

**CPS ENERGY**  
**MINUTES OF REGULAR MEETING OF THE BOARD OF TRUSTEES**  
**HELD ON APRIL 26, 2021**

The Regular Meeting of the Board of Trustees of CPS Energy for the month of April was held on Monday, April 26, 2021 in the Board Room located on the First Floor of the CPS Energy headquarters located at 500 McCullough, San Antonio, Texas. In order to protect the health of the public and limit the potential spread of the Coronavirus (COVID-19), limited in-person attendance was enforced. Chair Dr. Mackey called the meeting to order at 1:01 p.m.

Present were Board members:

Dr. Willis Mackey, Chair  
 Ms. Janie Gonzalez, Vice Chair  
 Mr. Ed Kelley  
 Mr. John Steen  
 Mayor Ron Nirenberg (joined after Roll Call)

Also present 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**

Ms. Gold-Williams noted that this was the Board's first meeting in the new Board Room. She gave a brief update on workforce COVID-19 statistics, noting that there have been 494 positive employee cases since the start of the pandemic. Currently, 51 employees are quarantined, and no employees are hospitalized. We continue to monitor COVID-19 numbers.

Mayor Nirenberg provided an update on the City of San Antonio's (City's) COVID-19 activity and vaccination progress. He encouraged all to be vaccinated. The COVID positivity rate in the City and Bexar County has remained below 2.5 percent for the past month, better than other major metropolitan areas in the state, indicating that the City is doing well in containing the virus.

In response to Trustee Steen's question, the Mayor stated that City Council has had two in-person Council sessions. In-person Council work sessions are anticipated to resume in the next month or so. They discussed mask protocols for the meeting.

Ms. Loretta Kerner, Director, Board Relations & Chief of Staff to the CEO, reviewed evacuation procedures for the Board Room.

### III. INVOCATION & PLEDGE

An invocation and the Pledge of Allegiance were delivered by Ms. Debra Wainscott, Vice President, People & Culture.

### IV. PUBLIC COMMENT

Chair Dr. Mackey announced that public comments would be taken, and Ms. Kerner outlined the guidelines for making public comment. The following person made comments:

1. Mr. Richard Perez, President & CEO, San Antonio Chamber of Commerce, commented that although the Chamber initially opposed the Rate Advisory Committee (RAC), after learning more about it, they now support it. He added that the Chamber and business groups expect to provide input to and assist the RAC.

### V. CEO'S REPORT

Ms. Gold-Williams stated that we continue to be self-critical about our performance during Winter Storm Uri and look for ways to improve and help prevent future similar situations. She noted that her report focuses on power generation, although we are assessing other aspects of our performance during the storm.

Ms. Gold-Williams stated that all generation technologies in our portfolio had challenges during the winter storm. Overall, our plants were about 85 percent available during the storm and had the ability to produce about 84 percent of the time. She noted that about 41.5 percent of the outages were due to electrical control issues; 8.7 percent due to the weather; 30.3 percent due to mechanical issues, and 18.9 percent due to fuel constraints. Nuclear generation was available about 88 percent of the time. Solar and wind, both primarily designed to perform in the summer, were available 10 and 16 percent, respectively. Our gas steam units were available about 70 percent of the time; coal units, 84 percent; combined cycle units, 84 percent; and gas turbine peakers, 86 percent.

Ms. Gold-Williams noted that when considering total production, about 3 percent or 30,000 hours, was lost due to fuel constraints. She explained considerations, including cost, for using oil as a backup fuel and the current capabilities of our plants to use either oil or natural gas for fuel or "fuel switch". In thinking about our **Guiding Pillar of Reliability**, we must balance cost considerations with optimizing the use of fuel oil. Given the timeline of the pending **FlexPower Bundle**<sup>SM</sup> and impending summer peak, any discussions and planning around fuel switching will likely not be until the fall. Preliminary cost estimates to retrofit the M. B. Lee (MBL) units 1-4 and Arthur Von Rosenberg (AvR) CT units with fuel switching capability are \$24.5 million and \$35.6 million, respectively. Comparative information indicated that using oil as a fuel generally produces more emissions than using natural gas. Another consideration in potentially converting other plants to be dual-fuel capable (i.e., Braunig, Sommers, Spruce units) is their potential for retirement by 2030.

