

CPS ENERGY
MINUTES OF REGULAR MEETING OF THE BOARD OF TRUSTEES
HELD ON AUGUST 26, 2019

The Regular Meeting of the Board of Trustees of CPS Energy for the month of August was held in the Board Room at CPS Energy's Main Office, 145 Navarro Street, San Antonio, Texas 78205 on Monday, August 26, 2019. Chair John 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
 Mayor Ron Nirenberg

Also present were:

Ms. Paula Gold-Williams, President & CEO
 Dr. Cris Eugster, Chief Operating Officer (COO)
 Ms. Carolyn Shellman, Chief Legal Officer & General Counsel and Board Secretary (CLO)
 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
 Mr. Frank Almaraz, Chief Administrative & Business Development Officer (CABDO)
 CPS Energy Staff Members
 City of San Antonio officials
 Interested Citizens

I. SAFETY MESSAGE

The Board meeting began with a safety message delivered by Ms. Delma Biscaino, Clerk Financial Services.

II. PUBLIC COMMENT

Chair Steen announced that public comments would be taken and outlined the guidelines for making public comment. The following people made comments:

1. Mr. Alan Montemayor, Sierra Club, thanked CPS Energy for supporting electric vehicles through a rebate for the Nissan Leaf. He suggested that CPS Energy survey the makeup of its fleet and explore ways to incorporate additional electric vehicles into it. He also commented that CPS Energy should rely less on gas and coal and work toward growing its renewable energy sources.
2. Mr. Greg Harmon, Sierra Club and Climate Action and Adaptation Plan (CAAP) steering committee member, suggested CPS Energy take a seat at the CAAP table and play a more supportive role. He requested more transparency from CPS Energy and collaboration with the community toward carbon reduction and urged the Board to use its influence to move in that direction.

3. Ms. Briauna Barrera, Public Citizen, advocated for CPS Energy's collaboration towards carbon reduction and support for CAAP. She recommended that CPS Energy build trust and accountability with the community. She stated that a holistic utility approach is needed with a focus on the environmental impact of our activities.

III. INVOCATION AND PLEDGE OF ALLEGIANCE

The Pledge of Allegiance and an invocation were delivered by Ms. Biscaino.

IV. CHAIR'S REMARKS

Chair Steen did not provide any remarks.

V. PRESIDENT & CEO UPDATE

Ms. Paula Gold-Williams, President & CEO, provided context and insights into several agenda items, an update on the *FlexPower* Bundle, and an upcoming electrification symposium.

Ms. Gold-Williams discussed the savings provided by a SA Energy Acquisition Public Facility Corporation ("PFC") gas financing transaction that optimized the taxable and non-taxable markets. She noted this topic would be covered in additional detail later in the meeting.

She then explained CPS Energy's involvement in the CAAP. CPS Energy sponsored an emissions baseline study consistent with other similar studies that focused on energy consumption. She pointed out that the two primary emission sources are transportation and buildings. CPS Energy executives participated with the City of San Antonio (City) in developing the CAAP in an overall partnership between the City, CPS Energy, Navigant, and the University of Texas at San Antonio ("UTSA"). The CAAP's main goal is to reach carbon neutrality or net zero emissions by 2050.

Additionally, Ms. Gold-Williams, relative to the Workspace Strategy and Recommended Vendor Selection agenda item, stressed the plan of optimizing the new furniture that will be purchased for the new headquarters and other service centers and noted that existing furniture in good condition would be reused wherever possible. Ms. Gold-Williams noted that a focus of the selection process involved local and diverse businesses.

Ms. Gold-Williams gave a brief preview of an employee development program, CPS Energy's Emerging Leaders Cohort Program. This program involves those with an interest in becoming a leader. The participants were broadly chosen and given the opportunity to visit different areas of the company to which they would not normally be exposed in order to help them develop the skills needed to advance into leadership roles.

Next, Ms. Gold-Williams turned to CPS Energy's *FlexPower* Bundle and highlighted the details that would be discussed with the community. Ms. Gold-Williams emphasized the need to package several technologies together to best meet our energy needs. She wants a diversified approach, bundled solar plus storage plus gas, that can be put out for public comment. Ms. Gold-Williams highlighted that CPS Energy must consider several factors, not only one, when making this decision: security, safety, resiliency, reliability, the environment, and affordability. CPS Energy will need to consider replacing aging facilities with other sources, and the advancement of technologies will influence these decisions. Although solar is attractive due to its carbon neutrality, decreasing cost, and economic development opportunities, it is not fully

developed at this point to reach an economy of scale. Ms. Gold-Williams suggested that how this area develops will determine how much of this type of technology will be incorporated into our plan. She pointed out that the *FlexPower* Bundle's reliance on gas does not limit us to only building a new gas plant but may lead to us securing power available in the current market for our use in the future. Ms. Gold-Williams went on to identify the challenges and benefits as well as other factors for consideration of each of the plan's components. Ms. Gold-Williams reiterated that CPS Energy will continue to collect public input through various ongoing efforts.

