

CPS ENERGY
MINUTES OF REGULAR MEETING OF THE BOARD OF TRUSTEES
HELD ON OCTOBER 26, 2020

The Regular Meeting of the Board of Trustees of CPS Energy for the month of October was held on Monday, October 26, 2020 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). There was no in-person public access to the meeting. Chair John Steen called the meeting to order at 1:00 p.m.

Present via phone were Board members:

Mr. John Steen, Chair
 Dr. Willis Mackey, Vice Chair
 Mr. Ed Kelley
 Ms. Janie Gonzalez
 Mayor Ron Nirenberg

Also present via phone were:

Ms. Paula Gold-Williams, President & CEO
 Dr. Cris Eugster, Chief Operating Officer
 Ms. Carolyn Shellman, Chief Legal Officer & General Counsel and Board Secretary
 Mr. Fred Bonewell, Chief Security, Safety & Gas Solutions Officer
 Ms. Vivian Bouet, Chief Information Officer
 Mr. Frank Almaraz, Chief Administrative & Business Development Officer
 Mr. Rudy Garza, Interim Chief Customer Engagement Officer
 Mr. Gary Gold, Interim Chief Financial Officer & Treasurer
 CPS Energy Staff Members
 City of San Antonio officials
 Interested Citizens

I. ROLL CALL OF BOARD MEMBERS

Ms. Shellman called the roll. A quorum was present.

II. SAFETY MESSAGE

The Board meeting began with safety messages delivered by Mayor Nirenberg and Ms. Gold-Williams.

Mayor Nirenberg provided a brief COVID-19 update. He noted the recent reversal of the downward trend of positive cases in the community. He reminded individuals to continue practicing social distancing, wearing masks and taking other preventive measures.

Ms. Gold-Williams stated that CPS Energy has recently experienced an uptick in the number of positive cases and quarantined individuals. Since the start of the pandemic, there have been 125 employees diagnosed as COVID-19 positive and zero employee deaths. Currently there are roughly 60 quarantined

employees. Two employees are hospitalized, both with good prognoses. She noted that a small team of employees recently experienced virus spread among themselves. Employees have been reminded of safe practices and encouraged to remain diligent. Customer service centers remain open with mask requirements. She highlighted the assistance provided to customers.

Chair Steen thanked Mayor Nirenberg and Ms. Gold-Williams for their leadership during this challenging time.

III. PUBLIC COMMENT

Chair Steen announced that public comments would be taken and outlined the guidelines for doing so. The following person made comments:

1. Mr. Richard Perez, President & CEO, San Antonio Chamber of Commerce, spoke against the petition drive and in support of the current governance model. He noted that the San Antonio business community stands united to defend CPS Energy.

IV. INVOCATION

An invocation was delivered by Mr. Andy Schorn, Director, Customer Revenue.

V. CEO'S REPORT

Ms. Gold-Williams provided an overview of the meeting agenda and context for several agenda items.

During her CEO Report, Ms. Gold-Williams explained how CPS Energy is guided by our Value Pillars: Reliability, Customer Affordability, Security, Safety, Environmental Responsibility, and Resiliency, all underpinned by Financial Responsibility. Our customers consistently indicate that their top priorities are Reliability and Customer Affordability.

The approach taken regarding Reliability, the *Flexible Path*SM strategy, has been globally and nationally touted across the industry. It addresses evolving the business and looking for the right solution in an objective way, using calculated risk.

Regarding Customer Affordability, CPS Energy has had only one rate increase in almost 10 years. That has been possible because of the diligence of our team in aligning priorities with those that are important to our customers.

Ms. Gold-Williams spoke about the evolution of the electric industry, highlighting the progress and accomplishments CPS Energy has achieved in renewable energy and the commitments it has made to sustainability.

To demonstrate the value CPS Energy provides to its customers, Ms. Gold-Williams compared the CPS Energy average residential monthly bill with those of another municipally-owned utility, Austin Energy, and other utilities operating in competitive markets. On average, CPS Energy residential customers pay \$141.24 per month, the lowest of the comparators. She stated that despite having the lowest bills, CPS

Energy spends more than the comparators on renewable generation and conservation programs, demonstrating that renewable energy is being responsibly blended with other generation. She also mentioned our responsiveness to customers' calls for more conservation programs. She made a similar comparison of residential annual bills, noting that about 10 percent of CPS Energy annual billings support renewable generation and conservation programs.

