

**CPS ENERGY**  
**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES**  
**HELD ON SEPTEMBER 6, 2022**

The Regular Meeting of the Board of Trustees of CPS Energy for the month of August was held on Tuesday, September 6, 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 9 a.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, Interim President & CEO  
Ms. Shanna M. Ramirez, Chief Legal & Ethics Officer, General Counsel & Board Secretary  
Mr. Cory P. Kuchinsky, Chief Financial Officer & Treasurer  
Ms. Vivian Bouet, Chief Information Officer  
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 Mr. Rick Luna, Interim Director of Technology & Product Innovation.

**III. PUBLIC COMMENT**

Patricia Major, retiree of CPS Energy, stated she meets with employees and there is concern about the benefits plans. She stated that in May 2021, changes occurred to the Administrative Committee and retirees feel there is a lack of communication. Finally, she stated that because retirees represent 45% of the plan participants, they would like to have more than one seat on the Administrative Committee.

Jose Perez, President & CEO of Hispanics in Energy, ambassador to the Department of Energy, and member of the National Petroleum Council, spoke in favor of Rudy Garza. He noted that the population of Bexar County is 62% Hispanic, and San Antonio is 65% Hispanic, but in its 162-year history, CPS Energy has never had a Hispanic CEO & President. He stated that the Board of Trustees has an outstanding

individual performing on an interim basis who is also Hispanic, and the right thing to do is to select Mr. Rudy Garza.

Dr. Meredith McGuire, Co-Chair of Conservation Committee of the local Sierra Club, stated her concerns about the misrepresentation of data provided to the Board of Trustees in the past. She also stated her concern about declining tier rates, which she stated puts a burden on those that use less energy.

Richard Perez, President & CEO of the San Antonio Chamber of Commerce, expressed his support and support of the Chamber for Mr. Rudy Garza being named as President & CEO of CPS Energy. He stated that the business community has appreciated Mr. Garza's focus on communication and transparency. He further stated that Mr. Garza has the experience and leadership prowess to be the leader of CPS Energy and has the full support of the Chamber.

Henrietta LaGrange, resident, stated she feels the City of San Antonio should dedicate dollars to weatherization instead of a bill credit. She also expressed her support for Mr. Rudy Garza as President & CEO, and that she values the time he has given to the community.

Alan Montemayor, Chairman of the Alamo Group of the Sierra Club of San Antonio, urged the Board of Trustees to promptly close Spruce coal plants to improve air quality, health, and from a fiscal standpoint. He stated that while the Board will have the option to convert Spruce to natural gas, he urged the board to not do that. He urged the Board to go fully renewable, eliminating rebates for natural gas appliances.

#### **IV. CHAIR'S REMARKS.**

Chair Dr. Mackey thanked the speakers for their comments. He further stated that he has been able to tour each power plant and asked Mr. Garza to have the managers of each plant come to the next meeting to report on weatherization.

#### **V. INTERIM CEO'S REPORT**

Mr. Rudy Garza provided some information on the City of San Antonio's proposal to provide a customer energy bill credit and provide an opportunity for the Board of Trustees to ask questions.

Mr. Garza then provided an update on the Inflation Reduction Act (IRA). There are two provisions that impact CPS Energy. First, the bill expands and extends Production Tax Credits (PTC) and Investment Tax Credits (ITC) for renewable energy. This may allow CPE Energy to have its own solar and wind production facilities. The IRA also provides \$30B in grants for electric utilities, and CPS Energy is coordinating with the City of San Antonio to apply for these grants.

He has continued engagement with the PUC Commissioners, meeting with them in July. The discussions focused on summer generation performance, our robust demand response program, and proposed changes to the ERCOT market.

Then, Mr. Garza provided information on the first of two joint tabletop exercises between CPS Energy, SAWS, City of San Antonio, Bexar County, and other entities. The success of the exercise demonstrated the need for more exercises to ensure preparedness in the future.

The San Antonio Business Journal honored CPS Energy for our diversity in top leadership & board positions for diversity and inclusion.

Finally, Mr. Garza recognized the Customer Strategy team. The team includes almost 500 employees who work tirelessly to support our nearly 950k households. They address customer concerns and connect them with assistance, plan new construction, and ensure meters are accurate.

## **VI. MONTHLY PERFORMANCE UPDATE**

Mr. Cory Kuchinsky provided an update on the financial performance of CPS Energy, noting we are halfway through the fiscal year. Overall, our key financial metrics are forecasted to be at acceptable levels. The Board of Trustees asked questions and discussed the information.

## **VII. EXECUTIVE SESSION**

At approximately 10:17 a.m., Ms. Shanna 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) (Appointment of President & CEO)
- 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 11:08 a.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.