Mayor Nirenberg temporarily left the meeting at this time.

Ms. Gold-Williams closed her report by reminding the Board of the upcoming Electrification U.S. Symposium Series—the Electrification Experience that CPS Energy is sponsoring with Electric Power Research Institute (EPRI) on October 2-3, 2019.

Chair Steen congratulated Ms. Gold-Williams and inquired about a recent honor CPS Energy received from the Smart Electric Power Alliance as the Public Power Utility of the Year. Ms. Gold-Williams highlighted some of CPS Energy's programs and strategies that led to receiving this award.

Chair Steen asked for a Board informational update on the state of battery and other storage options. Ms. Gold-Williams indicated that such session would be forthcoming.

At Chair Steen's request, Dr. Cris Eugster, Chief Operating Officer (COO), provided an update on our recent wholesale electricity sales efforts. He explained that during the week of August 12, 2019, the Electric Reliability Council of Texas (ERCOT) experienced lower than anticipated wind and solar generation and was challenged to blend renewables with traditional generation sources.

Ms. Gold-Williams noted the significance of the effect that wind and solar had on the system and emphasized the need for backup resources for renewables until energy technology is sufficient to meet daily energy needs.

VI. ADDITIONAL UPDATES

Cost Savings: PFC Savings Since Inception

Ms. Linda Chester, Senior Director, Cost Management, provided an update on the SA Energy Acquisition Public Facility Corporation (PFC) gas transaction. The PFC is a non-profit entity that was created for the sole purpose of acquiring natural gas or other forms of energy. The PFC created a vehicle that offered a tax-exempt funded, prepaid natural gas transaction. This transaction allowed CPS Energy to use bond proceeds to secure a 20-year supply of natural gas for our distribution system. Each month CPS Energy physically delivers the gas to its customers at the market rate, less a fixed discount. The monies paid to the PFC are then used to pay down the bond indebtedness. This structure allowed CPS Energy to leverage savings on a large purchase of gas and the spread between taxable and tax-exempt interest rates, providing a savings directly to CPS Energy's gas customers. This transaction accounted for approximately 30% of CPS Energy's distribution gas requirements.

Trustee Kelley asked where CPS Energy gets the remaining percentage of gas for its customers. Mr. John Bonnin, Vice President, Energy Supply and Market Operations, explained that it comes from the market. Trustee Kelley then asked if CPS Energy was contemplating any future transactions similar to the PFC. Mr. Bonnin indicated that the favorable market factors that existed at the time do not exist at present, so no comparable transaction is currently being contemplated.

Trustee Gonzalez asked what the average impact was to a customer's bill. Staff agreed to provide that information.

Dr. Mackey asked if the gas under this transaction could be used for our generation fleet. Mr. Bonnin indicated that the gas was only used for distribution purposes.

Chair Steen and Trustee Gonzalez asked how CPS Energy learned about the opportunity to enter into this transaction. CPS Energy staff indicated that their decision to enter this transaction was driven by other entities in the industry entering into these similar types of transactions.

Financial Update

Ms. Delores Lenzy-Jones, Chief Financial Officer (CFO) & Treasurer, provided the Financial Update, reflecting results as of July 31, 2019. Ms. Lenzy-Jones stated that FY20 net income is projected to be \$37.3 million, driven by wholesale operating revenue.

Ms. Lenzy-Jones discussed key drivers of net income: higher than expected wholesale margin; Operations & Maintenance (O&M) budget mitigations in power generation; and lower interest costs.

Ms. Lenzy-Jones highlighted that debt service is lower due to lower financing costs, and capital expenditures were \$7 million favorable to budget due to a contribution in aid of construction along with a projected \$14.2 million in Repair & Replacement (R&R) Fund additions.

Turning to key financial metrics, Ms. Lenzy-Jones noted that Adjusted Debt Service Coverage is currently forecasted to be 1.69, better than the business plan threshold of 1.50. Days Cash on Hand is currently forecasted to be 258 days, better than the business plan threshold of 150 days for the year. Debt Capitalization is currently forecasted to be 62.1%, higher than the business plan threshold of 60% for the year.