Ms. Gold-Williams noted that CPS Energy is statutorily required to recover rates sufficient to cover the cost of service. Any excess revenue is invested back into utility infrastructure. And while the retail electric market in San Antonio is not open to competition, CPS Energy participates in other markets which are competitive, such as wholesale electric and retail gas. These competitive lines of business help offset costs and add value to retail electric customers.

Ms. Gold-Williams described our approach to general rate design. She explained the two components comprising a customer bill, fixed and variable costs, and noted that better cost-to-bill alignment is needed. Currently, residential bills are made up of 7 percent fixed and 93 percent variable charges, though the cost to serve is made up of 59 percent fixed and 41 percent variable charges. Similarly, commercial bills are made up of 16 percent fixed and 84 percent variable charges, though the cost to serve is made up of 45 percent fixed and 55 percent variable charges.

In addition to the non-optimized bill structure, there are other challenges, such as pressure from credit rating agencies, the call for more conservation and renewable energy, and maintaining affordable bills and reliable service that contribute to the complexity of our utility's landscape. Recently, CPS Energy's excellent credit ratings were affirmed; however, Fitch Ratings changed our outlook from "Stable" to "Negative," specifically citing local issues that could impact governance.

Turning to the characteristics of our retail revenue, Ms. Gold-Williams noted that almost 90 percent of our customer base is residential, yet residential revenue comprises about 48 percent of our total revenue. On the other hand, commercial customers comprise about 9 percent of our customer base, yet contribute about 39 percent of our total revenue. Ms. Gold-Williams explained that customers with consistent loads, such as commercial and industrial, use infrastructure more efficiently and that cost is spread over higher sales volumes. Residential load, which is more inconsistent, costs more to serve because of its seasonal and inconsistent nature. She reiterated that at present, commercial and industrial customers pay 107 percent of their cost of service while residential customers pay about 95 percent. As a regulatory standard, no customer class should be paying less than 90 percent or more than 110 percent of their cost of service. Further, for commercial and industrial customers to pay more endangers San Antonio's value proposition.

Ms. Gold-Williams explained how the velocity of change matters; that is, the faster change is adopted and implemented, the greater the impact on customer bills. She commented that our hesitation to do certain things being demanded has not been because we do not want to move forward, but rather because we do not want to cause bill shock for our customers.

In conclusion, she stated that everything we do costs money and more discussions about the impacts of energy efficiency, renewable energy, storage technologies, fossil fuels, and customer assistance programs are forthcoming.

Mayor Nirenberg commented positively on the presentation and thanked Ms. Gold-Williams for the information.

Trustee Kelley complimented Ms. Gold-Williams on the breadth of her knowledge.

At Chair Steen's request, Ms. Gold-Williams reviewed the impact that velocity of change has on bill affordability. She explained that when change is made, the incremental costs are added to other factors, such as asset depreciation, debt, and employee transition, potentially resulting in significant bill increases.

VI. ADDITIONAL UPDATES

FY2021 COVID-19 Financial Impacts as of September 30, 2020

Mr. Gold, Interim Chief Financial Officer & Treasurer, provided an update on the FY2021 COVID-19 Financial Impacts to the Board. It included actual results through September 30, 2020, and projections for the remainder of the fiscal year. Because of the uncertainty related to the full impact of COVID-19, these projections were noted to be preliminary and subject to change.

Mr. Gold explained that net income year-to-date was budgeted to be \$66.7 million. However, actual year-to-date net income is \$107.5 million, a favorable variance of \$40.8 million. The favorability is driven by lower operations and maintenance (O&M) expenses and lower interest and debt-related expenses, partially offset by lower wholesale revenues.

Reporting on September electric sales by customer segment, Mr. Gold noted that commercial and industrial customers used less power than projected. Residential customers, on the other hand, increased their usage. Overall, total system sales are approximately 0.6 percent below budget.

Regarding the potential effects of COVID-19 on net income for FY2021, a net loss of \$19.6 million is projected, assuming a Medium Impact scenario. A High Impact scenario is projected to result in net loss of \$63.3 million. These projections are based on assumptions of lower wholesale and retail electric sales and higher bad debt levels, partially offset by O&M and debt-related savings.

Mr. Gold explained the drivers for the improvement from previous financial forecasts, namely higher net retail revenue and lower debt-related expenses, partially offset by lower interest earnings and expense savings.

