

**CPS ENERGY**  
**MINUTES OF REGULAR MEETING OF THE BOARD OF TRUSTEES**  
**HELD ON JULY 29, 2019**

The Regular Meeting of the Board of Trustees of CPS Energy for the month of July was held in the Board Room at CPS Energy's Main Office, 145 Navarro Street, San Antonio, Texas 78205 on Monday, July 29, 2019. Chair John Steen called the meeting to order at 1:00 p.m.

Present were Board members:

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

Also present were:

Ms. Paula Gold-Williams, President & CEO  
 Dr. Cris Eugster, Chief Operating Officer (COO)  
 Ms. Carolyn E. Shellman, Chief Legal Officer & General Counsel and Board Secretary (CLOGC)  
 Mr. Fred Bonewell, Chief Security, Safety & Gas Solutions Officer (CSSGSO)  
 Ms. Felecia Etheridge, Chief Customer Engagement Officer (CCEO)  
 Ms. Vivian Bouet, Chief Information Officer (CIO)  
 Ms. Delores Lenzy-Jones, Chief Financial Officer & Treasurer (CFO)  
 Mr. Frank Almaraz, Chief Administrative & Business Development Officer (CABDO)  
 CPS Energy Staff Members  
 City of San Antonio officials  
 Interested Citizens

**I. SAFETY MESSAGE**

The Board meeting began with a safety message delivered by Ms. Jennifer Henriquez, Engineering Associate 2, Utility Coordination.

**II. PUBLIC COMMENT**

Chair Steen announced that public comment would be taken and outlined the guidelines for making public comment.

1. Mr. Dana McGinnis, investment advisor, encouraged the use of gas to firm up renewable energy sources and cautioned against overreliance on renewables (Item 7). Ms. Claudia Diaz yielded her speaking time to him.
2. Dr. Terry Burns, retired physician and chair, Alamo Sierra Club, urged CPS Energy to provide certain information to climate action groups to support a dialog regarding clean air (Item 6).
3. Mr. Alan Montemayor, Sierra Club, highlighted the benefits of installing solar panels on his home and urged CPS Energy to continue providing rebates for solar installations (Item 6).

### **III. INVOCATION AND PLEDGE OF ALLEGIANCE**

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

### **IV. CHAIRMAN'S REMARKS**

Chair Steen did not provide any remarks.

### **V. PRESIDENT & CEO UPDATES**

Ms. Paula Gold-Williams, President & CEO, provided her Update.

As part of her report, Ms. Gold-Williams provided context and insights into several items on the meeting agenda. She also provided a brief explanation of the SA Energy Acquisition Public Facility Corporation (PFC), a specific-purpose entity that was created to enable the economical purchase of gas. The PFC board is comprised of the CPS Energy President & CEO, Chief Financial Officer, and the Board of Trustees. The PFC board will meet immediately after today's Board meeting.

Chair Steen requested an update on the PFC program and associated cost benefits at the August Board meeting.

Ms. Gold-Williams highlighted Power Bundle, a strawman comprised of three possible components: solar, storage and gas. She noted that CPS Energy is seeking input on Power Bundle specifics, including potential component capacity and implementation. Ms. Gold-Williams emphasized that the gas component does not entail building new infrastructure, but rather taking power from an existing gas facility. Power Bundle is the latest program in an extensive line of milestones that started with the Save for Tomorrow Energy Plan (STEP), a 2008 program aimed at saving 771 MW through efficiency and conservation programs funded by all CPS Energy customers.

Additionally, CPS Energy recently announced a second public input period on the next generation of STEP, FlexSTEP. Input channels for Power Bundle and FlexSTEP include presentations, work sessions, focus groups, panels, and surveys, including a pending simple survey to gauge community interest in environmental, security, safety, reliability, resilience, and affordability considerations.

Trustee Gonzalez requested a copy of the pending survey for her review and Ms. Gold-Williams agreed to provide it to her.

Ms. Gold-Williams discussed rating agencies' increasing attention to climate issues. Mayor Nirenberg commented that this confirms that the market is beginning to recognize that customer preference for climate data should be taken seriously. Ms. Gold-Williams stated that CPS Energy must consider and balance several factors - reliability, safety, security, resilience and affordability- along with the environment.

Ms. Gold-Williams announced that, in partnership with the Electric Power Research Institute (EPRI), CPS Energy will host the Electrification U.S. Symposium Series in October and that Dr. Ernest Moniz, former U.S. Secretary of Energy, is a confirmed speaker.

Ms. Gold-Williams highlighted CPS Energy's internship program and recognized Ms. Rebecca De Leon-Hutton, a mechanical engineering student at the University of Texas at San Antonio (UTSA), for her engagement in energy and climate matters and events.

In conclusion, Ms. Gold-Williams noted upcoming topics of her President & CEO Update.

Trustee Kelley stressed the distinction between engaging on the “bleeding edge” versus the “leading edge” of technology. He cautioned that CPS Energy’s financial statements are moving in the wrong direction and STEP is one reason for that. He added that if CPS Energy closes plants, it will lose the revenue associated with them. Trustee Kelley noted that rating agencies tend to take a more conservative rather than radical view and they will not look favorably about operating on the “bleeding edge” of technology because the failure rate can be high. He expressed interest in hearing more feedback from individuals with views similar to those of Mr. McGinnis, who provided public comment cautioning about overreliance on renewables.

Ms. Gold-Williams expressed appreciation to Trustee Kelley for his comments. She added that CPS Energy will need to retire more power plants at some point, so diverse, practical proposals will be brought to the Board.

