

CPS ENERGY
MINUTES OF REGULAR MEETING OF THE BOARD OF TRUSTEES
HELD ON JANUARY 25, 2021

The Regular Meeting of the Board of Trustees of CPS Energy for the month of January was held on Monday, January 25, 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 John Steen called the meeting to order at 1:00 p.m.

Present via phone were Board members:

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

Also present via phone were:

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

I. ROLL CALL OF BOARD MEMBERS

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

II. SAFETY MESSAGE

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

Mayor Nirenberg provided a brief COVID-19 update. He reiterated a desire to make the vaccine available to the community. The statistics show that the lagging indicators are unfavorable and that our hospitals are close to maximum occupancy. He indicated that City Council continues to allocate resources to businesses and residents. He is hopeful that the clouds start to lift in 2021.

Mr. Steen thanked Mayor Nirenberg for his leadership and keeping San Antonio safe.

Ms. Gold-Williams discussed COVID-19 impact on CPS Energy. She indicated that we continued to be concerned with the number of positive cases and quarantined individuals in our workforce. She added that utility employees are far down the priority list of “critical essential workers” to receive the vaccine and

that is another stressor on the organization while we work to keep the power on to the community and support the state's electric grid. Vaccine quantities are limited, and we know state and local officials are working on the issue, but she believes our frontline workers deserve a priority designation. Pandemics will come again, and we want to be better positioned in the future so that our frontline workers will be treated with higher priority for vaccination.

Mr. Steen complimented Ms. Gold-Williams on juggling so many challenging issues that are overlaid with the pandemic.

III. INVOCATION

An invocation was delivered by Ms. Amelia Badders, Director Enterprise Advanced Analytics.

IV. PUBLIC COMMENT

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

1. Mr. Richard Perez, CEO & President, San Antonio Chamber of Commerce, thanked the Board for providing policy direction and urged them to select diverse RAC members. He spoke favorably about receiving the generational planning presentation and expressed support for Ms. Gold-Williams's contract extension.

V. CEO'S REPORT

Ms. Gold-Williams began her CEO's report by providing context for several agenda items, including the current financial update, the procurement items, the selection of the Board officers, and the replacement of the nuclear decommissioning trusts' (NDT) investment manager contracts.

Regarding agenda item 6A, the financial report, Ms. Gold-Williams explained that she recently briefed the audit committee on this issue. She explained that CPS Energy is doing well financially and is expected to "break-even" for fiscal year 2021 (FY2021). She stated that while we are forecasting close to break-even with our FY21 budget, there still remains pressure on receivables. We have not disconnected customers since March 2020, and outstanding receivables continue to increase. This means that our bad debt is also increasing. She indicated that the financial team increased our reserves, but the bad debt remains a challenge. Ms. Gold-Williams reported that we continue to conduct outbound calls to customers and link customers to resources to assist with payment. She explained that we received a small amount of COVID-19 monies, but there is tremendously more need than resources have been allocated. She reported that we started to see people call in and want to help their neighbors with bills. Organizations, individuals, and retirees have offered to help pay outstanding utility bills. Coupled with stresses under COVID-19 and unemployment rates, we do not see an immediate pathway to start disconnections again. That is going to be a continuing pressure in FY2022, which begins February 1, 2021.

Ms. Gold-Williams explained that the FY2022 budget is not being presented during this meeting because additional time to review the receivables was needed, but it will be presented for approval in February. However, the Board will be asked today to approve the proposed funding and expenses for the benefit trusts for FY2022 (agenda item14).

Ms. Gold-Williams proceeded to provide an overview of generation resource planning efforts. She explained that we refer to resource planning in the context of all of our sources of generated power, purchased power and energy conservation programs.

Ms. Gold-Williams noted that a resource planning document (Resource Plan) was developed to highlight **Flexible Path**SM strategic options and their associated considerations, such as bill impacts to customers, the impact to our employees, new federal administration implications, and a continued focus on innovation. She noted that this is a good time to share this information with the public.

Ms. Gold-Williams spoke regarding the **Guiding Pillars: Reliability, Customer Affordability, Security, Safety, Environmental Responsibility, and Resiliency**, noting that customers have indicated **Affordability** and **Reliability** as priorities. She highlighted that our last rate increase was six years ago and outlined some of our successes, including investing in wind in 2000, solar in 2012 and creating the **Flexible Path** strategy in 2017. We closed the Deely coal units in 2018, and in 2019 committed to 80% reduction of carbon emissions by 2040. In 2019, the Board endorsed the City's Climate Action & Adaptation Plan and we are working toward full carbon neutrality by 2050.

Ms. Gold-Williams stated that the Resource Plan was provided to the Board members just prior to the Board meeting, and it is intended to be shared with the community as a whole. She reiterated that we are not asking the Board for any decisions today; rather, the Resource Plan and today's presentation are to start the conversation with the Board and the community.

She emphasized that under the **Flexible Path** strategy, we seek to blend more renewables and new technology with tried and true generation sources. Renewables are intermittent so either storage or firming resources are necessary to address reliability challenges.