Turning to the Flow of Funds, Mr. Gold stated that considering the effects of COVID-19, Repair and Replacement (R&R) Fund additions in a Medium Impact scenario are projected to be \$207.2 million, unchanged from September projections. A High Impact scenario is projected to result in R&R Fund additions of \$163 million, slightly favorable to September projections. Mr. Gold highlighted that actual capital expenditures year-to-date are \$ 44.7 million under budget, reflecting cost mitigations.

Turning to the key financial metrics, the forecasted Adjusted Debt Service Coverage (ADSC) is 1.52x for the Medium Impact scenario, slightly above the accountability plan threshold of 1.50x. In the High Impact scenario, ADSC is projected to be 1.41x. Days Cash on Hand (DCOH) for the Medium Impact scenario is projected at 171, better than the accountability plan's threshold of 150. In the High Impact scenario, DCOH is projected to be 161. The Debt Capitalization (DC) ratio is projected to be 60.3 percent for the Medium Impact scenario and 60.6 percent for the High Impact scenario, both favorable to the accountability plan threshold of 61.7 percent.

We continue to monitor the COVID-19 landscape and take the following steps to minimize its impact:

- Analyze actual sales results to better understand demand patterns
- Monitor accounts receivable and bad debt, and provide customers with information on assistance programs
- Focus on cash flows to ensure liquidity
- Prioritize ongoing spend to identify additional cost reductions and cash savings
- Scan for emerging risks
- Continue to provide monthly updates

Cost Savings: Bill Printing & Payments

Mr. Garza introduced Mr. Schorn who briefed the Board on cost savings realized through bill printing and payment processing improvements. In addition to speed and minimal downtime, annualized savings of \$886,000 over 5 years are expected as a result of the improvements.

Trustee Kelley commented positively on this cost-saving measure. Chair Steen added that undertaking these measures since before the onset of the pandemic has been impactful. He requested information about the combined impact of all other cost-savings measures that have been implemented. Ms. Gold-Williams agreed to provide that information and thanked the Trustees for making this a consistent part of our focus.

VII. APPROVAL OF CONSENT ITEMS

Dr. Mackey commented on the extension of the Financial Advisory Services contract. Mr. Gold explained that the challenges of issuing a request for proposal (RFP) during the pandemic and the tremendous value provided by the current advisors support a 2-year extension of the contract.

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

Approval of Minutes

Minutes of the Regular Board Meeting held on August 31, 2020, and the Special Board Meeting held on September 16, 2020, were approved as submitted.

Approval of Payment to the City of San Antonio for September 2020

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 September 2020 is based on actual gross revenue per the New Series Bond Ordinance of \$237,143,339.97, less applicable exclusions. The revenue for the month of September 2020 is calculated as follows:

| | |
|--|-------------------------|
| Gross revenue per CPS Energy financial statements | |
| Electric revenue | \$213,282,331.57 |
| Gas revenue | 9,886,073.86 |
| Interest and other income | 338,915.05 |
| Gross revenue per CPS Energy financial statements | <u>223,507,320.48</u> |
| Excluded revenue | |
| School and hospital revenue per City Ordinance 55022 | (7,738,454.39) |
| LVG revenue per City Ordinance 100709 | 0.00 |
| Fuel cost component of off-system nonfirm energy sales per City Ordinance 61794 and revenue for wholesale special contracts | (7,655,769.87) |
| Noncash and other income, GASB 31 investment market value change, miscellaneous interest income, gas billing adjustment and unbilled Revenue | <u>29,030,243.75</u> |
| Total excluded revenue | <u>13,636,019.49</u> |
| Gross revenue per New Series Bond Ordinance subject to 14% payment to the City | <u>\$237,143,339.97</u> |
| City payment per Bond Ordinance for September 2020 based upon September 2020 revenue | \$33,200,067.60 |
| City payment per memorandum of understanding (MOU) regarding wholesale special contracts | 453,988.33 |
| Wholesale Special Contract Annual True Up | 0.00 |
| 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 | 33,641,555.93 |
| Utility services provided to the City for September 2020 | <u>(2,511,190.98)</u> |
| Net amount to be paid from September 2020 revenue to the City in October 2020 | <u>\$31,130,364.95</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)

| September 2020 | Actual | Budget | Variance | |
|------------------|-----------|-----------|------------|-------|
| Current Month* A | \$33,642 | \$35,375 | (\$1,733) | -4.9% |
| Year-to-Date* | \$231,701 | \$253,767 | (\$22,066) | -8.7% |

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

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 \$31,130,364.95, representing 14% of applicable system gross revenues for the month of September 2020, such payment being net of City utility services (\$2,511,190.98), is hereby approved."

