

**CPS ENERGY**  
**MINUTES OF SPECIAL MEETING OF THE BOARD OF TRUSTEES**  
**HELD ON MARCH 1, 2021**

A Special Meeting of the CPS Energy Board of Trustees was held on Monday, March 1, 2021, 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 Dr. Willis Mackey called the meeting to order at 1:00 p.m.

Present via phone were Board members:

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

Also present via phone were:

Ms. Paula Gold-Williams, President & CEO  
 Ms. Carolyn E. Shellman, Chief Legal Officer & General Counsel and Board Secretary  
 Mr. Frank Almaraz, Chief Power, Sustainability, & Business Development Officer  
 Mr. Paul Barham, Chief Grid Optimization & Resiliency Officer  
 Mr. Fred Bonewell, Chief Security, Safety & Gas Solutions Officer  
 Ms. Vivian Bouet, Chief Information Officer  
 Mr. Rudy Garza, Chief Customer Engagement Officer  
 Mr. Gary Gold, Chief Financial Officer & Treasurer  
 Ms. Lisa Lewis, Chief Administrative Officer  
 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**

Mr. Bonewell provided a safety message.

Chair Dr. Mackey noted that State Senator José Menéndez was present for the meeting and wished to make comments.

Senator Menéndez spoke about the winter storm. He reported that over February 25-26, the Senate Business and Commerce Committee (Senate Committee) conducted a total of 25 hours of hearings to examine the condition, preparedness, and circumstances of the controlled power outages ordered by the Electric Reliability Council of Texas (ERCOT). Senator Menendez briefly described the effects of Texas’ deregulated electricity market, including higher prices, and expressed his relief that CPS Energy continues to have some of the lowest rates in the state and nation.

Senator Menéndez further stated that the Public Utility Commission of Texas (PUC), Railroad Commission (RRC), and ERCOT failed to sufficiently communicate with one another regarding the status of the natural gas market, as well as with the public and all the state's utilities. During the Senate Committee hearings, the ERCOT meteorologist stated he warned market participants and ERCOT management about the severity of the winter weather which he knew as early as February 3, 2021. ERCOT directed Texas investor-owned utilities (IOUs) and municipally-owned utilities (MOUs) to shed load to maintain frequency balance on the grid. The outages highlighted disparities among served communities since those on critical circuits did not experience outages. He noted that circuits that experienced outages were seemingly in more lower income communities. Ultimately, ERCOT, at the direction of the PUC, raised the price of electricity to the cap of \$9,000 per Megawatt hour (MWh) for a 4-day period when pre-storm rates were on average about \$20 per MWh, something the Senator stated he still does not understand.

The Senator noted that during the Senate Committee hearings, MOUs expressed concern and uncertainty about how they would pay their high ERCOT bills. After noting no interruption to the City of Garland's power due to winterization efforts made by the city after the 2011 storm, Senator Menéndez attributed CPS Energy's success to its diverse energy resources. He stated his opinion that Texas should be investing in weatherization like other states and should not be running away from renewables. Regarding the high natural gas prices that CPS Energy was exposed to during the winter weather event, he encouraged CPS Energy to continue working hard to protect its customers and look for alternative solutions. He stated that customers should not have to pay for the communication failure between the PUC, ERCOT, and the RRC, and understood the well-justified frustration and anger of customers. ERCOT's direction to precipitously require that so much load be shed may have contributed to the frequency instability and could have contributed to the first occurrence of a "Black Start" event in Texas' history. Fortunately, a Black Start event did not occur because distribution entities continued to shed load even when it was painful. He acknowledged that many elected officials have called for the resignation of the leadership of ERCOT and the PUC but felt that while the load shed could have been handled more smoothly, the event was highly technical, and ultimately, an unprecedented event that affected many large providers. In the Senator's opinion, CPS Energy was prepared for the event.

Mayor Nirenberg thanked the Senator for his efforts in Austin. He focused on the need to ensure that customers do not bear the brunt of any heightened costs because of the storm and to examine those things that were within our control.

Chair Dr. Mackey thanked the Senator for taking the time to share this information and for his efforts.

Senator Menéndez acknowledged the thanks and reiterated the need to thank CPS Energy's linemen and women who put themselves in harm's way to restore power during the storm.

