

**CPS ENERGY**  
**MINUTES OF SPECIAL MEETING OF THE BOARD OF TRUSTEES**  
**HELD ON JANUARY 27, 2020**

A Special Meeting of the CPS Energy Board of Trustees was held on Monday, January 27, 2020, in the Board Room at CPS Energy's Main Office, 145 Navarro Street, San Antonio, Texas 78205. 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  
 Ms. Carolyn Shellman, Chief Legal Officer & General Counsel and Board Secretary  
 Mr. Fred Bonewell, Chief Security, Safety & Gas Operations Officer  
 Ms. Felecia Etheridge, Senior Chief – Business Excellence  
 Ms. Vivian Bouet, Chief Information Officer  
 Ms. Delores Lenzy-Jones, Chief Financial Officer & Treasurer  
 Mr. Frank Almaraz, Chief Administrative & Business Development Officer  
 Mr. Rudy Garza, Interim Chief Customer Engagement Officer

CPS Energy Staff Members  
 City of San Antonio officials  
 Interested Citizens

**I. SAFETY MESSAGE**

The Board meeting began with a safety message delivered by Mr. Justin Stuart, Journeyman, Service Restoration.

**II. PUBLIC COMMENT**

Chair Steen announced that public comments would be taken. The following people made comments:

1. Russell Seal, Sierra Club, addressed the *Flexible Path* Community Engagement Update (Part 3) (item 14). He commented that the meetings between CPS Energy and the Environmental Stakeholders group have deteriorated. He noted that the Environmental Stakeholders group has asked to talk about the *Flexible Path* process for some time but that has not happened even as the Save for Tomorrow Energy Plan (STEP) Bridge is about to go before City Council. He urged a sense of urgency to meet the City's 2030 goal, noting that STEP 2 is the most important strategy and the 600-megawatt (MW) goal is inadequate.

2. Terry Burns, Sierra Club, addressed the *Flexible Path* Community Engagement Update (Part 3) (item 14). He urged consideration for early closure of the Spruce 2 unit. He encouraged the Board to deal with the science of climate change and act in a way that does not harm the community's health or the environment. He also expressed support for the Mayor's proposal for a citizen rate advisory committee (RAC).
3. Mario Bravo, Chair, Environmental Stakeholders, distributed an open letter to the Board announcing his resignation from his chair position. He complained that the group was not provided adequate information nor were its requests for input granted, citing multiple requests to discuss STEP. He opined that the trust between CPS Energy and those trying to work with them is broken. He expressed his desire that CPS Energy be a model utility and requested the development of a new public participation process that meets best practices as recommended by the American Public Power Association (APPA) Public Participation for Community Owned Utilities: An Implementation Guide.
4. Greg Harman addressed the *FlexPower* Bundle Update (Part 3) (item 13). He noted the challenges of climate change and expressed support for the Mayor's proposal for a citizen RAC, highlighting equity in rate-setting. He encouraged an open all-source request for proposal (RFP) and a reduction of our gas footprint as part of the *FlexPower* Bundle. Finally, he requested that Board meeting agendas include more detail.

### III. INVOCATION AND PLEDGE OF ALLEGIANCE

An invocation and the Pledge of Allegiance were delivered by Mr. Stuart. At Chair Steen's request, Mr. Stuart shared some information about his employment with CPS Energy.

### IV. CHAIRMAN'S REMARKS

Chair Steen did not provide any remarks.

### V. EXECUTIVE SESSION

At approximately 1:20 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:

- Real Property (§551.072)
- Competitive Matters (§551.086)

The Board reconvened in open session at 1:52 p.m. Ms. Shellman reported that only Real Property matters were discussed, and no votes were taken in Executive Session.

### VI. RESOLUTION FOR APPROVAL OF REAL ESTATE ITEMS

Mr. Almaraz stated that CPS Energy is using a full market process to market and sell properties that are being vacated in connection with the move to our new headquarters. He noted that Board approval is requested to finalize the terms of the sale of the property located at 7000 San Pedro Avenue, currently being used as the North Side Customer Service Center. The Chair noted that it is the former Solo Serve building.