Regarding the weatherization of our power plants, Ms. Gold-Williams noted that we have invested approximately \$18 million in capital and \$3 million in operations and maintenance (O&M). We are proceeding with additional weatherization enhancements even as state regulators are considering mandated standards. We are closely monitoring regulatory and legislative activities and staying in contact with regulators and legislators. More information about weatherization will be provided at the May Board meeting.

Responding to a comment from Vice Chair Gonzalez, Ms. Gold-Williams explained that any new standards established by regulators will be blended with current winterization enhancements that are ongoing. She noted that ERCOT may conduct studies and we may engage in benchmarking about winterization standards. Governmental Affairs will provide updates on pertinent activities and developments.

Mayor Nirenberg expressed his concerns about the challenges with fuel oil, asking why we would consider fuel switching given the cost and emissions issues. He stated that there are other resiliency options that can be explored. Ms. Gold-Williams responded that a decision about fuel oil has not been made and we continue to evaluate various options at this time.

Vice Chair Gonzalez commented about the financial considerations of resiliency, stating that repurposing budget allocations for immediate resiliency benefits should be considered. Ms. Gold-Williams noted that there is a lot of capacity coming offline that must be replaced and financial options will be presented to the Board in the future.

## **VI. PROCUREMENT PREVIEWS**

Ms. Gold-Williams introduced this item by informing the Board that we use third parties to augment staff during work peaks. Recently, the Board has been made aware of issues with controls around procurement practices and today another issue related to overhead electric distribution services (Item 6.C.) will be discussed.

### New Initiative: Enhancing Procurement Controls

Mr. Cory Kuchinsky, Vice President of Strategic Pricing & Enterprise Risk Management & Solutions (ERMS), provided a brief update on our overall control environment. He noted recent lapses in procurement controls and explained the plan to reinforce and strengthen the control culture.

Vice Chair Gonzalez inquired about the vendor management systems used by CPS Energy. Ms. Gold Williams noted that there are multiple systems in SAP and agreed to provide a representative diagram.

### General Services – Context for Item 7.E.1.

Ms. Wainscott previewed a procurement item for a managed service provider (MSP) on the Consent Agenda. An MSP is a third-party provider that manages temporary and contract workers under an umbrella contract, streamlining the recruiting, invoicing and reporting procedures. Currently, about 170 workers are managed by our MSP, Broadleaf Results, Inc., whose contract expires in August 2021. The Consent Agenda includes approval to add one year to the current MSP contract and \$24 million (\$4 million for increases in usage and \$20 million for the added year) in additional funding.

Vice Chair Gonzalez asked about savings and Ms. Wainscott explained that about \$1.5 million was saved over the first year of the contract which began in 2019. She added that there has been an increase in contractor usage and an uptick in costs during the last six months due to short-term needs caused by the pandemic. Vice Chair Gonzalez noted that the request for funding is up to \$24 million and the entire amount may not necessarily be spent. Ms. Gold-Williams clarified that the proposal is to use Broadleaf through August 2022, at which time a competitive procurement for an MSP is projected to be complete and implemented. Later, Ms. Wainscott noted that we received 11 responses to the request for proposals that are currently being evaluated.

Ms. Wainscott highlighted the local and diverse profiles of Broadleaf and the subcontractors providing services under the umbrella MSP contract. She reviewed the next steps of the process, including a transition period in the event a new MSP is selected.

Vice Chair Gonzalez asked about the need for an additional year for the current contract if the competitive procurement is already underway. Ms. Wainscott responded that, in the event a new MSP is selected, an implementation period lasting about five months would be necessary to minimize disruption to business areas and that would go beyond the expiration date of the current contract. Vice Chair Gonzalez requested information about Broadleaf's and each subcontractor's revenue under the current contract.

