

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

**Meeting held on September 16, 2020**

A Special Meeting of the Board of Trustees of CPS Energy convening as the Risk Management Committee was held 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) on Wednesday, September 16, 2020. 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

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 (City) 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 a safety message delivered by Mr. Bonewell.

**III. INVOCATION**

An invocation was delivered by Mr. Orlando Flores, Director, Enterprise Risk Management & Solutions.

#### IV. 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. Ms. Catherine Fraser, Environment Texas, encouraged the closure of the Spruce coal plant.
2. Dr. Terry Burns, Alamo Sierra Club, noted that, in his opinion, recent CPS Energy newspaper ads appear to be in response to a petition effort. He also commented on the relationship between executive compensation and organizational performance.
3. Mr. Richard Perez, President & CEO, San Antonio Chamber of Commerce, expressed his appreciation to CPS Energy for continuing operations and keeping customers, including small businesses, connected during this challenging time.

#### V. CEO'S REMARKS

Ms. Gold-Williams provided background and context for the meeting, noting that the Board meets occasionally throughout the year as the Risk Management Committee to review the current risk landscape and the broad risks identified by our risk program. She added that Board input and guidance have informed our current risk landscape. As an example, the discussion on Business Continuity and Crisis Metrics addresses Trustee Gonzalez' suggestion to consider qualitative ways of measuring success.

#### VI. RISK MANAGEMENT COMMITTEE CHAIR'S REMARKS

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

#### VII. BUSINESS CONTINUITY & CRISIS METRICS

Ms. Bouet outlined the presentation of the Business Continuity and Crisis Metrics presentation. She noted that the Crisis Metrics that will be presented are intended to complement the current corporate quantitative metrics.

##### CPS Energy President & CEO Introduction

Ms. Gold-Williams explained that CPS Energy has maintained an Incident Response Business Continuity (IRBC) Program for many years and is continuously looking for ways to enhance it. Recently, Trustee Gonzalez provided an article, Herrera, M. (2017, June 8) "*15 Business continuity program metrics you should be using.*" Business 2 Community. Retrieved from <https://www.business2community.com/strategy/15-business-continuity-program-metrics-using-01858201> that was used to challenge our IRBC and identify opportunities for improvements. The results of the self-assessment will be presented.

Additionally, using the article and with the assistance of ScottMadden Management Consultants (ScottMadden), a draft framework for qualitative crisis metrics was developed. The framework aligns with CPS Energy's Guiding Pillars and provides an approach that can be used to assess operations in response to a pandemic. The Senior Chiefs will provide assessments of current progress on the crisis metrics. The framework and crisis metrics will be periodically discussed with the Board and updated as needed.

### Third-Party Industry Insights, Observations & Framework Design

Ms. Marisol Weymouth, Interim Vice President, Enterprise Business Planning & Execution Excellence, introduced Mr. Todd Williams, Partner, ScottMadden, who provided a brief background on the process used to develop the crisis metrics framework. The crisis metrics were developed using the “GQM” approach:

1. Goals: what is the goal of each Guiding Pillar?
2. Questions: what does “good” look like in achieving the goals? and
3. Metrics: what qualitative metrics assess the performance of achieving the goals?

Mr. Williams noted that when CPS Energy began its efforts to develop crisis metrics, an industry-wide set of pandemic-focused metrics had not yet emerged. Since then, other utilities and industry groups, such as Edison Electric Institute, have published relevant “thoughtware” that was considered and incorporated into our framework.

### Incident Response Business Continuity (IRBC) Program & Self-Assessment

Ms. Bouet introduced Ms. Shanna Ramirez, Vice President, Integrated Security, who provided the results of a qualitative self-assessment of how CPS Energy’s IRBC Program compares with the metrics and best practices highlighted in *“15 Business continuity program metrics you should be using.”* The IRBC Program aligns closely with the article and includes each of the 15-metrics discussed in the article. For clarity, one of the article’s metrics, “program metrics,” was bifurcated for the self-assessment.

The self-assessment focused on 4 questions:

1. Do we have the metric?
2. Are we utilizing best practices?
3. What is the maturity of the practice?
4. How do we perform in execution, both generally and during the pandemic?

Overall, of the 16-metrics evaluated, 10 were rated “excellent”, 4 were rated “very good”, and 2 were rated “good.” There were no “fair” or “poor” ratings. Ms. Ramirez emphasized that self-criticality and ways to close any gaps remain key.