In reiterating her request for the active public survey, Trustee Gonzalez expressed her desire for increased public engagement and feedback.

## **VI. ADDITIONAL UPDATE**

### Cost Savings: FY20 Financing Plan Update

Mr. Gautam Shringarpure, Senior Manager Corporate Finance Analytics, Financial Services, briefed the Board on savings generated by financing activities. He stated that in addition to the initial \$5.4 million savings projected realized through March 2019, CPS Energy projects additional incremental savings of \$5.6 million through the end of FY20 comprised of an additional \$0.2 million from a commercial paper refresh; \$2.5 million from increased Build America Bonds subsidies; and \$2.9 million from positive interest income.

### Other

Ms. Delores Lenzy-Jones, Chief Financial Officer (CFO), briefed the Board on the recent JP Morgan Chase investor conference, her first investor conference as the CPS Energy CFO. She shared complimentary investor feedback with the Board.

### Financial Update

Ms. Lenzy-Jones provided the Financial Update, reflecting results as of June 30, 2019.

She stated that FY20 net income is projected to be \$22.5 million higher than budget due to lower Operations and Maintenance (O&M), lower interest costs, and lower than planned depreciation. She stressed that management remains focused on identifying opportunities to improve net income.

Ms. Lenzy-Jones discussed key drivers of net income, including the total net operating revenues, lower O&M expenses, lower than planned depreciation and proposed financing transactions, partially offset by delayed property sales.

Ms. Lenzy-Jones highlighted that Repair & Replacement (R&R) Fund additions are projected to be \$4.6 million over budget due to O&M budget mitigations and savings realized from lower interest costs. Capital expenditures are projected to be \$9.0 million under budget due to lower than expected costs for Energy Supply & Market Operations initiatives and timing of other projects.

Turning to key financial metrics, Ms. Lenzy-Jones noted that Adjusted Debt Service Coverage is currently forecasted to be 1.67, better than the business plan threshold of 1.50 for the year. Days Cash on Hand is currently forecasted to be 254 days, better than the business plan threshold of 150 days for the year. Debt Capitalization is currently forecasted to be 62.3%, higher than the business plan threshold of 60% for the year.

In summary, Ms. Lenzy-Jones stated that the current financial picture is strong, but management continues to monitor cost-savings opportunities. She noted that rating agencies recently affirmed CPS Energy's credit rating as part of the recent commercial paper offering memorandum. Finally, Ms. Lenzy-Jones highlighted a number of improvements made in Financial Services, such as reduced cycle time for monthly closing and the launch of the Invoice Automation Project.

Trustee Kelley commended CPS Energy's strong financial position but reiterated his concern that five months into the fiscal year, CPS Energy is performing more poorly than it was last year at the same time. He stressed the interplay between a company's operational issues and its financial statement.

Dr. Mackey commented that since CPS Energy no longer has the Deely Power Plant in its portfolio, it may not be a fair comparison to compare our current financial position to last year's.

Ms. Lenzy-Jones stated that she recognizes the need to do what it takes to maintain CPS Energy's strong financial standing. Trustee Kelley reiterated that financial expertise will only carry the company so far; the operational side also must do its part.

Dr. Mackey commented that CPS Energy must think about additional generation opportunities since San Antonio is growing rapidly. Trustee Gonzalez added that she believes the capacity exists, but there are opportunities to get customers to leverage it.

At Chair Steen's request, Dr. Cris Eugster, Chief Operating Officer (COO), provided a brief summer operational update throughout ERCOT.

## **VII. COMMITTEE MEETING REPORTS**

### Employee Benefits Oversight Committee (EBOC) Meeting

Dr. Mackey reported on the Employee Benefits Oversight Committee (EBOC) meeting, which took place on July 15, 2019. Among other things, the EBOC reviewed proposed revisions to the Employee Benefit Plan Statement of Governance (SoG) and voted to recommend its approval to the Board of Trustees; approved Mr. Paul Escamilla, Senior Manager, Special Rates & Regulatory, as the seventh member of the Administrative Committee, contingent upon the Board's approval of the SoG; approved an unrevised Investment Policy; approved non-substantive revisions to the Pension, Group Health, Group Life and Disability Plans; and approved 2020 Health Plan design and premium changes.

### Employee Benefit Plan Statement of Governance Update

Mr. Paul Barham, Senior Vice President, Delivery Engineering Integrated Planning Substation & Transmission and Administrative Committee Chair, provided a presentation describing the proposed changes to the SoG. He explained that although the SoG is reviewed annually, there were no proposed changes as a result of last year's review. However, this year, administrative, organizational, procedural and substantive changes are proposed.

In response to Mayor Nirenberg's questions, Mr. Barham confirmed that Mr. Escamilla would become the Administrative Committee's seventh member upon the Board approval of the proposed SoG. Mr. Barham also explained that Committee members currently do not have discrete terms, but the proposed SoG prescribes six-year terms, but no term limits. Staggering is contemplated as terms are implemented. The Mayor encouraged enhancing gender diversity on the committee. Ms. Gold-Williams commented that the Administrative Committee has been focused on building its bench through observers; Mr. Escamilla is the longest-serving observer.

#### Audit & Finance Committee and EBOC Aligned Risk Sub-Committee Meeting

An Executive Summary and Chair Report, as well as minutes of the Audit & Finance Committee and EBOC Aligned Risk Sub-Committee Meeting held on July 15, 2019, were included in the July Board Book for the Board's reference.