#### General Services – Context for Item 7.E.2.

Mr. Darrell Clifton, Vice President, Construction & Maintenance Services, previewed a procurement item for overhead electric distribution services on the Consent Agenda. He explained the current circumstances with invoice processing on a previous purchase order (PO) and the corrective measures being implemented to mitigate future lapses in controls.

Mr. Clifton explained that we identified an issue relating to a \$3.6 million overspend on a previous contract for overhead electric distribution services. The overspend amounts to about 7 percent of the total contract value of \$53.35 million. The outstanding invoices have been validated and must be paid. Mr. Clifton stated that this is a "people issue" indicating the need for an improved control culture across the organization.

The error resulted from administrative invoice processing issues that failed to (1) reserve funds on the PO as work was assigned; (2) validate receipt of all invoices for the work that was completed; and (3) critically review summary billing processes for control improvements or elimination.

Audit Services assessed the outstanding invoices and controls and will provide additional information at an upcoming Audit & Finance Committee meeting. To date, Audit Services did work with management to verify the calculated accuracy of the \$3.6 million in invoices. Management also conducted a qualitative review of the invoices to ensure the work was performed to CPS Energy's quality standards. Management concluded that invoices were reasonable.

Preventive steps include a complete leadership refresh of contract management processes and controls, and enhancing the invoice reconciliation process.

Mr. Clifton stated that this issue is being disclosed to the Board out of an abundance of caution and in the spirit of transparency in support of Items 6.C and 7.E.2. on the Consent Agenda for authority not to exceed \$3.6 million to pay for remaining invoices. Simultaneously, we commit to improving our process and controls.

Vice Chair Gonzalez spoke about the responsibilities of the vendors to manage their contracts with CPS Energy. She added that our process should include vendor training. Ms. Gold-Williams agreed. Vice Chair Gonzalez added that she will not support this item.

In response to Trustee Kelley's questions, Mr. Clifton replied that the pertinent supplier is also a supplier on the current contract for overhead electric distribution services. We became aware of the issue when the vendor provided an aged receivables report of outstanding invoices, some as old as 270 days. Trustee Kelley and Vice Chair Gonzalez expressed the importance of obtaining written acknowledgment of the final payment and confirmation that no additional amounts are owed.

Mr. Clifton identified the three contractors under the overhead electric distribution services contract: Chain Electric; Pike Electric; and Greenstone. Chair Dr. Mackey expressed disappointment with the circumstances and stressed that both CPS Energy and suppliers need to follow processes to manage contracts to not exceed budgets. He thanked Mr. Clifton for his honesty and requested that the Board be shown how our processes and policies are improved. He shared a recent experience with a CPS Energy supplier that damaged his irrigation pipelines and stated that is not representative of our **People First** culture.

## VII. APPROVAL OF CONSENT ITEMS

Chair Dr. Mackey noted that Item 7.D., Technology & Innovation (T&I) Committee Charter Update, was being pulled from the Consent Agenda. In response, Vice Chair Gonzalez clarified that she had not intended for it to be pulled.

Trustee Kelley moved that the Consent Agenda be approved, subject to the suggested improvements relative to the overhead electric distribution services issue (Item 6.C., which is aligned to Item 7.E.2.) and Vice Chair Gonzalez seconded.

Trustee Steen requested a summary of the changes to the Technology & Innovation Committee Charter. Vice Chair Gonzalez responded that in light of the impacts of the recent winter weather event, she thought it prudent to expand the scope of the committee, now known as the Technology & Resilience Committee, to address resiliency from naturally occurring events, as well as cybersecurity events. Ms. Gold-Williams agreed and added that the committee will look at technological developments and their impacts on resiliency. Mayor Nirenberg requested that, in the future, redlines of revised governance documents, such as charters and bylaws, be included with the Board materials.

Chair Dr. Mackey inquired whether an abstention on the vote count for the Board Operating Procedures (Procedures) should be more fully recorded in the draft minutes of the March 29, 2021 meeting. Ms. Shellman agreed to add the abstention to the vote count. Additionally, Trustee Steen noted that he was in favor of the Procedures, but because they were confusing and their adoption was not time-sensitive, he had suggested that the vote be postponed for a month. Therefore, he asked that an explanation of the reason for his vote be included in the minutes. Ms. Shellman agreed to make the change.