Ms. Ramirez highlighted self-assessment results for certain metrics, including Senior Management Support; Policies and Standards; Program Metrics, which was bifurcated into Enterprise Performance Metrics and Business Continuity Program Metrics; Crisis Management Team; and Alternative Work Strategies.

### Draft Crisis Metric Framework & Self-Assessment

Ms. Weymouth explained that the proposed qualitative crisis metrics are intended to complement, not replace, the existing quantitative metrics that comprise the Enterprise Accountability Metric Program. The Crisis Metric Framework aligns with CPS Energy’s Guiding Pillars and includes two additional strategic pillars, Media Strategy and Local Business Advocacy.

The crisis metrics and self-assessment ratings are:

- Reliability: keep the lights on and gas flowing (Very Good)
- Customer Affordability: respond to Customers' unique needs during crisis and continue to provide energy and services without creating undue economic hardships to already impacted customers (Excellent)
- Security: ensure physical and digital security (Very Good)
- Safety: ensure the safety and health of customer, workforce & community (Very Good)
- Environmental Responsibility: maintain existing environmental program and regulatory partnerships (Very Good)
- Resiliency (Enterprise): actively demonstrate an ability to prepare for, and adapt to, changing conditions impacting people & ability to support the Enterprise (Excellent)
- Resiliency (Operations): actively demonstrate an ability to prepare for, and adapt to, changing conditions and withstand and recover rapidly from Operational disruptions, including the ability to withstand and recover from deliberate attacks, accidents, or naturally occurring threats or incidents (Very Good)
- Financially Responsible: maintain financial metrics to preserve credit rating; generate sufficient cash flow to meet operating payments, debt commitments and city payment, to allow for growth while maintaining service levels (Good)
- Media Strategy: proactively share and engage with media to ensure our *People First* strategy of being here for our community is reinforced with customers through media coverage. Always tell our story clearly, positively and proactively to reach our customers (Very Good)
- Local Business Advocacy: outreach for Small Business customers to talk about their specific needs to provide energy and services and provide information on financial assistance, as well as community engagement (Good)

The Senior Chief team explained each crisis metric, corresponding self-assessment rating and progress update.

### VIII. INVESTOR PERSPECTIVES & CHALLENGES OF A CHANGING INDUSTRY

Mr. Cory Kuchinsky, Interim Vice President, Strategic Pricing & Enterprise Risk Management & Solutions, provided a brief overview of the enterprise risk program, highlighting the different levels at which the Board is informed, including the full-Board Risk Management Committee and aligned risk sub-committees. He noted that CPS Energy's leadership team's strategic focus on risk also enhances the risk program.

Mr. Kuchinsky stated that CPS Energy has implemented its *Flexible Path* strategy and *FlexPOWER Bundle* to address reliability and environmental responsibility, two seemingly competing industry interests that, in reality, are connected and impact each other since the transition to a cleaner grid drives innovation for reliable energy sources. The next presenter will speak more about the convergence of these risks, with a particular focus on investors' perspectives.

Mr. Dan Aschenbach, Principal Consulting Partner, AGVP Advisory, addressed the Board. Prior to 2019, he served as a senior vice president at Moody's Investor Service (Moody's) and led its Public Power Electric Utility Ratings team. Mr. Aschenbach briefed the Committee on environmental, social and governance (ESG) factors, which are an integral part of an evolving assessment tool for investors. He stated that in addition to investment returns and credit ratings, investors are increasingly concerned with a utility's ESG profile and major investor-owned utilities report ESG assessments to their boards. Rating agencies are

also using ESG as a component of their assessments of utilities and there is an expected increasing shift in the municipal bond sector to incorporate ESG factors.

Mr. Aschenbach stated that the “environmental” factor of ESG is heavily weighted for utilities, so that factors such as level of greenhouse gas emissions and strategies to meet climate change goals are assessed. Nevertheless, in 2019, “governance” was the ESG factor most often cited as a material consideration for private sector rating actions. He added that climate change and the continued use of carbon are evolving areas that are getting increasing consideration. The ESG factors have long been components evaluated to determine a credit rating; now, they are particularly extricated and assessed.

Mr. Aschenbach remarked that, according to his experience and observations over 20 years, CPS Energy has strongly managed its environmental and social risk factors and governance issues and continues to remain one of the strongest managed utilities in his North American portfolio.

Turning to challenges associated with reliable, clean energy, Mr. Aschenbach discussed the full costs of transitioning from fossil fuel assets, including stranded assets, and the intermittency of solar and wind energy. He stressed the criticality of reliability.