Ms. Shellman read the following resolution:

## RESOLUTION APPROVING THE SALE OF REAL PROPERTY

**WHEREAS**, CPS Energy owns a building on San Pedro Avenue as well as the underlying real estate, all of which is described as the Northside Customer Service Center (the "Property"); and

**WHEREAS**, by resolution of the Board of Trustees on September 24, 2018, the Property was declared surplus and deemed no longer needed for use in the operation of the gas and electric systems; and

**WHEREAS**, CPS Energy retained commercial real estate broker, CBRE, to market the Property for sale; and

**WHEREAS**, the Board of Trustees evaluated the bids for the purchase of the Property and decided that the Property should be sold to the identified buyer pursuant to the terms and price negotiated by CPS Energy.

### **NOW, THEREFORE BE IT RESOLVED:**

1. The recitals to this Resolution are hereby incorporated by reference.
2. The Board of Trustees of CPS Energy hereby approves the sale of the Northside Customer Service Center in accordance with the terms and price negotiated by CPS Energy, and authorizes, but does not completely obligate, the President & CEO, or her designee(s), to complete the sale of the Property.

Mayor Nirenberg moved, and Trustee Kelley seconded, a motion to approve the resolution as read by Ms. Shellman.

Trustee Gonzalez expressed her appreciation for the leadership demonstrated by CPS Energy in this matter. Mayor Nirenberg commented positively on the work CBRE has done to protect the public's interest in the process.

Chair Steen called for a vote and upon affirmative vote by all Trustees present, the resolution was unanimously approved.

## **VII. CEO'S REPORT**

Ms. Gold-Williams began her report by providing information and insight on various agenda items. Among other items, she highlighted the following:

- The FY2020 Cost Savings Recap will detail how we have saved close to \$20 million this year.
- The *FlexPower* Bundle Update will note how CPS Energy will incorporate an all-source element into its approach.
- The Financial Update is included in the Board book since the budget is on the agenda for Board approval.

Ms. Gold-Williams commented that it is unfortunate that the Environmental Stakeholders group does not feel that it has been heard, noting that the all-source RFP is one example of CPS Energy responding to their feedback with respect to the *FlexPower* Bundle. She stated that CPS Energy will continue to be at the table and they are invited to be there with us.

Ms. Gold-Williams previewed the FY2021 proposed budget. She discussed CPS Energy's historical net income and provided a preview of the net income in the next two fiscal years. For clarification, Chair Steen noted that FY2021 begins February 1, 2020.

Ms. Gold-Williams explained that CPS Energy maintains two repair and replacement (R&R) accounts, revenues reserved to repair and replace infrastructure and systems. Per the flow of financial funds, expenses are prioritized as follows: (1) operating costs; (2) debt repayment; (3) first R&R Account (6 percent of gross revenues by bond ordinance); (4) City payment; and (5) second or "Remaining" R&R Account. Residual income comprises the Remaining R&R Account. So, as operating costs and debt repayment increase, City payment and contributions to the Remaining R&R Account will decrease. She stated that the Remaining R&R Account in FY2021 is smaller than in previous years and is forecasted to be even smaller in FY2022. Ms. Gold-Williams noted that she is highlighting this issue for awareness only since it is important for financial stability.

Trustee Kelley commented that he is bothered by the lessening contributions to the Remaining R&R Account, adding that credit ratings agencies may downgrade our credit rating based on that which, in turn, will lead to higher debt service costs. Ms. Gold-Williams agreed, noting that a 1 percent increase in our debt costs equates to \$30 – 60 million per year.

Ms. Gold-Williams recapped the one-year STEP Bridge that was approved by the Board at its January 14, 2020 meeting and is now subject to City Council approval. She highlighted the evolution of STEP programming since its inception, noting that current programming differs from initial programming which predominately focused on the adoption of new light bulb technology. She detailed outreach with the Environmental Stakeholder group, noting that STEP was on the agendas for the May 6, August 22 and November 19, 2019 meetings. We issued a survey to obtain input from the community about what it wants from STEP and we continue to seek feedback; however, most people seem to be focused on the future of our coal plants. Ms. Gold-Williams mentioned that she requested feedback from the Environmental Stakeholders about options for the coal plants, but that yielded little progress. She stressed the impact that assumptions, such as electric vehicle adoption, population growth and fleet conversion, have on modeling, which so far has been unreliable and inconclusive. An all-solar program is desirable but does not align with our obligations of reliability and financial stability. We are asking City Council to approve a one-year STEP Bridge so we have time to get more feedback and answer questions about what the next program should look like.

