

**REVISED**

**CPS ENERGY BOARD OF TRUSTEES SPECIAL MEETING
TO BE HELD ON JUNE 12, 2023 AT 1:00 PM
LOCATION: CPS ENERGY BOARD ROOM (500 MCCULLOUGH AVE)**

At any time during the Board Meeting, the Board may go into an executive session as permitted by the Texas Open Meetings Act, (Chapter 551 of the Texas Government Code) regarding any item on this agenda.

AGENDA

ITEM	TOPIC	ACTION	PRESENTER/ SPONSOR
1	CALL TO ORDER	Execute	Ms. Janie Gonzalez
2	SAFETY MESSAGE, INVOCATION & PLEDGE OF ALLEGIANCE	Execute	Mr. Matt Mills
3	PUBLIC COMMENT Pre-Registration is from Wednesday, June 7, 2023 5:00 PM – Friday, June 9, 2023 1:00 PM. Dial (210) 353-4662 or email PublicCommentRegistration@CPSEnergy.com	Discuss	Ms. Janie Gonzalez
4	CHAIR'S REMARKS	Discuss	Ms. Janie Gonzalez
5	FY2024 – FY2025 STRATEGIC OUTLOOK	Discuss	Mr. Rudy Garza & Dr. John Soltau
6	CPS ENERGY AUDIT SERVICES OVERVIEW	Discuss	Mr. Matt Mills & Ms. Trena Wiseman
CONVENE TO EXECUTIVE SESSION			
7	EXECUTIVE SESSION: A. Consultation concerning attorney-client matters (Section 551.071) B. Consultation concerning attorney-client matters (Section 551.071) C. Consultation concerning attorney-client matters (Section 551.071)	Discuss	Ms. Janie Gonzalez
RECONVENE TO OPEN SESSION			
8	ADJOURNMENT	Execute	Ms. Janie Gonzalez

If the Board meeting has not adjourned by 4:05 PM, the presiding officer may 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.



FY2024–FY2025 STRATEGIC OUTLOOK

Rudy D. Garza

President & CEO

&

Dr. John Soltau

Director Strategic Alignment, Performance & Planning

June 12, 2023

Informational Update





AGENDA

- Energy Landscape
- FY2024–FY2025 Vision 2027 Strategic Milestones
- FY2024 Scorecard
- Strategic Board Meeting Calendar
- Beyond 2027 Outlook

**We will provide an overview of our strategic plan
for FY2024-FY2025.**

EVOLVING ENERGY LANDSCAPE

 Headwinds	Tailwinds 
More frequently cycling aging assets to balance renewable resources causes a higher risk of failure, even with increased maintenance	Leveraging new technologies to provide opportunities to update end-of-life assets
Customers have increasingly varied and unique expectations	Technology advancements are improving our ability to manage extreme weather events
Weather events are becoming more frequent and extreme	Financial transactions continue to indicated our bonds are viewed favorably
Fuel market instability is creating customer bill volatility	Enhancing external engagement leading to more active customer involvement
Growth and advancements in technology are causing changes in required skills	Increasing community partnerships to provide more value to our customers
Customer affordability challenges due to market volatility, extreme weather, and inflation	Improving organizational culture to serve our community and work safe
Decreased wholesale revenue due to soft ERCOT market and owned generation	Enhancing strategic alignment of priorities to improve ability to execute
Higher interest rates and inflation leading to increased costs, specifically in materials, technology and labor	Meeting our customer expectations in-person, online, and at their door
Experiencing challenges in backfilling retirees and experienced roles in the tight labor market	Our diversified generation fleet mitigates regulatory and market uncertainty
Global and domestic tensions amplify the probability of cyber and physical threats	Enhancing business controls and fiscal discipline to mitigate risks
Supporting rapid customer growth with supply chain constraints	Funding and partnership opportunities to accelerate our transformation
Increased regulatory uncertainty, audits and oversight	Shifting security posture to be more proactive, innovative and collaborative

These are some strategic factors that are impacting our ability to deliver on Vision 2027.

Footnote- **Bold** indicates currently relevant

STRATEGIC OBJECTIVES OVERVIEW

As a locally owned utility, we seek to be a valuable partner in enhancing the quality of life in our community.