In summary, Ms. Lenzy-Jones stated that the current financial picture looks a bit brighter than it did a month ago, but that management continues to monitor cost-savings opportunities. She also noted that rating agencies recently affirmed CPS Energy's credit rating as part of the recent bond refunding. Ms. Lenzy-Jones shared her recent experience on the refinancing bond transaction completed earlier this month. The team went in with high expectations due to favorable bond offering optimism. As the offering approached, market reports indicated a more volatile market, but overnight conditions turned around and investor interest was strong, thus the bond refinancing transaction results were better than originally planned.

Chair Steen announced that the remainder of the agenda would be taken out of order to accommodate Mayor Nirenberg's schedule and facilitate his participation in key agenda items.

VII. APPROVAL OF CONSENT ITEMS

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

Approval of Minutes

Minutes for the Regular Board Meeting held on July 29, 2019 were approved as written.

Approval of Payment to the City of San Antonio for July 2019

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 July 2019 is based on actual gross revenue per the New Series Bond Ordinance of \$246,690,207.33, less applicable exclusions. The revenue for the month of July 2019 is calculated as follows:

Gross revenue per CPS Energy financial statements	
Electric revenue	\$263,495,557.18
Gas revenue	7,329,938.65
Interest and other income	2,712,134.14
Gross revenue per CPS Energy financial statements	<u>273,537,629.97</u>
Excluded revenue	
School and hospital revenue per City Ordinance 55022	(6,420,912.81)
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	(13,468,345.85)
Noncash and other income, GASB 31 investment market value change, miscellaneous Interest income, gas billing adjustment and unbilled Revenue	<u>(6,958,163.98)</u>
Total excluded revenue	<u>(26,847,422.64)</u>
Gross revenue per New Series Bond Ordinance subject to 14% payment to the City	<u>\$246,690,207.33</u>
City payment per Bond Ordinance for July 2019 based upon July 2019 revenue	\$34,536,629.03
City payment per memorandum of understanding (MOU) regarding wholesale special contracts	861,559.75
Wholesale Special Contract Annual True Up	0.00
City Payment reduction per UTSA gas billing adjustment MOU Annual True Up per UTSA MOU	<u>(12,500.00)</u>
City payment per Bond Ordinance plus adjustments for memorandums of understanding	35,385,688.78 A
Utility services provided to the City for July 2019	<u>(2,670,835.28)</u>
Net amount to be paid from July 2019 revenue to the City in August 2019	<u>\$32,714,853.50</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)

July 2019	Actual	Budget	Variance	
Current Month* A	\$35,386	\$35,583	(\$197)	-0.6%
Year-to-Date*	\$161,539	\$166,231	(\$4,692)	-2.8%

* 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 \$32,714,853.50, representing 14% of applicable system gross revenues for the month of July 2019, such payment being net of City utility services (\$2,670,835.28), is hereby approved."

VIII. WORKSPACE STRATEGY & RECOMMENDED VENDOR SELECTION

Mr. Frank Almaraz, Chief Administrative & Business Development Officer (CABDO), provided an overview of the Workspace Strategy and Recommended Vendor Selection.

Mr. Almaraz reported that the overall headquarters project of \$215 million includes a budget of \$170 million in contracting opportunities for the community. The headquarters project is on time and on budget. Mr. Almaraz presented a video that highlighted three local-woman owned businesses that are part of the project:

Alderom, LLC who is providing lighting fixtures; Frank's Paving Co. Inc., who is providing paving, curbs, concrete structures, and sidewalk portions of the project; and Copeland Contractors, who is providing plumbing. The video included a short discussion with a representative of each of the respective businesses providing their perspective and the role they play on the project.

Mr. Almaraz outlined the workspace vendor selection process and suggested that we approached the procurement with the thought in mind that the workspace in which we work impacts our employee culture and ultimately the employees' results. Mr. Almaraz also pointed out that we no longer construct rigid walls but use modular-type work spaces that can be modified as business needs change. The key to this flexibility is to have interchangeable parts from one supplier. Mr. Almaraz highlighted that we will repurpose any furniture that has a remaining useful life.