Ms. Gold-Williams stated that she understands Councilmembers have been asked to reject the STEP Bridge because some claim it is an inadequate program or that we did not get sufficient feedback. But without Council approval, the STEP program, including its solar and weatherization components, will terminate because we will lack authority to spend additional money to save additional megawatts.

In response to an inquiry by Trustee Gonzalez, Ms. Gold-Williams noted that we would like to complete a public input process about the next iteration of STEP before the end of the year.

Trustee Kelley questioned the authority of City Council to approve the STEP Bridge and noted that it may be problematic if Council acts outside of their limited jurisdictional authority over CPS Energy as provided in the bond ordinance. Ms. Gold-Williams surmised that STEP is governed by a special ordinance. Trustee Kelley requested a legal opinion from outside bond counsel on the matter.

Trustee Gonzalez provided her perspective on STEP. Chair Steen clarified that the Board approved the one-year extension, STEP Bridge, at its last meeting.

Trustee Kelley reiterated his question about the City's authority to approve the STEP Bridge. He stressed that the reliance we have on bondholders for capital may be jeopardized if the City exercises authority over CPS Energy in an unauthorized manner. Ms. Gold-Williams noted that STEP has been disclosed to bondholders.

Trustee Gonzalez stated that she was unaware that STEP Bridge required Council approval and questioned the efficacy of the Board's approval on the matter. Ms. Gold-Williams assured her that the Board's vote matters because items are not considered by Council unless the Board approves them.

Mayor Nirenberg stated that he believed, but is confirming, that STEP is related to the fuel adjustment and therefore proper for Council approval. Every item before Council is subject to argument and counter-argument. He commented that STEP has performed well at realizing cost-savings and reducing emissions. He supports the STEP Bridge and plans to make that case with his Council colleagues if there is discussion on the item. He opined that he believes STEP Bridge will be approved because of its good track record.

At Chair Steen's request, Ms. Shellman addressed Trustee Kelley's question. She noted that outside bond counsel considered the issue at the outset of STEP because STEP expenses are not automatically recovered. Rather, if it is determined at the end of the year that STEP has performed, expenses are recovered through the fuel factor over the subsequent year. Notably, bond covenants require that we have rates that recover all our costs. Although it is different than the rate for monthly service, recovery of STEP expenses is effectively a rate, notwithstanding that it occurs one year later. She stated that she believes approval of the STEP Bridge is consistent with the bond ordinance.

Trustee Kelley reiterated his request for an opinion from outside bond counsel. Ms. Shellman agreed to provide that.

Trustee Gonzalez commented that had she known STEP Bridge required Council approval, she would have advocated to build consensus or gather feedback from Council. Ms. Gold-Williams clarified that we did not expect the struggle that we are currently experiencing with STEP Bridge.

Trustee Gonzalez stressed that she wants to be effective at doing the right thing.

Ms. Gold-Williams reiterated that items are not sent to Council for approval without the Board first voting on them. She commented that the STEP Bridge issue is an example of what we deal with every day - we are pushed and pulled trying to get something good done. Even simple matters draw complaints. We take that burden on and do the tough work to get the right thing done.

## VIII. ADDITIONAL UPDATES

### Cost Savings: FY2020 Recap

Mr. Gary Gold, Vice President, Corporate Services, provided a recap of estimated cost savings communicated to the Board in FY2020. In total, savings of \$18.5 million were estimated in FY2020, and \$20.8 million in FY2021. CPS Energy expects to save \$334.7 million over the life of all the measures.

Trustee Kelley complimented the staff on finding ways to save costs. He remarked that most consumer bills, such as grocery and fuel, have not remained constant for the past six years, yet CPS Energy has not had a rate increase in that long, thus its bills have remained the same.