While CPS Energy intends to proactively address its gas units that are approaching end-of-life through the **FlexPOWER Bundle**SM, the Spruce coal units warrant especially careful consideration because they are baseload units that typically run 24/7, providing substantial stability and reliability for the system. Ms. Gold-Williams reminded the Board that there are bill impacts associated with the closure of any plant.

Ms. Gold-Williams highlighted key content of the Resource Plan. She further explained three potential scenarios for the Spruce coal units detailed in the Resource Plan, noting various considerations and possible impacts of each option.

In conclusion, Ms. Gold-Williams stated that this is a good time to begin a public conversation about the Resource Plan and other information presented. We remain ready to listen and bring that information back to the Board. The community needs to decide what San Antonio looks like in the future.

Trustee Kelley complimented Ms. Gold-Williams on her presentation and the Resource Plan. He noted that he received the Resource Plan less than one hour prior to the Board meeting and he has only skimmed it. He questioned whether it should be made public, given the detailed information it contains, likening it to a playbook that should not be shared. He requested that the report be marked as confidential and that anyone receiving a copy be subject to a confidentiality agreement. He further requested sufficient time for the Board to study it to determine what information can be shared. Finally, he requested that Dr. Eugster's presentation be kept high level so as to not divulge competitive details.

Dr. Mackey also complimented Ms. Gold-Williams on the Resource Plan, stating that he has been requesting this information for two years. He also noted that he only had a short time to review it but it appears to have a lot of outstanding information and he is very pleased with what he has seen so far, stating it presents a good direction for the company and good information for the Board to review.

Mayor Nirenberg complimented the CPS Energy team, noting that the information was highly anticipated. He, too, had not been able to review the Resource Plan, but agrees with the comments from Dr. Mackey. The community has been looking forward to this and it is clear that it has not been assembled haphazardly. The Board needs this level of information to make good decisions. He noted that the Resource Plan is clearly stamped “public information” and will be pored over by the community. He is not in favor of creating a non-disclosure agreement, stating that Ms. Gold-Williams did not carelessly decide to release the information.

The Board discussed proceeding with Dr. Eugster’s presentation or convening in Executive Session to discuss Trustee Kelley’s concerns. They determined that so long as Dr. Eugster provided a “high level” presentation, they would proceed in that way and then go into Executive Session to cover the items discussed. Chair Steen asked if there were any objections to his plan and no objections were raised.

Dr. Eugster provided a generation planning update, reiterating that no Board action is being requested. Ms. Gold-Williams clarified that no decision regarding coal has been made; we continue to evaluate various options for our generation plans. There is no decision and no recommendation at this time.

Dr. Eugster discussed decarbonizing our generation mix, noting that we will work towards renewables and stating that **FlexPOWER Bundle**SM is our first step in that direction. He noted that CPS Energy is the fourth largest power producer in Texas, so we must transition our portfolio of generation assets carefully. He referenced a chart showing the generation facilities by age, recognizing that some units exceed 40+ years in age. We have identified about 3000 megawatts that will need to transition over the upcoming decade. We will begin to replace aging assets through the **FlexPOWER Bundle** and we will need firming capacity to ensure reliability. He explained that the plants’ stranded costs are an important consideration, noting that the Spruce units have an estimated net book value of \$1.255 billion and \$1.7 billion in remaining debt service. One way to mitigate the stranded cost is to convert the coal plant to burn a different fuel. If Spruce 2 is converted to burning natural gas at a cost of about \$40 million, some stranded costs are mitigated. Gas conversion would reduce emissions by 40 percent. He reiterated that options such as this are being considered, but no decisions have been made.

Dr. Eugster explained that it is possible to close the aging gas and coal units and convert a coal unit by 2030. He identified various assumptions for replacing the units, including replacement capacity, financial implications, depreciation, the workforce, environmental aspects and reliability. He noted that we would need additional funding for the gas conversion, however, the amount would be significantly lower than any environmental retrofits such as an SCR. He introduced a conceptual timeline for generation transformation, suggesting that certain units would be replaced by the **FlexPOWER Bundle**, while other units could be replaced by similar future resource bundles.

Dr. Mackey and Mayor Nirenberg expressed appreciation for the presentation. In response to an inquiry by Mayor Nirenberg, Ms. Gold-Williams explained how the information could be shared and discussed with the community and City Council. Mayor Nirenberg suggested that City Council hear the information in “A” session. He requested that we include the CAAP Advisory Committee on the list of groups to receive a formal briefing, to which Ms. Gold-Williams agreed.

Upon conclusion of the agenda item, Chair Steen noted that the Board would continue with the remaining agenda items and proceed to Executive Session as planned.

VI. ADDITIONAL UPDATES

FY2021 COVID-19 Financial Impacts as of December 31, 2020.

Mr. Gold provided an update on the FY2021 COVID-19 Financial Impacts. It included actual results through December 31, 2020, and projections for the remainder of the fiscal year. Because of the uncertainty related to the full impact of COVID-19, these projections were noted to be preliminary and subject to change.

Mr. Gold explained that net income year-to-date was budgeted to be negative \$0.5 million. However, the actual year-to-date net income amount is \$51.8 million, a favorable variance of \$52.3 million. The favorability is driven by lower operations and maintenance (O&M) expense and lower interest and debt-related expenses, partially offset by lower wholesale revenues.