#### Audit & Finance Committee Meeting

An Executive Summary and Chair Report, as well as minutes of the Audit & Finance Committee meeting held on July 15, 2019, were included in the July Board Book for the Board's reference.

### **VIII. APPROVAL OF CONSENT ITEMS**

On motion duly made by Dr. Mackey, seconded by Trustee Kelley, the following items on the Consent Agenda were unanimously approved.

#### **Approval of Minutes**

Minutes for the Regular Board Meeting held on June 20, 2019, were approved as written.

#### **Approval of Payment to the City of San Antonio for June 2019**

The New Series Bond Ordinance that took effect February 1, 1997 provides for a total cash payment to the City of San Antonio (City) in an amount not to exceed 14% of gross revenue as calculated pursuant to such Ordinance, less the value of other services provided to the City, with the percentage (within the 14% limitation) to be determined by the governing body of the City. The cash transfer to the City for the month of June 2019 is based on actual gross revenue per the New Series Bond Ordinance of \$220,030,551.71, less applicable exclusions. The revenue for the month of June 2019 is calculated as follows:

Gross revenue per CPS Energy financial statements	
Electric revenue	\$226,686,458.90
Gas revenue	7,438,638.85
Interest and other income	4,762,973.03
Gross revenue per CPS Energy financial statements	<u>238,888,070.78</u>
Excluded revenue	
School and hospital revenue per City Ordinance 55022	(7,917,647.22)
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	(8,559,638.51)
Noncash and other income, GASB 31 investment market value change, miscellaneous interest income, gas billing adjustment and unbilled revenue	<u>(2,380,233.34)</u>
Total excluded revenue	<u>(18,857,519.07)</u>
Gross revenue per New Series Bond Ordinance subject to 14% payment to the City	<u>\$220,030,551.71</u>
City payment per Bond Ordinance for June 2019 based upon June 2019 revenue	\$30,804,277.24
City payment per memorandum of understanding (MOU) regarding wholesale special contracts	773,484.42
Wholesale Special Contract Annual True Up	133,736.62
City Payment reduction per UTSA gas billing adjustment MOU Annual True Up per UTSA MOU	<u>(12,500.00)</u>
City payment per Bond Ordinance plus adjustments for memorandums of understanding	31,698,998.28
Utility services provided to the City for June 2019	<u>(2,627,698.03)</u>
Net amount to be paid from June 2019 revenue to the City in July 2019	<u>\$29,071,300.25</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)

June 2019	Actual	Budget	Variance	
Current Month* <b>A</b>	\$31,699	\$32,759	(\$1,060)	-3.2%
Year-to-Date*	\$126,153	\$130,648	(\$4,495)	-3.4%

\* 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 \$29,071,300.25, representing 14% of applicable system gross revenues for the month of June 2019, such payment being net of City utility services (\$2,627,698.03), is hereby approved." The Board ratifies that June 2019 revenue was sufficient to recover \$20,295,384.91 in funds that were advanced to the City in prior fiscal months.

### **Procurement Items –July**

None

### **EBOC Statement of Governance**

The attached Employee Benefit Plans Statement of Governance was approved.

## **IX. FACILITIES UPDATE**

### **Headquarters**

Mr. Curt Brockmann, Interim Vice President, Compliance, Ethics & Facility Master Planning, provided an update on the construction of CPS Energy's new headquarters. He stated that of the project's \$250 million budget, there were \$170 million in constructing opportunities. The Board viewed a video featuring Ms. Rozmin Yazdani, Program Manager, Facility & Capital Construction, highlighting several local suppliers participating in the project. Mr. Brockmann noted that the project has achieved 500,000 safe work hours, recycled 7,900 tons of material, and awarded \$110 million to local suppliers and \$45 million to small/diverse suppliers.

### **Master Plan**

Mr. Brockmann outlined the Facilities Master Plan. He noted that the plan improves efficiency and lowers costs by optimizing existing facilities and adding new facilities aligned to community growth and need.

### **Furniture Program**

Mr. Brockmann explained that the Furniture Program (Program) aims to replace aging workspaces for the new headquarters and provides a standardized approach to reduce operating costs, reduce inventory and create consistency across all facilities. Board approval of the Program will be requested in August. Upon approval, CPS Energy will process the purchase order and commence ordering furniture in October. He clarified that a supplier had not been selected.

Trustee Gonzalez and Mayor Nirenberg encouraged using this Program as an opportunity to use local, small and minority-owned businesses.

Ms. Martha Mitchell, Vice President, Supply Chain, noted that all five respondents to the Program request for proposals (RFP) are local. She clarified that furniture installation was not part of this RFP for materials.

Trustee Gonzalez, Ms. Mitchell, Ms. Gold-Williams, and Mr. Frank Almaraz, Chief Administrative and Business Development Officer, discussed CPS Energy's contracting policies and practices regarding small, women, minority and veteran-owned businesses. Ms. Gold-Williams noted that CPS Energy established a

small and minority-owned business utilization requirement when it contracted for the building with Sundt, the general contractor, and that the requirement was exceeded.

Trustee Kelley noted that the budget for the new headquarters building is tight and, given the high profile of the building, it will garner interest in how much it cost. He reminded the Board that because CPS Energy was able to acquire the property at a good price, substantially less has been spent on it than if it were reproduced in the marketplace.

