

Performance-Based Plan Management

Briefing to the Board of Trustees

March 25, 2019

Smart. Focused. Done Right.®

Today's Objective and Background

Today's Objective – Provide a preview to the Board of Trustees on the key performance metrics slated for the April 29 Board Meeting in executive session.

Background

- CPS Energy management reports two types of metrics to the Board of Trustees

Annual Metrics	Annual metrics specific to all salaried employees at CPS Energy, including the President & Chief Executive Officer (“CEO”).
Long-Term Metrics	Two-year metrics specific to the President & CEO and Senior Chiefs.

- These metrics combine to provide an environment with a focused attention on performance accountability, in accord with accepted industry practices, that encourages sustained strategic success across the enterprise

ScottMadden's Role

Similar to prior years, CPS Energy has engaged ScottMadden, an energy utility management consulting firm, to assist with this process.

- Independently assess prior-year metric results
- Independently recommend future goals and work with Management to formalize a final recommendation
- Assist with methods, processes, and communication related to the metric system

Energy Is Who We Are

ScottMadden is a management consulting firm with more than 35 years of deep, hands-on experience.

We deliver a broad array of consulting services—from strategic planning through implementation—across the energy utility ecosystem.

ENERGY

Our Energy practice has been serving the industry since 1983 by solving the right problem, the right way, and delivering real results.

We provide guidance on how to solve the right problem with industry-leading practices and management insights.

CLEAN TECH & SUSTAINABILITY

Our Clean Tech & Sustainability practice helps you develop innovative solutions based on a unique understanding of what works in the energy industry through a perspective built from 35 years of energy experience.

We provide guidance on navigating clean and renewable sources of energy, smart energy management, and sustainability.

WE DO
**WHAT IT TAKES
TO GET IT DONE
RIGHT**

GRID TRANSFORMATION

Our Grid Transformation practice helps you transform the way you operate, plan, and maintain the grid and interact with your customers.

We provide guidance on how to proactively engage with regulators through this transformation.

RATES, REGULATION, & PLANNING

Our Rates, Regulation, & Planning practice helps you develop your regulatory strategy, prepare your filing, and manage your rate case process.

We provide expert testimony on a wide range of issues and can help you with regulatory policy, best practices, regulatory process improvement, preparation for compliance audits, and more.

Historical Results

Number of Metrics Attained	FY17	FY18	FY19 ¹
Annual Metrics	3	3	5
Long-Term Metrics	7	7	6
Combined Metric Results			
Metrics Attained	10	10	11
Total Metrics	13	13	13
Attainment Ratio	77%	77%	85%