Chair Dr. Mackey called for the vote and the Consent Agenda was approved by a vote of 4-1, Vice Chair Gonzalez voting against.

After discussion, it was determined that the minutes should include a clarification of Vice Chair Gonzalez' vote. That is, she intended to vote no on the overhead electric distribution services (Item 7.E.2.) and ask that the MSP procurement (Item 7.E.1.) be deferred for one month.

### **Approval of Minutes**

Minutes of the Special Board Meeting held on March 1, 2021 were approved as written, and minutes for the Regular Board Meeting held on March 29, 2021, were approved with the revisions requested by Chair Dr. Mackey and Trustee Steen.

### **Approval of Payment to the City of San Antonio for March 2021**

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 March 2021 is based on actual gross revenue per the New Series Bond Ordinance of \$189,370,808.20, less applicable exclusions. In accordance with the New Series Bond Ordinance, current month revenue was insufficient to meet the City Payment by \$24,353,201.69. Under the previously approved agreement with the City, CPS Energy will advance to the City \$24,353,201.69 against future months' revenues for fiscal year 2022. The revenue for the month of March 2021 is calculated as follows:

Gross revenue per CPS Energy financial statements	
Electric revenue	\$154,032,773.54
Gas revenue	5,949,768.32
Interest and other income	(891,886.68)
Gross revenue per CPS Energy financial statements	<u>159,090,655.18</u>
Excluded revenue	
School and hospital revenue per City Ordinance 55022	(5,551,811.70)
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	(8,984,666.17)
Noncash and other income, GASB 31 investment market value change, miscellaneous interest income, gas billing adjustment and unbilled revenue	<u>44,816,630.89</u>
Total excluded revenue	<u>30,280,153.02</u>
Gross revenue per New Series Bond Ordinance subject to 14% payment to the City	<u>\$189,370,808.20</u>
City payment per Bond Ordinance for March 2021 based upon March 2021 revenue	\$26,511,913.15

City payment per memorandum of understanding (MOU) regarding wholesale special contracts	353,971.94
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	26,853,385.09
Utility services provided to the City for March 2021	<u>(2,591,706.12)</u>
Net amount to be paid from March 2021 revenue to the City	<u><u>\$24,261,678.97</u></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)

March 2021	Actual	Budget	Variance	
Current Month* A	\$26,853	\$23,623	\$3,230	13.7%
Year-to-Date*	\$48,542	\$47,721	\$821	1.7%

\* 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 \$24,261,678.97, representing 14% of applicable system gross revenues for the month of March 2021, such payment being net of City utility services (\$2,591,706.12), and including the current month deficiency, is hereby approved." The total amount to be recovered from future months' revenues for fiscal year 2022 is \$46,042,101.29.

### **Technology & Innovation (T&I) Committee Charter Update**

The proposed changes to the T&I Committee Charter were approved as submitted.

### **Approval of Procurement Items - April 2021**

*Four (4) Non-Competitively Sensitive Items*

<b>Item Description:</b>	Managed Service Provider - Staff Augmentation, Direct Hire, Contingent Placement Services
<b>Purchase:</b>	General Services
<b>Category: Supplier:</b>	Broadleaf Results, Inc.
<b>Item Description:</b>	Overhead Electric Distribution Services Purchase Order Correction
<b>Purchase:</b>	General Services
<b>Category: Supplier:</b>	Chain Electric Company
<b>Supplier:</b>	Greenstone Electric Services LLC
<b>Supplier:</b>	Pike Electric LLC

<b>Item Description:</b>	System Protection Engineering Services
<b>Purchase Category:</b>	Professional Services
<b>Supplier:</b>	Black & Veatch Corporation
<b>Supplier:</b>	SynchroGrid Limited, LLC Gate
<b>Item Description:</b>	Gate and Fencing Installation and Repair Services
<b>Purchase Category:</b>	General Services
<b>Supplier:</b>	Franchise Maintenance Organization Inc. dba FMO Inc.

