation Plan. An awareness campaign in 2020 will focus on the value of the Plan, how it works and why employees should pay more attention to it.

Dr. Mackey suggested emphasizing early participation in the 457 and 403b plans. He shared his positive experience with early investing. Trustee Gonzalez suggested financial literacy as a possible focus.

Ms. Wainscott reviewed the investment performance of the Plan. Since 2016, Wilshire has provided investment guidance to the Administrative Committee resulting in several investment practice enhancements. In 2017, the Plan's asset allocation targets were updated to reduce risk and increase returns based on Wilshire's guidance.

Since Plan inception in 1983, Plan investments have returned 9.6 percent and 10-year returns are 9.4 percent. Year to date returns are approximately 13.5 percent.

Trustee Kelley commented that performance would be very different if the significant market downturn in 2008 were included in the 10-year returns. He stated that the 7.25 percent expected return on assets (EROA) is aggressive. Ms. Wainscott stated that we continue to closely watch the investment market and the EROA projection.

Chair Steen agreed that the EROA is a critical projection and requested information about it from Mr. Appling and Mr. Pringle. Mr. Appling and Mr. Pringle provided brief information about their backgrounds and experiences. Mr. Appling stated that determining the right EROA is a common topic with the governmental pension plans that he advises. The EROA is based on current valuations and updated every quarter. He noted the strong historical and year-to-date performance of the Plan and reminded the Committee that CPS Energy has lowered its EROA in a systematic way. At the time of a previous presentation to the Committee, CPS Energy's EROA was comparable to other public pension plans and was at the median EROA. Now, it is fair to say that returns have decreased in 2019 and there may be a desire to lower EROA another tick. Mr. Appling offered to provide an investment analysis for that decision.

Trustee Kelley and Mr. Pringle discussed the typical EROAs for corporations. Mr. Pringle highlighted that corporations use a different methodology to measure the liability so corporate and municipal EROAs are not comparable. Generally, corporate EROAs are in the 5.5 to 6 percent range. Mr. Pringle stated the median return of Milliman's long-term asset model is 6.25 percent.

Chair Steen asked whether it was time to decrease the EROA for the Plan. Ms. Gold-Williams commented that the Plan's EROA is not arbitrary; it is carefully and methodically considered and established based on key indicators. It was last evaluated during Summer 2019. If the EROA were not carefully determined, the impacts would be devastating because the more conservative or lower the EROA, the higher the necessary cash funding contribution from CPS Energy to the Plan. Ms. Gold-Williams reiterated that there are significant differences between corporate and municipal utility models. A municipal utility can take a methodical view down, but we cannot do some things that corporations can, such as bond buy backs or risk transfers. Our process is very planned.

Chair Steen asked why decreasing the EROA from 7.25 to 7 percent would be catastrophic. Ms. Gold-Williams responded that decreasing the EROA 25 basis points would increase company costs by approximately \$70 million. She emphasized the sensitivity of the correlations between the EROA and the company's contribution to the Plan and offered to provide more information about it to the Committee.

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Mr. Appling stated that he has another client that wanted to reduce their EROA 50 basis points, but they are doing it incrementally because of the funding impact. Mr. Pringle confirmed that a 7.25 percent EROA still falls within a reasonableness range.

Ms. Gold-Williams noted that an EROA decrease is catastrophic because it creates an immediate funding obligation that must be addressed.

Trustee Kelley discussed with Mr. Appling and Mr. Pringle the types of retirement options available at Wilshire and Milliman.

Ms. Wainscott reviewed benchmarking indicating that 77 percent of state and local governments and 53 percent of employers in the utility industry offer a defined benefit plan. In contrast, only 13 percent of private industry employers offer such a plan.

In conclusion, Ms. Wainscott noted the value the pension plan provides towards attracting and retaining employees.

IX. EXECUTIVE SESSION

At approximately 3:28 p.m., Dr. Mackey 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 the following posted item:

- Competitive Matters (§551.086)


The Board reconvened in open session at 4:04 p.m. Ms. Shellman reported that only Competitive Matters were discussed, and no votes were taken in Executive Session.

X. OTHER BENEFIT DISCUSSION

This item was not taken up.

XI. ADJOURNMENT

There being no further business to come before the Board and upon a motion duly made by Trustee Kelley, seconded by Trustee Gonzalez, and upon an affirmative vote by all members present, the meeting was unanimously adjourned at 4:04 p.m.


Carolyn E. Shellman
Secretary of the Board