## **X. EXECUTIVE SESSION**

At approximately 2:53 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:

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

The Board reconvened in open session at 3:45 p.m. Ms. Carolyn Shellman, Chief Legal Officer & General Counsel and Board Secretary (CLOGC), reported that all posted matters, and no others, were discussed and no votes were taken in Executive Session.

## **XI. POST LEGISLATIVE SESSION UPDATE**

Ms. Kari Meyer, Director, Federal & State Relations, provided an update on the 86<sup>th</sup> Texas Legislative Session. She recognized members of her team present in the audience: Mr. Robert Nathan, General Business Analyst, and Ms. Marie Stoner, Program Coordinator, and their contributions throughout the session.

Ms. Meyer stated that 7541 bills and joint resolutions were filed during the 86<sup>th</sup> Legislation Session, approximately 700 more than in the 85<sup>th</sup> Legislative Session. Of the 560 bills and joint resolutions tracked by CPS Energy, 110 passed.

CPS Energy's top legislative initiative focused on including utility vehicles in the state's "Move Over/Slow Down" law. House Bill 61 garnered widespread support and was one of the first bills to reach Governor Abbott for signature. Ms. Meyer stated that CPS Energy is developing a communications plan to ensure that our community is aware of the new law that becomes effective on September 1, 2019.

Ms. Meyer discussed other topics of interest to CPS Energy, including infrastructure safety and reporting, cyber and grid security, battery storage, pensions, transparency and transmission end-points. She added that CPS Energy is consistently focused on protecting the municipally owned utility business model. Two bills that would have impacted the model were introduced this session, but neither were signed.

Ms. Meyer highlighted CPS Energy's engagement in the legislative process and discussed post-legislative session activities.

**XII. 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 4:02 p.m. by Chair Steen.



Carolyn E. Shellman  
Secretary of the Board

## CPS Energy Employee Benefit Plans Statement of Governance

### Contents

I.	Overall Philosophy of Governance.....	1
II.	Authority.....	2
A.	Source of Authority.....	2
B.	Duties of the Board Regarding the Plans and Trusts .....	2
C.	Delegation of Authority .....	2
D.	Committee Relationship.....	3
III.	Governance, Roles and Responsibilities.....	3
A.	The Board.....	3
B.	The Employee Benefits Oversight Committee.....	3
C.	The President / CEO.....	6
D.	The Administrative Committee.....	7

---

To ensure that the accountability and authority for governance and management of the CPS Energy Benefit Plans are clearly stated, the CPS Energy Board of Trustees (“Board”) sets forth herein governing principles to identify and distinguish between the roles of the Board, the Employee Benefits Oversight Committee (“EBOC”) (formerly known as the Oversight Committee), the CPS Energy President and Chief Executive Officer (President / CEO), the Administrative Committee, employees of the Plans and / or Trusts, and CPS Energy staff. The CPS Energy Employee Benefit Plans are the CPS Energy Pension, Group Health, Group Life Insurance, and Disability Income plans (collectively, “Plans”) and the associated Trusts (“Trusts”). In the event that any Plan or Trust provisions conflict or are inconsistent with the specified provisions of this Statement of Governance, this Statement of Governance shall control.

### **I. Overall Philosophy of Governance**

The Board, the EBOC, the President / CEO, and the Administrative Committee are responsible for creating and maintaining an atmosphere that encourages prudent governance at all levels. The Board strives to achieve a governing style that emphasizes:

1. strategic leadership, outward vision, focus on the future, and proactivity;
2. encouragement of collegiality, including the creation of an environment that supports CPS Energy’s values;
3. civility and courtesy, to all parties involved in the Plans’ and / or the Trusts’ governance;
4. respect for diversity in viewpoints, recognizing value in all input;
5. governance by consensus;
6. a “partnership” with CPS Energy management; and
7. ethical conduct of the Plans’ and / or the Trusts’ business.

The Board establishes and communicates Board policies and priorities and then monitors performance in light of its established policies and priorities. The Board recognizes that the achievement of its goals requires self-discipline by the Board as a whole, by the EBOC, by the President / CEO, and by the Administrative Committee to live by the policies articulated herein and to govern with excellence.

## II. Authority

### A. Source of Authority

The authority of the Board, the EBOC, the President / CEO, and the Administrative Committee in relation to the Plans and / or the Trusts is found in the Plan documents for each of the Plans and / or the Trusts and is reflected in this document.

### B. Duties of the Board Regarding the Plans and Trusts

The Board has the legal and fiduciary responsibility for the Plans and / or Trusts.

### C. Delegation of Authority

The Board is authorized to delegate certain activities and responsibilities regarding the Plans and / or the Trusts to the EBOC, the President / CEO, the Administrative Committee, employees of the Plans and / or Trusts, CPS Energy staff, and / or contractors. This legal and fiduciary responsibility, thus, requires that the Board: (a) select delegates with care, (b) define delegated responsibilities clearly, (c) monitor delegate performance, and (d) take corrective action when appropriate.

The Board may delegate certain activities and responsibilities regarding the Plans and / or the Trusts pursuant to the following principles:

1. Standard of Care: The Board shall make all delegation decisions solely in the interest of, and for the exclusive purposes of providing benefits to, Plan participants and their beneficiaries, monitoring employer contributions to the Plans and / or the Trusts, and defraying reasonable expenses of administering the Plans and / or the Trusts, with the duty to participants and their beneficiaries taking precedence over all other duties. The Board shall delegate decisions regarding the Plans and / or Trusts exercising the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
2. Clarity and Specificity: The Board will clearly and specifically identify each action that includes, in whole or in part, a delegation of responsibility from the Board to another person or entity. The Board will also clearly and specifically describe in writing the scope of the responsibility that is being delegated, to whom, and the extent to which the Board responsibility continues (including monitoring).
3. Formality: The Board specifically finds that, although clarity and specificity are essential to all parties understanding the scope of delegated authority, the Board need not in all cases execute a formal delegation resolution. The form in which the Board takes a delegation action may vary depending upon the circumstances. However, all Board action that includes delegation of authority to another must be memorialized in writing (*e.g.*, through minutes, resolution, etc.).