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

### **VIII. ACCEPTANCE OF ANNUAL AUDITED FINANCIAL STATEMENTS**

Ms. Jodi Dobson with Baker Tilly Virchow Krause, LLP provided an overview of the FY2021 financial audit via telephone. The entire audit, comprised of 2,800 hours, was remotely conducted. The audit was conducted in accordance with Generally Accepted Accounting Standards and, because CPS Energy received some state funding during the fiscal year, governmental auditing standards.

The audit's objective is to obtain reasonable assurance that financial statements are free from material misstatement. Ms. Dobson stated that the financial statements received an unmodified (or clean) opinion.

While the auditors need to understand our internal controls and processes to perform the audit, they do not render an opinion on those controls. Ms. Dobson noted that no material weaknesses or significant deficiencies were noted with our internal controls.

Ms. Dobson provided required communications to the Board. She highlighted that a footnote about a known and subsequent event, the winter storm that occurred in February 2021, has been added to the financial statements. Although the storm occurred after FY2021, it was prior to the issuance of the audit and accounting standards indicate, and management agrees, that it is important for the reader to have some information about the event.

Chair Dr. Mackey thanked Ms. Dobson for her presentation.

Trustee Steen asked whether Ms. Carmen Garcia, President and CEO of C.C. Garcia & Company, also part of the audit team, was available by telephone. It was noted that she was not, although she participated in the earlier briefing to the Audit & Finance Committee. Ms. Gold-Williams added that she believes the comments of the entire audit team are included in the audit report.

Trustee Steen, Ms. Gold-Williams and Mr. Gold discussed auditing CPS Energy's internal controls. It was noted that such an audit has never been conducted, but it would be part of the upcoming request for proposals for the financial audit. During the discussion, Mr. Gold clarified that the SA Energy Public Facility Corporation (PFC) conducted an internal control audit two years ago and another is scheduled for FY2021.

In response to comments by Trustee Kelley and Vice Chair Gonzalez, Mr. Gold agreed to include in the footnote referenced by Ms. Dobson a way for readers to obtain more information about the event. Vice Chair Gonzalez suggested a hyperlink to the CPS Energy website that in turn would include a link to the Electronic Municipal Market Access (EMMA) website.



At Trustee Steen's request, Ms. Dobson commented that governmental entities rarely conduct internal control audits, except for specific programs that receive federal funding.

On a motion duly made by Trustee Steen and seconded by Vice Chair Gonzalez, and upon affirmative vote by all members present, the annual audited financial statements were accepted.

The Board took a short break at this time.

## **IX. FY2022 FINANCIAL PLAN PART 1 – CONTINUING EFFORTS TO HELP OUR CUSTOMERS**

Ms. DeAnna Hardwick, Vice President, Customer Success, recapped continued *People First* efforts to assist our customers in a variety of ways to help them recover from the pandemic, including payment support options. She highlighted our portfolio of support options and the Customer Outreach Resource Effort (CORE) team that connects customers to valuable programs and resources.

Ms. Hardwick noted that after the pandemic accelerated at the start of 2020, we suspended disconnections and waived late fees in March 2020. Through the end of March 2021, we have called over 69,000 customers and identified over \$21 million for customer assistance through programs such as the Residential Energy Assistance Partnership (REAP) and other agency partners. We are now contemplating when to resume disconnects.

Mr. Garza provided an overview of the pandemic landscape that we continue to monitor. The landscape is made up of customer assistance factors such as agency support and accessibility to CARES funding, CPS Energy assistance programs, and CORE and other outreach programs, as well as external factors, such as COVID-19 health and social impacts, community economic indicators and financial impacts. He noted the positive trends in health and economic indicators. Regarding industry trends, 14 of 16 Texas companies we contacted have either never suspended disconnects, or resumed or announced the resumption of disconnects this summer. Only two areas in Texas, including San Antonio, have yet to determine when disconnects will resume.