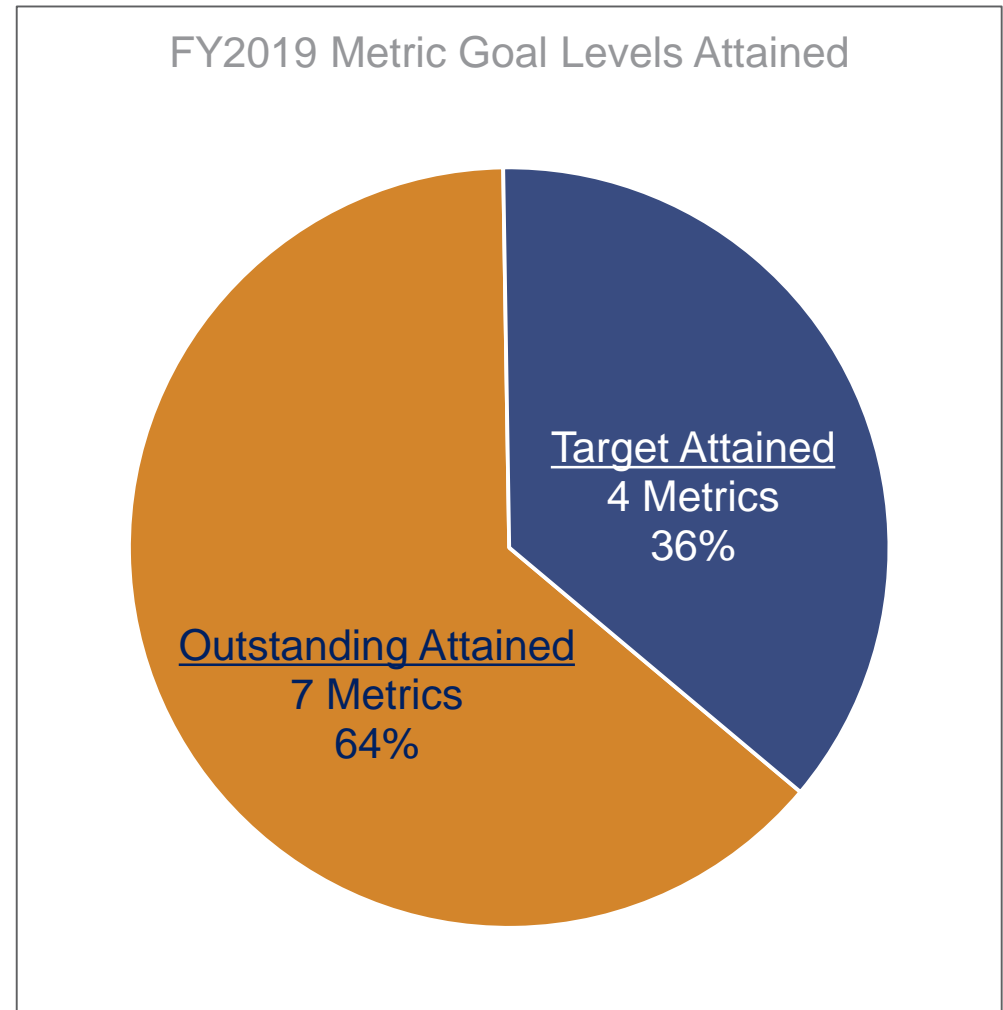
Metrics:

- ARE challenging
- ARE NOT designed to be easy
- DRIVE team improvement
- FOSTER culture of excellence

¹ FY19 Preliminary Results

FY2019 Preliminary Results

FY2019 Metric Results		
Metrics Attained "Target"	4	36%
Metrics Attained "Outstanding"	7	64%
Total Metrics Attained	11	



Annual Metrics – Preliminary Results¹

Performance Measure	Category	Desired Direction	Target ²	Outstanding ²	FY19 Results ³	Preliminary FY19 Status ³
Customer Satisfaction (Residential) ⁴	Customer	↑	77.5	79.0	82.3	ACHIEVED OUTSTANDING
Enterprise Safety (RIR)	Employee	↓	0.43	0.37	1.16	UNRECOVERABLE
Environmental Compliance (NOV/NOE)	Community	=	0 NOEs	0 NOEs & 0 NOVs	0 NOEs & 1 NOV	ACHIEVED TARGET
SAIDI ⁴	Operational	↓	61.00	55.40	54.49	ACHIEVED OUTSTANDING
Portfolio Commercial Availability ⁴	Operational	↑	89.5%	90.6%	93.2%	ACHIEVED OUTSTANDING
Enterprise O&M	Financial	↓	0–2.5% below Budget (Budget=\$617.2M)	2.5% or more below Budget (\$601.2M or less)	\$606.9M	ACHIEVED TARGET

¹ Financial Standard must be attained, which was achieved in preliminary FY2019 results

² Relative to this simple presentation, the actual results are aligned to their closest attainment levels. Precise interpolation techniques are used to ensure accuracy.

