

CPS ENERGY
MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
HELD ON JANUARY 30, 2023

The Regular Meeting of the Board of Trustees of CPS Energy for the month of January was held on Monday, January 30, 2023 in the Board Room on the First Floor of the CPS Energy headquarters located at 500 McCullough, San Antonio, Texas.

I. CALL TO ORDER

Chair Dr. Mackey called the meeting to order at 1 p.m.

Present were Board members:

Dr. Willis Mackey, Chair
 Ms. Janie Gonzalez, Vice Chair
 Mr. John Steen
 Dr. Francine Romero
 Mayor Ron Nirenberg (arrived at 1:09 p.m.)

Also present were:

Mr. Rudy Garza, President & CEO
 Ms. Shanna M. Ramirez, Chief Legal & Ethics Officer, General Counsel & Board Secretary
 Mr. Cory P. Kuchinsky, Chief Financial Officer & Treasurer
 Mr. Evan O'Mahoney, Interim Chief Information Officer
 Ms. Lisa Lewis, Chief Administrative Officer
 Mr. Benny Ethridge, EVP
 CPS Energy staff members
 City of San Antonio officials
 Interested Citizens

II. SAFETY MESSAGE, INVOCATION AND PLEDGE OF ALLEGIANCE

A safety message, invocation, and the Pledge of Allegiance were delivered by Ms. Lindsey Fenderson, Sr. Manager Property Accounting & External Reporting.

III. PUBLIC COMMENT

Mr. Raymond Zavala, citizen, expressed his concerns about further investment in renewable energy. He stated that the nuclear fuel rods for the South Texas Power Plant are being buried in west Texas and present danger. He expressed concern that renewables will have similar unexpected impacts for his children and grandchildren.

Mr. Mike O'Donnell, citizen, expressed concern about prematurely eliminating all coal generation at Spruce, and recommended that Spruce 1 be mothballed. He noted that due to conflict in Ukraine, European nations are using mothballed power plants. He finally stated that it is unwise for CPS Energy to not plan for similar contingencies such as attacks or natural disasters.

Mr. Jack Finger, citizen, expressed concern about there being only three days' notice of the special called meeting. He further requested that ratepayers receive more notice and get more than two minutes to speak. Finally, he stated that he disagreed with closing the coal power plants.

Mr. Paul James, chemical and natural gas engineer, stated the P2 blended portfolio is a rational decision, but expressed concern about the amount of increase in wind energy. He urged further consideration on the use of natural gas due to its availability near San Antonio.

Ms. Denise Gutierrez Homer, citizen, believes there is a failure to communicate between CPS Energy and residents, and noted that over 1,000 people participated in the survey when there are over 900,000 ratepayers. She also expressed concern about how residents were made aware of the survey on generation planning.

Ms. Teresa Bolin and Mr. David Horton yielded their time to Ms. Sandra Crocker.

Ms. Sandra Crocker, Republican Party Precinct Chair 3022, stated she was appreciative that the Board chose the more conservative of two options for generation planning. However, she urged the Board to reconsider their generation planning decision on ending the use of coal. She stated that she was not aware the Board was considering this option, and she urged CPS Energy to provide more information for ratepayers to understand the issue. She believes that residential customers are paying much more than business customers, and there could be further financial consequences from this decision. She provided an article from the Texas Tribune which she believes states that coal ash is the concern, not air emissions.

Mr. Cesario Garcia, citizen, District 8, stated that closure of coal plants may lead to another situation like Winter Storm Uri. He expressed concern about minimizing the ability to generate energy when we are a growing city. He asked to understand the purpose for this decision.

Mr. Calvin Bolin, resident of Precinct 1082, urged the Board to not close coal plants. He expressed concern about potential price increases to bills with the elimination of coal. He stated the coal plant could be updated to be efficient. In the 1970s and 1980s in Ankara, Turkey, there was very bad pollution, but it was resolved with cleaner coal.

IV. CHAIR'S REMARKS.

Chair Dr. Mackey did not have any remarks.

V. CEO'S REPORT

Mr. Rudy Garza began by updating the Board on visits with credit rating agencies. He stated the meetings went well. He referenced a handout with CPS Energy's credit rating in comparison to other utilities, noting that CPS Energy is the second highest in the State of Texas. Finally, he noted that Fitch reaffirmed our Credit Rating.

He then noted that the Request for Proposals for the Enterprise Resource Plan was released. He stated that our digital transformation is an integral part of our Vision 2027, and our future technology platforms will enable enhanced experiences for our customers and employees.

