

CPS ENERGY
MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
HELD ON DECEMBER 19, 2022

The Regular Meeting of the Board of Trustees of CPS Energy for the month of December was held on Monday, December 19, 2022 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

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
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. Melissa Carrillo Cox, Program/Project Manager.

III. PUBLIC COMMENT

Ms. Henrietta LaGrange, community member, thanked Mr. Rudy Garza and noted she believes the community thinks he does a great job. She also invited Trustee Steen and Chair Dr. Mackey to lunch. She stated that the gas produced by CPS energy is always blue and is "better than gold." Finally, she thanked the female engineers at CPS Energy.

Ms. Anacua Garcia, Southwest Workers Union, requested that CPS Energy chart a clean energy future for our community. She stated that robust efforts are needed to move away from power generation that endangers our community and land, primarily natural gas and nuclear. She requested research and reports on the environmental health costs of these power sources. She requested that CPS Energy engage in generation planning every 2-3 years. Finally, she noted that energy conservation, energy efficiency and weatherization are important to the community, particularly low-income residents.

Ms. Katie Harvey, Chair of the San Antonio Chamber of Commerce, recommended and requested that the Board of Trustees support the P2 blended portfolio. She noted that a rapid move to all renewable energy too soon could seriously jeopardize the reliability, affordability, and stability of our energy generation as well as negatively impact our local workforce and local economy. She stated that the P2 portfolio is the most balanced and supports CPS Energy's efforts to meet the growing needs of our city's energy infrastructure and institutes innovative solutions to meet growing demands.

Mr. Jon Allman, CEO of Endeavors, stated he appreciated the Rate Advisory Committee's (RAC) focus on affordability and impact to local workforce. He expects the number of households Endeavors assists with utility bills to grow after the rate increase. He stated that while he recognized the rate increase will support necessary infrastructure investments, the need for affordable and reliable energy is critical for our residential and commercial ratepayers. Finally, he noted that the P2 blend portfolio is the most balanced, and he urged the Board of Trustees' adoption.

Mr. Phillip Green, Chairman & CEO Frost Bank, stated he appreciated the efforts in making a complex analysis understandable for the community because this allows engagement. He stated that he supports the P2 blended portfolio as it produces the most affordable, reliable and stable energy, and that it's the best choice for our economy to grow. Finally, he stated that it is a less risky path, and allows for collaboration to get to a cleaner and more sustainable approach to energy.

Mr. Duane Wilson, San Antonio North Chamber of Commerce, stated that the Chamber continued to cautiously support the City of San Antonio's Climate Action and Adaptation Plan (CAAP). He noted the projected growth of the San Antonio metro area and stated that any rapid push to shut down gas and coal plants and move to all renewable energy too soon will jeopardize reliability and impact the workforce. He requested the Board of Trustees consider the P2 blended portfolio.

Dr. Cyrus Reed, Conservation Director, Lone Star Chapter, Sierra Club, agreed with the move away from coal, and urged the Board of Trustees to take their time and look at all the facts. He noted that he understood that moving too quickly to all renewables was not a good idea but urged a cautious review of the options. He stated that his organization supported portfolio options P3, P6, or P9. Regardless of the decision, he urged the Board to 1) look at federal opportunities that he believes were not fully analyzed in the analysis, and 2) expand energy efficiency.

Ms. Marina Gonzalez, President & CEO of San Antonio Hispanic Chamber Commerce, expressed her support for the RAC's recommendation of the P2 blended portfolio. She stated the P2 option struck the right balance between reliable and affordable energy with current technological advancements while also supporting the low-carbon emissions to meet our City of San Antonio's climate goals. She noted the two priorities for members of the Chamber are affordability and reliability. Finally, she stated that a rapid push to shut down gas and coal too quickly poses a risk to reliability and could result in increased costs for CPS Energy customers.

Mr. Richard Perez, President & CEO of the San Antonio Chamber of Commerce, stated the Chamber lends its members collective support for the P2 blended portfolio recommendation. He stated that the Chamber has historically supported CPS Energy policies that are well-balanced and that also maintain affordability, reliability, and flexibility to support the utility's efforts to address energy infrastructure needs and increased demands of our growing city and region. Finally, he asked for the Board of Trustee's full support of the RAC's recommendation of P2.

