

CPS ENERGY BOARD OF TRUSTEES

NOTICE OF SPECIAL MEETING

Notice is hereby given of a Special Meeting of the CPS Energy Board of Trustees convening as the Risk Management Committee **to be held on Monday, December 19, 2022 at 3:55 p.m. or immediately following the Regular Board Meeting of the CPS Energy Board of Trustees** in the Board Room located on the First Floor of the CPS Energy headquarters located at 500 McCullough, San Antonio, Texas. The meeting will also be live-streamed.

The subject of this meeting is to act upon all matters pertaining to the current management and operation of the municipal electric and gas systems, including the acquisition of real property and interest therein by purchase and condemnation, the facilities, financing, the handling and administration of funds and accounts, consideration of matters relating to operations and administration and such other matters as may be brought before the meeting by the Trustees of the Board, and specifically those matters referred to in the attached agenda, which is incorporated herein.

The meeting will be streamed on cpsenergy.com.

Those wishing to speak on an agenda item during the Public Comment portion of the meeting must register between Wednesday, December 14, 2022 at 5:00 p.m. and Friday, December 16, 2022 at 1:00 p.m. CT. Registration may be made by email at publiccommentregistration@cpsenergy.com or by phone at (210) 353-4662. Those registering to speak should be prepared to provide the following information:

- First & last name
- City & state of residence
- Phone number
- Email address
- Group for which the individual is speaking, if applicable
- Agenda item # listed on the Agenda (any item other than #1 or 2) about which they are speaking
- Any required translation services

Commenters will be called to speak in the order that each registers.

Written comments may be sent to publiccommentregistration@cpsenergy.com and will be shared with the Board prior to the start of the meeting.

The agenda packet is attached. It and other informational material may be found at:

<https://www.cpsenergy.com/en/about-us/who-we-are/trustees/board-meetings.html>

A recording of the meeting will be made and will be available to the public in accordance with the Open Meetings Act upon written request.

At any time during the Board Meeting, and pursuant to the provisions of Chapter 551 of the Texas Government Code, the Board may meet in executive session for consultation concerning attorney-client matters under Section 551.071; for deliberations and other authorized action on real property under Section 551.072; on prospective gifts or donations under Section 551.073; on personnel under Section 551.074; on security personnel or devices under Section 551.076; on economic development negotiations under Section 551.087; to deliberate, vote, or take final action on competitive matters under Section 551.086; to deliberate regarding security audits and devices under Section 551.089; or to deliberate under Texas Government Code Section 418.183(f) about confidential information under the Texas Homeland Security Act.



Shanna M. Ramirez
Secretary of the Board
December 14, 2022

0099 - CITY CLERK
2022 DEC 14 PM 04:39:29



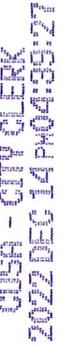
**SPECIAL MEETING OF THE CPS ENERGY BOARD OF TRUSTEES
 CONVENING AS THE RISK MANAGEMENT COMMITTEE
 TO BE HELD ON DECEMBER 19, 2022 AT 3:55 PM
 LOCATION: CPS ENERGY BOARD ROOM (500 MCCULLOUGH AVE.)**

At any time during the Board Meeting, and pursuant to the provisions of Chapter 551 of the Texas Government Code, the Board may meet in executive session concerning:

- attorney-client matters under Section 551.071;
- deliberations and other authorized action on real property under Section 551.072;
- prospective gifts or donations under Section 551.073;
- personnel under Section 551.074;
- security personnel or devices under Section 551.076;
- economic development negotiations under Section 551.087;
- deliberations, voting or taking final action on competitive matters under Section 551.086;
- deliberations regarding security audits and devices under Section 551.089; or
- deliberations under Texas Government Code Section 418.183(f) about confidential information under the Texas Homeland Security Act.