³ FY19 Preliminary Results

⁴ Calendar Year (CY) Measure

Long-Term Metrics – Preliminary Results¹

Performance Measure	Category	Desired Direction	Threshold ²	Target ²	Outstanding ²	FY18 Results	FY19 Results ³	FY18-19 Results ³	Preliminary FY18-19 Status
2-Yr Average Customer Satisfaction Index ^{4,6} (Residential + Small/Medium + Commercial)	Customer	↑	81.0	81.5	81.9	83.4	83.9	83.7	ACHIEVED OUTSTANDING FY18-19
Residential Management Reputation ⁵	Community	↑	76	77	78	78	81	N/A	ACHIEVED OUTSTANDING FY19
Enterprise Readiness ⁵	Employee	↑	64%	68%	76%	66%	73%	N/A	ACHIEVED TARGET FY19
2-Yr Average SAIDI ^{4,6}	Operational	↓	61.00	55.00	54.11	53.97	54.49	54.23	ACHIEVED TARGET FY18-19
2-Yr Average SAIFI ^{4,6}	Operational	↓	0.830	0.817	0.804	0.831	0.844	0.838	UNRECOVERABLE FY18-19
2-Yr Average Portfolio Commercial Availability ^{4,6}	Operational	↑	89.5%	90.3%	91.4%	90.8%	93.2%	92.0%	ACHIEVED OUTSTANDING FY18-19
Senior Lien Bond Ratings ⁵	Financial	=	1			1	1	N/A	ACHIEVED OUTSTANDING FY19

¹ Financial Standard must be attained, which was achieved in preliminary FY2019 results

² Relative to this simple presentation, the actual results are aligned to their closest attainment levels. Precise interpolation techniques are used to ensure accuracy.

³ FY19 Preliminary Results

⁴ Two-Year Average Metric: FY18-FY19

⁵ FY19 Threshold, Target and Outstanding Performance Measures

⁶ Calendar Year (CY) Measure

Financial Standard Metrics Preliminary Results

- The Board has established three financial standard metrics that must be met each year

Metric	FY2019 Threshold	FY2019 Results ¹
Adjusted Debt Service Coverage Ratio ²	1.50 ↑	2.00
Days Cash on Hand ²	150 ↑	246
Debt-to-Equity ratio to not exceed 62.2%	62.2% ↓	61.8%

¹ FY19 Preliminary Results

- Thresholds are also set by the Board and are fixed year over year
- It appears all financial standard metrics were met for FY2019

Topics for April Board Meeting

1. Validated results for FY2019
2. FY2020 metric design modification request
3. Fiscal Year 2020 goals

Validated Metric Results FY2019

Plan Metric	FY2019 Goals			Calculation		
	Threshold	Target	Outstanding	Level Achieved	% Scored	Metric Score
Two-Year Average Customer Satisfaction Index	81.0	81.5	81.9			
Enterprise Readiness	64%	68%	76%			
Residential Management Reputation	76	77	78			
Senior Lien Bond Ratings	N/A	N/A	1			
Two-Year Average SAIDI	61.00	55.00	54.11			
Two-Year Average SAIFI	0.830	0.817	0.804			
Two-Year Average Portfolio Commercial Availability	89.5%	90.3%	91.4%			
Total Percentage of Target Achieved						

- During the April Board Meeting, ScottMadden will present the validated results as achieved by CPS Energy compared to the approved plan (see template above)
- To prepare, ScottMadden is currently performing an independent review of each metric result to assess the following:
 1. Validate that the calculation is accurate, sound, and reasonable
 2. Validate that the data in the system of record is verified, confirmed, and reliable
 3. Validate that the data flow is traceable and documented
- Validation steps include documentation reviews, system of record checks, and subject matter expert interviews

FY2020 Metric Design Modification Request

CPS Energy Management and ScottMadden recommend two metric design modifications

- Recordable Incident Rate (RIR)



Current State

Use of RIR

- This metric is categorized within the Employee Relationship strategic focus area
- Maintaining employee safety is one of the highest Management priorities
- RIR is an Occupational Safety and Health Administration (OSHA) metric and benchmarkable amongst utilities
- Even though CPS Energy is not an OSHA reporting entity, RIR is used within the Employee Plan to track the effectiveness of the enterprise safety program

Issues

- OSHA is currently asking companies to stop using RIR within any plan due to a possibility of influencing the results
- Many electric and gas utilities are moving away from using RIR within their plans
- Management believes that the current plan is carefully designed and managed to prevent results manipulation



