



Paula Gold-Williams
President & Chief Executive Officer (CEO)

November 10, 2020

Dear Ms. Belmares,

Our CPS Energy Team is in receipt of the October 28, 2020, letter that you sent in response to our latest request for a small group meeting of leaders, on both sides. We requested this meeting as another attempt to constructively address our shared goals for our community's future and how best to advance them. I carefully selected representatives on our side for this important session because of their deep industry and company knowledge; collaborative nature; and high level of authority in our organization. Our CPS Energy representatives include:

- Dr. Cris Eugster, our Chief Operations Officer (COO), who also participated in your Community Forum on Climate & COVID-19 Recovery event that was held virtually on October 24, 2020;
- Mr. Rudy Garza, our Chief Customer Engagement Officer (CCEO); and
- Ms. Kathy Garcia, our Vice President of Government Relations, Regulatory Affairs and Public Policy.

Your caustic reply offered a meeting "if and only if CPS Energy complied with," as you stated, your "five demands," which include a "community-driven resource planning process" and shutting down the Spruce coal plant by 2030. In effect, you propose a one-way meeting instead of the conversation that we had hoped would include dialogue about continuing to care for our customers and transitioning our community towards cleaner energy.

Additionally, we received Greg Harman's November 6, 2020, email declaring that the members of the Environmental Stakeholder Group (ESG), of which you serve as tri-chair with Greg and Diana Lopez, "have decided to pass on this round of conversation" and are no longer willing to meet with us at our next quarterly meeting scheduled for November 12, 2020. This meeting has been confirmed since late September and we want to express our disappointment with your decision. We believe San Antonio and its citizens would be better served if we communicated openly and worked together to try to develop a mutual understanding that might result in your withdrawal of the petition effort, as the election you

propose inevitably will be contentious and divisive. In light of your refusal to meet with our representatives, I would like to reiterate our priorities and our decision-making process regarding generation mix and other matters of concern to your group.

First, CPS Energy is governed by its thoughtful, experienced, and caring Board of Trustees in concert with its management team, and with oversight from the San Antonio City Council. As you know, the Mayor is a member of our Board. This governance structure is applauded by the financial markets and our bondholders, as it is designed to and has successfully insulated CPS Energy from risks that could result from short-term, politicized decision-making. Rest assured, no significant decision at CPS Energy is ever made without due consideration for our primary constituency, the City of San Antonio, and ALL its citizens.

Our management team is comprised of extraordinarily talented people who collectively have decades of experience in the technical and challenging world of power generation and the delivery of this critical resource to all customers, as **Affordably** as possible. CPS Energy has always been and remains open to input on all its strategies, including generation planning. This happens today in many forms that include: townhalls; letters; social media; **People First** Community Fairs; routine and ad hoc meetings as requested, including many sessions previously held with groups you represent; our Citizens Advisory Committee (CAC); and public input at Regular and Special Board Meetings.

Another communication channel that Mayor Ron Nirenberg recommended, and that CPS Energy is carefully considering, is a new Rate Advisory Committee (RAC). Earlier this year, CPS Energy's management team delivered an extensive framework for a potential RAC that is currently being evaluated by our Board.

While maintaining very **Affordable** residential rates in comparison to other major markets in Texas, we contribute about \$1 million a day to the City of San Antonio's (CoSA's) General Fund, 365 days a year – holidays, weekends, and leap year. The revenue CPS Energy provides to CoSA helps reduce the need for additional increases in property taxes for San Antonio residents.

In your last letter you made several "policy demands," including a "fair" rate structure influenced by your input as members of the Rate Advisory Committee; a "community driven resource planning process;" and shutting down the Spruce coal plant by 2030. While you and your group have the luxury of making narrowly focused demands regarding CPS Energy's priorities and actions, CPS Energy must have broader civic responsibility and guiding principles to best serve all of our customers and the community. We frequently share with everyone that we align around all our **Guiding Pillars** of **Reliability, Customer Affordability, Safety, Security, Environmental Responsibility, and Resiliency**, while remaining continually mindful of our underlying foundational requirement to maintain **Financial Stability**.

CPS Energy has met with the Environmental Stakeholder Group (ESG) on a quarterly basis for roughly a decade. At numerous meetings, we have explained that **CPS Energy shares the goal of accelerating our community's transition to "clean energy,"** consisting of

solar, wind, and other carbon-free resources. However, we have also pointed out that currently there are clear limitations on the consistent availability of power from renewable sources.

Solar power requires the sun to shine. Wind power requires strong air currents to blow. Both bad weather and the time of day limit these energy sources from being **Reliable** around the clock, every day of the year. Energy storage helps both solar and wind to a notable degree, but not for long enough time spans to support the level of energy strength and independence that has protected our customers for decades from power market price spikes. Hopefully, current battery technology will evolve to permit more robust storage of energy generated by wind and solar, but that technology does not exist today and the timetable on its development is speculative, at best.