### D. Committee Relationship

The Board has delegated to the EBOC and President / CEO the responsibility for oversight of the actions of the Administrative Committee of the Plans and / or the Trusts.

Policy and direction set by the Board is implemented through the EBOC to ensure a strong relationship between the Board and EBOC is established and because a clear delineation of authority is critical to the accomplishment of the Board's objectives.

### III. Governance, Roles and Responsibilities

#### A. The Board

The Board shall be responsible for the following regarding the Plans and / or Trusts:

- adopting and terminating Plans and / or Trusts;
- approving annual Plan expense and cash flow funding (employer / employee contributions) through the budget process;
- providing input, as determined necessary, to the EBOC on changes and / or amendments to the Plans and / or the Trusts;
- approving this Statement of Governance and revisions made thereto;
- overseeing the actions of the President / CEO and EBOC with respect to the Plans and / or the Trusts; and
- any other responsibility that may arise as a result of state or federal law.

Board members may request any information they need to make informed decisions related to the Benefit Plans.

#### B. The Employee Benefits Oversight Committee (formerly known as the Oversight Committee)

##### 1. Membership

- a. Number. The EBOC shall consist of no fewer than three (3) members and no more than four (4) members to include the President / CEO, the Chief Financial Officer ("CFO") and the two Board Audit & Finance Committee members.<sup>1</sup> EBOC members shall include persons duly authorized to hold the named role (*i.e.*, "Interim President / CEO" or "Acting CFO"). CPS Energy employees serving as members of the EBOC shall do so exercising fiduciary standards with respect to the Plans' participants and their beneficiaries.
- b. Chair. The Chair of the Board Audit & Finance Committee shall be the Chair of the EBOC. The remaining Board member of the Board Audit & Finance Committee shall be the Vice Chair of the EBOC. Each person shall serve in the role as Chair or Vice Chair for a one (1) year term.

---

<sup>1</sup> The CPS Energy Board Audit & Finance Committee's membership is determined by the CPS Energy Board of Trustees Audit & Finance Committee Charter.

- c. Secretary. The President / CEO shall appoint a Secretary on an annual basis. The Secretary shall keep accurate minutes of all meetings of the EBOC. The Secretary shall perform such other duties and have such other powers as the Committee Chair may designate from time to time. The CPS Energy Chief Audit Officer shall have unrestricted access to EBOC meetings and documents.
- d. Training. All members of the EBOC shall be provided general training and continuing education related to the Committee members' general fiduciary role and standard of care for the Plans and Trusts.

## 2. Standard of Care

Members of the EBOC shall exercise a fiduciary standard of care as they exercise control or authority over the Plans and Trusts.

## 3. Reporting

- a. The Audit & Finance Committee of the Board, as members of the EBOC, will be responsible for keeping the rest of the Board informed as to actions and proposed actions regarding material matters of the EBOC, so that the Board may, if it deems it to be appropriate, meet and give formal recommendations on the proposed actions.
- b. In particular, the Audit & Finance Committee will provide the Board members notice, either by mail, telephone call, e-mail, or in-person, in advance of any final decisions on the following matters:
  - i. Review / Approval of Plan Changes / Amendments, and / or
  - ii. Review of Annual Funding recommendations, which are ultimately approved by the Board through the budget process.
- c. Any input from the Board will need to be provided in a sufficiently timely manner as to meet time schedules of the members of the Administrative Committee. In the event the Board has not responded within the deadlines provided, the Audit & Finance Committee will represent the interests of the Board and provide response to the Administrative Committee. To assist with this responsibility, the Secretary of the EBOC will ensure that approved minutes from all EBOC meetings are made available to all Board members.
- d. In addition, the Audit & Finance Committee will inform the Board of any decisions regarding the following: (i) Engagement of External Trust Plan Auditors, (ii) Review / Approval of Investment Policies, and (iii) any other material matters which may be brought to the attention of the EBOC outside of formal meetings.

#### 4. Meetings

- a. Number, Date and Place. The EBOC shall meet at least two (2) times per calendar year. Additional meetings shall be scheduled as considered necessary by the Committee or the Committee Chair.
- b. Notice. Notice of all meetings of the EBOC, stating the time and place of such meeting, shall be given by the Committee Chair or his / her designee to the EBOC members by mail or electronic mail. Notice of meetings shall be given at least two (2) calendar days prior to the date of the meeting, except that notice of a meeting to be held as a telephone meeting shall be given at least twenty-four (24) hours prior to the meeting.
- c. Action; Quorum. Except as provided herein, all action of the EBOC shall be taken (a) at a meeting at which a quorum of the members is present in person; and (b) by a simple majority (50.1%) of the members present at the meeting in person or by proxy. In the event of a tie vote, the Committee Chair shall be entitled to cast an additional vote to break the tie. A quorum of the EBOC shall be a simple majority (50.1%) of the committee members.
- d. Action without a Meeting. Any action which may or must be taken at a meeting of the EBOC may be taken without a meeting if a consent in writing, setting forth the action to be taken, is signed by all of the members of the EBOC. Such unanimous written consent shall have the same force and effect as a unanimous vote and may be stated as such in any articles or document.
- e. Telephone or Electronic Meeting. Members of the EBOC may participate in and hold a meeting of the members by means of one or more of the following: (1) conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other; (2) another suitable electronic communication system, including videoconferencing technology or the Internet, but only if each member entitled to participate in the meeting consents to the meeting being held by the electronic communication system and the system provides access to the meeting in a manner or method by which each member participating in the meeting can communicate concurrently with each other participant. Participation in a meeting pursuant to this section shall constitute 'presence in person' at such meeting, except for a person who participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.
- f. Proxy. A member of the EBOC may send a proxy to satisfy a quorum and with the power to vote on his / her behalf at the meetings of the Committee, or may give his / her proxy to another member to vote on his / her behalf.