Ms. Gold-Williams thanked the Board for requesting visibility around its efforts at saving costs.

Other

No other updates were presented.

**IX. APPROVAL OF CONSENT ITEMS:**

On motion duly made by Dr. Mackey, seconded by Trustee Kelley, and upon affirmative vote by all members present, the following items on the Consent Agenda were unanimously approved.

Approval of Minutes

Minutes for the Special Board Meeting held on December 6, 2019, and the Regular Board Meeting held on December 16, 2019 were approved as submitted.

Approval of Payment to the City of San Antonio for December 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 December 2019 is based on actual gross revenue per the New Series Bond Ordinance of \$156,748,645.51 less applicable exclusions. The revenue for the month of December 2019 is calculated as follows:

Gross revenue per CPS Energy financial statements	
Electric revenue	\$164,611,639.04
Gas revenue	18,284,298.60
Interest and other income	2,429,217.61
Gross revenue per CPS Energy financial statements	<u>185,325,155.25</u>
Excluded revenue	
School and hospital revenue per City Ordinance 55022	(5,414,865.68)
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	(8,048,505.94)
Noncash and other income, GASB 31 investment market value change, miscellaneous interest income, gas billing adjustment and unbilled revenue	<u>(15,113,138.12)</u>
Total excluded revenue	<u>(28,576,509.74)</u>
Gross revenue per New Series Bond Ordinance subject to 14% payment to the City	<u>\$156,748,645.51</u>
City payment per Bond Ordinance for December 2019 based upon December 2019 revenue	\$21,944,810.37
City payment per memorandum of understanding (MOU) regarding wholesale special contracts	570,507.11
Wholesale Special Contract Annual True Up	0.00
City Payment reduction per UTSA gas billing adjustment MOU	(12,500.00)
Annual True Up per UTSA MOU	<u>0.00</u>
City payment per Bond Ordinance plus adjustments for	

memorandums of understanding	22,502,817.48	A
Utility services provided to the City for December 2019	(2,433,386.78)	
Net amount to be paid from December 2019 revenue to the City in January 2020	<u>\$20,069,430.70</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 2019	Actual	Budget	Variance	
Current Month* A	\$22,503	\$24,044	(\$1,541)	-6.4%
Year-to-Date*	\$318,263	\$313,170	\$5,093	1.6%

\* 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 \$20,069,430.70 representing 14% of applicable system gross revenues for the month of December 2019, such payment being net of City utility services (\$2,433,386.78), is hereby approved."

## X. COMMITTEE REPORTS

### Personnel Committee Meeting held on January 9, 2020

Trustee Kelley reported on the Personnel Committee meeting which took place on January 9, 2020.

## XI. FY2021 BUDGET

Ms. Lenzy-Jones, presented components of the FY2021 budget for Board approval. Chair Steen reminded the Trustees that they have previously received information about the proposed budget.

After providing demographic information about CPS Energy, Ms. Lenzy-Jones noted that our guiding pillars, underpinned by financial responsibility, inform our decisions. She reviewed the financial planning process, noting the three types of planning that occur: one-year budget planning; five-year detailed planning by business unit; and long range, 25-year planning. Various inputs, such as customer growth; regulatory costs; fuel cost; generation resource planning; market power prices; wholesale prices, margin and revenue; and interest rates inform the planning. Ms. Lenzy-Jones discussed the projected population growth of San Antonio, expected to grow by 1.1 million people by 2040. She highlighted that over the last decade, CPS Energy has found ways to save over \$345 million. Moving forward, CPS Energy will look for additional ways to save.

Turning to the proposed FY2021 budget, Ms. Lenzy-Jones asked the Board to approve a capital budget (Capital) of \$684 million and non-fuel operations and maintenance (Non-Fuel O&M) budget of \$712.8 million. She noted that the amount we are able to contribute to the Remaining R&R Account is a barometer of our financial health. Currently, it is relatively healthy, but as the amount erodes, it puts our utility at risk.