Reverend David Archibald, Rector of St. Andrew's Episcopal Church and part of a climate reality project chapter, spoke in favor of the P9 portfolio. He stated it will support the San Antonio CAAP goals and San Antonio Climate Ready Plan. He noted that the P2 blended portfolio makes 2030 CAAP goals but misses the 2040 goals enormous amount. He further noted that in looking far into the future, P2 is unsustainable. Finally, he stated his tradition says bears one another's burdens and you'll fulfill the law of love - whether it's consumers, energy producers, or fuel extractors - everyone shares the same burden together and we all have do it together in order to get to a sustainable future.

Ms. Emma Pabst, Sierra Club, read testimony on behalf of Sierra Club Intern, Cynthia Gonzalez. Ms. Gonzalez's remarks noted that she worked on a petition to close the Spruce coal plant. She stated climate change is the defining challenge of our time, and that there is no doubt that the Spruce coal plant needs to be permanently closed, not converted to natural gas. She stated that new evidence suggests that the rise in carbon dioxide emissions from gas has eclipsed the decline in emissions from coal and methane leaks have 86 times the warming power of carbon. Finally, she stated over 300 people have signed her petition urging the closure of Spruce and stopping it being converted to natural gas.

Ms. Isabella Briseno, ratepayer and teacher, noted that interested rate payers should have a better opportunity to engage with the Board of Trustees than weekday meetings. She stated that converting Spruce to fracked gas is will increase our reliance on gas. Fracked gas harms the plant because fracking for natural gas releases harmful pollutants into the air and hurts the pockets of ratepayers, especially our low-income neighbors and marginalized communities. She urged the Board to not tie our city to unreliable and expensive energy sources, such as fracked gas, and understand there is no time to waste in transitioning away from coal and towards a renewable future.

Ms. DeeDee Belmares, Climate Justice Organizer with Public Citizen, recognized how far they've come in this resource planning and, more importantly, that we are coming to an end for the Spruce coal plant. She recognized the public-facing resource planning process and noted that RAC members worked hard. As a RAC member, she voted for the P6 portfolio to chart a path without fossil fuels, and noted CPS Energy must make good on its commitment to CAAP. She stated that gas is driving up our utility bills, and the prices of gas remain very volatile. There is a tremendous opportunity for CPS Energy in the Inflation Reduction Act (IRA) and is encouraged that the City of San Antonio is focused on securing every dollar possible for a clean energy transition. She urged the Board to consider all the loan and grant opportunities in the IRA before moving forward on a resource plan.

Ms. Sarah Zimmerman, teacher and customer, advocated for clean energy. She stated that fracked gas cannot be our future. In the end what is sustainable will be affordable because in 20 years it will be 120 degrees outside, and we have to invest now to be safer later. She also urged use of the Inflation Reduction Act to make a transition that is good for our community. Finally, she stated that since she works from 7-5, this is the first meeting she was able to attend, and meetings should be accessible for all class of workers.

Mr. Leo Lopez, Environmental Justice Organizer for Southwest Workers Union, urged the Board to take the most equitable path forward because we have to take our most vulnerable members of the community into account. He also urged a more robust approach to customer assistance and try to avoid disconnections in the future given the approaching extreme cold weather. The coming colder weather will impact the most vulnerable customers due to lack of weatherization.

Mr. Alan Montemeyor, Chairman of the Alamo Group of the Sierra Club, noted that economics will drive decisions. He referenced a news article noting that fracked gas production has peaked. Therefore, gas will continue to get more expensive due to this and the world situation. He urged the Board of Trustees to not lock in CPS Energy, as it did with coal, because it resulted in the need to pay off the huge investment made into coal. He asked if natural gas is to be used, ask for cleaner natural gas with less leakage. He asked to keep options open for increased renewables, energy conservation, and grid-scale energy storage. He urged the Board to revisit the generation choices periodically. Finally, he urged a move towards EVs, bringing in a renewable energy project at the H2Oaks Center, considering time of use rates, and ending rebates for natural gas.