Turning to the status of customer accounts, Mr. Garza noted that approximately 15 percent of our customer base, or about 82,800 customers, owing \$36 million, are eligible for disconnect. Another 28 percent, owing \$65 million, are more than 30 days past due. As of March 2021, approximately 56 percent of residential customer revenue and 19 percent of commercial revenue is more than 30 days past due. The average past due bill is \$544.

Mr. Garza stated that moving forward, we will continue to work with our governmental partners that have access to funding not available to CPS Energy, to create a phased approach to resuming disconnects, continue communicating to promote awareness of our plans, and promote customer assistance programs.

In response to Trustee Steen's question, Mr. Garza described the general disconnection process. He stated that a good percentage of customers will make payment arrangements after being contacted about potential disconnection. Normally, we suspend disconnects when temperatures are expected to reach 100 degrees, typically during August and September.

In response to Vice Chair Gonzalez, Mr. Garza stated that CPS Energy works with over 20 social service agencies as well as the City of San Antonio and Bexar County. Vice Chair Gonzalez asked Mayor Nirenberg

whether any federal funds received by the City could be used to assist utility customers through REAP. The Mayor and Erik Walsh, City Manager, explained that when the proposal to use REAP for the distribution of CARES funds arose in 2020, all funds allocated to the City had already been distributed. Currently, the rules for the American Rescue Plan Act (ARPA) funding have not been issued so their proper use is unknown. If ARPA funds may be provided to REAP for utility assistance, that would also need to be coordinated with the County. Mayor Nirenberg noted that housing is more than just rent or mortgage assistance. Through the City's Emergency Housing Assistance Program, more than \$11 million for 83,000 families has been used for utility assistance to date. The Mayor suggested waiting for the ARPA rules and additional specific housing relief expected from the federal government that may go above ARPA. He noted that \$1 billion in federal funds for housing relief is being provided to the State of Texas. He suggested working with SAWS and the County to identify pockets of housing relief dollars to ensure people can stay in their homes. He also suggested communicating with our legislative delegation to rewrite the state housing program criteria to loosen up some of those funds for utility assistance.

Vice Chair Gonzalez asked that we be mindful about asking small businesses to carry the weight when they are also struggling.

Vice Chair Gonzalez requested an update from Kathy Garcia, Vice President Government & Regulatory Affairs & Public Policy, about our activity at the state level so the Board may determine how to have a greater impact and get as much assistance as we can.

Mayor Nirenberg expressed his appreciation for the thoughtfulness with which this issue is being approached.

Trustee Steen asked Ms. Gold-Williams for her perspective. She replied that there is a fine balance that must be struck. CPS Energy truly cares about its customers. Their ability to get back on their feet is extremely important to the entire economy but we also need to be mindful of the growing debt that we continue to carry. We started casework with customers before the pandemic and we have "doubled down" on them by trying to be helpful and patient with them. We have wanted to get more direct federal assistance, but utilities have not qualified. We have tried working with federal and state elected officials, but funding has not come to fruition. While we have received some money from the City and County, the need is greater. Ms. Gold-Williams stated that she appreciated commentary from the Mayor and Mr. Walsh and will lean into it; however, we do need to thoughtfully get back to normal, giving customers as much grace as possible.

Vice Chair Gonzalez thanked Ms. Gold-Williams, noting that this has not been easy. She referenced the internal controls issue discussed earlier and stated that employees must understand the consequences of their daily decisions. We cannot afford any costly mistakes. We cannot control the weather, but we must manage this organization by the things we can control. Ms. Gold-Williams agreed.

## **X. FY2022 FINANCIAL PLAN PART 2 – LANDSCAPE & CHALLENGES**

Ms. Julie Johnson, Senior Director of Treasury & Finance, Financial Services, presented the second part of the FY2022 Financial Plan presentation, focused on the challenges that have been considered in our financial planning.

Like FY2021, FY2022 is not shaping up to be a typical year. Ms. Johnson explained the factors that are shifting our landscape and creating new challenges: customer growth; service level expectations; the continuing effects of COVID-19; lower projected wholesale revenues; and Winter Storm Uri costs, ongoing uncertainty and recovery.