Ms. Lenzy-Jones explained to the Board that approval is requested today for the Capital and Non-Fuel O&M portions of the budget only. Other budget components, such as fuel purchases, debt issuance, and payment to the City of San Antonio, are approved by the Board at other times or governed by various other approval mechanisms.

At this time, Ms. Lenzy-Jones turned the presentation over to Mr. Gary Gold to present key assumptions and financial information. Mr. Gold stated that although CPS Energy is seeing consistent customer growth of approximately 2 percent per year, the average electricity usage per customer is declining due to effective energy efficiency measures and conservation programs such as STEP, resulting in only moderate sales volume growth. Annual distribution gas customer growth averages about 1 percent per year. Average gas usage per customer is expected to decline slightly in FY2021 as a result of forecasted weather.

Mr. Gold explained that CPS Energy's Flow of funds requires that the Uses of Revenues equal the Sources of Revenue; a balance is critical. He noted that retail electric revenue comprises the largest source of revenue. Wholesale electric revenue was \$325.7 million in FY2019 and expected to decrease in FY2020 due to the Deely Power Plant closure. Mr. Gold also highlighted the increase in projected non-operating revenue due to an assumption related to real property sales. Mr. Gold showed historical and projected uses of revenue, noting that Ms. Gold-Williams already spoke about the Remaining R&R Account.

Mr. Gold turned to O&M expenses, made up of non-fuel O&M, electric fuel expense, distribution gas expense, and regulatory expense. He noted that the FY2021 Non-Fuel O&M budget of \$712.8 million is approximately \$50 million higher than FY2020 due to the investments needed to maintain our plants to ensure optimal performance.

The proposed Capital budget is \$684.1 million, down about \$80 million from the FY2019 Capital budget which included the acquisition of the Joint Base San Antonio (JBSA) electric and gas infrastructure that was accomplished earlier this year. Mr. Gold noted that increases in Capital budget elements are due to customer growth, infrastructure investments to ensure reliability, and our new headquarters. He added that expected proceeds from property sales will be used to offset costs of our new headquarters.

The proposed Capital budget contemplates that 41.8 percent of capital expenses will be funded by debt and 58.2 percent will be funded by cash. Maintaining a balanced funding level between debt and cash is essential for CPS Energy to achieve its Debt Capitalization goal of 60 percent or less in the next few years. Currently, CPS Energy's debt ratio is 61 percent.

Mr. Gold reminded the Board that a year ago, FY2020 net income was projected to be \$2 million. Today, however, FY2020 net income is projected to be \$144.6 million. He highlighted that a tight ERCOT market and hot weather led to higher market pricing and increased energy usage, contributing to the higher net income. However, we cannot rely on those factors because they vary. Likewise, as our plants age, there is a risk that they will not perform to capture wholesale revenues. Last year at this time, we projected our FY2021 net income would be negative \$38.8 million; today, it is projected to be \$3.9 million. Mr. Gold explained that the increase is due to updated assumptions based on the forecasted ERCOT capacity reserves which indicate opportunity for wholesale sales, income from property sales, and financing opportunities, offset by increased plant maintenance to optimize our ability to capture wholesale sales.

For awareness, Mr. Gold stated that projected FY2022 net income is negative \$62.6 million. The projected decrease is attributed to the absence of property sales income, higher forecasted debt obligation, and increased maintenance costs. He noted the impact of the projected decrease in net income on the Remaining R&R Account, reducing contributions from \$92 million to \$40 million.

Mr. Gold reviewed the FY2021 key financial metrics. Adjusted Debt Service Coverage (ADSC) is proposed to be 1.60, down from FY2020's latest estimate of 1.89, and above the target of at least 1.50. The Days Cash on Hand metric is proposed to be 161, down from FY2020's latest estimate of 205 days, with a target of 150 days or more. The Debt to Equity ratio is projected to be 61.7 percent, up from FY2020's latest estimate of 61 percent, with a target of 60 percent or less.