Mr. Terry Burns, Sierra Club, stated he has been critical of the Board of Trustees and former CEO over the years, but at this time he wished to express his thanks to Mr. Garza and Chair Mackey for a real enormous change of leadership. He noted that things are better and much more transparent. He also thanked Mayor Nirenberg for helping to get the RAC established. He thanked Mr. Reed Williams for his leadership of the RAC. He stated that RAC has done a good job – he doesn't agree with their decision and that P9 is actually cheaper and more reliable. He urged the Board to make their own decision and appreciated that the coal plant is finally being closed. Finally, he urged that natural gas be purchased from a clean source and to look at STEP again because it is effective.

IV. CHAIR'S REMARKS.

Chair Dr. Mackey recalled that in March 2020, in partnership with the San Antonio City Council, CPS Energy issued a statement about our People First philosophy to be there for our customers by suspending disconnections. In April 2020, the Board of Trustees ratified a resolution to waive late fees for customers on payment plans, and the minutes reflect that the Board noted the disconnect suspension would be continued for a minimum of 30 days after the community reopened. In May 2020, the City Council passed a resolution approving the suspension of late fees.

Chair Dr. Mackey introduced the Resolution Supporting CPS Energy Plan to Mitigate Customer Debt and read the resolution. He noted that the resolution would be discussed as Item #7, but stated his objective is to note he believes the Board needs to take formal action, which it has not done since April 2020. The purpose is for the Board to discuss past due accounts and to determine what we need to do to rectify the situation and how to best move forward.

Chair Dr. Mackey then allowed Trustee Dr. Romero a moment to make comments on the CPS Home Energy Assessment. Dr. Romero stated she wished to comment on the program. She appreciated Ms. Ana Lozano and Mr. Nick Cooper from CPS Energy and Mr. Ace Sanchez and Mr. Damon Smith from CLEAResult. She stated it is a wonderful program and it is of no charge. The program provides an in-depth look at your home. The group was able to locate a minor problem with HVAC system. They were the first to find to identify and fix the problem. She found the process to be educational.

V. CEO'S REPORT

Mr. Rudy Garza started with a discussion on the Inflation Reduction Act (IRA). He recently visited Washington, DC along with San Antonio City Manager, Erik Walsh to learn about opportunities through the IRA. The opportunities will be focused on new technologies, climate transformation, ownership, and grid transformation.

Then, Mr. Garza informed the Board that CPS Energy hosted a state delegation meeting for members and staff. Ten of fourteen delegation offices attended, and it was a great opportunity to discuss key initiatives and legislative priorities.

He provided a summary of touch points CPS Energy made in the generation planning engagement efforts. We reached and engaged customers through over 600,000 touch points focused on continuous awareness and dialogue with the community.

Mr. Garza recognized the Gas Solutions Rodeo Team engaged in the Utility Locate Rodeo in Springfield, Missouri. He congratulated them on their competition with 53 other teams from across the country and appreciated their representation of CPS Energy.

He also recognized the Supply Chain Safety Team for a full year of no-incident performance. The 65 warehouse partners accomplished one full year of performing their work with no recordable injuries and no preventable motor vehicle accidents.

Finally, Mr. Garza reassured our community and Board of Trustees, that we are prepared for the coming cold weather. He recognized ERCOT and the PUC for improving communications with the community. He invited Mr. Brian Alonso, Meteorologist, to the podium to discuss the forecast. Mr. Alonso noted an arctic front is expected to move through Thursday afternoon. There will be wind gusts and a significant drop in temperature, but we do not anticipate winter precipitation.

VI. RATE ADVISORY COMMITTEE (RAC) UPDATE

This item was deferred.

VII. MONTHLY PERFORMANCE UPDATE & RESOLUTION SUPPORTING CPS ENERGY PLAN TO MITIGATE CUSTOMER DEBT

Ms. DeAnna Hardwick, Executive Vice President for Customer Strategy, and Mr. Chad Hoopingarner, Vice President for Financial Planning, Pricing & Budgets, presented the Monthly Performance Update which focused on accounts receivable. Ms. Hardwick detailed CPS Energy's plan to mitigate customer debt and summarized all collection activities taken.

Chair Dr. Mackey re-introduced the Resolution Supporting CPS Energy's Plan to Mitigate Customer. The Board of Trustees discussed the resolution and asked questions of CPS Energy staff.¹

Mayor Nirenberg moved to approve the resolution as amended, which was seconded by Trustee Dr. Romero. The motion passed on a vote of 4-0-1, with Trustee Steen abstaining, and the following resolution was adopted:

¹ Trustee Steen requested his comments be included in the minutes. His comments are attached (as Attachment "A").