### **III. INVOCATION**

Ms. Denaé Myers, Board Relations Manager, delivered an invocation.

### **IV. PUBLIC COMMENT**

Chair Dr. Mackey announced that public comments would be taken, and the meeting moderator outlined the guidelines for doing so. The following people made comments:

1. Ms. Sharron Brown stated her support for CPS Energy's rebate program and offered her expertise in renewable energy and energy efficiency. She mentioned her discussion with Chair Dr. Mackey regarding solar for schools in the Judson Independent School District.
2. Mr. Alejo Pena Soto, a student with the San Antonio Independent School District (SAISD) Student Coalition, encouraged the Board to recognize the climate crisis. He expressed concern over CPS Energy's plan to be net zero rather than 100 percent renewable and urged CPS Energy to prioritize helping and giving back to the community over profits.

## **V. PROCUREMENT ITEMS**

Chair Dr. Mackey called for a motion on the agenda's procurement items and indicated discussion would then take place.

Trustee Kelley moved that the noticed procurement items (Spruce Plant Drains Pond Owner's Engineer Services and Utility Locating and Marking) be approved. Chair Dr. Mackey seconded.

After Trustee Steen asked whether presentations would be given, Chair Dr. Mackey indicated, and Trustee Kelley concurred, that Mr. Almaraz and Mr. Bonewell sufficiently explained the procurement items during the previous Board Meeting.

Upon affirmative vote by all members present, the motion was unanimously approved.

Chair Dr. Mackey noted that Item 6, Short-Term Financial Strategy, would be moved to the end of the agenda after the Executive Session to accommodate discussion.

## **VI. FY2021 COVID-19 FINANCIAL IMPACTS AS OF JANUARY 31, 2021**

Mr. Gold presented CPS Energy's financial performance and metrics for the recently completed fiscal year 2021. Specifically, he reported on sales, customer receivables, net income, flow of funds and key financial metrics. While reflecting the full year, Mr. Gold noted the results are preliminary and unaudited. Audited results will be presented to the Board in April.

Usage in the non-residential sectors was down generally by 10%. Residential sales, however, increased approximately 5.4%. Since Residential usage accounts for approximately 43% of sales, Mr. Gold stated that it provided a partial offset to the reduction in usage in the commercial and industrial sectors. CPS Energy's actual electric sales are approximately 2.2 percent below budget.

Given the significant impacts to CPS Energy customers, Mr. Gold noted that CPS Energy has suspended disconnections and late fees, offered payment plans and put customers in touch with community resources. He further stated that CPS Energy continues to manage through COVID-19 impacts, still present today, and continues to help customers.

There was a significant increase in past due receivables in FY2021 to \$93 million compared to this time last year, when they were approximately \$38 million. This has caused a reduction in liquidity, which is

essential to CPS Energy's operations. Mr. Gold noted that the upcoming Short-Term Financial Strategy presentation would address the tools CPS Energy plans to utilize to manage its liquidity.

Preliminary, unaudited results show actual net income was \$12.4 million compared to a budgeted net income of \$3.9 million. Total revenues were down \$97.7 million due to decreased retail and wholesale sales and increased customer receivables. The overall lower revenues were offset by \$106 million in cost savings associated with labor by managing unfilled positions, deferring projects, and prioritizing expenditures, which allowed CPS Energy to achieve higher net income than budgeted.

CPS Energy budgeted \$625.8 million for capital expenditures but preliminary results show that approximately \$564.5 million was spent, with a favorable variance of \$61.3 million. As mentioned previously, the lessened capital expenditures reflect cost mitigations during the budgeting process.

CPS Energy ended the year with 1.59 times adjusted debt service coverage compared to the budget of 1.60 and above the accountability plan threshold of 1.50. In addition, CPS Energy has 209 days-cash-on-hand compared to the budget of 161 days and accountability plan threshold of 150 days. The Debt Capitalization (DC) ratio for FY2021 is 60.5 percent, favorable to the budget of 61.7 percent and to the accountability plan threshold of 61.7 percent. Mr. Gold reiterated that work by the organization to delay costs and reduce capital expenditures resulted in this positive financial performance.