AGENDA

ITEM	TOPIC	ACTION	PRESENTER/ SPONSOR
1	CALL TO ORDER	Execute	Dr. Francine Romero
2	PUBLIC COMMENT Pre-Registration on Wednesday, December 14, 2022 5:00 PM – Friday, December 16, 2022 1:00 PM. Dial (210) 353-4662 or email PublicCommentRegistration@CPSEnergy.com	Discuss	Dr. Francine Romero
RISK MANAGEMENT COMMITTEE			
3	ENTERPRISE RISK & CONTROLS UPDATE	Discuss	Mr. Jonathan Tijerina Mr. Anthony Werland
4	AUDIT SERVICES UPDATE	Discuss	Mr. Matt Mills
5	GAS COMPLIANCE & AUDIT OVERVIEW	Discuss	Mr. Richard Lujan
6	ADJOURNMENT	Execute	Dr. Francine Romero
If the Board meeting has not adjourned by 4:55 PM, the presiding officer shall entertain a motion to continue the meeting, postpone the remaining items to the next Board meeting date, or recess and reconvene the meeting at a specified date and time.			





ENTERPRISE RISK & CONTROLS UPDATE

PRESENTED BY:

Jonathan Tijerina

VP, Enterprise Risk & Development

&

Anthony Werland

Director, Enterprise Risk Management & Solutions (ERMS)

December 19, 2022

Informational Update



AGENDA

- **ENTERPRISE RISK PROGRAM IMPROVEMENTS**
- **CONTINUED TRAINING & COMMUNICATION**
- **CURRENT INITIATIVES**
- **ENTERPRISE RISK REGISTER UPDATE**
- **ENTERPRISE MITIGATION & INTERNAL CONTROLS**
- **NEXT STEPS**

Enterprise Risk Management & Solutions (ERMS) will provide an update on the risk & control activities we facilitated & led to help strengthen the resiliency of the organization.

ENTERPRISE RISK PROGRAM IMPROVEMENTS



- Duplicate risks were consolidated
- Risks are aligned with Vision 2027
- New risk categories & definitions provided improved organizational risk alignment
- Risk statements & descriptions were modified for clarity & conciseness

Risk Consolidation	
High & Swan Risks	↓ 34%
Total # of Risks	↓ 51%

Simplifying & aligning risks to Vision 2027 helps drive better transparency & focus.

TRAINING & COMMUNICATION ENHANCING RISK & CONTROLS CULTURE




**ENTERPRISE RISK
IDENTIFICATION & ASSESSMENT
TRAINING**
PRESENTED BY:
Risk Management Solutions
July 20, 2022
Informational Update


**2022 INTERNAL CONTROL
UPDATE**
PRESENTED BY:
Enterprise Risk Management & Solutions (ERMS)
and Audit Services
Informational Update


**LEADERSHIP WORKSHOP
FINANCIAL ACUMEN 101**
PRESENTED BY:
Financial Services
October 2022
Informational Update


**FRAUD, WASTE & ABUSE
UPDATE**
PRESENTED BY:
Audit Services &
Enterprise Risk Management & Solutions (ERMS)
Fiscal Year 2021
Informational Update


**ENTERPRISE RISK MITIGATION
REFRESH**
PRESENTED BY:
Enterprise Risk Management & Solutions
December 2022
Informational Update

A variety of training & communication create alignment on a common vision & enhance the risk & internal controls mindset.

CURRENT ERMS INITIATIVES



Insurance Initiatives	Risk & Internal Controls Initiatives
✓ Insurance policy renewals	✓ High & Swan risk mitigation plans
✓ Power plant engineering loss inspections	✓ Procure-to-Pay Internal Controls Working Group
✓ Insurance broker Request for Proposal (RFP)	✓ Material & equipment risk evaluation
	✓ EDS project risk evaluation

ERMS continues to support the organization while expanding our knowledge & developing staff.