Factually, coal and natural gas plants directly support the **Reliability** of power that our customers have come to expect, and this is one of our service priorities. We would not serve our customers or our community well if we prematurely adopted “green energy” mandates, which in California have contributed to rolling blackouts during high demand periods.

Further, coal and natural gas generation enhance the **Affordability** that San Antonio residents receive in comparison to other major markets across the state and nation. We cannot, and will not, disregard the importance of prioritizing **Customer Affordability** and **Reliability**, as we move more aggressively toward a carbon-free generation base.

However, our commitment to decarbonization is clear. CPS Energy is a leader in renewable energy, as well as energy efficiency and conservation. For example, and as shared with you before:

- We are #1 in solar in Texas and #5 in the nation.
- We started investing in wind energy 20 years ago and now 1,000 megawatts (MW) of our approximate 7,000 MW of energy capacity is in wind energy. Our early and consistent efforts contribute to Texas being #1 in wind energy in the nation.
- Additionally, our Save for Tomorrow Energy Plan (STEP) won a national award in 2019 for saving more than 800 MW of power, a year ahead of schedule, while saving \$100 million from the established budget.

To reiterate, while we share your goals to focus on greener technologies, there must be additional innovations that permit longer term energy storage or other technological innovations to also provide **Reliable, Affordable, and Resilient** solutions. The energy industry cannot predict when the most optimal innovations will be developed, become generally available, or at what incremental cost. Moreover, Spruce is a “long lived” asset, and its early decommissioning would require CPS Energy to “write off” the undepreciated value of that asset, which could have a material and adverse effect on customer bills.

Depending on its magnitude, a write off would also be a concern for other interested groups such as the financial community that buys and holds our bonds and thus permits maintenance and expansion of the CPS Energy infrastructure at a much lower cost than many utilities. If the adverse financial impact of closing Spruce resulted in a lower credit rating, CPS Energy might be unable to issue debt at lower interest rates, which could result in higher costs for our customers.

For these reasons, CPS Energy cannot commit today to close both Spruce units in 2030. Even so, it is important to note the positives, all of which we have again shared with you on many other occasions. To restate:

- In 2018, we made a commitment to have 80% clean energy generation by 2040.
- Also, in 2018, we closed the two older Deely coal units. Through a well-planned, six-year transition, no skilled / craft / union / or front-line employees lost their jobs because of this plant closure. Even so, it is important to remember that there are hundreds of employees who are driven to serve our community, who have worked at our plants for years, and who continue to do so every day.
- In 2019, our Board acted to align to the City's current Climate Action and Adaptation goals to expedite decarbonization / net zero attainment by 2050.
- In 2020, we initiated our new **FlexPOWER Bundle**SM Request for Proposal (RFP) that will help us find what intermediary energy technologies are ready today. As you know, through this RFP we are now looking for up to an additional 900 MW of solar capacity to help replace some gas steam units that are much older than our coal units.

Until we can ensure this can be done while maintaining **Reliable** energy services at **Affordable** prices for our customers, CPS Energy cannot exalt decarbonization over all other community needs. Instead, our company's comprehensive commitment remains to always do our best to keep San Antonio's lights, air conditioners, and kitchen appliances working 24/7/365, **without creating bill shock**, while continuing to focus on the transition to clean energy.

We hereby, again, respectfully propose a meeting – without the preconditions you have most recently demanded. We remain willing to receive constructive feedback on our approaches for how we serve our customers and our community, and we still stand ready to meet with you should you wish to discuss these matters in a collaborative manner.

Everyone on our CPS Energy team firmly believes that continuing to talk about San Antonio's environmental programs and related key community issues is important for us all. The views of our customers, community, and stakeholders, combined with the expertise and proficiency of our utility, are charting a constructive energy future for San Antonio that is making real progress.

We remain committed to a collaborative approach and hope that your organizations will work with us to move forward in a positive and responsible way for the betterment of San Antonio and all its citizens.

Sincerely,

Paula

PGW:ksg

Attachments: Previous Related Correspondence

Copy to CPS Energy: CPS Energy's Board of Trustees
Ms. Paula Gold-Williams
CPS Energy's Senior Chiefs
Board Relations

Copy to CoSA: City Council
Mr. Erik Walsh
Mr. Ben Gorzell
Ms. Ivalis Meza Gonzalez
Ms. Michelle Lugalía-Hollon

Copy to ESG Tri-Chairs: Mr. Greg Harman
Ms. Diana Lopez