Vice Chair Gonzalez expressed concern about extending the suspension of disconnections for too long since customer receivables may also be impacted by the costs of the recent winter weather event. She also commented about potential impacts to CPS Energy's credit rating as a result of the high volume of past-due balances and costs of the winter storm. Ms. Gold-Williams noted that CPS Energy is utilizing tools, whether regulatory or policy-related, to lessen costs of the recent storm to levels that are more manageable for our customers and community, and to protect the company's credit rating.

Vice Chair Gonzalez asked when CPS Energy's payment is due to ERCOT. Ms. Gold-Williams responded that CPS Energy is paying a reasonable amount to satisfy the company's obligations, while tracking market performance to avoid overexposure and prudently managing dollars to ensure CPS Energy remains a responsible ERCOT member.

In response to Vice Chair Gonzalez' inquiry about the possibility of ERCOT filing for bankruptcy, Ms. Gold-Williams stated she did not know about the possibility of that. She added that in any event, there would still be a need to have an entity serve as an "air-traffic controller" of the energy market.

## **VII. EXTREME FEBRUARY 2021 WEATHER EVENTS UPDATE**

As a result of constructive feedback from the Trustees from her CEO Report on February 22, 2021, Ms. Gold-Williams stated CPS Energy would present more information about the winter storm event. With a goal to protect and serve customers and find opportunities for improvement, Ms. Gold-Williams noted the storm event has posed a "financial and affordability tsunami" and CPS Energy continues to thoughtfully strategize how to move through the challenges presented. She introduced presentations from several members of CPS Energy leadership to give context, perspective and impacts of the storm event.

*Energy Supply.* Mr. Almaraz presented on energy supply. He discussed CPS Energy's seasonal weather readiness efforts, which allow CPS Energy to prepare personnel and equipment for the potential high demands during the extreme conditions of the winter and summer seasons. He noted that the initial forecast for the week of February 15, which was reported on February 1, called for a less severe winter storm, while the forecast on February 9 showed days of sustained below freezing temperatures. He also touched on the weatherization lessons learned from the winter event in 2011, and described preventative measures CPS Energy has since implemented, including focusing on small and narrow pipes, insulation, and inspecting equipment frequently. Mr. Almaraz also described challenges related to CPS Energy's natural gas system, including surging prices. When it was needed in record amounts, the priority went to customer's needs. He stated that the winter precipitation and the duration of the extreme cold temperatures contributed to the increase in plant outages during the storm event, and ultimately, all resources within CPS Energy's generation fleet were impacted by the extreme weather.

Chair Dr. Mackey asked Mr. Almaraz to review the outage schedule to see if a scheduled outage is better suited for March or April. He also inquired about salt domes in East and South Texas to store gas as part of the fuel supply strategy. Vice Chair Gonzalez asked for clarification regarding the extent of winterization efforts made after the 2011 storm. Mr. Almaraz responded that CPS Energy implemented all measures that were identified as part of the engineering assessment at the time. He noted that the magnitude of the recent weather event is not the design basis for the 2011 winterization assessment. CPS Energy continues to look at what further measures can be taken.

Vice Chair Gonzalez asked about whether CPS Energy resource units that were available were sufficient to serve CPS Energy customers. Mr. Almaraz responded that there were times that the generation was not sufficient. Ms. Gold-Williams added that the extremely cold temperatures drove tremendous demand for energy, higher than we've seen in the summer when all of our plants are running. Plants that tripped offline posed additional challenges and CPS Energy's ability to serve was out of balance with the demand. In those situations, CPS Energy took power from ERCOT to serve San Antonio.

*Electric Grid.* Mr. Barham presented on storm impacts to electric grid operations and the natural gas supply to the state, and the resulting impacts on customers. He discussed the required load shed, or intentional shutdown of circuits on the grid, and the necessity for rotating outages to protect CPS Energy customers. Mr. Barham characterized ERCOT as the "air traffic controller" who keeps generation and customer demand in balance. He further explained that for the grid to be stable, generation must be sufficient to meet customer demand. ERCOT does not own or operate transmission or generation; it only coordinates utilities like CPS Energy. The wholesale market balances the generation and customer demand in a cost-effective way. But, if there is no balance, then the grid cannot remain stable and will suffer a blackout.