## 5. Responsibilities and Duties

The EBOC shall be responsible and accountable to Plan members, beneficiaries, their representative organizations, and others with oversight interests in the Plans and / or the Trusts. This includes the following:

- provide input to and solicit information from the Board and the Administrative Committee on material matters;
- approve or reject the appointment and / or removal of members to the Administrative Committee (other than the Labor Representative<sup>2</sup>) with President / CEO input and Administrative Committee input;
- monitor, review, reject and / or approve changes and / or amendments to the Plans and / or the Trusts with Administrative Committee input;
- recommend revisions to this Statement of Governance with Administrative Committee input;
- review Plan expense and cash flow funding (employer / employee contributions) after review of the Administrative Committee's recommendations and input from the President / CEO;
- approve Plan premiums, with Administrative Committee input;
- inform the Board of the recommended cash flow funding and recommended Plan expense;
- monitor and review Administrative Committee functions, as needed;
- engage external auditors to the Plans and / or the Trusts;
- approve / reject investment policies with Administrative Committee input;
- provide an annual communication to the Board regarding the state of affairs of all Plans under the direction of the EBOC;
- ensure policies and guidelines are in place regarding proposed legislation (state and federal), corporate governance, and the adoption and / or amendment of administrative code rules and regulations regarding the Plans and / or the Trusts;
- set the Board agendas, by identifying, articulating, prioritizing and scheduling material matters the Board may need to address regarding the Plans and / or the Trusts and identifying information needs regarding the Plans and / or the Trusts and determining how, when and in what format information is to be delivered to the Board members so as to enable the Board to meet its responsibilities;
- ensure that operations of the Plans and / or the Trusts are consistent with CPS Energy policies and applicable laws;
- ensure Plan activities fall within the Board's policies regarding governance, prudence and ethics;
- with input from the Administrative Committee, determine the frequency, subjects and format of information to be provided to Board members and Board Committees;
- assess the Plans' and / or the Trusts' performance, process and organization, recognizing that continuing improvement will require periodic change to meet future needs and conditions;
- on at least an annual basis, monitor, review and compare the Plans' and / or the Trusts' performance and results to benchmark performance measures that include external and internal measures;
- on at least an annual basis, monitor and review financial statements and asset allocation to ensure timeliness of reporting;

<sup>2</sup> Defined as the President or his/her designee of the labor organization recognized by CPS Energy that comprises the largest membership (Labor Organization).

- on at least an annual basis, provide oversight of investment decisions and ensure conformance to Investment Policies; and
- any other responsibility that may arise as a result of applicable state or federal law.

## C. The President / CEO

The President / CEO shall be responsible for the following regarding the Plans and / or Trusts:

- appoint and / or remove observers for Administrative Committee member succession planning;
- represent the Plans and / or the Trusts, or designate other CPS Energy staff representatives, to outside parties and organizations;
- contribute to the Board's agenda in conjunction with the EBOC, articulating, prioritizing and scheduling agenda items regarding the Plans and / or the Trusts as appropriate;
- act as liaison between any person and / or entity seeking to provide information regarding the Plans and / or the Trusts to the Board;
- act as the liaison for communication and information flow between the Board and a representative of the Plans and / or the Trusts;
- ensure the information flow to the Board regarding the Plans and / or the Trusts is sufficient, comprehensive and timely;
- provide input to the Administrative Committee and EBOC on CPS Energy's budgetary constraints related to cash flow funding (employer / employee contributions) and Plan expense; and
- any other responsibility that may arise as a result of applicable state or federal law.

## D. The Administrative Committee

### 1. Membership

- a. Number. The Administrative Committee shall consist of seven (7) members to include five (5) current employees (excluding the President / CEO, and the CFO), one (1) retired employee, and one (1) Labor Representative.
- b. Eligibility. Members of the Administrative Committee must (a) be participants in the Plans, and (b) have a minimum of ten (10) years either: (i) in participation of the Pension Plan or (ii) recent experience in finance or investments. A minimum of two (2) Administrative Committee members must have a minimum of ten (10) years of recent experience in finance or investments.
- c. Ex Officio, Non-Voting Members. The CPS Energy Director of Compensation & Benefits (or equivalent role or title) and the CFO shall be *ex officio*, non-voting members of the Administrative Committee.