RESOLUTION SUPPORTING CPS ENERGY PLAN TO MITIGATE CUSTOMER DEBT

WHEREAS, CPS Energy is a municipally owned utility and proud community partner to the City of San Antonio and surrounding communities; and

WHEREAS, a unique benefit of public power is the help and support CPS Energy provides to our community in its greatest times of need; and

WHEREAS, on March 11, 2020, CPS Energy temporarily suspended service disconnections for customers during the COVID-19 pandemic; and

WHEREAS, on April 27, 2020, this Board of Trustees unanimously passed a resolution, confirming and ratifying the waiver of late fees for customers who make timely payments as part of a payment plan established during the period of suspended disconnects; and

WHEREAS, on May 21, 2020, the San Antonio City Council unanimously passed an ordinance authorizing and ratifying the waiver of late fees for customers participating in deferred payment plans; and

WHEREAS, CPS Energy increased its efforts to connect customers to assistance, including to the Residential Energy Assistance Partnership (REAP), working with the City of San Antonio and other partners; and

WHEREAS, CPS Energy also began unprecedented efforts to connect with customers, including adjusting customer service center hours, increasing outreach efforts, and enrolling customers in eligible payment plans; and

WHEREAS, in July 2021, CPS Energy announced it would resume service disconnections, starting in September 2021 with large commercial customers and October 2021 with small commercial and residential customers; and

WHEREAS, in January 2022, late fees were reinstated for all customers, and

WHEREAS, although CPS Energy had resumed service disconnections and the application of late fees, the spring and summer months of 2022 saw record-breaking heat and increased natural gas prices due to global pressures, which increased the amount of past due receivables and limited the number of disconnections; and

WHEREAS, CPS Energy management and staff have continually kept this Board of Trustees informed of our evolving and increasing efforts to mitigate and address past due accounts, while still supporting our customers in need; and

WHEREAS, as of October 31, 2022, the amount of past due receivables is \$207,600,000 and CPS Energy recognizes the need to further monitor and address past due balances; and

WHEREAS, CPS Energy and the Board of Trustees are committed to the welfare of the community and financial wellbeing of CPS Energy; and

WHEREAS, CPS Energy core values are accountability, safety & wellbeing, integrity, transparency, excellence, and achieving our mission as one team; and

WHEREAS, in keeping with our core values, CPS Energy management and staff provided this Board of Trustees with an updated comprehensive plan to address past due balances; and

NOW, THEREFORE, BE IT RESOLVED, CPS Energy Board of Trustees confirms and supports this comprehensive plan, and

BE IT FURTHER RESOLVED, CPS Energy Board of Trustees hereby directs CPS Energy to provide this Board of Trustees a monthly update on the effects of this comprehensive plan in addressing past due accounts.

VIII. GOVERNANCE – DUTIES OF THE BOARD REGARDING CPS ENERGY EMPLOYEE BENEFITS PLAN

Ms. Debra Wainscott, Vice President of People and Culture and Chair of Administrative Committee, presented on the duties of the board and governance structure of the CPS Energy employee benefit plans. The Board of Trustees discussed the resolution and asked questions of Ms. Wainscott.²

IX. EXECUTIVE SESSION

At approximately 3:16 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 3:34 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.

² Trustee Steen requested his comments be included in the minutes. His comments are attached (as Attachment “B”).

X. APPROVAL OF CONSENT ITEMS

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

A. Approval of Payment to the City of San Antonio for November 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 November 2022 is based on actual gross revenue per the New Series Bond Ordinance of \$197,112,293.38, less applicable exclusions. The revenue for the month of November 2022 is calculated as follows:

Gross revenue per CPS Energy financial statements		
Electric revenue		\$196,116,895.27
Gas revenue		28,086,739.95
Interest and other income		8,548,602.80
Gross revenue per CPS Energy financial statements		<u>232,752,238.02</u>
Excluded revenue		
School and hospital revenue per City Ordinance 55022		(8,071,443.00)
LVG revenue per City Ordinance 100709		(246,875.60)
Fuel cost component of off-system nonfirm energy sales per City Ordinance 61794 and revenue for wholesale special contracts		(12,402,539.32)
Noncash and other income, GASB 31 investment market value change, miscellaneous interest income, gas billing adjustment and unbilled Revenue		<u>(14,919,086.72)</u>
Total excluded revenue		<u>(35,639,944.64)</u>
Gross revenue per New Series Bond Ordinance subject to 14% payment to the City		<u>\$197,112,293.38</u>
City payment per Bond Ordinance for November 2022 based upon November 2022 revenue		\$27,595,721.07
City payment per memorandum of understanding (MOU) regarding wholesale special contracts		363,303.49
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		27,946,524.56
Utility services provided to the City for November 2022		<u>(2,802,291.87)</u>
Net amount to be paid from November 2022 revenue to the City in December 2022		<u>\$25,144,232.69</u>

A

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)

November 2022	Actual	Budget	Variance	
Current Month* A	\$27,947	\$26,841	\$1,106	4.1%
Year-to-Date*	\$376,282 **	\$328,628	\$47,654 **	14.5%

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

** Includes a rounding adjustment of \$1 to agree to correctly rounded YTD amount.

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 \$25,144,232.69 representing 14% of applicable system gross revenues for the month of November 2022, such payment being net of City utility services (\$2,802,291.87), is hereby approved."

B. Approval of Procurement Item:

1. Item Description: Electric Overhead and Underground Temporary and Permanent Electric Services

Purchase Category: General Services

Supplier: Chain Electric Company
HJD Capital Electric, Inc

2. Item Description: Competitively Sensitive Item

3. Item Description: Competitively Sensitive Item

*The listed Procurement Items will be attached (as Attachment "C") to the meeting minutes.

XI. COMMITTEE REPORTS

In the interest of time, Chair Dr. Mackey accepted the submission of the following reports for the record in lieu of having them read during the meeting:

- A. Operations and Oversight Committee (OOC) Meeting held on November 10, 2022. A report of this meeting will be attached (as Attachment "D") to the meeting minutes.
- B. Nominations Committee meeting held on December 6, 2022. A report of this meeting will be attached (as Attachment "E") to the meeting minutes.

XII. RATE ADVISORY COMMITTEE (RAC) GENERATION PLANNING RECOMMENDATION

Trustee Dr. Romero provided introductory remarks. She stated that the RAC efforts were the best planned and executed community advisory group that she has ever seen – from the participants to the entire support team. RAC members spent a lot of time learning, educating each other on their own perspectives, and, for the most part, were respectful of each other's views. She thanked several individuals for their efforts and dedication.

Mr. Reed Williams, Chair of the Rate Advisory Committee, provided the recommendation of the RAC to the Board of Trustees. He recapped the role of the RAC – making a recommendation on the next steps on generation planning to get through 2030. He discussed the process undertaken, challenges faced, and voting summary. Finally, he provided the RAC's recommendation – which is that we're out of the coal business in six years. The RAC ultimately selected the P2 blended portfolio by a supermajority vote. He discussed three portfolios that received votes – P2, P6, and P9. He noted that various members of the RAC have different risk profiles, which lead to different preferences in the portfolios.

The Board of Trustees made statements and asked questions.

XIII. GENERATION PLANNING

Ms. Kathy Garcia, Vice President of Governmental Affairs, presented an update on our generation planning process and discussed our potential options. The goal for this planning cycle is to ensure reliable, affordable, and sustainable energy resources through 2030. She reviewed the planning objectives and approach. She reviewed the portfolio metric results and detailed the benefits and risks of the four portfolios most aligned to the objectives. Finally, Ms. Garcia noted that P2 and P9 are the most viable as they retire coal and achieve the 2020 CAAP target.

The Board of Trustees discussed the presentation and asked questions.

XIV. ADJOURNMENT

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



Shanna M. Ramirez
Secretary of the Board

12/19/22

STATEMENT OF JOHN STEEN

Re: Monthly Performance Update & Resolution Supporting CPS Plan to Mitigate Customer Debt
(Agenda Item #7)

Ms. Hardwick and Mr. Hoopingarner, thanks to both of you for your presentation and all the time and effort you're putting into this pressing matter. My remarks today are directed to our CEO. So, Mr. Garza, let me first state that it's well and good that you've developed and are presenting to the board a more comprehensive and detailed plan to address our customer bad debt situation. However, you're also asking me through this resolution to specifically endorse your plan, and that I'm not willing to do. I prefer to wait and see if it's actually effective. I believe that's my responsibility as a trustee. This plan contains a lot of elements of what you've been doing the last 12 months, and it's plain for all to see that's not been working so well.