Mr. Barham noted that CPS Energy performs annual tests and training to prepare for a blackout period, but it has never happened in ERCOT, and therefore is a bit of an unknown. Mr. Barham observed how quickly ERCOT issued the load shed orders and compared the 20,000 MW load shed orders from ERCOT during the most recent event to the significantly lower 4,000 MW load shed order during the 2011 storm. He acknowledged the frustration of many customers who did not have power and stated that once CPS Energy could restore power coming out of the load shed event, we focused on those who were out the longest. Mr. Barham said CPS Energy is assessing and identifying opportunities and technologies to help improve control, visibility, and management of load in the future.

In response to Vice Chair Gonzalez, Mr. Barham confirmed that the outages are not decided by neighborhoods, but rather, by circuits. He noted that approximately one-third of customers are on circuits available for load shed. He stated that equipment failures were responsible for extended outages. Vice Chair Gonzalez inquired about any bill relief to those customers that experienced outages. Ms. Gold-Williams replied that we are currently looking into that matter.

*Security, Safety, and Gas Solutions.* Mr. Bonewell reported that CPS Energy's continuity plan ensured there were no cybersecurity breach events and no serious physical security threats. CPS Energy was able to maintain communications by being a part of the City of San Antonio Office of Emergency Management briefings, and by providing frequent security updates and messaging across the organization. Fleet Operations were bolstered by adding call duty support and cold weather supplies like chains and de-icer. He reported effective cooperative efforts to divert gas supply and provide sufficient gas flow to customers who needed it. There was one repair to a 20" gas main because of the storm. Mr. Bonewell said CPS Energy would take lessons learned from the event to enhance safety measures and to update business continuity plans.

*Customer Engagement.* Mr. Garza presented on actions taken before, during and after the storm related to Customer Engagement. From the beginning of the storm to the end, CPS Energy used all its tools to communicate with customers. He described the use of a communication system for direct messaging in both English and Spanish that reached approximately 650,000 customers throughout the storm event. In addition, there were proactive steps taken to urge customers to conserve energy. After the storm, CPS Energy took steps to dispel misinformation of high energy bills by suspending autopay and performing several quality control checks to the billing system to ensure the information was accurate. Mr. Garza acknowledged there were opportunities to learn, including overall communication with customers, as well as implementing resiliency strategies with employees to ensure they can perform their jobs during challenging circumstances like the storm.

*Technology.* Ms. Bouet discussed the customer information systems used to contact customers through the outages and the storm. She stated that communications were complicated by interruptions to the grid communications network, telecommunication partners, and the advanced meter infrastructure. CPS Energy call centers and internal communication systems were also disrupted. Although CPS Energy's team pulled through the challenges, next steps include reviewing the performance of major systems to identify potential improvements and to assess the outage management process.

### **VIII. CONDUCT AN INDEPENDENT REVIEW OF FEBRUARY 2021 EXTREME WEATHER EVENT**

Ms. Gold-Williams requested clarity, input and guidance from the Board on whether there will be an independent review of the storm event directed by the Board.

Trustee Steen commented that at the previous Board Meeting, he proposed an independent review of CPS Energy's response to this winter storm related to communication, preparedness and disaster management because customers deserved an opportunity to understand the lessons learned and what happened during the storm. He proposed as a motion the following resolution approving an independent review.

**RESOLUTION APPROVING INDEPENDENT REVIEW OF  
2021 WINTER STORM RESPONSE**

**WHEREAS**, CPS Energy continually strives to be financially responsible and a strong steward of the community's assets while effectively balancing its **Guiding Pillars of Reliability, Customer Affordability, Safety, Security, Environmental Responsibility**, and **Resiliency**, all grounded in our **Foundation of Financial Responsibility**; and

**WHEREAS**, extraordinary events and conditions experienced in the San Antonio area and statewide during February 2021 created extraordinary opportunities for service by CPS Energy, but also for learning and improvement; and

**WHEREAS**, the CPS Energy Board of Trustees has a responsibility to ensure its customers, the citizens of San Antonio, and itself that CPS Energy's management, its systems, and its practices now and in the future reflect the best reasonable resources, systems, and practices for meeting our goals in stable times and unstable times, in good weather and bad weather;