Staff Operational Development – EDS Troublemaker Ride Along

ENTERPRISE RISK REGISTER

ANNUAL REFRESH



The Enterprise Risk Register refresh, which includes identifying & assessing risks, creates visibility of challenges & opportunities to the business.

- ✓ Partnered with each business area
- ✓ Provided training refresher on enterprise risks & importance of risk register
- ✓ Identified enterprise risks & discussed new & emerging risks
- ✓ Assessed level & impact of each risk
- ✓ Reported out on consolidated enterprise risk register



ENTERPRISE RISK COMPARISON

GARTNER BENCHMARK



Top Emerging Risks Timeline

By Risk Score*

Rank	4Q21	1Q22	2Q22	3Q22
1	Postpandemic Talent	New Ransomware Models	Macroeconomic Downturn	Macroeconomic Downturn
2	Supply Chain Disruptions	Postpandemic Talent	Escalation of Conflict in Europe	Key Material Shortages
3	New Ransomware Models	Supply Chain Disruptions	State-Sponsored Cyberattacks	Energy Price Inflation
4	Endemic COVID-19	Inflationary Pressures	Energy Price Inflation	Critical Infrastructure Failure
5	Inflationary Pressures	Macroeconomic Downturn	Key Material Shortages	Escalation of Conflict in Europe

Source: 3Q22, 2Q22, 1Q22, 4Q21 Gartner Emerging Risk Surveys
 *Risk Score = SQRT (Impact x Inverse Time Frame) x Frequency Selected as a Top 10 Emerging Risk

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Gartner

Our top risks are also aligned with the nation's top emerging risks, which further validates that our organization identified forward-looking enterprise risks appropriately.

Source: 3Q22 Gartner Emerging Risks Report

INTERNAL CONTROLS & MITIGATIONS

MANAGING ENTERPRISE RISKS



Internal controls & mitigation plans work together to manage enterprise risks.



Internal Control Assessment



Mitigation Planning

Identify existing internal controls

Assess internal controls

Create or strengthen internal controls

Create or modify mitigation plans for High & Swan Risks

Incorporate internal controls into mitigation plans

Ensure all stakeholders are involved & aware

ERMS NEXT STEPS



To support the organization, ERMS must continue to stay focused on all aspects of the business to ensure the appropriate tools & visibility of risks are provided to the organization.

- Continue to partner with Business Units to develop effective risk mitigation templates & plans
- Continue to enhance risk & controls awareness in the organization through training & communication
- Continue to support integrated planning
- Partner with Business Units on risk evaluations & internal control assessments
- Stay informed of emerging risk escalation/development



Thank You





AUDIT SERVICES UPDATE

PRESENTED BY:

Matt Mills

VP, Audit Services

December 19, 2022

Informational Update





AGENDA

- **AUDIT SERVICES OVERVIEW**
- **ANNUAL AUDIT PLANNING PROCESS**
- **AUDIT PLAN UPDATE**

Audit Services will provide an overview of how enterprise risks are considered in the audit planning process.

AUDIT SERVICES OVERVIEW



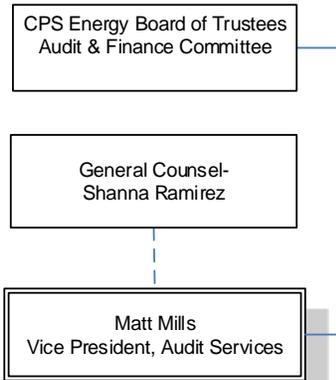
Purpose: Provide independent, objective assurance & consulting services designed to add value & improve CPS Energy's operations.

Mission: Enhance & protect organizational value by providing risk-based & objective assurance, advice, & insight. Audit Services helps CPS Energy accomplish its objectives by bringing a systematic, disciplined approach to evaluate & improve the effectiveness of governance, risk management, & control processes.

AUDIT SERVICES OVERVIEW



Structure:



Note: The Vice President of Audit Services reports functionally to the CPS Energy Board of Trustees Audit & Finance Committee and administratively to the General Counsel.