- d. Diversification of Members. It is important that the Administrative Committee members be adequately diversified so that the concerns of a diversified workforce are considered and represented, and also recognize the importance of financial / investment knowledge. The Administrative Committee structure and the establishment of eligibility requirements will provide diversification, appropriate skills, and will maintain the “vested interest” of Administrative Committee members that is currently valued by the workforce.
- e. Chair and Vice Chair. The Chair and Vice Chair of the Administrative Committee shall hold office for one (1) year and until their successors have qualified. Nothing in this Statement of Governance prohibits serving consecutive terms.
- f. Secretary. The Administrative Committee Chair shall appoint a Secretary on an annual basis. The Secretary is not required to be a member of the Administrative Committee. The Secretary shall keep accurate minutes of all meetings of the Administrative Committee. The Secretary shall perform such other duties and have such other powers as the Administrative Committee Chair may designate from time to time. Nothing in this Statement of Governance prohibits the same individual from serving consecutive terms as Secretary.
- g. Length of Service. Nothing in this Statement of Governance prohibits the same individual(s) from serving unlimited consecutive terms.
  - i. Recognizing and balancing the value of membership continuity and the long-term nature of benefit-related matters with new perspectives and active awareness of committee membership, with the exception of the Labor Representative, each Administrative Committee member shall be appointed for a period of six (6) years, with the intent that the terms of the members shall generally be staggered. The Administrative Committee shall recommend to the EBOC for its approval an appropriate strategy for staggering terms.
  - ii. The Labor Representative serves at the pleasure of the Labor Organization President and shall be appointed for a period of six (6) years, or until the election of a new Labor Organization President or the Labor Organization President appoints a new designee, whichever is shorter. Labor organization membership will be assessed at that time and the Labor Organization President shall serve or appoint a new or the same designee.
- h. Attendance and Participation. Attendance of the Administrative Committee members shall be recorded by the Secretary. Failure to attend and participate in meetings may result in a recommendation to the EBOC for removal of non-attending / non-participating Administrative Committee member(s). Attendance and / or participation concerns regarding the Labor Representative shall be addressed by Labor Organization leadership and the President / CEO, with input from other Administrative Committee members.
- i. Compensation. The Administrative Committee members shall perform their duties without compensation from the Trusts.
- j. Training. Members of the Administrative Committee shall receive all applicable and timely minimum training and continuing education consistent with the

Administrative Committee members' role and standard of care, including, but not limited to, Tex. Local Gov't Code section 172.007 risk pool training and Texas Pension Review Board fiduciary duty training, or as otherwise required by law or CPS Energy policy.

- k. Members Serve without Bonds. Members of the Administrative Committee shall serve without bond or security for the performance of their duties hereunder, unless applicable law requires the furnishing of such bond or security.
- l. Expenses. All usual and reasonable expenses of the Administrative Committee may be paid in whole or in part by CPS Energy, and any expenses not paid by CPS Energy shall be paid by the Trusts out of principal or income of any of the Trusts.
- m. Subcommittees. The Administrative Committee may have Subcommittees as may be required for the effective conduct of the business of the Administrative Committee, *provided however*, that Subcommittees shall be created only in response to need and to serve a specific purpose. Members of each Subcommittee shall be appointed by the Administrative Committee Chair and each Subcommittee shall serve for no more than one (1) year from the date of its appointment and shall be considered discharged upon the expiration of said year, unless specifically authorized by the Administrative Committee at the time of its appointment.

## 2. Standard of Care

The Administrative Committee members shall exercise a fiduciary standard of care as they (a) exercise control over the investment of assets, (b) perform discretionary functions with respect to the administration of Plan benefits, and (c) are responsible for analyzing and making recommendations related to the funding of the Trusts.<sup>3</sup>

With respect to all other obligations (including non-discretionary, routine administrative functions) under this Statement of Governance, the Administrative Committee members shall exercise no less than a reasonable standard of care.

---

<sup>3</sup> The members of the Administrative Committee are Trustees of the Plans that are designated Risk Pools under Texas statute (Group Health, Group Life and Disability Plans).

### 3. Meetings

- a. Number, Date and Place. The Administrative Committee will meet at least quarterly. All meetings of the Administrative Committee shall be held in San Antonio, Texas, at a place and time designated by the Administrative Committee Chair.
- b. Notice. Notice of all meetings of the Administrative Committee, stating the time and place of such meeting, shall be given by the Administrative Committee Chair or his / her designee to the Administrative Committee members by mail or electronic mail. Notice of meetings shall be given at least two (2) calendar days prior to the date of the meeting, except that notice of a meeting to be held as a telephone meeting shall be given at least twenty-four (24) hours prior to the meeting.
- c. Action; Quorum. Except as otherwise provided herein, all action of the Administrative Committee shall be taken (a) at a meeting at which a quorum of the members is present in person; and (b) by a simple majority (50.1%) of the members present at the meeting in person or by proxy. In the event of a tie vote, the Administrative Committee Chair shall be entitled to cast an additional vote to break the tie. A quorum of the Administrative Committee shall be a simple majority (50.1%) of the committee members.
- d. Action without a Meeting. Any action which may or must be taken at a meeting of the Administrative Committee may be taken without a meeting if a consent in writing, setting forth the action to be taken, is signed by all of the members of the Administrative Committee. Such unanimous written consent shall have the same force and effect as a unanimous vote and may be stated as such in any articles or document.
- e. Telephone or Electronic Meeting. Members of the Administrative Committee may participate in and hold a meeting of the members by means of one or more of the following: (1) conference telephone or similar communications equipment; or (2) another suitable electronic communication system, including videoconferencing technology or the Internet, provided that each member entitled to participate in the meeting consents to the meeting being held by the telephonic or electronic communication system and the system provides access to the meeting in a manner or method by which each member participating in the meeting can communicate concurrently with each other participant. Participation in a meeting pursuant to this section shall constitute 'presence in person' at such meeting, except for a person who participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.
- f. Proxy. A member of the Administrative Committee may send a proxy with the power to vote on his / her behalf at the meetings of the Administrative Committee, or may give his / her proxy to another member to vote on his / her behalf.