*Vision 2027 - An Evolving Utility, focuses on strategic objectives to meet our mission through the **lenses of equity and security, enabled by technology and innovation.***



We embrace innovation and balanced solutions to bring overall value and resiliency to our customers through improved efficiency, sustainability, and management of risk.



We focus on sound budget discipline and key financial metrics to leverage our strong brand in the financial markets.



We strive to connect with our diverse customers equitably and in the way they prefer.



We collaboratively build a culture focused on being safe and working together to serve our community.



We are a community partner that works transparently and collaboratively to support key decisions, innovation, and economic growth.

VISION 2027 ACTIONS

FY2024

Update Vision 2027 incorporating Operational Efficiency Review recommendations and market/legislative changes

Execute generation plan to power our future by initiating budgeted engineering studies

Execute on ERP RFP to mitigate system end-of-life by selecting software partner

Engage with community on rate design and adjustments

Pursue grants and other new revenue sources with partners

FY2025

Begin development and planning of beyond 2027 (2040-2050)

Work with partners to leverage IRA revenue opportunities to accelerate power generation transition

Begin execution of technology transformation

Improve communication and service offerings through enhanced residential customer segmentation

Enhance customer engagement to support community needs

Strategic actions we will take over the next two years to achieve Vision 2027 goals, while maintaining operational excellence.

Footnotes: Colors align to Strategic Objectives on slide 10

FY2024 SCORECARD

Strategic Execution- Forward Looking Progress Towards Vision 2027

Action	Goal
Update Vision 2027 incorporating Operational Efficiency Review recommendations and market/legislative changes	Provide updates on progress of Vision 2027, including enhanced measures
Execute generation plan to power our future by initiating budgeted engineering studies	Initiate budgeted engineering studies for generation transformation
Execute on ERP RFP to mitigate system end-of-life by selecting software partner	Select primary software vendor to support technology transformation
Engage with our community on rate design and adjustments	Provide plan for rate enhancements and present adjustment
Pursue grants and other new revenue sources with partners	Submit grants with community partners such as CoSA

Run the Business- Enterprise Measures (Targets/Thresholds)

63.70 Outage Duration (SAIDI)	0.98 Outage Frequency (SAIFI)	0 Environmental Issues	>1.50 Adjusted Debt Service Coverage	\$773.0M O&M Budget	\$941.0M Capital Budget (Gross of CIAC)	75.0% Customer Satisfaction	1.35 Safety Rate (RIR)
1.51% Gas Growth	88.9% Plant Reliability (PCA)	99.5% Technology Availability	>150 Days Cash On Hand	<65.0 % Debt Capitalization	AA-/Aa2 Senior Lien Bond Rating	4.12 Employee Engagement	75% Talent Readiness

At-Risk

On-Track

Annual Measure Only

Footnote: Colors align to Strategic Objectives on slide 10

BOARD AGENDA ITEMS

SEEKING INPUT

CY2023

June	Legislative Update Quarterly Operational & Financial Performance RAC Rate Redesign Update
July	STEP Update
August	RAC & Community Input Update Supply Chain Update
September	Quarterly Operational & Financial Performance
October	Winter Readiness Rate Discussion & Overview Grants & Partnerships Update
November	Rate Discussion & Overview
December	"Evolve" ERP Update Quarterly Operational & Financial Performance

Items for Consideration

- Environmental Sustainability
- Regulatory Changes
- Customer Experience Enhancements
- Smart Streetlights
- Financial Strategy
- Facilities and Master Planning
- Gas Strategy
- Electric Vehicle Strategy