Mr. Garza provided an update on potential changes to the ERCOT wholesale energy market. He noted that the Public Utility Commission of Texas has recommended the Performance Credit Mechanism, which is an incentive based on generators' reliability during times of high risk for the ERCOT grid. He noted that CPS Energy will be a part of the discussions occurring at the Texas Legislature.

The Dr. Martin Luther King, Jr. March included 105 participants, including Vice Chair Gonzalez, and included 33 students from community partner Students of Service.

Mr. Garza provided a weather update. He stated we do expect winter precipitation, especially in the northern part of the service area. He stated our power plants are ready, and we have capacity and are ready to respond.

Mr. Garza informed the Board that CPS Energy was recognized by the San Antonio Business Journal as a Business of the Year Nominee.

Finally, he recognized the Corporate Communication & Marketing Team, and noted the volume of internal and external communications. He stated that this team works hard, and their work is important.

Trustee Steen asked follow-up questions of Mr. Garza.

VI. ACCOUNTS RECEIVABLE – MONTHLY UPDATE

Ms. DeAnna Hardwick provided an update on accounts receivable. She stated that we have seen a positive trend - \$200M down from \$207M, and a \$100M on installment plans. The Board of Trustees asked questions and discussed the information presented.

VII. AMENDED RULES OF ORDER FOR THE CPS ENERGY BOARD OF TRUSTEES

Chair Dr. Mackey introduced the Amended Rules of Order, and asked Ms. Shanna Ramirez to read and explain the amended rules. Ms. Ramirez noted that in addition to non-substantive changes, the amendment added a new Article 10, which states:

ARTICLE 10 - Relations with Management

The President & CEO is responsible for developing the strategic direction and overall management of CPS Energy's operations. Therefore, it is imperative that the relationship between the Board and the President & CEO (including CPS Energy staff) be supportive, cooperative, and respectful of each other's roles, duties, and responsibilities. Accordingly, the Board shall maintain appropriate lines of communication, and an understanding of the separate roles of the Board and staff. The Board, as a body, or any member of the Board shall not direct the President & CEO on any operational activity. Directives to the President & CEO shall only come through Board resolutions and policy decisions. This Article does not prohibit a Trustee from communicating directly with the Office of General Counsel or the Internal Auditor for CPS Energy. It is the responsibility of the Chairman and Vice-Chairman to ensure that the roles of both Trustees and management are protected in the event of any breach of this understanding.

Chair Dr. Mackey made a motion to adopt the amendment, and Trustee Dr. Romero seconded the motion as amended. The motion was approved unanimously.

VIII. EXECUTIVE SESSION

At approximately 2:01 p.m., Ms. Ramirez 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 a number of posted items, including the following:

- Attorney-Client Matters (§551.071)
- Real Property (§551.072)
- Prospective Gifts (§551.073)
- Personnel Matters (§551.074)
- Security Personnel or Devices (§551.076)
- Security Audits and Devices (§551.089)
- Confidential Information Under the Texas Homeland Security Act (§418.183(f))
- Economic Development Negotiations (§551.076)
- Competitive Matters (§551.086)

The Board reconvened in open session at 3:05 p.m. The quorum was re-established, and all members were present. Ms. Ramirez reported that only the matters cited above, and no others were discussed, and no votes were taken in Executive Session.

IX. APPROVAL OF CONSENT ITEMS

On a motion duly made by Trustee Dr. Romero, seconded by Vice Chair Gonzalez, and upon affirmative vote by all members present, the following items on the Consent Agenda were unanimously approved:

- A. Minutes of the Regular Board meeting held on October 31, 2022**
- B. Minutes of the Regular Board meeting held on November 29, 2022**
- C. Minutes of the Regular Board meeting held on December 19, 2022**
- D. Approval of Payment to the City of San Antonio for December 2022**

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 2022 is based on actual gross revenue per the New Series Bond Ordinance of \$196,712,920.76, less applicable exclusions. The revenue for the month of December 2022 is calculated as follows:

Gross revenue per CPS Energy financial statements	
Electric revenue	\$208,669,120.39
Gas revenue	45,009,912.16
Interest and other income	3,215,670.93
Gross revenue per CPS Energy financial statements	<u>256,894,703.48</u>
Excluded revenue	
School and hospital revenue per City Ordinance 55022	(7,084,962.93)
LVG revenue per City Ordinance 100709	(232,603.07)
Fuel cost component of off-system nonfirm energy sales per City Ordinance 61794 and revenue for wholesale special contracts	(9,911,202.91)
Noncash and other income, GASB 31 investment market value change, miscellaneous interest income, gas billing adjustment and unbilled Revenue	<u>(42,953,013.81)</u>
Total excluded revenue	<u>(60,181,782.72)</u>
Gross revenue per New Series Bond Ordinance subject to 14% payment to the City	<u>\$196,712,920.76</u>
City payment per Bond Ordinance for December 2022 based upon December 2022 revenue	\$27,539,808.91
City payment per memorandum of understanding (MOU) regarding wholesale special contracts	(734,488.31)
Wholesale Special Contract Annual True Up	0.00
City Payment reduction per gas customer billing adjustment MOU	<u>(12,500.00)</u>
City payment per Bond Ordinance plus adjustments for memorandums of understanding	26,792,820.60 A
Utility services provided to the City for December 2022	<u>(2,777,352.25)</u>
Net amount to be paid from December 2022 revenue to the City in January 2023	<u>\$24,015,468.35</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 2022	Actual	Budget	Variance	
Current Month* A	\$26,793	\$28,020	(\$1,227)	-4.4%
Year-to-Date*	\$403,075	\$356,648	\$46,427	13.0%

* This amount does not include any additional funding authorized by the Board of Trustees.

The following resolution was approved:

"BE IT RESOLVED by the CPS Energy Board of Trustees that payment to the City of San Antonio in the amount of \$24,015,468.35 representing 14% of applicable system gross revenues for the month of December 2022, such payment being net of City utility services (\$2,777,352.25), is hereby approved.

- E. Resolution Approving the Strategic Purchase of Real Property
- F. Procurement Items: None

X. COMMITTEE REPORTS

Chair Dr. Mackey accepted the submission of reports for the record in lieu of having them read during the meeting.

- A. Audit and Finance Committee (A&F) meeting held on November 17, 2022. A report of this meeting will be attached (as Attachment "A") to the meeting minutes.
- B. Employee Benefit Oversight Committee (EBOC) meeting held on November 17, 2022. A report of this meeting will be attached (as Attachment "B") to the meeting minutes.

XI. CPS ENERGY PUBLIC POLICY PRIORITIES

Ms. Kathy Garcia and Ms. Kari Meyer did not present due to inclement weather and travel hazards. Mr. Garza provided the Board an update on public policy priorities. He explained that the objective is to provide a preliminary outlook on the legislative session, and he requested the support of the Board of Trustees for CPS Energy's public priorities. Ms. Ramirez read the following resolution:

RESOLUTION SUPPORTING CPS ENERGY'S PUBLIC POLICY PRIORITIES

WHEREAS, the Regular Session of the 88th Texas Legislature convened on January 10, 2023 and will adjourn on May 29, 2023; and

WHEREAS, CPS Energy has developed and presented to this Board of Trustees our priorities and anticipated engagement, which are captured in three main pillars: 1) customer affordability and impacts, 2) utility governance, and 3) reliability and resiliency.; and

WHEREAS, the customer affordability and impacts pillar will focus CPS Energy on proposals that will support directing any available funds to utility customers in need and seek to minimize other proposals' impacts on utility costs and customer bills; and

WHEREAS, the utility governance pillar will focus CPS Energy on proposals that will protect the municipally-owned utility business model and local decision-making authority; and

WHEREAS, the reliability and resiliency pillar will focus CPS Energy on proposals that strengthen the reliability and resiliency of the electric grid and natural gas systems, including addressing supply chain challenges, in a manner that appropriately balances the benefits with the associated costs to our utility and our customers; and

NOW, THEREFORE, BE IT RESOLVED, this CPS Energy Board of Trustees supports CPS Energy's public policy priorities focused on three main pillars: 1) customer affordability and impacts, 2) utility governance, and 3) reliability and resiliency.

Vice Chair Gonzalez made a motion to approve the resolution, which was seconded by Trustee Dr. Romero. The Board discussed the motion, and the motion was unanimously approved.

XII. FY2024 BUDGET

Mr. Cory Kuchinsky, CFO & Treasurer, presented the FY2024 budget. Mr. Kuchinsky requested approved on the Capital & Non-Fuel O&M Budget for FY2024.

Motion to approve by Vice Chair Gonzalez and seconded by Trustee Dr. Romero. The board discussed. On a vote of 4-1, the FY2024 budget was approved. Focusing on slide 10 of Mr. Kuchinsky's presentation, Trustee Steen expressed concern about budgeting for a net loss and inquired about significant non-cash depreciation expenses not broken out in Mr. Kuchinsky's presentation. Trustee Steen indicated he would vote against the proposed budget because it was taking CPS Energy in the wrong direction, particularly in regard to the Debt Capitalization Ratio metric.