Mr. Almaraz noted that this vendor recommendation is for the headquarters as well as the other workspaces at our facilities throughout our service area. The plan was to work with a local dealer representing a single manufacturer to leverage our prices through a volume purchase. Mr. Almaraz indicated that we obtained 8 respondents to our solicitation requests. These respondents were evaluated by a diverse team that was made up of members from several business units throughout CPS Energy. These vendors were narrowed down to five based on our specific solicitation specifications. From these five, two finalists were selected that best met these specifications. Then, a final dealer was recommended. The team's recommendation was based on a 20% better price, a \$1.9 million greater warranty coverage, and \$0.5 million greater inventory service value than the next closest bid. Mr. Almaraz ended his presentation by providing a timeline for the workspace program and asked for the Board of Trustees' approval to execute a contract for modular furniture up to \$18 million for a term of five years with the recommended dealer.

Dr. Mackey asked if the chosen vendor submitted the lowest price overall. Mr. Almaraz confirmed that the selected dealer offered the lowest price received of the five vendors who provided overall bids meeting the specifications. Dr. Mackey was curious about why the name of the dealer was not shared; Chair Steen made a similar comment. Trustee Kelley commented that providing the name may compromise the competitive process. Trustee Kelley also commented on the benefits of having interchangeable kit parts on the furniture throughout CPS Energy's facilities.

Mr. Almaraz noted that a contract has not been executed and in order to preserve the competitive process, the name of the chosen dealer was not being disclosed prior to obtaining Board approval.

Trustee Gonzalez and Dr. Mackey both commented on the need for language in the contract that provides a mechanism to terminate the contract if the dealer does not meet its obligations. Ms. Gold-Williams assured the Board members that CPS Energy would include such language in the contract.

Chair Steen asked for a motion to approve Mr. Almaraz's request for approval to execute a contract for modular furniture up to \$18 million for a term of five years with the recommended dealer. Trustee Kelley so moved, and Trustee Gonzalez seconded the motion subject to comments she and Dr. Mackey had offered about the use of certain termination language in the contract and the Board's role in the approval process. The motion was approved by affirmative vote of all Trustees present.

IX. EMERGING LEADERS COHORT UPDATE

Ms. Lisa Lewis, Vice President, People & Culture provided an overview of CPS Energy's Emerging Leaders Cohort program. Ms. Lewis provided a short history of our past leadership development programs then transitioned into the Emerging Leaders Cohort program. It was created as a result of a challenge set by our CEO, Paula Gold-Williams, to provide leadership opportunities for individual contributors. The goal is to develop leaders at an early stage and to retain staff in a very tight labor market. Ms. Lewis explained that this program is a 9-month development program designed to provide participants with insight and exposure to our complex business and the skills needed to lead in our organization. The program had 118 applicants, of which 25 were interviewed and 16 cohort members were selected. Each month the group visits different business areas to gain an understanding of how we align our core values across these varying business units. The current group will graduate from the program this November and the program will restart the selection process in December.

Trustee Gonzalez commented on retention rates in different business sectors and said she was encouraged to see CPS Energy making retention efforts at earlier stages of employment.

Chair Steen invited the four Emerging Leaders Cohort program participants present at the meeting to come forward and provide a little background on themselves and their personal experiences within the program. Mr. Andrew Astudillo, Senior Engineer, Rio Nogales Power Project; Ms. Sharmila Gurralla, Senior Engineer, Transmission Planning & Operations Engineering; Mr. Jose Reyes, Foreman Leak Crew, Gas Construction & Solutions; and Mr. Larry McHenry, Journeyman Voltage Support, Distribution Services & Operations, each took a few minutes to speak to the Board of Trustees. A group picture was taken that included the four participants, the full Board of Trustees, and Ms. Gold-Williams.

Mayor Nirenberg returned to the meeting during the Emerging Leaders Cohort presentation.

X. EXECUTIVE SESSION

At approximately 3:02 p.m., Chair Steen 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:

- Security Audits and Devices (§551.089)
- Competitive Matters (§551.086)
- Attorney-Client Matters (§551.071)
- Personnel Matters (§551.074)

The Board reconvened in open session at 5:00 p.m. Ms. Carolyn Shellman, Chief Legal Officer & General Counsel and Board Secretary (CLO), reported that only posted matters, and no others, were discussed and no votes were taken in Executive Session.

XI. APPOINTMENT TO THE CITIZENS ADVISORY COMMITTEE

Mr. John Leal, Director, Local Government Relations, introduced Mr. Juan Cano, who has been recommended for appointment as the District 1 representative on the Citizens Advisory Committee (CAC). Mr. Cano is a Marine Corps Veteran, a UTSA alumni, founder of Cano Development (an infill and residential development company), and a co-founder of Rise Civic Development (supports business backed solutions for municipal government and nonprofits).