Standards:



Team:

- Currently 10 professionals
- 80% professionally certified



External Partners:

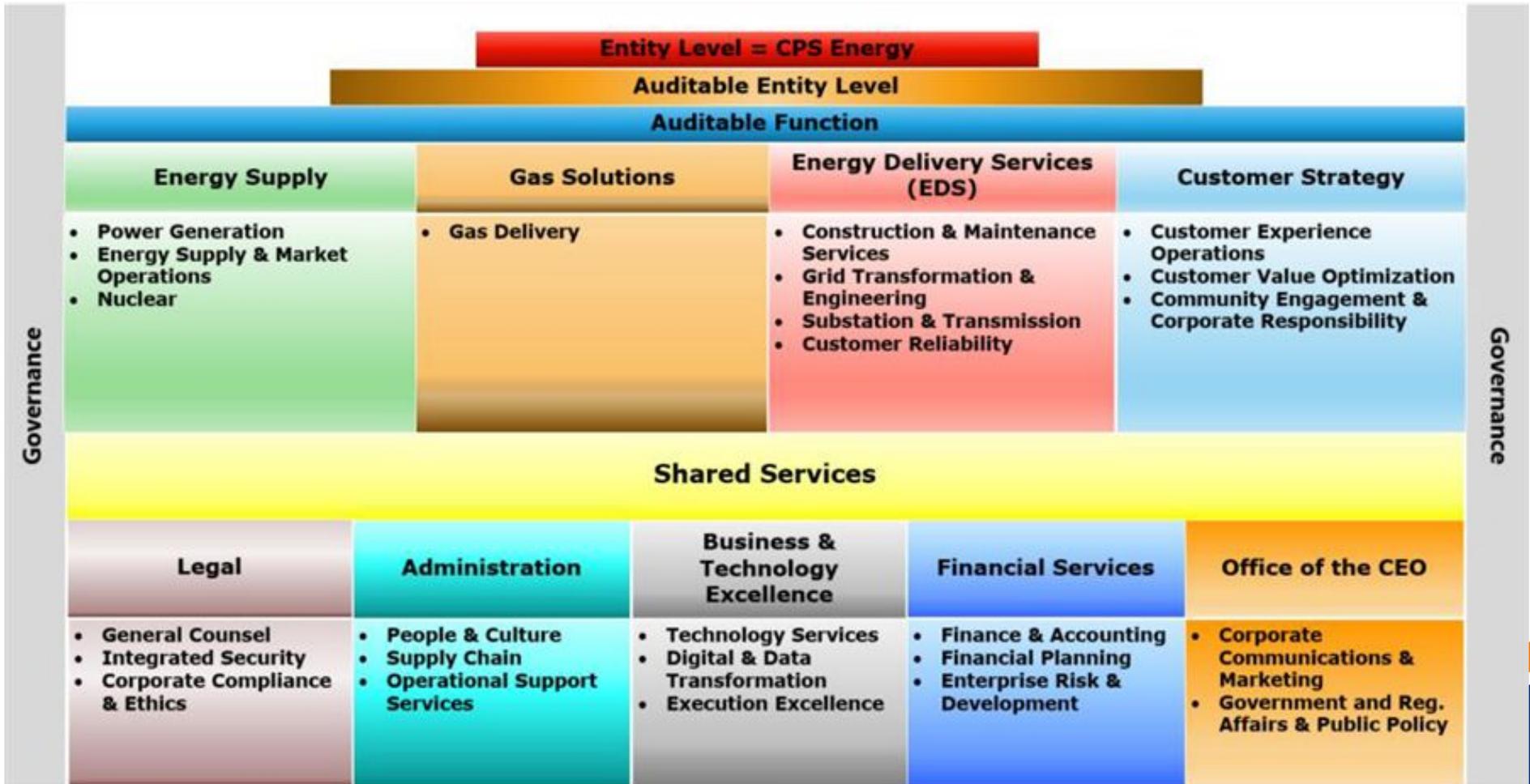




ANNUAL AUDIT PLANNING PROCESS



AUDIT UNIVERSE



RISK UNIVERSE



Enterprise Risk Landscape (ERMS)