In conclusion, Mr. Gold requested Board approval of the proposed FY2021 Capital budget of \$684.1 million and Non-Fuel O&M budget of \$712.8 million. Both budgets comprise the total \$2.75 billion budget. The budget proposals support our *People First* focus that will benefit the CPS Energy community and meet our commitments to: funding and plan expense for our employee benefit obligations; spending associated with the STEP Bridge program; top tier safety, reliability, and environmental performance; investments in customer-facing functions and security; and customer growth initiatives and infrastructure modernization.

Trustee Gonzalez asked about the average cost to serve customers. Ms. Gold-Williams replied that dividing the proposed total budget amount of \$2.7 billion by 850,000, the number of electric customers, results in an average cost of approximately \$3,161 per customer per year. The 2 percent growth in customer base does not pay for all costs associated with connecting a customer because of the required upfront investment. Those costs are spread.

Trustee Gonzalez noted that communicating that we are not generating enough revenue today to serve the growing population is more relatable to the average person than saying we have to invest in our infrastructure.

Ms. Gold-Williams clarified that we are generating enough today, but expenses will increase in the future, similar to how maintenance on an aging car increases.

Trustee Gonzalez remarked that she perceives our threats to be competition, meeting customers' new expectations and increased regulations.

Following additional comments about the cost to serve customers, Ms. Lenzy-Jones agreed to provide additional information to Trustee Gonzalez.

Dr. Mackey asked about a plan to address the projected FY2022 key financial metrics. Ms. Gold-Williams replied that we will pursue additional cost reductions, beneficial financings, and plant maintenance to ensure their performance. However, she cautioned that even if our plants are performing, we cannot guarantee that the competitive market will provide opportunities for us to sell our "long" generation on the open market. Still, we do not want to give up our long position, precluding our participation in the market. Ms. Gold-Williams reiterated that we cannot keep relying on the volatile market to cover our fixed costs. CPS Energy has only had one rate increase in the last 9 years, the last one being six years ago. We keep delaying another one, but ultimately, we will need a rate increase.

Dr. Mackey asked how we can address the FY2022 projections now. Ms. Gold-Williams replied that we are working on the plan and will talk with the Board about it next month.

Mayor Nirenberg asked how much net wholesale revenue was budgeted in FY2020. Dr. Eugster replied that the target was about \$50 million, and the latest estimate is about \$120 million. The FY2021 budget includes \$90 million in net wholesale revenue. Ms. Gold-Williams noted that we are anticipating doing well in the market, underscoring the need for effective plant maintenance.

In response to Mayor Nirenberg's and Dr. Mackey's questions about increased plant maintenance, Mr. Gold replied that we are including an additional \$20 million to ensure reliability. Dr. Eugster stated that increased rotor maintenance on the combined cycle plants is being proposed and that a comprehensive rotor replacement plan will be presented to the Operations Oversight Committee. Ms. Gold-Williams clarified three types of expenses related to plant maintenance: capital, existing baseline and incremental.

Dr. Eugster noted that CPS Energy's mission is to serve its customers in San Antonio and in its service area, ensuring that we have enough capacity to serve our customers and protect them from the price volatility of the open market. Any extra capacity may be used to capture sales on the market. Ms. Gold-Williams restated Dr. Eugster's point for emphasis. Mayor Nirenberg asked when CPS Energy last purchased on the open market. Dr. Eugster responded that while we have sufficient capacity to serve our native load, there are instances where we purchase from the market because it financially benefits our customers.

Mayor Nirenberg commented that the FY2022 forecast concerns him, but we have been there before. CPS Energy does great work to remain nimble in the market. He complimented staff on the great work in FY2021 and thanked Ms. Gold-Williams for being open to discussions about bigger policy issues, such as how to maintain our strength in an evolving market, how to ensure affordability, and how to integrate equity into our processes. Consumer bills have increased, but unfortunately wages have not, and that increases pressure on all.

Mayor Nirenberg also thanked Ms. Gold-Williams for being open to his proposed RAC. He explained that the RAC would comprise a technical group, as well as a stakeholder group, to provide a long-term look at our overall rate design and resource planning so customers are involved in a 360-degree discussion about ensuring that what we do is meeting our customers' wishes and dealing with bigger challenges of the overall industry. He stated that he looks forward to earning his fellow Board members' support over the next month.