Reporting on December electric sales by customer segment, Mr. Gold noted that commercial and industrial customers used less power than projected. Residential customers, on the other hand, increased their usage. Overall, total system sales are approximately 2.2 percent below budget.

Regarding the potential effects of COVID-19 on net income for FY2021, a net loss of \$0.4 million is projected, assuming a Medium Impact scenario. A High Impact scenario is projected to result in a net loss of \$10.0 million. This assumes \$52 million of bad debt. These projections are based on assumptions of lower wholesale and retail electric sales and higher bad debt levels partially offset by non-fuel expense savings.

Trustee Kelley asked what caused the projection changes which previously indicated a \$51.8 million profit to now indicating a loss. He asked if it was due to write-offs. Mr. Gold explained that the change in projections was largely due to increased projections on bad debt and property sales that did not close in the expected time period.

Trustee Kelley asked whether the flow of funds contemplates write-offs and deferrals of receivables. Mr. Gold answered affirmatively that the deferrals are included in the net income calculation and the flow of funds. Ms. Gold-Williams further explained that the budget factors in write-offs. She indicated that we are seeing an unprecedented trend in receivables and we are analyzing whether we have reserved enough.

Trustee Kelley stated that "cash is king." He expressed a desire for us to keep a close eye on cash flow. Ms. Gold-Williams responded that we are focused on all financial aspects and noted that we would spend time with each Board member on the financial metrics.

Mr. Gold explained the drivers for the positive change from the November financial forecast, namely lower projected net retail and wholesale revenue offset by O&M savings and lower interest.

Turning to the Flow of Funds, Mr. Gold stated that, considering the effects of COVID-19, Repair & Replacement (R&R) Fund additions in a Medium Impact scenario are projected to be \$216.7 million, approximately \$40.8 below projections. Mr. Gold noted that capital expenditures are projected to be \$62 million under budget.

Trustee Kelley explained that we can defer capital expenditures. He stated that one financial indicator of the health of the company is the R&R balance. He asked how we anticipate funding necessary capital expenditures and how do we feel about the R&R account vis-à-vis our best in class company designation. Mr. Gold responded that we are monitoring our days-cash-on-hand and projecting a good number for that metric (202 days cash on hand). Mr. Gold further explained that we are still looking at funding our capital program with a balanced mix of R&R cash and debt.

Turning to the key financial metrics, the forecasted Adjusted Debt Service Coverage (ADSC) is 1.55x for the Medium Impact scenario, above the accountability plan threshold of 1.50x. In the High Impact scenario, ADSC is projected to be 1.53x. Days Cash on Hand (DCOH) for the Medium Impact scenario is projected at 202, better than the accountability plan's threshold of 150. In the High Impact scenario, DCOH is projected to be 193.

In response to Trustee Kelley's inquiry, Mr. Gold responded that our metric thresholds are consistent with our double-A (AA) credit rating.

The Debt Capitalization (DC) ratio is projected to be 60.6 percent for the Medium Impact scenario and 60.7 percent for the High Impact scenario, both favorable to the accountability plan threshold of 61.7 percent. Mr. Gold indicated that some decisions implemented related to the capital plan have allowed us to manage this number near the target. We target to maintain the number below 60 percent.

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

- Analyze actual sales results to better understand demand patterns;
- Monitor accounts receivable and bad debt, and provide customers with information on assistance programs. Past due accounts are higher than we have historically seen. We will continue to work with our customers to help them find assistance and put them on payment plans;
- Focus on cash flows to ensure liquidity;
- Prioritize ongoing spend to identify additional cost reductions and cash savings; and
- Scan for emerging risks.

Trustee Kelley and Dr. Mackey congratulated Mr. Gold, Ms. Gold-Williams and the team for doing an outstanding job managing the finances along with the other pressures.

Cost Savings: Financing Transactions

Mr. Gautam Shringarpure, Director Debt Management, Corporate Finance Analytics, Financial Services explained that we completed two financing transactions in Fall 2020. The Board approved our financial plan in May 2020 and that approval allowed us to refund \$375 million and remarket \$100 million. Through those transactions, we were able to achieve significant savings. We have almost \$6 billion in debt outstanding and one of the strongest credit ratings in the industry. Our high credit rating allows us to lower our borrowing cost, which provides savings. The savings we achieve are ultimately passed on to our customers. Over the last 15 years, we were able to take advantage of our strong credit rating to refinance approximately \$4 billion in debt, resulting in over \$564 million of gross savings.

Mr. Shringarpure explained that one transaction in Fall of 2020 allowed us to save \$109.9 million over the 28-year maturity schedule of the debt. The second remarketing transaction of \$100 million saved \$2.4 million over the six-year maturity schedule. The two transactions saved over \$112 million.

Mayor Nirenberg congratulated the team on incredible savings achieved.

Chair Steen commented on Mr. Shringarpure's prestigious chartered financial analyst (CFA) designation and expressed gratitude that he was part of the CPS Energy team. He further commented on the intense focus on cost savings as a great source of pride.