Trustee Kelley asked if Mr. Cano was related to Cano Development. Mr. Cano indicated he was not so related.

Chair Steen asked about Mr. Cano's Marine Corps service and his interest in CPS Energy. Mr. Cano described his Marine Corps service and commented on the value he can provide to the CAC.

On motion by Mayor Nirenberg, seconded by Trustee Kelley, and upon affirmative vote by all Trustees present, Mr. Cano's nomination to the Citizens Advisory Committee was approved.

XII. CAAP UPDATE

Ms. Angela Rodriguez, Interim Director, Climate & Sustainability, provided an update on the newly drafted CAAP. This is a revised version since her last update in January 2019 and is the result of six months of additional input. The initial section is the 2016 Greenhouse Gas (GHG) Inventory that sets the baseline all future metrics will be measured against. The mitigation section lays out a menu of potential mitigation strategies that could be implemented to reduce GHG emissions. The potential strategies section is designed to adapt to an ever-changing climate and help make our city more resilient. The implementation section was modified after community discussion to add clarity on the path forward. The CAAP outlines the process and implementation steps that would likely allow our city to reach carbon neutrality by 2050. The CAAP is a result of a partnership with the City of San Antonio, CPS Energy, UTSA and the consulting firm, Navigant. The City of San Antonio fares well on emissions when compared to other major cities within Texas and throughout the country. The GHG Inventory in the plan will be updated every two years to track progress.

Ms. Rodriguez explained the various public engagement efforts that were involved in this process. She also highlighted several potential mitigation strategies and pointed out that there is not one path or one mitigation strategy that will reach this goal—instead, it will develop over time as best practices are developed. The CAAP is set for a vote before the City of San Antonio City Council on October 17, 2019.

Mayor Nirenberg expressed his support for the CAAP. He added that it is a well thought out document and that it is an international effort to create a positive change for the next generation. He pointed out several benefits of reversing climate change.

Trustee Kelley indicated he was not a real fan of the plan and did not feel that this was a local issue but rather a global one. He commented that if our city supporting this plan sends a message internationally then maybe it has merit from that perspective.

Trustee Gonzalez pointed out that this effort is a balancing act, making sure that we are socially as well as financially responsible.

Chair Steen read the following resolution of support for the Board's consideration:

RESOLUTION IN SUPPORT OF AUGUST 2019 CLIMATE ACTION AND ADAPTATION PLAN

WHEREAS, the City of San Antonio's updated Climate Action and Adaptation Plan (CAAP) is an aspirational framework that has an ultimate goal of reaching carbon neutrality by 2050; and

WHEREAS, CPS Energy has previously launched a Flexible Path strategy that the Management Team is using to leverage its existing generating assets while it thoughtfully and rationally adopts new energy solutions, over time; and

WHEREAS, CPS Energy will continue to diligently monitor technological developments as they become more efficient and economical; and

WHEREAS, CPS Energy will continually strive to be a strong steward of the community's energy utility assets while effectively balancing the following value pillars:

- Security;
- Safety;
- Reliability;
- Resilience;
- Environmental Impact; and
- Affordability; and

WHEREAS, CPS Energy will periodically and prudently update its Flexible Path and other critical strategies to ensure relevant macro and micro developments are assessed and, as deemed optimal, incorporated, while ensuring its credit ratings and financial strength are managed and maintained at levels that benefit its customers, community and employees; and

WHEREAS, the implications to CPS Energy of substantial changes to the CAAP, as well as new and significant action and adaptation provisions, must be assessed on a timely basis and such implications shared with the Board of Trustees, the San Antonio City Council and other stakeholders.

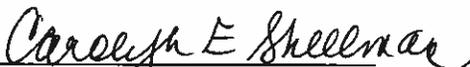
NOW, THEREFORE, BE IT RESOLVED that after careful consideration, and in light of the foregoing, the CPS Energy Board of Trustees expresses its support for the August 2019 CAAP draft.

In response to Chair Steen's inquiry, Ms. Gold-Williams and Dr. Eugster stated they were comfortable with the resolution.

Chair Steen asked for a motion. On a motion by Dr. Mackey, seconded by Trustee Gonzalez, and upon affirmative vote by all Trustees present, the foregoing resolution was unanimously approved.

XIII. ADJOURNMENT

There being no further business to come before the Board and upon a motion duly made by Trustee Gonzalez, and seconded by Trustee Kelley, and upon an affirmative vote by all Trustees present, the meeting was unanimously adjourned at 5:30 p.m. by Chair Steen.



Carolyn E. Shelman
Secretary of the Board