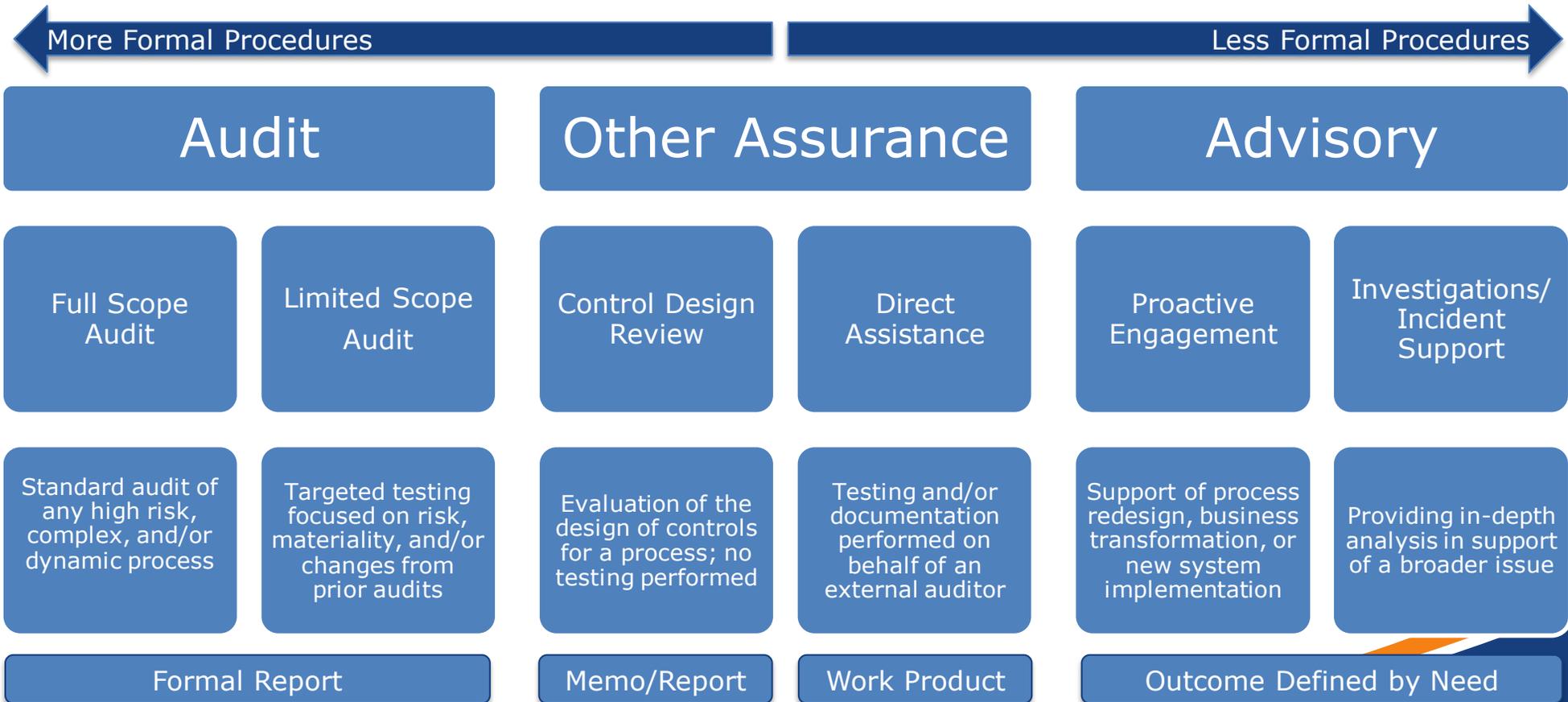


+

Additional Risks Identified by Audit Services



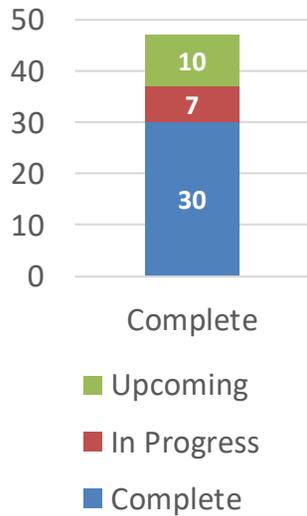
AUDIT PROJECT TYPES



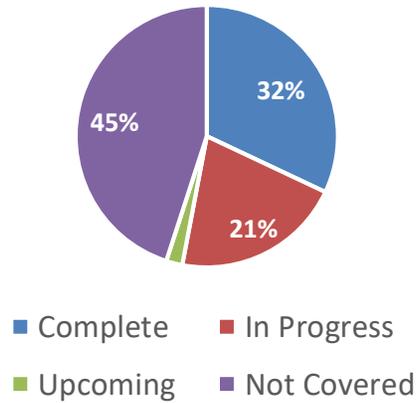
FY2023 AUDIT PLAN UPDATE



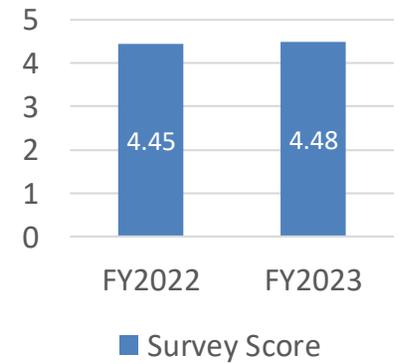
Project Count



Audit Universe Coverage