Proposal

- Out of an abundance of caution given the push by OSHA and the industry trend, Management and ScottMadden recommend replacing RIR with **OSHA Severity Rate**
- OSHA Severity Rate describes the aggregate impact of incidents in terms of the number of days lost due to injury
- Further details on the recommendation are provided in an accompanying whitepaper

$$\frac{\text{Lost Work Days} \times 200,000}{\text{Total Production Hours}}$$

FY2020 Metric Design Modification Request (Cont'd)

CPS Energy Management and ScottMadden recommend two metric design modifications (Cont'd)

- Environmental Compliance



Current State

Use of Environmental Compliance

- This metric is categorized within the Community strategic focus area
- The metric measures environmental Notices of Violation (NOV) and Notices of Enforcement (NOE) as issued by the Texas Commission on Environmental Quality (TCEQ) or other regulatory body

Issues

- Previous minor issues (e.g., failing to file paperwork on time) have triggered an NOV
- The Board has previously asked about the stringent goals of -0- for any notice of violation (NOV) or notice of enforcement (NOE)



Proposal

- Re-define the definition of the metric specific to NOVs while maintaining the part concerning NOEs with no change
 - Focus management attention on incidents that represent major or moderate harm to human health or the environment
 - Remove from the definition those NOVs that are minor or administrative in nature
- TCEQ already differentiates NOVs into these categories, with Category A representing “major,” Category B representing “moderate,” and Category C representing “minor”
- Further details on the recommendation are provided in an accompanying whitepaper

Fiscal Year 2020 Goals

- During the April Board meeting, ScottMadden will present recommended metric goals for Board review and approval
- See proposed template illustrating strategic drivers and metrics
- Financial Standard metrics will stay consistent, unless otherwise directed by the Board

Strategic Drivers	Long-Term Metrics			Annual Metrics		
	Metric	Threshold	Target	Outstanding	Metric	Target
CUSTOMER RELATIONSHIPS	Two-Year Average Customer Satisfaction Index			Residential Customer Satisfaction		
EMPLOYEE RELATIONSHIPS	Enterprise Readiness			Enterprise Recordable Incident Rate*		
COMMUNITY	Residential Management Reputation			Environmental Compliance Issues		
FINANCIAL INTEGRITY	Senior Lien Bond Ratings			Enterprise O&M		
OPERATIONAL EXCELLENCE	Two-Year Average SAIDI			SAIDI		
	Two-Year Average SAIFI			Portfolio Commercial Availability		
	Two-Year Average Portfolio Commercial Availability					
LEADERSHIP				Leadership Effectiveness**	Leadership effectiveness score assigned by Board	

*Proposed changes to metrics design not reflected
 **Leadership effectiveness is a component of President & CEO's Annual metrics, but not Employee metrics

Questions?

Appendix



Glossary

Business Term	Definition & Context
<p>Customer Satisfaction (MSI Residential)</p>	<p>Measure of improvement in customer satisfaction as determined in interviews with customers using Market Strategies International (MSI) methodology.</p> <p>Performance is based on a 0 to 10 point scale where 0 represents extremely dissatisfied and 10 represents extremely satisfied. Using this scale, it represents the average rating score of overall satisfaction among CPS Energy’s customers, multiplied by 10.</p> <p>Following each quarter, a composite score is calculated. For Employee Plan purposes, the annual measurement is an average of the four quarterly composite scores (one (1) decimal point).</p>
<p>Enterprise Safety - RIR (Recordable Incident Rate)</p>	<p>A measure of the number of recordable work-related injuries and illnesses as defined by Enterprise & Public Safety (two (2) decimal points).</p>
<p>Environmental Compliance</p>	<p>This measure counts the number of written Notices of Violations (NOVs) and Notices of Enforcement (NOEs) received during the fiscal year.</p> <p>For Target there can be no NOEs, which if present, would document the violation and put the recipient on notice that the case has been referred for enforcement. For Outstanding, the measure counts both the number of NOEs and written NOVs received during the fiscal year (whole number).</p> <p>NOTE: This metric does not include TCEQ Compliance History NOVs. Relative to any carryover item from the prior year, if such an NOV is not cleared, as scheduled by the TCEQ, the item will be counted against the current-year metric. If that item is subsequently cleared before the end of the fiscal year then in effect, it will be excluded for measurement purposes.</p>

