

CPS ENERGY
MINUTES OF SPECIAL MEETING OF THE BOARD OF TRUSTEES
HELD ON SEPTEMBER 12, 2019

A Special Meeting of the CPS Energy Board of Trustees was held on Thursday, September 12, 2019 in the B & C Classrooms of the CPS Energy Training Center located at 4514 Frank Bryant Lane, San Antonio, Texas. 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

Also present were:

Ms. Paula Gold-Williams, President & CEO
Dr. Cris Eugster, Chief Operating Officer (COO)
Mr. Fred Bonewell, Chief Security, Safety & Gas Operations Officer (CSSGO)
Ms. Felecia Etheridge, Chief Customer Engagement Officer (CCEO)
Ms. Vivian Bouet, Chief Information Officer (CIO)
Ms. Delores Lenzy-Jones, Chief Financial Officer (CFO) & Treasurer
Mr. Frank Almaraz, Chief Administrative & Business Development Officer (CABDO)
CPS Energy Staff Members

I. SAFETY MESSAGE

The Board meeting began with a safety message delivered by Mr. Eugene Diaz, Senior Manager, Gas Development & Analysis.

II. PUBLIC COMMENT

Chair Steen announced that public comments would be taken and outlined the guidelines for doing so. However, no members of the public were registered to speak, so no comments were taken.

III. INVOCATION AND PLEDGE OF ALLEGIANCE

The Pledge of Allegiance and an invocation were delivered by Mr. Diaz.

IV. CHAIRMAN'S REMARKS

Chair Steen welcomed the attendees and stated that the most effective boards periodically visit board governance. He further stated that he had talked to Ms. Gold-Williams, President and CEO, about someone who could help facilitate a discussion about governance.

He commented that he was amazed by how the governance structure was originally set up in 1942 and although it has been a great success so far, it is important to keep the success we have going by seeking to improve the structure where we can.

Trustee Kelley agreed and stated he felt CPS Energy has always been an incredible part of the community. Now, 8 years into his board service, he stated he continues to be amazed by all the dichotomies – that CPS Energy has some of the lowest utility rates in the country, some of the highest customer service rates among utilities and other for-profit companies, continues to be rated AA+ with no rate increases since 2014, and that city payments account for a third of the City's budget (approximately \$360 million last year).

V. EFFECTIVE GOVERNANCE

Ms. Gold-Williams commented that the American Public Power Association (APPA) has been a big proponent of strong governance policies. In exploring best practices for board governance, Chair Steen and Ms. Gold-Williams identified Tim Blodgett, President and CEO of Hometown Connections, to help the Board consider its governance policy.

Mr. Blodgett introduced himself and stated that Hometown Connections, a former subsidiary of the APPA, offers public power utilities guidance and access to quality products and services. He then asked the Board what they hoped to gain from the discussion.

Chair Steen replied that he hoped to facilitate discussion to better govern the organization. Dr. Mackey stated he wanted to learn how to be a better, more effective board member and understand the rules and processes thoroughly. Trustees Gonzalez and Kelley agreed that the Board needed to take advantage of opportunities presented by changing leadership in the community.

Mr. Blodgett then began his presentation:

Public Power Advantage

He explained the 5 Keys of Public Power: community owned, low cost, nonprofit, locally operated, and responsive. On average, Public Power across the United States gives back 5.6% of electric operating revenues to state and local governments. Notably, CPS Energy gives 14% back to the City of San Antonio. Further, Public Power employs 93,000 people and earns \$58 billion in revenue annually.

Mr. Blodgett asked whether CPS Energy is visible in the community. Nationally, public power utilities are declining in visibility with their customer bases, and that is where social media is coming into play. Overall, public power is behind technologically. He asked whether CPS Energy polled its customers regarding awareness because public power utilities need to be spending more time and more dollars communicating with customers and understanding their needs.

Trustee Gonzalez and Chair Steen replied that they have been meeting with customers in their districts and reported that people are struggling to pay their bills and worried about affordability and reliability. Dr. Mackey stated that sometimes, people do not understand the viewpoint of Public Power. Mr. Blodgett responded that transparency can be both a blessing and a curse.

Governance 101

Mr. Blodgett moved on to explain the basics of governance. He stated that the Board's job is harder now than it has ever been. This is because the industry is changing so fast. It is a capital-intensive business with power plants that have multi-year lives, but power supply is shifting to new generation and renewables. Coal fleets were built with 40-year useful lives and are now coming to end of life. A lot of pressure will be placed on demand-side resources, and the market will be a lot riskier than it used to be.

Trustee Gonzalez asked about cyber security. She stated it is a huge threat, and Mr. Fred Bonewell, CSSGO, responded that CPS Energy has prioritized it as a risk.

Mr. Blodgett continued the discussion by asking what the Trustees thought were the roles of a quality board. Dr. Mackey replied it was setting strategic direction. Trustee Gonzalez stated providing perspective, being objective and fiscally responsible, and analyzing trends. Chair Steen added that the Board should provide oversight and must satisfy legal and fiduciary responsibilities. Trustee Kelley said it is community engagement because Trustees have the benefit of more contact with key stakeholders to resolve issues and meet needs.

Mr. Blodgett stated that an area boards struggle with is when approval is not tied to strategic direction or stated organizational goals. There is a disconnect on how that is presented, and how they are gauged. Ultimately, the Board is responsible for the CEO. As such, the industry is starting to see a semi-annual review of the CEO. This is accomplished by developing what the expectations are early in the year but checking in halfway through the year. Simply put: good boards are noses in, fingers out, or "NIFO."