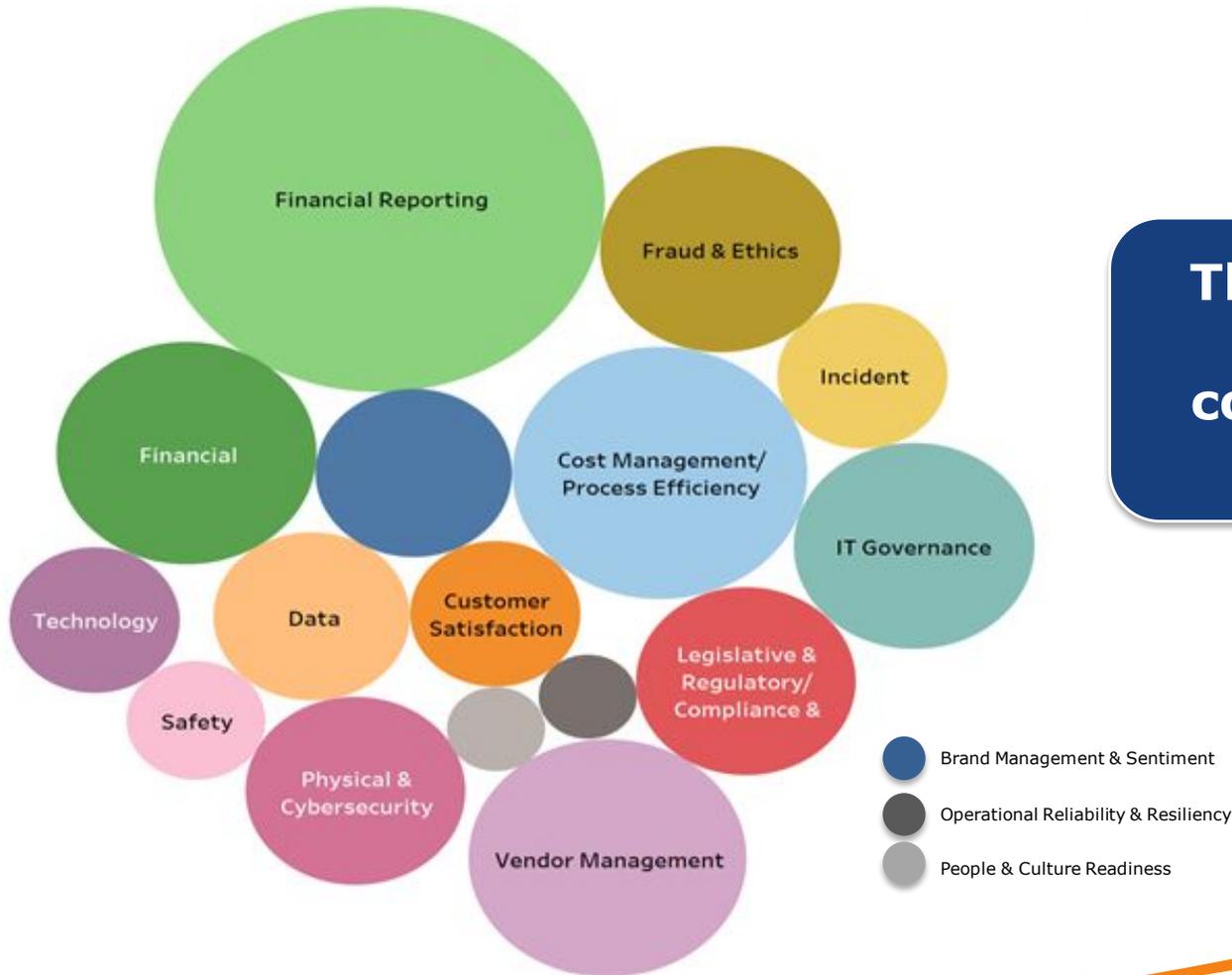


Project Feedback





AUDIT RISK COVERAGE



The FY2023 Audit Plan includes balanced coverage of enterprise risk categories.





Thank You





GAS COMPLIANCE & AUDIT OVERVIEW

PRESENTED BY:

Richard Lujan
Vice President, Gas Solutions

December 19, 2022