CY2024

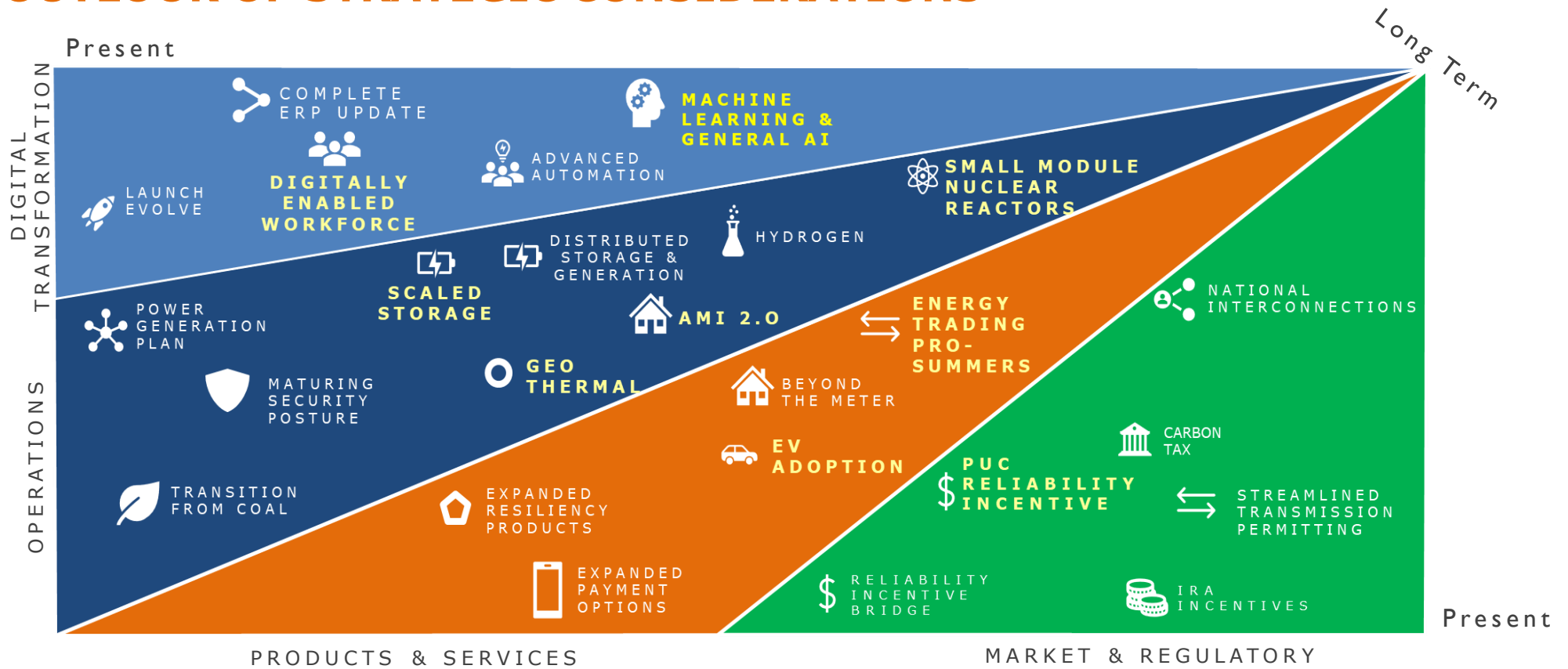
January	Budget & Annual Scorecard Power Generation Resource Plan
February	Customer Experience Update
March	Previous Year Quarterly Operational & Financial Performance Workforce/Culture/Safety Update
April	Audit Report CEO Review
May	Summer Readiness & Supply Chain Update
June	Quarterly Operational & Financial Performance
July	STEP Update
August	TBD
September	Quarterly Operational & Financial Performance
October	Winter Readiness Grants & Partnerships Update
November	TBD
December	"Evolve" ERP Update Quarterly Operational & Financial Performance

Deeper dives on our strategic progress towards Vision 2027 combined with routine updates on our overall performance.

Footnote: Directional calendar, specific agendas and timing subject to change

BEYOND- VISION 2027

OUTLOOK OF STRATEGIC CONSIDERATIONS



Some potential considerations beyond 2027.

Footnotes: Directional considerations, all subject to change, not committing to any specific actions at this time



SUMMARY

- We are committed to serving our customers today and in the future while navigating an ever-changing environment.
- Over the next two years we focused on transforming our Power Generation fleet, technology, supporting growth, adjusting our rate approach and seeking other revenue to provide enhanced value to our customers.
- We will go before you to provide timely updates on our scorecard and the progress towards Vision 2027 while working to plan for beyond 2027.

We are hiring a third-party to validate approach and results to support a future employee incentive program.