In response to the challenges, we have adopted a short-term strategy of prioritization and cost control. We continue to prioritize our essential services work and look for financial mitigations to protect liquidity. Although non-fuel O&M expenses remain relatively flat, underlying drivers for a rate increase remain.

Ms. Johnson reiterated how COVID-19 has impacted our receivables. Past due balances are currently about 42 percent of our receivables versus last year's 25 percent ratio. Bad debt is expected to be over 2 percent of retail revenue in FY2022. This increases pressure on customers since, as a cost recovery business, when some customers do not pay, others must do so to maintain stability.

Regarding Winter Storm Uri, current best estimates indicate fuel expenses of approximately \$1.035 billion, \$670 million for natural gas and \$365 million for purchased power from ERCOT. Ms. Johnson added that CPS Energy continues to pursue multiple options to reduce these expenses to a justified and legitimate level and to protect its customers.

In summary, the FY2022 Financial Plan is challenged by San Antonio growth, and lower projected wholesale and retail revenues that are impacting our ability to maintain operations. Unrecovered receivables due to the pandemic and expenses resulting from Winter Storm Uri are also key challenges. In response, the Financial Services team is working to update the plan to ensure sustainability with customer affordability as a primary focus.

In May, the Board will review the sustainability approach and the revised budget. In the meantime, CPS Energy will continue assisting and protecting its customers.

Trustee Kelley expressed appreciation for our efforts to assist customers but countered that CPS Energy cannot help customers if it does not stay in business. He commented that we deliver to our customers the things they consistently say they prioritize- affordability and reliability, and we continue to fund approximately 30 percent of the City's budget. But we do not get credit for that because we do not tell our story. He expressed great concern about the company's current financial situation relative to receivables and bad debt and noted that the last rate increase, 4.5 percent, was seven years ago. He stressed that others need to help carry the financial load and recounted that, as a child growing up in a poor household, family members figured out how to financially manage, adding that others need to figure out the current predicament.

Responding to Trustee Kelley, Mayor Nirenberg stated that the message from the Board to the community that owns CPS Energy is not that they need to figure this out on their own. As mayor of this city, he wanted to make it abundantly clear that it is not our position that the people who have been struggling with the pandemic over the last 14 months are on their own. He stated that he understands the financial pressures and the payment back to the City, which is by design. But he stressed that we all are in this together until the end of the pandemic and everyone is picking up a share of the burden. We will figure this out together with the people of this community.

## XI. EXECUTIVE SESSION

At approximately 3:53 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)
- Personnel Matters (§551.074)

The Board reconvened in open session at 4:53 p.m. The quorum was re-established with the presence of three Board members: Chair Dr. Mackey, Trustee Kelley and Trustee Steen. Ms. Shellman reported that only the matters cited above, and no others, were discussed and no votes were taken in Executive Session.

Before the meeting adjourned, Trustee Steen read the following statement concerning the status of the independent review of CPS Energy's winter storm response:

On March 1<sup>st</sup>, this board unanimously adopted a resolution approving an independent review of CPS Energy's 2021 winter storm response:

*... 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:*

- *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*
- *What systems or 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.*

Because I believe the expectation was that we would undertake this review with dispatch, I'm concerned that we've not yet even engaged the outside firm that will do this work.

By contrast, SAWS announced that on February 21<sup>st</sup> it hired Kansas City-based engineering firm Black & Veatch to answer three basic questions:

- Was SAWS prepared?
- What did SAWS do during the event?
- What's going to happen next?

The expectation was that Black & Veatch would deliver its report within 60 days. So SAWS has either received its report or is to receive its report soon, and we're not even out of the gate. So, for the record, I want to express my concern about this state of affairs.

In response, Chair Dr. Mackey advised that he had only received pertinent information about the independent review that day and, in the interest of allowing an opportunity for review, he asked that the Board address it next month.

## XII. ADJOURNMENT

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



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Shanna M. Ramirez  
Secretary of the Board