VII. PROCUREMENT REVIEW

General Services – Context for Item 8G2: Gas Construction Services Purchase Order Correction

Mr. Richard Lujan, Senior Director, Gas Solutions provided a procurement preview regarding gas construction service purchase order corrections. Mr. Lujan explained that we utilize gas construction companies to assist with our gas distribution business. In September 2020, we presented to the Board the notable increases in gas construction projects. That same month, the Board approved a 3-year gas construction contract for \$120 million. The issue addressed in the today's procurement involves the three previous purchase orders. It was discovered that certain invoices totaling approximately \$1.4 million were not allocated to the correct purchase order. We are seeking approval from the Board to pay the invoices that were allocated to incorrect purchase orders.

Mr. Lujan explained the process to re-match the invoices to the appropriate purchase orders. He explained that an internal audit was conducted on the invoicing re-match and verified that vendor charges were supported and free of material errors. Mr. Lujan explained that the team will be addressing internal controls, transitions in leadership, transfer of knowledge, and contract management training. Mr. Lujan asked for approval for the consent agenda item to pay all outstanding invoices not to exceed \$1.5 million.

Chair Steen called for questions or comments.

Trustee Gonzalez asked a series of questions including which vendors were impacted, the outstanding accounts payable, and payment processes for invoices. Mr. Lujan and Ms. Gold-Williams explained that we left value on certain previous purchase orders and when we moved forward on new purchase orders, we incorrectly applied the invoices to the new purchase orders. The team was attributing invoices to incorrect purchase orders. Trustee Gonzalez asked for clarification on the amount of approval sought. Ms. Gold-Williams responded that the Board had approved the previous purchase orders and the amount discussed today did not exceed those previously approved amounts. Trustee Gonzalez expressed gratitude that we are not exceeding previously approved amounts. Trustee Gonzalez suggested that vendors complete "close out" forms and Ms. Gold-Williams agreed to consider the suggestion. Trustee Gonzalez asked for a report on the close-out process.

In response to Dr. Mackey's inquiry, Ms. Gold-Williams confirmed that the amount sought would resolve outstanding invoices and payments for the prior contracts.

Dr. Mackey asked whether employees have the training to review the work before the invoices are paid. He commented that he has observed work performed improperly by our contractors and that employees need to validate that work is done correctly, without damage to property, and we are properly billed.

Ms. Gold Williams expressed appreciation for the comments and responded that we would get back with Dr. Mackey regarding specifics related to the scenario he mentioned.

VIII. APPROVAL OF CONSENT ITEMS:

Trustee Kelley moved that the Consent Agenda be approved, and Trustee Gonzalez seconded. Dr. Mackey discussed the Board Travel Policy and asked whether there was any history of abuse on the policy. Chair Steen responded that the Board Travel Policy has not been formally adopted but that it has been used for some time. Ms. Gold-Williams responded that we have not seen abuse, but we wanted to formalize the process.

Upon affirmative vote by all members present, the following items on the Consent Agenda were unanimously approved.

Approval of Minutes

Minutes of the Regular Board Meeting held on November 16, 2020, the Special Board Meeting held November 16, 2020, and the Regular Board Meeting held on December 14, 2020, were approved as submitted.

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

The New Series Bond Ordinance that took effect February 1, 1997 provides for a total cash payment to the City of San Antonio (City) in an amount not to exceed 14% of gross revenue as calculated pursuant to such Ordinance, less the value of other services provided to the City, with the percentage (within the 14% limitation) to be determined by the governing body of the City. The cash transfer to the City for the month of December 2020 is based on actual gross revenue per the New Series Bond Ordinance of \$167,776,785.90, less applicable exclusions. The revenue for the month of December 2020 is calculated as follows:

Gross revenue per CPS Energy financial statements	
Electric revenue	\$171,992,152.96
Gas revenue	20,853,040.33
Interest and other income	986,623.02
Gross revenue per CPS Energy financial statements	<u>193,831,816.31</u>
Excluded revenue	
School and hospital revenue per City Ordinance 55022	(5,626,714.00)
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	(16,403,383.55)
Noncash and other income, GASB 31 investment market value change, miscellaneous interest income, gas billing adjustment and unbilled revenue	<u>(4,024,932.86)</u>
Total excluded revenue	<u>(26,055,030.41)</u>
Gross revenue per New Series Bond Ordinance subject to 14% payment to the City	<u>\$167,776,785.90</u>

City payment per Bond Ordinance for December 2020 based upon December 2020 revenue	\$23,488,750.03	
City payment per memorandum of understanding (MOU) regarding wholesale special contracts	633,443.13	
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	24,109,693.16	A
Utility services provided to the City for December 2020	<u>(2,418,655.80)</u>	
Net amount to be paid from December 2020 revenue to the City in January 2021	<u>\$21,691,037.36</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)

December 2020	Actual	Budget	Variance	
Current Month* A	\$24,110	\$24,918	(\$808)	-3.2%
Year-to-Date*	\$305,106	\$330,599	(\$25,493)	-7.7%

*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 \$21,691,037.36, representing 14% of applicable system gross revenues for the month of December 2020, such payment being net of City utility services (\$2,418,655.80), is hereby approved."