Informational Update



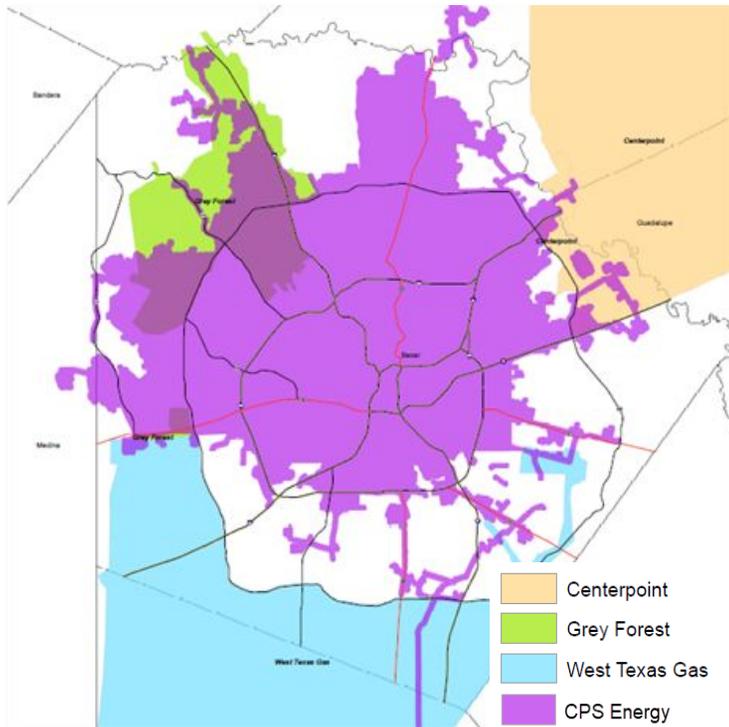
AGENDA



- **GAS SYSTEM OVERVIEW**
- **BACKGROUND**
- **COMPLIANCE OVERVIEW**
- **RAILROAD COMMISSION OF TEXAS AUDIT RESULTS**
- **MITIGATING RISK**

Provide an update on gas regulatory requirements, audit results & improvement of our compliance program.