Thank You



Appendix



FY2024 ENTERPRISE MEASURES

AS OF APRIL 30, 2023

Strategic Objective	Measure Name	Measure Frequency	FY/CY	Unit	Target Indicator	Historical Actuals		Current Year			Year End Forecast	Latest Estimate
						FY 2022	FY 2023	YTD Target	YTD Actual	Year-End Target		
						CY 2021	CY 2022					
Operational Evolution	Critical IT System Availability	monthly	FY	%	↑	99.9	99.8	99.5	99.9	99.5	On Track	99.9
	Environmental Compliance Issues - NOE & NOV (Category A & B) Enterprise	monthly	CY	#	↓	0	0	0	0	0	On Track	0
	Gas System Growth	monthly	FY	%	↑	1.97	1.97	0.36	0.56	1.51	On Track	1.57
	Portfolio Commercial Availability	monthly	CY	%	↑	77.1	82.2	88.9	72.8	88.9	At Risk	88.5
	System Average Interruption Duration Index (SAIDI)	monthly	CY	#	↓	67.68	59.81	14.41	15.94	63.70	On Track	63.70
	System Average Interruption Frequency Index (SAIFI)	monthly	CY	#	↓	1.01	0.95	0.26	0.25	0.98	On Track	0.98
Financial Stability	Adjusted Debt Service Coverage	quarterly	FY	#	↑	1.66	1.89	1.43	1.36	>1.50 ¹	On Track	1.62
	Capital Budget (Gross of CIAC)	monthly	FY	\$	↓	689.5	788.3	257.2	192.3	941.0	On Track	940.5
	Days Cash on Hand	quarterly	FY	#	↑	182	166	155	149	>150 ¹	On Track	170
	Debt Capitalization	quarterly	FY	%	↓	61.6	61.8	62.7	62.2	<65.0 ¹	On Track	62.6
	Enterprise Senior Lien Bond Ratings ²	quarterly	FY	#	=	0	1	1	1	1	On Track	1
	O&M Budget	monthly	FY	\$	↓	618.5	688.7	207.9	197.6	773.0	On Track	777.6
Customer Experience	Customer Satisfaction – Residential	quarterly	CY	#	↑	78.9	74.4	75.0	80.9	75.0	On Track	75.7
Team Culture	Employee Engagement – Enterprise	annually	FY	#	↑	3.99	4.09	N/A	N/A	4.12	N/A	N/A
	Enterprise Readiness – Executives	annually	FY	%	↑	83	72	N/A	N/A	75	N/A	N/A
	Enterprise Recordable Incident Rate - (RIR)	monthly	FY	#	↓	1.68	1.49	1.35	0.91	1.35	On Track	1.16

¹ Year End numbers for these Measures are thresholds for performance; not considered targets

² A measure of the senior lien bond ratings as measured by Fitch, Moody's, and Standard & Poor's (Fitch = AA-, Moody's = Aa2, Standard & Poor's = AA-) such that "1" represents the maintenance of current ratings, a "2" (or "0") indicates an upgrade (or downgrade) in one or more ratings.

POTENTIAL FY2025 SCORECARD

DRIVING ACTIONS TO DELIVER ON OUR MISSION

Strategic Execution- Forward Looking Progress Towards Vision 2027

Action	Board Measures				
Begin development and planning of beyond 2027 (2040-2050)	Grid Resiliency (Storm-CAIDI)	Sustainability (Carbon Intensity)	Rate Redesign Execution	Conservation (STEP MW)	Construction Cost Recovery
Work with partners to leverage IRA revenue opportunities to accelerate power generation transition					
Begin execution of technology transformation	Technology Transformation (Evolve ERP)	Bond Rating Outlook	Customer Value	Estimated Time to Restore Accuracy	Customers in Assistance Programs
Improve communication and service offerings through enhanced residential customer segmentation					
Enhance customer engagement to support community needs					

Run the Business- Enterprise Measures (Targets/Thresholds TBD)

Outage Duration (SAIDI)	Outage Frequency (SAIFI)	Age of Gas Leaks	Adjusted Debt Service Coverage	O&M Budget	Capital Budget (Gross CIAC)	Customer Satisfaction	Local &/or Diverse Spend
Plant Availability (EAF)	Plant Reliability (PCA)	Technology Performance	Days Cash On Hand	Debt Capitalization	Safety Rate (RIR)	Community Engagement	

Footnotes: Colors align to Strategic Objectives on slide 10; Specific measures subject to change; **New Enterprise Measures**



AUDIT SERVICES OVERVIEW

PRESENTED BY:

Matt Mills

VP, Audit Services

Trena Wiseman

Sr. Manager, Audit Quality and Administration

June 12, 2023

Informational Update

AGENDA



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

Audit Services will provide an overview it's structure, annual planning process, and audit plan update.