Approval of Procurement Items – January

Two (2) Non-Competitively Sensitive Items

Purchase Category: Professional Services
Item Description: Outside Plant (OSP) Fiber Lifecycle Program
Supplier: ADB Companies, Inc.
 Black & Veatch Corporation
 HMI Utilities, LLC
 PhaseLink Utility Solutions, LLC
 Quanta Telecommunications Services, LLC
 TOP Engineers Plus PLLC
 TRC Engineers, Inc.

Purchase Category: General Services
Item Description: Gas Construction Services Purchase Order Correction
Supplier: Dimension Energy Services LLC
 Mastec North America, Inc.
 Mears Installation LLC

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

IX. EXECUTIVE SESSION

At approximately 3:34 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:

- Competitive Matters (§551.086)
- Personnel Matters (§551.074)

The Board reconvened in open session at 4:48 p.m. The quorum was re-established. Ms. Shellman reported that only the matters cited above, and no others, were discussed in Executive Session. A vote on a competitive matter was taken during the Executive Session, as permitted by Texas Government Code §551.086.

X. COMMITTEE REPORTS

Personnel Committee Meeting held on 12/17/2020

Trustee Kelley stated that a report on the Personnel Committee meeting, which took place on December 17, 2020, was posted with the public notice of this meeting and will be attached (as Attachment "B") to the meeting minutes.

XI. BOARD OFFICERS

Trustee Kelley, Chair of the Nominations Committee, conducted a meeting in November 2020 to discuss the election of a new Chair and Vice Chair. Historically, the Board Chair and Vice Chair are elected for two-year terms. The Nominations Committee suggests the new Chair and Vice Chair terms begin February 1, 2021.

Trustee Kelley expressed deep appreciation to Chair Steen for his three-year tenure as Chair of the Board. He specifically recognized Chair Steen for remaining in close contact with Ms. Gold-Williams throughout this difficult last year dealing with the pandemic and shifting from in-person meetings to virtual Board meetings.

Trustee Kelley reported that the recommendation of the Nominating Committee was to nominate Dr. Mackey to serve as Board Chair and Trustee Gonzalez to serve as Vice Chair. He expressed strong support for the nominees and recognized Dr. Mackey as a strong, solid contributor to the Board and Trustee Gonzalez as injecting innovation and vigor to the Board. Trustee Kelley then formally moved that beginning February 1, 2021, Dr. Mackey assume the position of Chair and Trustee Gonzalez assume the position of Vice Chair of the Board.

Chair Steen seconded the motion, noting that he is the other member of the Nominations Committee. He thanked Trustee Kelley for his kind words. Mayor Nirenberg thanked Chair Steen for his stewardship of the Board, his openness, and his persistence to get things right. He also expressed his gratitude to Dr. Mackey and Trustee Gonzalez for their willingness to step into the roles of Chair and Vice Chair. Dr. Mackey expressed gratitude for Chair Steen's outstanding work as the Board Chair for several years, and heralded

Chair Steen as a strong leader for the Board. He recognized Chair Steen for looking out for the best interests of the company and keeping Board meetings on schedule. Dr. Mackey expressed how privileged he is to be nominated and how committed he is to doing what is best for the Board.

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

XII. RECOMMENDATION REGARDING PRESIDENT & CEO PERFORMANCE & CONTRACT; DISCUSSION & POSSIBLE VOTE

Trustee Kelley, as Chair of the Personnel Committee, presented a recommendation to extend Ms. Gold-Williams' contract, which is expiring on January 31, 2021. He expressed appreciation to Ms. Gold Williams for navigating the company through stressful times and commended her extraordinary performance. He acknowledged that it has been a difficult year and it has been challenging to meet with external consultants to measure her performance against contract metrics but would like to provide assurance that the Board wants her to remain CEO. Trustee Kelley, on behalf of the Personnel Committee, recommended extending her existing contract by up to 24 months. The extension would allow the pandemic to pass, and provide time to achieve clarity on performance metrics and to set realistic targets for performance in FY2022. He emphasized that this action should not be interpreted as suggesting that a long-term contract is not desired.

Trustee Kelley moved to approve an extension of Ms. Gold-Williams' contract for up to 24 months. Mayor Nirenberg second the motion.

Dr. Mackey expressed positive sentiments about Ms. Gold-Williams's leadership and performance. He noted his support for a 24-month extension of her contract. He expressed that it is important for Ms. Gold Williams to know that he supports her and the job she is doing.

Mayor Nirenberg stated that Ms. Gold-Williams is an "extraordinary talent." He noted that it has been a pleasure to speak with her on panels and see her representing our utility on a national scale. He stated that she represents the future of the industry. He noted that it is a point of pride that we have a product of San Antonio, from our own San Antonio public schools, leading CPS Energy. He noted that Ms. Gold Williams has done an extraordinary job navigating the pandemic and he is looking forward to her continued leadership of CPS Energy.