#### 4. Responsibilities & Duties

The Administrative Committee shall be responsible for the following:

##### **Plan Design and Funding Related Roles:**

- review and provide input to the President / CEO on Plan expense;
- obtain input from the President / CEO, or his / her designee, on CPS Energy's budgetary constraints relative to the impact on Plan design considerations;
- analyze and recommend amendments to the Plans and / or the Trusts;
- analyze and recommend to the EBOC, Plan design changes necessary to control costs and keep benefits competitive;
- analyze and recommend to the Board, through the budget process, the amount of the cash flow funding (employer / employee contributions) and Plan expense;
- order, receive, and review an actuarial valuation at least every year for each Plan;
- analyze and approve / reject actuarial assumptions and report actuarial assumptions to the EBOC;
- ensure the engagement of a Pension actuary who meets the professional requirements set forth in Section 802.101(d) of the Texas Government Code and who shall be responsible for the preparation of the valuation described in Section 802.101(a), together with his or her recommendations to ensure the actuarial soundness of the Plans and Trusts;
- ensure the Pension actuarial valuations, studies and reports are audited at least every 5 years by an independent actuarial firm in accordance with Section 802.1012 of the Texas Government Code;
- select, monitor, and terminate the Plans' and / or Trusts' investment consultants, investment managers, custodial trustee(s), and other service providers;
- appoint or employ and manage, for the Plans, any agents it deems advisable, including, but not limited to, legal counsel, property management firms and Trust staff;

##### **Financial Responsibilities and Reporting Roles:**

- oversee all audits of the Plans and / or the Trusts;
- review and approve annual audited financial statements for the Plans and Trusts;
- ensure daily operation of funds (monitoring cash flow needs, cash transfers, etc.);
- prepare monthly, quarterly and annual reports;
- order, receive and review reports of the financial condition and of the receipts and disbursements of the Trusts from the Trustee;
- prepare communications to the EBOC, at least twice per year or as needed, in conjunction with meetings of the EBOC.
- select an administrator of the Plans and / or the Trusts;
- prepare annual reports to the EBOC and all Plan participants on changes in financial condition and investment performance;

##### **Investment-Related Roles:**

- recommend an investment policy;
- review the investment policy at least annually and recommend revisions as needed;
- invest assets in compliance with the investment policy;

**Administrative Roles:**

- elect Administrative Committee Chair and Vice Chair;
- appoint Administrative Committee Secretary;
- delegate to one or more of the members of the Administrative Committee the right to act in its behalf in all matters connected with the administration of the Plans and Trusts;
- monitor the Plans and / or the Trusts for legal compliance;
- monitor changes in state and federal law and make recommendations to the appropriate parties concerning compliance with changes;
- recommend revisions to this Statement of Governance to the EBOC;
- administer and interpret the Plans' and the Trusts' provisions
- establish administrative procedures;
- monitor employees of the Plans and / or Trusts, and CPS Energy staff to ensure the Administrative Committee policies and procedures are implemented appropriately;
- adopt procedures participant(s) must follow to obtain benefits;
- decide all questions of eligibility, and determine the amount, manner, and time of payment of any benefits hereunder;
- make a determination as to the right of any person to a benefit and to afford any person dissatisfied with such determination the right to a hearing thereon;
- ensure that summary descriptions for the Plans and / or the Trusts are prepared;
- timely file with the State Pension Review Board any information and documents required by law, including, but not limited to annual reports, the actuary's valuation and recommendations, and plan registrations;
- maintain for public review on a publicly available Internet website, at the Employer's main office and at such other locations as the Administrative Committee considers appropriate, copies of the most recent edition of each report required by law to be submitted to the State Pension Review Board;
- for the Pension Plan, make available to member or annuitant (i) a general summary of Plan benefits; (ii) a summary of procedures for claiming or electing benefits under the Plan; (iii) a summary of principal Plan provisions, including provisions relating to Employer and Employee contributions, withdrawal of the Contribution Accumulation, and eligibility for benefits (including any right to terminate employment and retain eligibility); (iv) summaries of significant changes to the Plan affecting contributions, benefits, or eligibility; (v) an annual statement of the Employee's Contribution Accumulation, Benefit Service, and in the case of retired Employees, the amount of Pension payments received during the preceding year; (vi) and such other information as may be required from time to time by Section 802.106 of the Texas Government Code; and
- any other responsibility that may arise as a result of applicable state or federal law.

Demonstrative Chart of Responsibilities

Responsibilities	Board	EBOC	CEO	Administrative Committee
Adopt or reject Plans / Trust	X			
Approve changes to Plans / Trusts		X		
Approve benefit plan expense via Budget Process	X			
Approve cash flow funding (Employer / Employee contributions) via Budget Process	X			
Approve Plan premiums		X		
Approve or reject Investment Policies		X		
Liaison to provide information re Plans / Trusts		X (Board)	X (external)	X (all others)
Appoint and remove Administrative Committee Members (other than the Labor Representative)		X		
Appoint Administrative Committee Observers			X	
Select Plan Administrator				X
Administer Plan				X
Engage auditor(s)		X		
Engage actuary(s)				X
Engage consultant(s) (investment managers, trustees, Agents, attorneys)				X