Purpose:

Make our community better and empower the lives we want to live.

Mission:

Server our community through reliable, competitively priced and sustainable energy services, in an equitable manner.

Vision:

Evolve the ways we use and deliver energy to make life better for generations to come.



Audit Services' focus is to ensure the most significant risks to CPS Energy's strategies and objectives are adequately mitigated.

Measuring Performance Through Our Metrics:



AUDIT SERVICES

Purpose:

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

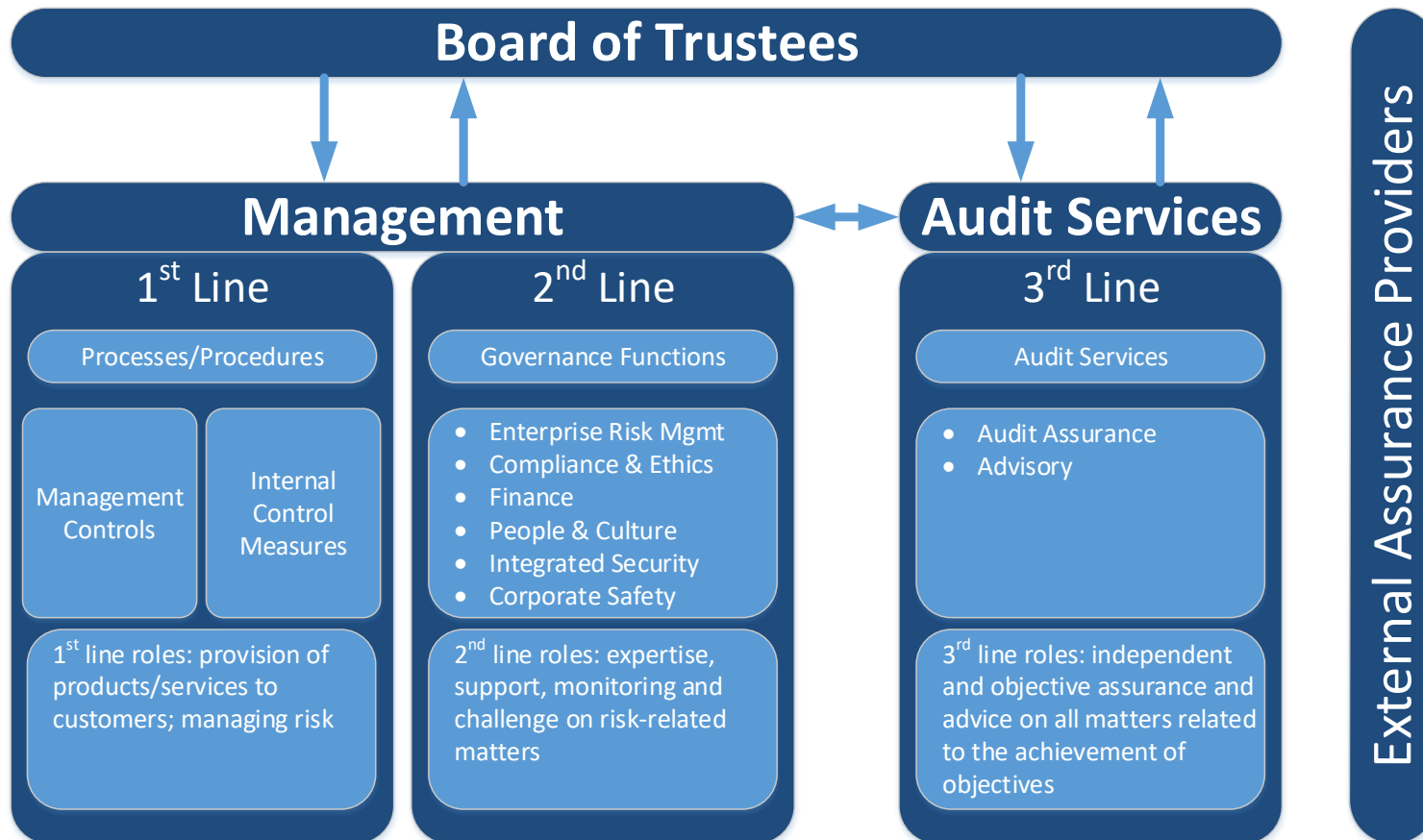
Mission:

Enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

Vision:

Be a Trusted Advisor to our stakeholders by focusing on things that matter, developing people, encouraging Innovation, having the courage to do our job right, and being a partner to the owners of the processes we audit.