Trustee Gonzalez recognized that CPS Energy is lean and that the Mayor's proposed RAC may highlight some things that CPS Energy can do to help its projected net income. She also asked that we continue exploring ways to make the issue more relatable to customers. Ms. Lenzy-Jones stated that we will continue to look for cost savings.

Mayor Nirenberg moved, Dr. Mackey seconded, that the proposed FY2021 Capital and O&M budgets be approved. Chair Steen called for discussion.

Trustee Kelley stated that he felt the Board was putting Ms. Gold-Williams in a tough situation since she must manage to a budget that can increase or decrease up to 70 times its original amount. Managing to such a budget is very challenging. He cautioned that budget variances must be closely monitored. Ms. Gold-Williams acknowledged that managing to the updated FY2021 budget plan is an uphill battle, but each year we go back to the starting line - going after savings, accommodating growth, and performing maintenance. Also, we are looking for additional cost savings.

Trustee Gonzalez stressed that the missing link is finding a way to communicate to the proposed RAC that we cannot keep cutting costs and perhaps they will give us good feedback or be able to find other ways to run this organization.

Ms. Gold-Williams asked if the RAC would be overseeing the running of the business or the everyday budget. Mayor Nirenberg responded that was not the intent of the RAC.

Ms. Gold-Williams stated that we want to listen to everyone, but it is tough. Responding to Ms. Gold-Williams, Mayor Nirenberg clarified that the RAC's purpose is not to tell CPS Energy how to operate or replace its Board or management. He noted that the San Antonio Water System Rate Advisory Committee is the closet analog; it is about rate structure and design and resource planning.

Ms. Gold-Williams stated that more information to the Board is forthcoming about additional savings and using committees as a resource. She acknowledged our charge to run the business with the Board's insights and guidance and committed to that.

Dr. Mackey commented positively on the FY2020 performance. He noted that he would like to see more about the long-range planning process, but overall, he is supportive and confident in CPS Energy. Chair Steen confirmed with Ms. Gold-Williams that the Board should see details as early as the next Board meeting.

Chair Steen called for a vote. Upon affirmative vote by all members present, the proposed FY2021 Capital and O&M budgets were unanimously approved.

The Board took a short break at this time.

## **XII. FLEXPOWER BUNDLE UPDATE (PART 3)**

Dr. Eugster introduced Mr. John Kosub, Senior Director, Energy Portfolio Analytics, who provided an update to the *FlexPower* Bundle presentation given at the November 2019 Board Meeting.

Mr. Kosub reviewed that the *Flexible Path* strategy is designed to move us from traditional generation resources, renewables, energy storage, the smart grid and the "Fifth Fuel" to transformation and innovations, such as the *FlexPower* Bundle and new products and services. Strategy timing is being driven by developments in technology. He reminded the Board that our decisions are based on the six guiding pillars, underpinned by financial responsibility.

Mr. Kosub explained that almost 30 percent of our capacity comes from plants that are more than 40 years old. Notwithstanding plant maintenance, mechanical failures may occur, so the sequencing of future capacity solutions remains a priority.

An assessment of our long-range generation plan indicates that about 1700 MW of generation is retiring within 10 years. Much of this generation runs during the summer peak season, when financial risks associated with breakdowns are higher. To replace that generation, *FlexPower* Bundle envisions up to 900 MW solar energy, 50 MW storage and 500 MW gas toll or equivalent technology that can firm solar power and the reliability of older units. Any gas toll would come from an existing resource; a new gas plant is not contemplated. Nevertheless, CPS Energy remains open to generation from a source other than a gas toll.

Mr. Kosub discussed the value of a bundled approach. Solar, storage and gas possess complementary characteristics that improve performance and reliability for our customers. He showed graphs of wind production versus wind capacity on August 15, 2019, one of the hottest days in the summer. ERCOT declared an emergency when production decreased to less than 10 percent of capacity. For two hours, energy market prices were \$9,000.00 per MWh, about 80 times the typical residential retail rates. Mr. Kosub showed additional graphs showing the gap between San Antonio (native load) demand and solar and wind production. The gaps signify the importance of firming power in San Antonio.