Trustee Gonzalez commented that Paula has been relentless in communicating CPS Energy's transformation significance. She models desired changes and has built a strong team. She is personally involved in all aspects of the business, which requires extraordinary energy, particularly in light of the pandemic. Trustee Gonzalez noted that she has witnessed Ms. Gold-Williams push forward on various levels of expectations. Any CEO will need the full backing of the Mayor, City Council, the Board, and the community. Ms. Gonzalez stated that she fully supports the extension of Ms. Gold-Williams' contract.

Chair Steen reflected on how proud he is of Ms. Gold-Williams. He discussed her educational and career background and noted the many accolades she has received. He expressed that her performance has been extraordinary under the most challenging circumstances, and that he has never seen someone more dedicated to their job than Ms. Gold-Williams. He supports the contract extension.

Trustee Kelley added that he chaired the Personnel Committee several years ago when the Board selected Ms. Gold-Williams for the role. He noted how pleased he is to see how well she has done.

Upon affirmative vote by all members present, the motion to extend Ms. Gold-Williams' contract for up to 24 months was unanimously approved.

Chair Steen noted that in the interest of time, agenda items 15 (SmartSA Data Sharing Processes & Principles) and 16 (Rate Advisory Committee (RAC) Update) will be deferred to a subsequent Board meeting.

XIII. NUCLEAR DECOMMISSIONING TRUST INVESTMENT MANAGER CONTRACTS

Mr. Domingo Villarreal, Director, Investment Management, Financial Services provided context on the nuclear decommissioning trusts (NDTs). Mr. Villarreal explained that we maintain two NDTs – one for our 28% interest in the South Texas Project (STP) and another for our 12% interest in STP. Mr. Villarreal explained that the trusts are overfunded, and the investment strategy is to see slow growth.

Pursuant to the Investment Policy and the Texas Public Funds Investment Act, he is seeking approval for two investment manager contracts to replace certain underperforming investment managers.

Mr. Villarreal noted that after a thorough search by the NDT Investment Committee, two investment managers – State Street, which maintains a passive investment style, and William Blair, an active investment manager, are being recommended for approval.

Trustee Kelley congratulated the finance team for the overfunding position of the NDTs and for actively managing the investment managers to ensure performance.

Trustee Kelley moved to approve the replacement of two investment managers with the recommended managers, State Street and William Blair. Dr. Mackey seconded the motion.

In response to Trustee Gonzalez' inquiry, Mr. Villarreal responded that the management fees would largely be flat since fees for the passive manager would decrease and fees for the active manager would increase. He confirmed that the Board is required to approve the investment manager contracts at least once every two years. Trustee Gonzalez noted her interest in how often investment returns are reviewed.

In response to Chair Steen's inquires, Mr. Villarreal noted that the STP units are currently commissioned through 2048. Regarding any overfunding of decommissioning efforts, he stated that there is a statutory process to petition the Public Utility Commission of Texas for any excess funds to be distributed to customers.

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

XIV. BENEFIT PLAN FUNDING & EXPENSE

Mr. Paul Barham, Senior Vice President, Energy Delivery Services presented the benefit plan funding and expenses for FY2021. These benefit plans (health, life, pension, and disability trusts) are critical for our employees. There is a tremendous amount of work related to overseeing the benefit trusts. There is a Board-level oversight committee (the Employee Benefits Oversight Committee), an administrative committee, and full-time staff that manage the benefits and the related trusts. The Employee Benefits Oversight Committee (EBOC) provides excellent feedback and guidance on oversight of the trusts and ways to provide continuous improvement.

Mr. Barham reviewed the historical performance of the pension trust, noting that we have exceeded the targeted 7.25 percent return on investment since inception. Over the long term, we have exceeded the targeted 80 percent funded ratio for the last five years. The fiscal year investment performance is evaluated on January 31 of each year.

Pursuant to the Statement of Governance, we are required to obtain Board approval for funding and expenses related to the benefit trusts beginning February 1, 2021. Approval of this funding and expense is typically done as part of the annual budget approval; however, because the FY2022 budget will be presented to the Board in February, separate approval is sought today.

Mr. Barham sought approval to fund the benefits trust in the amount of \$105.5 million, and to incur approximately \$107.3 million in O&M expenses for FY2022. He explained that the FY2022 expenses are less than requested in FY2021 due to the reduction of claims costs against the benefit plans and beneficiary changes in demographics.

Trustee Kelley moved to approve \$107.3 million in estimated O&M expenses, and \$105.5 million of employer funding to the trusts. Dr. Mackey seconded the motion.

In response to Trustee Kelley inquiries, Mr. Barham explained that the Board is approving only the employer's portion of funding and an additional component is funded by the employees. Mr. Barham explained that \$107.3 million is "all in" and that the employee contribution goes into the corpus. Regarding investments, Mr. Barham explained that any time an investment exceeds the actuarial rate of return, those amounts are reinvested. Trustee Kelley noted, and Mr. Barham agreed, that growth in the funds is coming from two areas, the employee contributions and investment gains. This provides an actuarial offset against the growth in benefits.