**NOW, THEREFORE, BE IT RESOLVED**, that, after careful reflection and in light of the foregoing, the CPS Energy Board of Trustees hereby approves and initiates a full independent review of CPS Energy's preparation for and responses to the winter storm of February 2021. This review will be directed by and accountable to the Board of Trustees under such processes and by such entities or individuals as the Board of Trustees may hereafter decide, independent of direction or accountability to existing management. The review will include the following:

1. CPS Energy's preparation for and response to the storm, including preparedness, communication and management reaction to the situation, including practices that worked well, as well as any that did not; and
2. What systems of practices can be considered or implemented to ensure that in the future, all stakeholders of the company can be assured that our **Guiding Pillars of Reliability, Customer Affordability, Safety, Security, Environmental Responsibility**, and **Resiliency**, all grounded in our **Foundation of Financial Responsibility**; are well and capably balanced and met.

Trustee Kelley seconded the motion and Chair Dr. Mackey called for discussion.

Mayor Nirenberg noted that the City of San Antonio (City) has called for an independent review of the winter event and questioned whether Board's review would impact CPS Energy's cooperation with the City's review. Ms. Gold-Williams stated her desire to cooperate with the City's review but expressed concern that CPS Energy would not be able to meet the demands of both reviews, especially in light of other pending initiatives and new efforts being undertaken to protect our customers from the storm impacts. She added that timing and scope of the Board's review are key. The Board discussed the two reviews. They clarified that the pending motion was to generally approve a Board-directed review; it did not provide for specific timing or method. Trustee Steen noted that storm preparation, communication and management reaction to the storm

comprise the scope of the Board's review. The Board continued to discuss concerns with duplicating efforts and conflicting objectives between the two reviews. Trustee Steen insisted that the Board's review be performed, stating it would be complementary to the City's review. Mayor Nirenberg asked that as the scope is narrowed and a consultant is sought, the review be coordinated with the City.

Chair Dr. Mackey called for the vote and upon affirmative vote by all members present, the motion was unanimously approved.

## IX. EXECUTIVE SESSION

At approximately 3:38 p.m., Chair 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 items:

- Attorney-Client Matters (§551.071)
- Competitive Matters (§551.086)

The Board reconvened in open session at 5:08 p.m. and a quorum was re-established. Ms. Shellman reported that only the matters cited above, and no others, were discussed in Executive Session and no votes were taken.

## X. SHORT-TERM FINANCIAL STRATEGY

Ms. Gold-Williams introduced the presentation and stated the impacts resulting from the winter storm placed a tremendous financial burden on the community. The commodity price of natural gas surged as high as 16,000 percent from pre-storm pricing. She described how the storm transformed from a reliability crisis to a "financial tsunami" given the extreme bills that customers in other Texas markets have since received. CPS Energy is working through the costs associated with the storm to ensure the burden is as low as possible for our customers. She reiterated that the utility is committed to paying for justified and prudent charges, but will not pay illegitimate, unconscionable charges.

Ms. Julie Johnson, Senior Director of Treasury & Finance, Financial Services, discussed the short-term financial strategy to address liquidity. She reported that CPS Energy has begun to work through the financial implications of the storm. She said all business decisions are based on **Financially Responsibility**, a CPS Energy **Guiding Pillar**.

For the short-term financial strategy, Ms. Johnson discussed utilizing existing cash reserves together with \$900 million in cash, investments, and short-term financial tools. Doing so would increase liquidity capacity by \$800 million. However, she said with approval to seek additional short-term financing, liquidity would increase to \$1.3 billion. With the current suspension of disconnects and the ongoing effects of COVID-19, the additional liquidity will help protect CPS Energy's customers. There is no intention to immediately call on the additional funds, but rather, to have them as an option should it be necessary.



Ms. Johnson requested approval to proceed with establishing short-term financing with a bank or consortium of banks, for up to \$500 million for one to five years. Upon approval, the matter will be presented to City Council for approval.

Upon motion duly made by Trustee Kelley, seconded by Vice Chair Gonzalez, and upon affirmative vote by all members present, the motion to proceed with short-term financing was unanimously approved.

## XI. ADJOURNMENT

There being no further business to come before the Board, and upon motion duly made by Mayor Nirenberg, seconded by Trustee Kelley, and upon an affirmative vote by all members present, the meeting was unanimously adjourned at 5:23 p.m. by Chair Dr. Mackey.

  
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Carolyn E. Shellman  
Secretary of the Board