Further, given the importance of this matter to CPS Energy's financial health, I question the part of the draft resolution that mandates a management report on the effects of this plan *every quarter*. I don't think it's unfair to say that this can be seen as an artful way to try to put this issue on the board's back burner when I'm endeavoring to keep it on the front burner – to hold management accountable until this situation is brought under control. I foresee what will happen should the proposed resolution be adopted. Pursuant to the proposed resolution, this matter will be agendized only every third meeting, and, if I try to bring it up for a status report and discussion at, say, our next meeting, I'll be admonished by counsel that I'm out of line. This can be viewed as an effort to make what we're doing here at CPS Energy *less* transparent.

This is not the time to direct the spotlight away from an issue that's vitally important to CPS Energy. Our customers and community want us to stay hyper-focused on it until it's resolved. Therefore, I will abstain. I can't vote for the resolution for the reasons given above, and, if I vote against it, detractors will try to say that I'm against trying to resolve the problem.

On a different but related matter, I want to focus on the three key financial metrics as shown on slide 6 of this presentation. (Please go to slide 6.) As can be seen, year-to-date days-cash-on-hand is 138 when our threshold level as determined by the three credit rating agencies is 150. I'm pulling for you to achieve 150 by January 31st, the end of our fiscal year, but with the holidays upon us and frigid weather imminent, I'm skeptical that CPS Energy is going to get there. However, you've continued to show unwavering confidence that we will. What I'm wondering is if what you're planning to do at the eleventh hour is draw on our lines of credit or issue commercial paper to build up cash in order to hit the 150 target. If so, I'd respectfully ask you to give the board a heads-up before you do so. I'm going to have to be convinced that this is an acceptable way to meet the days-cash-on-hand metric. At first blush, it seems contrived and not in keeping with CPS Energy's high standards. And it's not likely to persuade the three credit rating agencies that we're getting our financial house in order. By the way, if before January 31st you're *not* going to pull on

Attachment "A" to the December 19, 2022

Regular Board Meeting Minutes

the company's lines of credit or issue commercial paper in order to fund spending and coincidentally meet the days-cash-on-hand metric, it'd be helpful if you'd go ahead and say so, and I'll scratch that item from my list of concerns and won't bring it up again.

I respectfully request that this statement be included in the minutes of today's meeting.

12/19/22

STATEMENT OF JOHN STEEN

Re: Governance – Duties of the Board regarding CPS Energy Employee Benefit Plans
(Agenda Item #8)

Thanks Ms. Wainscott for your presentation today. As always, your responsiveness and willingness to engage are much appreciated. Your remarks touch on an issue I've raised during recent meetings of the Employee Benefits Oversight Committee or EBOC for short. In particular, I've been focused on the single most important assumption made by any pension system. This assumption ensures there's sufficient funding to pay for the benefits promised. In reality it's an informed guess as to how much can be earned by investing contributions. This "guesstimate" is called the actuarial rate of return (ARoR). The higher the ARoR, the fewer contributions employers and employees must make. The lower the ARoR, the higher those contributions need to be in order to pay for promised benefits.

There's been a trend since the 2008-2009 financial crisis toward lower investment assumptions for public plans. In regard to CPS Energy's benefit plans, our ARoR was reduced:

- To 7.75% in 2010;
- To 7.50% in 2014;
- To 7.25% in 2017; and
- To 7% in 2020.

It remains at 7% today

At the EBOC, I've been advocating for a reduction from 7% to 6.75%. This is because of the dismal returns we've been getting lately -- they're seriously in negative territory -- and my concern about the economic headwinds we'll be facing in the near future. Here are but two of many harbingers of rough sailing ahead:

- The Conference Board's latest gauge of CEO confidence is at its lowest level since 2019, and 98% of surveyed CEOs anticipate a U.S. recession next year.
- Bloomberg News, which compiles Wall Street forecasts, notes that 2023 predictions for the stock market are negative for the first time this century.