Trustee Gonzalez asked about the EBOC meetings. Mr. Barham explained that the EBOC meets quarterly and the members are given updates in those meetings or periodically in the interim, as needed. He noted that the figures presented to the Board were covered in an EBOC committee meeting the previous week. The presentation today was shaped following input from the EBOC related to improving performance of the funds. Trustee Gonzalez expressed that she desires greater understanding of how the Board members are responsible for oversight of the trusts. Mr. Barham offered to provide information regarding the scope of the EBOC.

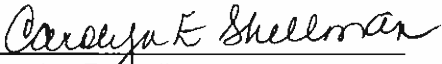
Chair Steen inquired whether Trustee Gonzalez had received a briefing on the EBOC as she had been promised, based on previous discussions. Ms. Gold-Williams explained that the agenda item today is required for compliance purposes and would ordinarily be included in the budget, which has been pushed a bit. An upcoming briefing with Trustee Gonzalez will be used to explain certain proposed changes to the Statement of Governance and the Administrative Committee.

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

Chair Steen reiterated that the last two agenda items will be deferred.

XV. ADJOURNMENT

There being no further business to come before the Board, 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 5:43 p.m. by Chair Steen.



Carolyn E. Shellman
Secretary of the Board



CPS Energy Board of Trustees Meeting
January 25, 2021
APPROVAL of PROCUREMENT ITEMS
Table of Contents

- 1. **Item Description:** Outside Plant (OSP) Fiber Lifecycle Program
Purchase Category: Professional Services
Supplier: ADB Companies, Inc.
Supplier: Black & Veatch Corporation
Supplier: HMI Utilities, LLC
Supplier: PhaseLink Utility Solutions, LLC
Supplier: Quanta Telecommunication Services, LLC
Supplier: TOP Engineers Plus PLLC
Supplier: TRC Engineers, Inc.

- 2. **Item Description:** Gas Construction Services Purchase Order Correction
Purchase Category: General Services
Supplier: Dimension Energy Services LLC
Supplier: Mastec North America, Inc.
Supplier: Mears Installation LLC

Approval: Almaraz, Frank T. Digitally signed by Almaraz, Frank T.
Date: 2021.01.11 08:57:49 -06'00'
Frank Almaraz, Chief Administrative & Business Development Officer

Approval:
Paula Gold-Williams, President & CEO



CPS Energy Board of Trustees Meeting
 January 25, 2021
 PROCUREMENT FORM 1

Item Description	Outside Plant (OSP) Fiber Lifecycle Program
Purchase Order Value	\$11,800,000
Purchase Category	Professional Services
Department	Engineering and Transport Services
Vice President	Evan O'Mahoney
Chief Information Officer	Vivian Bouet

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

This is a multiple award contract that will provide fiber-optic engineering and installation services and will allow CPS Energy to release turn-key job packages to firms for new construction for replacement and remediation of aging fiber plant infrastructure throughout our service territory. The fiber infrastructure provides reliable communication for CPS Energy's core business functions supporting delivery of energy to customers, substations, power generation sites, gas distribution sites and corporate office buildings. Additionally, it supports civic partner critical communication needs such as the City of San Antonio radio and data communications. This is a new contract scope for CPS Energy to support our strategic fiber lifecycle program where we intend to replace approximately 500 miles of aging fiber over the next five (5) years, expiring 01/01/2026.

Subcontracting opportunities associated with the contracts

Black & Veatch Corporation; Quanta Telecommunication Services, LLC; HMI Utilities, LLC; and TRC Engineers, Inc. are committed to the utilization of small, local, minority-owned, woman-owned, and veteran-owned businesses as part of their contracts with CPS Energy. Because this is a new contract scope, we plan to learn together with the recommended suppliers to seek ways to engage and utilize subcontractors for these services.

ON-BOARDING, TRAINING & MENTORING FOR ALL CONTRACTORS

- We actively engage all contractors and provide them mentoring opportunities while building relationships that support and drive their success.
- We provide meaningful guidance and feedback that ensures continuous growth for their businesses and employees.
- We have an internal network of subject matter experts supporting and collaborating with our contractors.



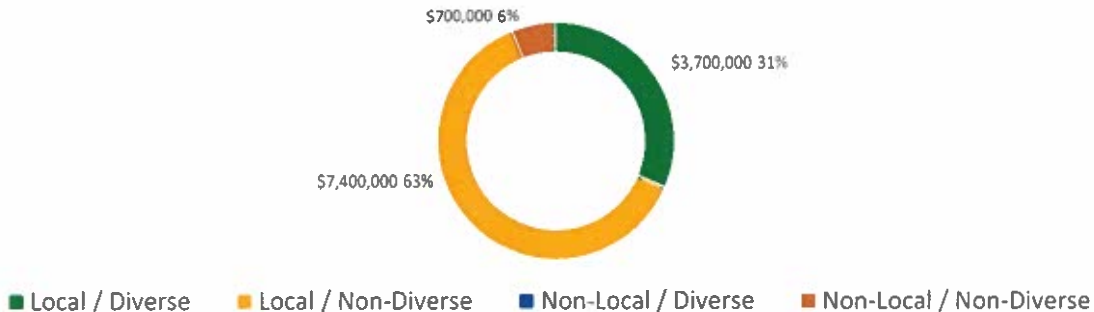
CPS Energy Board of Trustees Meeting
January 25, 2021
PROCUREMENT FORM 1 (continued)