GAS SYSTEM OVERVIEW



- 4TH Largest Gas Utility in Texas
- Gas customers: 373,998
- Service area: 863 sq. miles
- Transmission mains: 89 miles
- Distribution mains: 5,869 miles
- Services: 4,350 miles

Our focus on regulatory compliance helps enable safe operation of over 10,000 miles of pipeline in our community.

BACKGROUND

NATURAL GAS REGULATIONS



- 1937 natural gas leak tragedy, New London, Texas, led to legislation & regulatory requirements for natural gas & pipeline safety
- Today, we are regulated by the RRC & USDOT Pipeline & Hazardous Material Safety Administration (PHMSA)



Explosion in New London, Texas (1937)

Public safety is the core purpose of natural gas regulatory requirements.

COMPLIANCE OVERVIEW

RAILROAD COMMISSION OF TEXAS (RRC)



- Enforces compliance by intrastate pipeline operators through federal & state laws & regulations
- Promotes public safety awareness through the pipeline damage prevention program
- Conducts accident response & investigation
- Conducts approximately 2,850 inspections per year using a risk-based evaluation model as well as specialized inspections

COMPLIANCE OVERVIEW

REGULATORY ACTIVITIES



PROCESS & PROCEDURES	DAMAGE PREVENTION	OPERATIONS	MONITORING
<ul style="list-style-type: none"> • Annual reports • Operator Qualification Program • Drug & Alcohol Program • Control Room Management Plan • O&M Plan 	<ul style="list-style-type: none"> • School gas system testing verification • Damage prevention & outreach • Utility locating • Pipeline inspection surveys 	<ul style="list-style-type: none"> • Third Party damage response & repairs • Leak repair work • Maintenance activities • Gas odorization 	<ul style="list-style-type: none"> • New construction inspections • RRC audits • Incident investigation & reporting
 <p>Operations & Maintenance Manual</p>	 <p>Damage Prevention Outreach</p>	 <p>Gas Crew Performing Repairs</p>	 <p>RRC Onsite Inspection</p>

Regulatory compliance plays a key role in every aspect of our operations!

COMPLIANCE OVERVIEW

RRC AUDITS



Audit Description	# of Audits	Findings
Gas Distribution Safety Audit	1	4
Gas Transmission Safety Audit	1	0
New Construction	12	0
Public Awareness & Damage Prevention ¹	3	0
Operator Qualification (OQ) Plan ¹	3	0
Section 114 of the PIPES Act of 2020 ¹	3	1
Distribution Integrity Management Plan (DIMP)	1	0

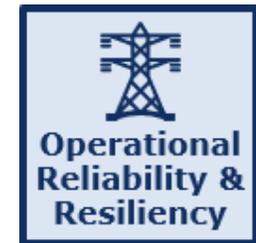
¹ These audits performed as part of our O&M Contracts with Lytle & Castroville

We have completed 24 audits YTD compared to 13 in 2021. The RRC will continue to increase its inspection frequency statewide.

MITIGATION

CONTINUOUS IMPROVEMENT

- Each audit requires a formal corrective action plan that is approved by the the RRC.
- Ongoing Compliance Initiatives
 - Evaluation of controls activities
 - Improving communication & information
 - Enhanced monitoring
 - Leveraging technology



SUMMARY



Our team is committed to safety measured by our adherence to regulatory compliance requirements & programs.

- Regulatory compliance is embedded into every aspect of Gas Solutions' work
- Annual RRC audits test the safety of our system & effectiveness of our compliance program
- Audit response & continuous process improvement efforts help to ensure safe & reliable operation of our gas system



Thank You