Ms. Wainscott and the Administrative Committee maintain that the ARoR should remain at 7%, emphasizing that our benefit plans have a long horizon and that over the long-term -- including inception to date -- we've exceeded the ARoR. This is a critical debate to have because nationwide over the last twenty years, the largest single contributor to the growth of unfunded liabilities has been underperforming investments, or, put another way, assuming unrealistic returns on pension assets so that they end up not contributing enough to pay for promised benefits. So I believe 7% is overly optimistic. Again, I'd like us to take a more conservative approach and lower it to 6.75%. One guidepost: The nation's *largest* pension fund CalPERS (California Public Employees

Retirement System) lowered its investment assumption to 6.8% in 2021, and there are reports that their internal advisors have opined that CalPERS should be aiming for 6%.

Here, at CPS Energy, our Administrative Committee approves the ARoR along with other actuarial assumptions during the summer of each year – this past year it was done in August – without formally soliciting the input of either the EBOC or this board. This surprises me in that this board, according to its ordinances, has “absolute and complete authority and power with reference to the control, management and operation of the Systems and the application of the revenues of the System ...” So my first request is that EBOC and this board be consulted *before* this annual decision on the ARoR is made.

My second point is that, given that the responsibility ultimately lies with the board, why aren't we deciding something as consequential as what our actuarial rate of return should be? If you'll put up slide 5, we can see that there are already major areas where the approval of the EBOC and the board are required. I think this ARoR approval authority could be specifically added if the board had the collective will to do so. In fact, look at the language where it says the board approves annual expense and cash-flow funding via the budget process. One might argue that we already have this approval power except we're ceding to the Administrative Committee the most important element in all this by allowing it to unilaterally set the ARoR.

I recently asked staff what would be the financial impact if the ARoR were to be lowered, from 7% to 6.75%. I was told that, although our employees would *not* have to contribute, it would mean CPS Energy would be on the hook for millions of dollars a year for the next six years. So it's not going to be inexpensive to take the action I'm recommending, but it is a step in the right direction to help ensure our benefit plans are financially healthy and able to pay the promised benefits to our esteemed and valued retirees.

Again, Ms. Wainscott, thanks for bringing this matter to the full board's attention. I respectfully ask that this statement in its entirety be included in the minutes of today's meeting.



**CPS Energy Board of Trustees Meeting
December 19, 2022
APPROVAL of PROCUREMENT ITEMS
Table of Contents**

1. Item Description:	<u>Electric Overhead and Underground Temporary and Permanent Electric Services</u>
Purchase Category:	General Services
Supplier:	Chain Electric Company
	HJD Capital Electric, Inc

Approval: 

Lisa Lewis, Chief Administrative Officer

Approval: 

Rudy Garza, President & CEO



CPS Energy Board of Trustees Meeting

December 19, 2022

Procurement Form 1

Item Description	Electric Overhead and Underground Temporary and Permanent Electric Services
Purchase Order Value	\$ 20,000,000
Purchase Category	General Services
Department	Resource Management
VP Construction & Maintenance Services	Darrell Clifton
EVP Energy Delivery Services	Richard Medina

Detailed Description

CPS Energy staff recommend that a contract be awarded to Chain Electric Company a local, non-diverse firm, and HJD Capital Electric, Inc. a local, diverse firm as the respondents who will provide the goods or services at the best value for CPS Energy based on the evaluation criteria set forth below.

This recurring contract is for installation and removal of temporary and permanent Underground Residential Distribution ("URD") services and meters. Temporary installation and removal services are currently being executed by contractors only. This contract will allow CPS Energy to continue to meet the high demand of CPS Energy customer need by dates for new services without delay. This contract will expire on July 31, 2026.

Subcontracting Opportunities

Chain Electric Company has committed to subcontracting at least 20% of overall spend to the following diverse businesses:

- Bartek Construction is a local, small business providing underground digging operations in soil, sand, and rock.
- Bexar Pipeline & Utilities is a local, small business providing underground digging operations in soil, sand, and rock.

The solicitation method for this procurement was a Request for Proposals. An evaluation team considered the following weighted evaluation criteria to determine the best value to CPS Energy.