Recommended Supplier(s) & Spend						
Supplier Name	SBA Classification	SBA Classification Details	PO Term	PO Value	PO #	Comments
HMI Utilities, LLC	Local / Non-Diverse	Male, Large, No Hub/Vet, Non-Minority	Five (5) Years	\$ 3,000,000	2194329	
TOP Engineers Plus PLLC	Local / Diverse	Male, Small , No Hub/Vet, Non-Minority	Five (5) Years	\$ 3,000,000	2194330	
ADB Companies, Inc.	Local / Non-Diverse	Male, Large, No Hub/Vet, Non-Minority	Five (5) Years	\$ 3,000,000	2194331	
Black & Veatch Corporation	Local / Non-Diverse	Male, Large, No Hub/Vet, Non-Minority	Five (5) Years	\$ 700,000	2194332	
PhaseLink Utility Solutions, LLC	Local / Diverse	Woman, Small , No Hub/Vet, Asian American	Five (5) Years	\$ 700,000	2194333	
Quanta Telecommunication Services, LLC	Non-Local / Non-Diverse	Male, Large, No Hub/Vet, Non-Minority	Five (5) Years	\$ 700,000	2194334	
TRC Engineers, Inc.	Local / Non-Diverse	Male, Large, No Hub/Vet, Non-Minority	Five (5) Years	\$ 700,000	2194335	
Total				\$ 11,800,000		

Annual Funds Budgeted						
FY	Funding Method	Corporate Annual Budget	Projected FY21 PO Spend	% Of Annual Corp Budget	Projected FY22 PO Spend	Projected FY23 & FY24 PO Spend
21	Capital	\$684,100,000	\$0	0.00%	\$3,210,000	\$6,711,789
21	Non-Fuel O&M	\$712,800,000	\$0	0.00%	\$0	\$0

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

Procurement Item: Professional Services





CPS Energy Board of Trustees Meeting
January 25, 2021
PROCUREMENT FORM 2

Item Description		Gas Construction Services Purchase Order Correction
Current Cumulative Purchase Order Value	(A)	\$9,900,000
Additional Funds Requested	(B)	\$1,500,000
Projected Cumulative Purchase Order Value	(C)	\$11,400,000
Purchase Category		General Services
Department		Gas Solutions
Senior Director		Richard Lujan
Chief Security, Safety & Gas Solutions Officer		Fred Bonewell

Purchase Order Correction Explanation

Three (3) Gas Construction Services contracts were utilized by Gas Solutions totaling \$70.890M from July 2016 through September 2020, prior to the new, three-year, \$120M Gas Construction Services contract approved by the Board of Trustees in September 2020. After September 2020, invoices totaling \$1.430M were received for work that originated on the prior contracts. Gas Solutions performed a tracing exercise of all invoices associated with the three (3) prior contracts. During this exercise, issues associated with the administrative processing of completed invoices were discovered. Multiple invoices were not matched to their corresponding purchase orders. This caused each subsequent contract to have additional charges incorrectly carried over from the previous contracts. For these reasons, the final contract did not have sufficient funding to cover outstanding invoices. These purchase order charges must be corrected in order to properly pay the remaining outstanding invoices. Gas Solutions is taking steps to correct invoicing processes, purchase order estimating processes, and refreshing leadership systems within the department. The \$1.5M requested will be applied to the appropriate purchase orders once the invoice posting corrections have been implemented. The outstanding, unpaid invoices have been reviewed by Audit Services, who verified that associated charges were properly supported and free of material errors, although minor adjustments are being made.

Recommended Supplier(s) & Spend

Supplier Name	SBA Classification	PO Term	SBA Classification Details	Current PO Value	Additional Funds Requested	Comments
Mears Installation LLC	Local / Non-Diverse	One (1) year	Male, Large, No Hub/Vet, Non Minority	\$6,200,000	\$1,500,000	Additional funds will be allocated following the PO correction process
MasTec North America, Inc.	Local / Diverse	One (1) year	Male, Large, No Hub/Vet, Hispanic	\$2,400,000		
Dimension Energy Services LLC	Non-Local / Diverse	One (1) year	Male, Small , No Hub/Vet, Non Minority	\$1,300,000		
				(A)	(B)	
Totals				\$9,900,000	\$1,500,000	
					Projected Cumulative Purchase Order Value (C)	\$11,400,000



PERSONNEL COMMITTEE

**EXECUTIVE SUMMARY AND CHAIR REPORT FROM THE DECEMBER 17, 2020 MEETING
PREPARED FOR COMMITTEE MEMBER, MR. ED KELLEY
FOR REPORT AT THE JANUARY 25, 2021 BOARD OF TRUSTEES MEETING**

The Personnel Committee met on December 17, 2020. As part of the Personnel Committee agenda, the Committee:

- A. Approved meeting minutes from the prior meeting, held on April 17, 2020
- B. Received an overview of the CPS Energy Customer Satisfaction Survey process
- C. Received an overview of industry trends and the impact to the CPS Energy workforce

The next meeting of the Personnel Committee will be held in January 2021.