AUDIT SERVICES OVERVIEW



AUDIT SERVICES OVERVIEW



Structure:

CPS Energy Board of Trustees
Audit & Finance Committee

General Counsel-
Shanna Ramirez

Matt Mills
Vice President, Audit Services

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 (approved for 12)
- 60% professionally certified



External Partners:

Gartner



Deloitte.

ANNUAL AUDIT PLANNING PROCESS

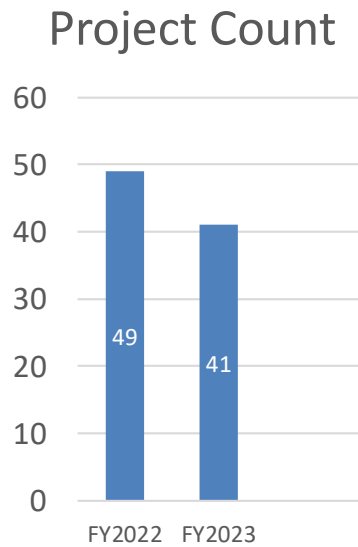


FY2023 AUDIT RISK COVERAGE

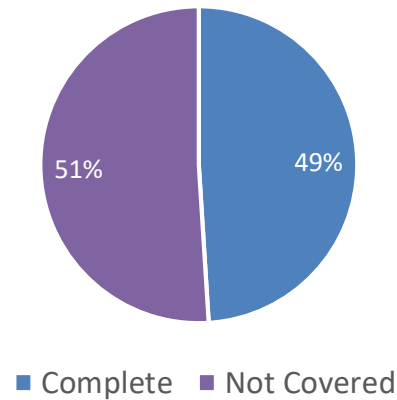


**The FY2023 Audit Plan
included balanced
coverage of enterprise
risk categories.**

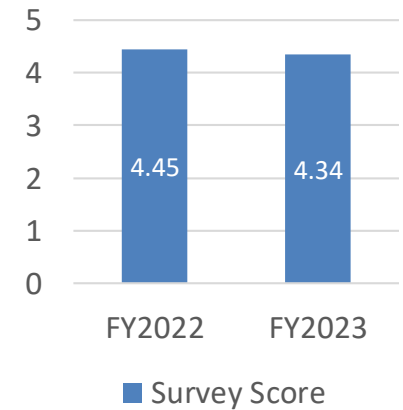
FY2023 AUDIT SERVICES RESULTS



Audit Universe Coverage



Project Feedback



FY2024 AUDIT PROJECT UPDATE



FY23 Year End KPMG Testing	Assurance Mapping	Safety/Quality Assurance Program Review	NERC Mock Audit	Power Generation Plant Preventive Maintenance
FY24 Interim KPMG Testing	STP Enterprise Risk Management Review	Enterprise Position Market Matching	Compliance Dashboard Review	Calpine Contract Management
Management Action Plan Follow-Up	CPS Energy Enterprise Risk Management Review	Paid Time Off (PTO) Calculation Validation	ERP Governance	Power Generation Outage Scheduling/ Planning
Executive Expense Report Reviews	Vendor Audit - Alterman	Daymark Follow-Up/ Validation of Management Responses	ERP Financial Review	Tree Trimming/ Vegetation Management
Customer Write-Offs	Billing Process/KUBRA	Corporate Metrics	Change Management, CAB Process Redesign	EMS SCADA Replacement
Telematics	Affordability Discount Programs	Supply Chain Management/Critical Dependencies	IT Patching Process	Meter Cut-Off Management (COMSR) Process
EIT Contract Management	Contribution in Aid to Construction (CIAC) Process	Supplier Selection Process	Business Unit-Managed Software	EDS Clearance & Procedures

Complete	In Progress	Working with Deloitte
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BOARD MEMBER INPUT



PROCESS

- ☐ Request Chair of Board of Trustees include topics covered at Audit & Finance Committee meetings on Board of Trustees agenda
- ☐ Provide potential audit topics to the Chair of Board of Trustees as part of the annual audit planning process and throughout the year





Thank You