Glossary

Business Term	Definition & Context
System Average Interruption Duration Index (SAIDI)	<p>Average duration of electric power outages during the calendar year (in minutes).</p> <p>Total number of customer interrupted minutes during a sustained interruption divided by the total number of customers served for the defined reporting period. For calendar year 2010 and beyond, the number excludes major events, as defined by IEEE 1366 (two (2) decimal points).</p>
Portfolio Commercial Availability	<p>Economic measure of unit's value-weighted availability.</p> <p>This measures actual margin capture as a percentage of potential ("dispatchable") margin available. It is driven by locational marginal pricing, variable unit cost, megawatt availability, maximum unit capacity and unit status. Provided by PowerGADS Margin Analyzer (one (1) decimal point).</p>
Enterprise O&M Budget	<p>The overall CPS Energy non-fuel O&M budget, including STP (one (1) decimal point)</p>

Glossary

Business Term	Definition & Context
2-Yr Average Customer Satisfaction Index (Residential + Key & Large + Small/Medium)	Customer Satisfaction Index – the average of the current year and the prior year for the following: the annual average Quarterly Residential Customer Satisfaction Values, plus the annual average Quarterly Key & Large Commercial Satisfaction Values, plus the annual average Quarterly Small & Medium Business Satisfaction Values, divided by three (one (1) decimal point).
Management Reputation	A measure of the perception of residential customers on the management of the Company against five criteria: <ol style="list-style-type: none"> 1) Being a good corporate citizen 2) Being believable 3) Being a company you can trust 4) Being well-managed 5) Working hard to control costs (whole number)
Enterprise Readiness	Average of the percentage of positions with at least 2 ready-now and/or emergency fill candidates for these levels: 1) Chiefs (including the CEO), 2) the Senior Leadership Team, and 3) Directors. Ready-now is defined as an employee who has the competency, skills and experiences to successfully assume the role immediately. Emergency fill is defined as an employee who meets a majority of the position requirements, has a gap-closing documented improvement plan in place, has been rated as ready within one year or less, and the organization is willing to place in the role for at least one year. The metric is the simple average of the percentage of three levels, not the weighted average. (whole number).

Glossary

Business Term	Definition & Context
2-Yr Average System Average Interruption Duration Index (SAIDI)	<p>Average duration of electric power outages during the calendar year (in minutes).</p> <p>Average of the current year and the prior year for the following: Total number of customer interrupted minutes during a sustained interruption divided by the total number of customers served for the defined reporting period.</p> <p>For calendar year 2010 and beyond, the number excludes major events, as defined by IEEE1366 (two (2) decimal points).</p>
2-Yr Average System Average Interruption Frequency Index (SAIFI)	<p>Average number of times a customer's service is interrupted during the calendar year.</p> <p>Average of the current year and the prior year for the following: Total number of customers interrupted during a sustained interruption divided by the total number of customers served for the defined reporting period.</p> <p>For calendar year 2010 and beyond, the number excludes major events, as defined by IEEE1366 (two (2) decimal points for annual metric and three (3) decimal points for two-year average).</p>
2-Yr Average Portfolio Commercial Availability	<p>Average of the current year and the prior year for the following: Economic measure of unit's value-weighted availability.</p> <p>This measures actual margin capture as a percentage of potential ("dispatchable") margin available. It is driven by locational marginal pricing, variable unit cost, megawatt availability, maximum unit capacity, and unit status. It is the average of the current year and the prior year value provided by the PowerGADS Margin Analyzer (one (1) decimal point).</p>

Glossary

Business Term	Definition & Context
Senior Lien Bond Ratings	<p>A measure of the Senior Lien Bond ratings as measured by Fitch, Moody's, and Standard & Poor's (S&P): Fitch = AA+, Moody's = Aa1, Standard & Poor's = AA.</p> <p>A "1" represents the maintenance of current ratings, a "2" (or "0") indicate an upgrade (or downgrade) in one or more ratings, respectively.</p>
Interpolation	<p>The estimation of values (data or a function) between two known values.</p>