Mr. Aschenbach observed that CPS Energy’s *Flexible Path* is leading the way on demonstrating to customers the importance of leaning forward on clean energy development while maintaining system reliability and affordability goals.

Mr. Aschenbach provided a risk assessment outlook for 2020-2021, including the outcome of the November 2020 federal election, general fund transfer pressures due to COVID-19, COVID-19 forbearance, and the capability to manage well and maintain competitiveness during industry transition. He shared the National Federation of Municipal Analysts’ (NFMA) due diligence questions for local governments regarding cybersecurity risks.

The credit outlook for the utility sector is stable but COVID-19 pressures are being carefully monitored. Mr. Aschenbach mentioned “revenue defensibility,” a fundamental factor considered by Fitch Ratings that heavily weighs the rate process used to recover costs. He observed that CPS Energy has managed credit rating considerations well, attaining the highest rating for a municipal utility. Even with the industry transition stresses, CPS Energy is meeting the challenges and continues to position itself for a reliable and clean energy grid with an emphasis on affordability and stakeholder understanding of risks.

After Mr. Aschenbach summarized his points, Dr. Eugster commented on the significance of debt implications for capital-intensive businesses, such as CPS Energy. He stressed the importance of reliability and an integrated approach of complementary renewable and firming technologies. Without enough power to supply our customers, CPS Energy must buy from the market and subject itself to market pricing volatility. The *Flexible Path* strategy and *FlexPOWER Bundle* seek to mitigate that risk and thoughtfully maneuver through technological and timing uncertainties.

Trustee Gonzalez asked about the impact on capacity of shutting down plants sooner than contemplated. Dr. Eugster replied that we currently have enough capacity to serve our load and sell some excess power into the ERCOT market. The *FlexPOWER Bundle* is aimed at replacing older power plants that are planned to be retired. He stated that prematurely shutting down a plant would require CPS Energy to buy power from the ERCOT market and expose our customers to market volatility.

Trustee Gonzalez stated her desire to move sooner, rather than later, to a cleaner generation mix.

Ms. Gold-Williams added that seamless transitions within our generation portfolio are possible, such as when we added the Rio Nogales natural gas plant and shut down the Deely coal plant. The challenge is that, although we typically have excess capacity, our older plants may unexpectedly go offline. When that happens, we may be exposed to the market, which is primarily fossil-fueled. So, Ms. Gold-Williams questioned whether taking action that creates market exposure fully addresses environmental responsibility. CPS Energy endorsed the goals of the City of San Antonio's Climate Action and Adaptation Plan (CAAP). Whether CAAP's carbon goals can be accomplished sooner than stated requires further analysis, including analysis on bill impact. The analysis is complex, but more information will be provided in the future to the Board and community.

Trustee Gonzalez acknowledged the complexity of the issue and expressed her interest in evolving the business model and increasing transparency and communication.

Trustee Kelley asked Mr. Aschenbach to comment on CPS Energy's governance, given his long tenure with Moody's.

Mr. Aschenbach stated that, generally, CPS Energy has consistently managed and operated based on facts and financial metrics, not political pressures. He noted that CPS Energy has managed through economic volatility and retained strong metrics. The Board structure and length of trustee terms allow sufficient time to learn and focus on the complexities of the energy utility business. Because CPS Energy is not one of many city departments, due attention can be given to complex operations. Plus, politics that may compromise utility management are likely not present. One example of a potential problem faced by utilities run by general municipal government is the general fund transfer policy.

Trustee Kelley requested Mr. Aschenbach's initial view, from a rating agency perspective, on the current petition drive for a vote that would change CPS Energy's governance from an independent Board of Trustees to a department of the City.

Mr. Aschenbach reiterated that, according to his observations and research as lead analyst at Moody's, CPS Energy has demonstrated good governance and has made decisions over an extended period of time that have resulted in a sound utility, as reflected in its strong credit ratings. The petition seems to be a bigger fix than what is needed, if there is anything needed at all.

## **IX. EXECUTIVE SESSION**

At approximately 3:23 p.m., Dr. Mackey announced that the required notice had been posted and that, after a short break, 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)

The Board reconvened in open session at 4:54 p.m. Ms. Shellman reported that 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 Dr. Mackey and seconded by Trustee Kelley, and upon an affirmative vote by all members present, the meeting was unanimously adjourned at 4:55 p.m. by Chair Steen.

  

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**Carolyn E. Shellman**  
Secretary of the Board