Approval of Procurement Item*One (1) Non-Competitively Sensitive Item*

| | |
|--------------------|----------------------------------|
| Purchase Category: | Professional Services |
| Item Description: | Financial Advisory Services |
| Supplier: | PFM Financial Advisors, LLC |
| Supplier: | Estrada Hinojosa & Company, Inc. |

*The listed Procurement Item to be attached as Attachment "A".

VIII. RATE ADVISORY COMMITTEE (RAC) UPDATE

Ms. Shellman provided an update of RAC activities since the last Board meeting on September 21, 2020.

She highlighted a discussion with the City of San Antonio's (CoSA) Public Utilities staff to obtain feedback on the draft governance documents and an upcoming discussion with CoSA's Office of Sustainability.

Regarding the RFP for a RAC consultant, interviews of the top five respondents are ongoing and will be completed soon. A conditional selection, contingent on Board approval, is anticipated in November.

She noted that CPS Energy has sought and received public input through town halls and *People First* community fairs. Survey feedback received at town halls indicates that a vast majority, 87 percent, believe that San Antonio has well-run utilities and 47 percent believe affordable rates should be the top priority. CPS Energy is also encouraging people to provide feedback via letters and a public comment phone line. Information about the RAC is also posted on our website.

The RFP for a RAC facilitator has been issued; responses are being accepted through October 31, 2020. The ideal facilitator will ensure that all pertinent issues and input are obtained during RAC meetings. An update will be provided during the November Board meeting.

Ms. Shellman addressed the estimated RAC budget. She noted that a more precise estimate can be projected after all consultants' proposals have been received.

In conclusion, Ms. Shellman stated that CPS Energy staff remains available to proceed as directed by the Board.

Trustee Kelley spoke against the formation of the RAC. He stated that the Citizens Advisory Committee (CAC) is sufficient to fulfill the purposes of the proposed RAC and another committee is unnecessary. He expressed displeasure with the projected RAC expenses, especially as we strive to manage the financial challenges of the pandemic. He urged the Trustees to focus on the core business of the utility and to not further politicize CPS Energy.

Trustee Gonzalez stated that, although the timing is not ideal and she understands the concern with additional expenses, she supports the establishment of the RAC and wants to play an active role in its development. She noted her interest in public participation, particularly from lower-income customers who cannot access electronic resources, and asked staff to consider traditional means, such as mailings, to solicit feedback.

Mayor Nirenberg stated that the purpose of the RAC is to include public input and a process around rate making and rate design as it relates to generation capacity. He stressed that CPS Energy is a publicly-owned utility, owned by CoSA, and we have to find ways to include public input. He thanked staff for the progress made and noted that there is more work to be done.

Trustee Kelley noted the various ways in which CPS Energy receives public input. He emphasized the general fund transfer from CPS Energy to CoSA and continued to voice his opposition to the proposed RAC.

Trustee Gonzalez questioned whether the current general fund transfer is sufficient. She continued to stress her opinion that more public participation is needed.

Ms. Gold-Williams noted that CPS Energy has the highest ratio of dollars and percentage in city payment in the country and to increase the ratio may be potentially deemed by credit rating agencies as a "credit negative." She rejected the notion that CPS Energy should increase the general fund transfer to CoSA.

Mayor Nirenberg added that the RAC proposal does not seek to change either the amount of city payment or CPS Energy's governance structure, which is established by ordinance. He reiterated the purpose of the RAC and stated that, despite the process being politicized and charged, it should be further progressed.

Trustee Kelley reiterated his objections to the matter, emphasizing the potential significant financial implications.

IX. EXECUTIVE SESSION

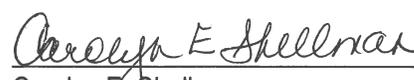
At approximately 3:17 p.m., Chair Steen announced that the required notice had been posted and that the Trustees, with only necessary parties in attendance, would convene after a short break into Executive Session, pursuant to the provisions of Chapter 551 of the Texas Government Code, for discussion of the following posted items:

- Attorney-Client Matters (§551.071)

The Board reconvened in open session at 4:56 p.m. Ms. Shellman reported that only Attorney-Client Matters, and no others, were discussed and no votes were taken in Executive Session.

X. ADJOURNMENT

There being no further business to come before the Board, and upon a motion duly made by Trustee Kelley, and seconded by Dr. Mackey and upon an affirmative vote by all members present, the meeting was unanimously adjourned at 4:57 p.m. by Chair Steen.