Mr. Kosub explained that our obligation to serve customers is best met by using physical assets to manage reliability and financial risks. We have structured an RFP based on our need for utility scale assets, more storage, solar power that is aligned with customer demand, lower carbon resources, firming capacity to meet customer needs, and portfolio diversification. The RFP asks for solar, battery storage, and either a gas toll or another firming technology that is available at all hours, in all weather, year-round and has low emissions. A 4 to 10-year term is anticipated. RFP respondents may bid on one or multiple resources. The RFP will be sequenced to meet our customers' needs.

In conclusion, Mr. Kosub provided a timeline of associated events. CPS Energy will continue to get feedback and study other markets, as well as finalize the RFP development and selection process in the next 6 to 12 months. After that, the RFP will be launched.

Trustee Gonzalez asked about the cost to produce electricity from different sources. Ms. Gold-Williams replied that the RFP will provide hard costs. Trustee Gonzalez commented that having that data will allow us to gain perspective on costs versus social and quality of life issues. She mentioned her idea on a three-phase approach, identifying current, interim and future states.

Dr. Eugster explained the gas toll option to Dr. Mackey. Ms. Gold-Williams added that something other than a gas toll could be used to replace retiring gas steam units. Then another strategy to replace the coal units, such as repowering them, will be developed. If the option is not reliable, the risk increases.

Mayor Nirenberg expressed his pleasure at the "open-minded" RFP approach as long as reliability to our customers is the objective. He asked about timing of the RFP. Ms. Gold-Williams stated we would rather issue it sooner rather than later.

### **XIII. FLEXIBLE PATH COMMUNITY ENGAGEMENT UPDATE (PART 3)**

Mr. Johnathan Tijerina, Senior Director, Corporate Communication & Marketing & Smart City Outreach, provided the third part of a *Flexible Path* Community Engagement Update. He described the Citizens Advisory Committee (CAC) that was established in 1997 and acts as a liaison between CPS Energy and its customers. At Chair Steen's request, Mr. Tijerina highlighted the energy industry experience of CAC Chair, Mr. David Walter, and Past Chair, Mr. Robert Romeo. Chair Steen noted that Mr. Romeo was appointed to the CAC by then-Councilmember Nirenberg.

Mr. Tijerina explained how CPS Energy uses the feedback it receives, specifically focusing on customer service improvements. He showed a video featuring Mr. Leo Gomez, President & CEO of Brooks City Base, about the Construction Service Improvements (CSI) project.

CPS Energy continues to use feedback to identify opportunities for ways to enhance customers' experiences with, among other things, its website, outage map, and rebate programs. Trustee Gonzalez offered some suggestions for customer service and website improvements.

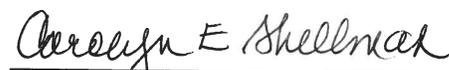
Mr. Tijerina spoke about a collaborative pilot project with Councilmember Shirley Gonzales regarding the installation of solar-powered security lights in District 5 in direct response to customer feedback. Ms. Gold-Williams added that our new energy economy partner, GreenStar, designed and built several iterations of the solar-powered light for this pilot project. In response to Mayor Nirenberg's question, Ms. Gold-Williams replied that the project began about two years ago. She noted that we are considering including the light in STEP. Trustee Gonzalez noted that the light project is relatable for our customers. Mayor Nirenberg commented positively about projects that drive innovation, such as with the solar-powered security light.

In conclusion, Mr. Tijerina stated that we will continue to seek customer feedback, adjust our business processes and procedures to enhance the customer experience and adapt to new technologies and implement solutions.

Chair Steen noted that the customer service improvements began after he received comments during his City Council confirmation from then-Councilmember Joe Krier. He expressed his appreciation to Ms. Etheridge and the team for reversing the trend and improving the customer experience.

#### **XIV. ADJOURNMENT**

There being no further business to come before the Board and upon a motion duly made by Mayor Nirenberg, and seconded by Trustee Gonzalez, and upon an affirmative vote by all members present, the meeting was unanimously adjourned at 4:43 p.m. by Chair Steen.



Carolyn E. Shellman  
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Secretary of the Board