Sometimes, dysfunctional boards are the product of members just not knowing what they are supposed to do. Trustee Gonzalez responded that she would benefit from a "pulse check" and from mentoring from the other trustees.

Mr. Blodgett added that a unified view of the future direction is sometimes hard to hit because you have board members with unique and different perspectives. He cautioned the Board against spending too much time on the trivial items, allowing short-term bias to get in the way (budget v. goals), having a reactive stance, and confusing roles.

At this time, the Board took a short break.

Board Effectiveness

To kick off the topic of Board Effectiveness, Mr. Blodgett asked the Board and CPS Energy Management the following questions: Are you in touch with the customers? Are you hiring at market rates? Are you understanding the skills you need and pursuing the right candidates?

He stated that the Board must understand the utility's financial condition. He urged the Board to consider board self-evaluation by asking, "Where are we and where can we improve?" This could serve as an instant update on what should be done as a good board.

Board Development

Mr. Blodgett moved to board development and asked the Board if it conducts succession planning. Chair Steen responded that the Board typically plans and seeks candidates when term limits arise. He confirmed that there is no active lobbying or identifying good candidates ahead of time, but stated the Board conducted a thorough selection process for Dr. Mackey and Trustee Gonzalez. Mr. Blodgett advised the Board to consider meeting one-on-one with potential candidates.

In addition, he pushed the value of new member orientation – having an "electric and gas industry 101" course – a sentiment the Committee agreed with. Specifically, he underscored the Board must understand where the company is going and why. The Board's role is not to be a subject matter expert, but to have a sound understanding of the issue to help make decisions. He further urged considering Board mentors.

Chair Steen stated that the Board should debrief with the newest board members to understand what the Board could do better with new member orientation. Mr. Blodgett added that members feel as though they are meeting the indicators of good board roles when they understand the key drivers of the business and are clear about roles with management.

At this time, the Board took a short break.

VI. RISK MANAGEMENT COMMITTEE CHAIR'S REMARKS

At this time, Chair Steen turned the meeting over to Dr. Mackey, Chair of the Risk Management Committee, who stated that there would be an update by CPS Energy.

VII. RISK MANAGEMENT COMMITTEE UPDATE

Cory Kuchinsky, Interim Vice President of Strategic Pricing and Enterprise Risk Management, provided the Risk Program Update. He stated that Enterprise Risk Management has been working since Spring 2019 to identify enterprise risks. The following three were identified as being in the top 10 risks of the enterprise:

1. Enterprise Brand Management – Jonathan Tijerina, Senior Director, Corporate Communications, Marketing & Smart City Outreach, reported on opportunities to educate and be aware of the importance of maintaining the CPS Energy brand. CPS Energy is looking at in-person training and computer-based training for employees and opportunities to utilize social media.
2. Regulatory Changes – LeeRoy Perez, Director, Substation and Transmission Engineering, reported that beginning September 1, 2021, the Texas Public Utility Commission (PUC) must approve routing and siting MOU transmission projects. Mitigation activities include environmental studies, open houses with the public, and educating customers about the new process. Currently, the Board approves such projects, but now, for those outside of San Antonio city limits, CPS Energy will need to go to the PUC for approval.
3. Mitigating Gas Leaks – Richard Lujan, Senior Director, Gas Solutions, stated the gas team annually assesses and reviews the Distribution Integrity Management Plan to determine priorities. It conducts leak surveys for identified facilities and reviews leak response processes for improvement opportunities.

Reviewing the top 10 risks, Chair Steen asked whether environmental regulations constitute a big threat. CPS Energy management responded that the threat is currently mainly at the federal level, not on the local level. However, they indicated that CPS Energy still has a lot of work on the local level with the City's Climate Action and Adaptation Plan (CAAP).

VIII. CREDIT RATINGS/FITCH U.S. POWER REPORT

Ms. Gold-Williams presented on the Q4 2019 Fitch Solutions U.S. Power Report. She stated that nuclear operations, while very reliable, continue to present more risk because of the regulatory environment. She summarized the following report takeaways:

1. Coal is going to continue to be problematic and plants will continue to close. There is an abundance of natural gas and the economics of renewables are getting better. Natural gas is cheap and readily available.
2. Tariffs on solar panels may cause some currency pressure, but no major change because customers still prefer solar and it still makes sense financially. This is despite the coming reductions of investment tax credits (ITC).

Ms. Gold-Williams further stated that CPS Energy can manage in this market better than others because CPS Energy has excess generation capacity. CPS Energy makes decisions for resource planning based on the economic viability of each resource.

IX. EXECUTIVE SESSION

At approximately 4:53 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:

- Personnel Matters (§551.074)
- Attorney-Client Matters (§551.071)
- Real Property (§551.072)
- Competitive Matters (§551.086)
- Security Audits and Devices (§551.089)

The Board reconvened in open session at 5:34 p.m. Ms. Zandra Pulis, Deputy General Counsel, reported that the posted items, and no others, were discussed and no votes were taken in Executive Session.

X. ADJOURNMENT

There being no further business to come before the Board and upon a motion duly made by Trustee Gonzalez, and seconded by Dr. Mackey, and upon an affirmative vote by all members present, the meeting was unanimously adjourned at 5:35 p.m. by Chair Steen.



Carolyn E. Shellman
Secretary of the Board