XIII. ELECTION OF NEW BOARD OF TRUSTEES CHAIR AND VICE CHAIR

Chair Dr. Mackey, as the representative of Nominations and Personnel, made a motion to elect Vice Chair Gonzalez as the Chair of the Board, and Trustee Dr. Romero as the Vice Chair of the Board. Mayor Nirenberg seconded the motion. The Board discussed the nomination and stated their appreciation for Chair Dr. Mackey's service.

The election of Vice Chair Gonzalez as Chair and Trustee Dr. Romero as Vice Chair was approved unanimously. Mr. Garza noted the reception honoring the incoming chair and outgoing chair to be held on February 27 immediately following the board meeting.

XIV. ADJOURNMENT

There being no further business to come before the Board, upon a motion duly made by Vice Chair Gonzalez, seconded by Trustee Dr. Romero and upon an affirmative vote by all members present, the meeting was unanimously adjourned at 4:05 p.m. by Chair Dr. Mackey.



Shanna M. Ramirez
Secretary of the Board



AUDIT & FINANCE COMMITTEE (A&F)

EXECUTIVE SUMMARY AND CHAIR REPORT FROM THE NOVEMBER 17, 2022 MEETING PREPARED FOR CHAIR JOHN STEEN FOR REPORT AT THE JANUARY 30, 2023 BOARD OF TRUSTEES MEETING

The Audit & Finance Committee met on November 17, 2022. As part of the Audit & Finance Committee agenda, the Committee:

- A. Approved meeting minutes from the prior meeting held on July 21, 2022.
- B. Received an update on the Ethics Program, including a summary of cases that were opened and closed through October 31, 2022, and a trend analysis for FY2022 third Quarter versus FY2023 third Quarter.
- C. Received an overview of the strategic planning for future service districts and the proposed path to construct the first new service facility in 60 years. By FY2024 second Quarter, the plan is to issue the RFP for design/construction of the prototype service district campus with an expected project completion date of FY2027.
- D. Received an overview of KPMG's proposed audit plan, audit approach, audit timeline, and fees. Provided required communications from KPMG and an overview of the responsibilities of management and KPMG related to the audit.
- E. Provided a review of the KPMG FY2023 audit and non-audit services. Approved the KPMG FY2023 audit and non-audit services.
- F. Provided an overview of major insurance coverage and renewals, as well as the competitive pricing achieved for the insurance policies. The three policies reviewed were property, cyber, and liability.
- G. Provided status of audit projects for FY2023 which included adding five unplanned projects and cancelling the GE vendor audit. Reviewed the results of eight projects completed since the last Committee meeting. Also, reviewed the Information Technology General Controls (ITGC) letter issued by KPMG as part of the financial statement external audit. Provided an overview of the quality assurance and improvement program. Informed the Committee that an external quality assessment was performed and Audit Services received the highest possible rating which is Generally Conforms "GC".

The next meeting of the Audit & Finance Committee will be held in January 2023.



EMPLOYEE BENEFITS OVERSIGHT COMMITTEE (EBOC)

EXECUTIVE SUMMARY AND CHAIR REPORT FROM THE NOVEMBER 17, 2022 MEETING PREPARED FOR COMMITTEE CHAIR JOHN STEEN FOR REPORT AT THE JANUARY 30, 2023 BOARD OF TRUSTEES MEETING

The EBOC met on November 17, 2022. As part of the EBOC agenda, the Committee:

- A. Approved meeting minutes from the prior meeting held on July 21, 2022.
- B. Reviewed the Action Items list from the July 21, 2022.

The Committee also received presentations regarding:

- C. A Benefit Plans Administrative & Financial Update, which highlighted the following topics: governance overview and calendar review; investment performance for YTD 2022 thru September, as well as investment performance for CY2021 and FY2022; a discussion on the Actuarial Rate of Return (ARoR), and an update on the ongoing Administrative Committee (AC) Improvement Plan to address gaps and shortfalls in areas of people, performance (investment), and policies, practices, and controls.
- D. A recommendation from the AC on proposed revisions to the Investment Policy (IP) and Statement of Governance (SoG). The EBOC approved the proposed revisions. The SoG proposed revisions were also approved by the Board of Trustees during the November 29th meeting.

The next meeting of the EBOC will be held in February 2023.