Carolyn E. Shellman
Secretary of the Board



CPS Energy Board of Trustees Meeting
October 26, 2020
APPROVAL of PROCUREMENT ITEM
Table of Contents

One (1) Non-Competitive Sensitive Item

1. **Item Description:** Financial Advisory Services
Purchase Category: Professional Services
Supplier: PFM Financial Advisors LLC
Supplier: Estrada Hinojosa & Company, Inc.

Approval: **Almaraz,
Frank T.** Digitally signed by Almaraz,
Frank T.
Date: 2020.10.12 10:56:04
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Frank Almaraz, Chief Administrative & Business Development Officer

Approval: 
Paula Gold-Williams, President & CEO



CPS Energy Board of Trustees Meeting
October 26, 2020
PROCUREMENT FORM 1

| | | |
|--|------------|-----------------------------|
| Item Description | | Financial Advisory Services |
| Original Cumulative Purchase Order | (A) | \$2,750,000 |
| Previously Added Funds | (B) | \$0 |
| Additional Funds Requested | (C) | \$1,651,500 |
| Projected Cumulative Purchase Order Value | (D) | \$4,401,500 |
| Purchase Category | | Professional Services |
| Department | | Treasury & Finance |
| Senior Director | | Julie Johnson |
| Chief Financial Officer | | Gary Gold |

What we plan to do & why it is of value to our customers & company

This contract is required to provide financial advisory services to CPS Energy related to the execution of bond transactions. CPS Energy uses two financial advisory firms, PFM Financial Advisors LLC, which is a nationally recognized firm, and Estrada Hinojosa & Company, Inc., a minority-owned firm with a local office in San Antonio. Both financial advisors have enabled CPS Energy to make better informed decisions regarding the optimization of bond transactions that enable us to secure the lowest interest rates possible, in addition to helping us provide savings to our company and customers, as well as negotiating the lowest commissions paid to the underwriting firms that sell our bonds. These firms also provide strategic perspective on transactions by other public issuers and how the rating agencies viewed the transactions.

The municipally-owned utility industry, including CPS Energy, utilizes financial advisory services providing expertise on the execution of bond transactions for the benefit of the company and customers. In the first three (3) years of this contract, these financial advisory firms have helped CPS Energy provide over \$85M of gross savings over the long-term. This underscores the financial responsibility that helps support the Strategic Pillars of Reliability, Customer Affordability, Security, Safety, Environmental Responsibility and Resilience. The current contract allows for an extension of two (2) additional years, through October 31, 2022. The requested additional funding will support the extension of this contract.

Subcontracting opportunities associated with the contracts

There are no subcontracting opportunities associated with these contracts.

Recommended Supplier(s) & Spend

| Supplier Name | SBA Classification | PO Term | SBA Classification Details | Original PO Value | Previously Added Funds | Additional Funds Requested | PO # |
|----------------------------------|-------------------------|----------------|--|--------------------|------------------------|--|--------------------|
| Estrada Hinojosa & Company, Inc. | Local / Diverse | Five (5) Years | Male, Small, No Hub/Vet, Hispanic American | \$1,150,000 | \$0 | \$584,525 | 2171547 |
| PFM Financial Advisors LLC | Non-Local / Non-Diverse | Five (5) Years | Male, Large, No Hub/Vet, Non Minority | \$1,600,000 | \$0 | \$1,066,975 | 2171548 |
| | | | | (A) | (B) | (C) | |
| Totals | | | | \$2,750,000 | \$0 | \$1,651,500 | |
| | | | | | | Projected Cumulative Purchase Order Value (D) | \$4,401,500 |



CPS Energy Board of Trustees Meeting
 October 26, 2020
 PROCUREMENT FORM 1 (continued)

| Annual Funds Budgeted | | | | | | |
|-----------------------|----------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| FY | Funding Method | Corporate Annual Budget | Projected FY21 PO Spend | % Of Annual Corp Budget | Projected FY22 PO Spend | Projected FY23 PO Spend |
| 21 | Capital | \$684,100,000 | \$0 | 0.00% | \$0 | \$0 |
| 21 | Non-Fuel O&M | \$712,800,000 | \$540,000* | 0.00% | \$650,000* | \$461,500* |

*Costs are classified as non-operating

This procurement item is not competitively sensitive; therefore, there are no restrictions on disclosure to the public.

Procurement Item: Professional Services