Evaluation Criteria	Points
Experience and qualifications to perform the Services	31
The overall cost	21
Safety records and training program	20
The financial soundness of the Respondent	10
Economic Development (local & diverse consideration)	10
The ability to meet CPS Energy's requirements	8
TOTAL	100



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Recommended Respondent(s) & Award

Respondent Name	SBA Classification & Details	Score	PO Value	PO #	Comments
Chain Electric Company	Local/Non-Diverse	90	\$10,000,000	2204327	
HJD Capital Electric, Inc	Local/Diverse (Small, Hispanic American-Owned)	75	\$10,000,000	2204328	
TOTAL			\$20,000,000		

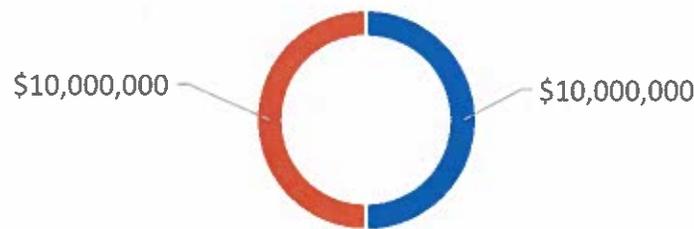
Three (3) additional respondents were not recommended for award: Source Power, LLC.; Pike Electric, LLC.; and FNT Services dba Quality Power Distribution.

Annual Funds Budgeted

Corporate Annual Budget	Funding Method	Projected FY2023 PO Spend	% of FY2023 Annual Corp Budget	Projected FY2024 PO Spend	Projected FY2025 PO Spend	Projected FY2026 PO Spend	Projected FY2026 PO Spend
\$832,904,076	Capital	\$500,000	0.06%	\$5,700,000	\$5,700,000	\$5,700,000	\$2,400,000
\$729,676,030	Non-Fuel O&M	\$0	0%	\$0	\$0	\$0	\$0

Our current approved budget and latest estimates support these new purchase orders.

Procurement Item: General Services



- Local / Diverse
- Local / Non-Diverse
- Non-Local / Diverse
- Non-Local / Non-Diverse



OPERATIONS OVERSIGHT COMMITTEE (OOC) MEETING

EXECUTIVE SUMMARY AND CHAIR REPORT FROM THE NOVEMBER 10, 2022 MEETING PREPARED FOR COMMITTEE CHAIR, DR. FRANCINE ROMERO FOR REPORT AT THE DECEMBER 19, 2022 BOARD OF TRUSTEES MEETING

The Operations Oversight Committee met on November 10, 2022. As part of the agenda, the Committee:

- A. Approved meeting minutes from the prior meeting held on August 19, 2022.
- B. Received an update on the Operational Efficiency Review that included:
 - a. An update from Daymark Energy Advisors
 - b. And an update from Gallup, Inc.
- C. Received a presentation on the Update on Equity-Focused STEP Programs that included:
 - a. A discussion on Energy Burden
 - b. An update on the shift from a single prime contractor to multiple prime vendors
 - c. An overview of enhancements to the Weatherization Program & the new multifamily offering
 - d. And a discussion on solar accessibility for low- & moderate-income customers
- D. Received a Procurement preview for:
 - a. A purchase order increase for residential electric meters
- E. Received an update on FY2024 Performance Measures that included:
 - a. An overview of the move to simplified Enterprise Performance Measures
 - b. And a review of the proposed FY2024 measures

The next meeting of the Operations Oversight Committee meeting is TBD.



NOMINATIONS COMMITTEE (NC) MEETING

EXECUTIVE SUMMARY AND CHAIR REPORT FROM THE DECEMBER 06, 2022 MEETING

PREPARED FOR COMMITTEE CHAIR DR. WILLIS MACKEY

FOR REPORT AT THE DECEMBER 19, 2022 BOARD OF TRUSTEES MEETING

The Nominations Committee met on December 06, 2022. As part of the Nominations Committee Meeting agenda, the Committee:

- A. Nominated Vice Chair Gonzalez to serve as the next Chair at the conclusion of Chair Dr. Mackey's term on January 31, 2023.
- B. Nominated Trustee Dr. Romero to serve as the Vice Chair, at the conclusion of Vice Chair Gonzalez's term on January 31, 2023.