## **VIII. RATE ADVISORY COMMITTEE (RAC) UPDATE**

Trustee Dr. Romero stated that in the supplemental packet, there were summaries on the two most recent RAC meetings. She explained that a subcommittee was formed to evaluate potential peer review consultants and she asked Ms. Lisa Lewis, Chief Administrative Officer, to provide a report. Ms. Lewis stated that RAC followed standard processes for reviewing and selecting a peer review consultant.

## **IX. APPROVAL OF CONSENT ITEMS**

On a motion duly made by Trustee Dr. Romero, seconded by Vice Chair Gonzalez, 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 July 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 July 2022 is based on actual gross revenue per the New Series Bond Ordinance of \$351,124,984.17, less applicable exclusions. The revenue for the month of July 2022 is calculated as follows:

Gross revenue per CPS Energy financial statements		
Electric revenue		\$364,475,880.92
Gas revenue		16,483,298.15
Interest and other income		9,187,180.35
Gross revenue per CPS Energy financial statements		<u>390,146,359.42</u>
Excluded revenue		
School and hospital revenue per City Ordinance 55022		(10,310,044.64)
LVG revenue per City Ordinance 100709		(105,427.57)
Fuel cost component of off-system nonfirm energy sales per City Ordinance 61794 and revenue for wholesale special contracts		(31,088,539.66)
Noncash and other income, GASB 31 investment market value change, miscellaneous interest income, gas billing adjustment and unbilled revenue		<u>2,482,636.62</u>
Total excluded revenue		<u>(39,021,375.25)</u>
Gross revenue per New Series Bond Ordinance subject to 14% payment to the City		<u><u>\$351,124,984.17</u></u>
City payment per Bond Ordinance for July 2022 based upon July 2022 revenue		\$49,157,497.78
City payment per memorandum of understanding (MOU) regarding wholesale special contracts		(904,142.14)
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		48,240,855.64 <b>A</b>
Utility services provided to the City for July 2022		<u>(3,399,385.28)</u>
Net amount to be paid from July 2022 revenue to the City in August 2022		<u><u>\$44,841,470.36</u></u>

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)

July 2022	Actual	Budget	Variance	
Current Month* <b>A</b>	\$48,241	\$42,296	\$5,945	14.1%
Year-to-Date**	\$219,023	\$189,286	\$29,737	15.7%

\* 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 \$44,841,470.36 representing 14% of applicable system gross revenues for the month of July 2022, such payment being net of City utility services (\$3,399,385.28), is hereby approved."

**B. Approval of Procurement Item:**

1. **Item Description:** Peer Review Services  
**Purchase Category:** Professional Services  
**Supplier:** Burns & McDonnell Engineering Company, Inc.
2. **Item Description:** Transmission and Advanced Distribution Management SCADA Systems  
**Purchase Category:** General Services  
**Supplier:** Open System International, Inc.

\*The listed Procurement Item to be attached as Attachment "A".

**X. COMMITTEE REPORTS**

Chair Dr. Mackey accepted the submission of reports for the record in lieu of having them read during the meeting.

Audit and Finance Committee (A&F) Meeting held on July 21, 2022.

A report of the A&F meeting, which took place on July 21, 2022, will be attached (as Attachment "B") to the meeting minutes.

Employee Benefits Oversight Committee (EBOC) Meeting held on July 21, 2022

A report of the EBOC meeting, which took place on July 21, 2022, will be attached (as Attachment "C") to the meeting minutes.

**XI. RECOMMENDATION REGARDING PRESIDENT & CEO SELECTION, INCLUDING PRESIDENT & CEO COMPENSATION PACKAGE AND CONTRACT; DISCUSSION AND POSSIBLE VOTE ON RUDY GARZA**

Chair Dr. Mackey moved to select Mr. Rudy Garza as President & CEO of CPS Energy and approve an employment contract. The motion was seconded by Vice Chair Gonzalez. The Board of Trustees discussed the motion. On a 4-1 vote, the motion was approved.<sup>1</sup>

**XII. PROCUREMENT ITEM: GENERAL SERVICES: WEATHERIZATION PROGRAM**

Mr. Rick Luna, Interim Director of Technology & Product Innovation, and Mr. Jesse Hernandez, Senior Director, Equity, Community Strategy & Engagement, provided information and requested approval for a one-year contract to approve a contract for weatherization and expend funds. The presentation included information on the Casa Verde program, which helps low-income customers implement weatherization programs.

Mayor Nirenberg moved approval, it was seconded by Trustee Dr. Romero, and was approved on a 4-1 vote. Trustee Steen voted against the motion.

\*The Procurement Item to be attached as Attachment "D".

**XIII. ADJOURNMENT**

There being no further business to come before the Board, upon a motion duly made by Vice Chair Gonzalez, seconded by Trustee Dr. Romero and upon an affirmative vote by all members present, the meeting was unanimously adjourned at 11:49 a.m. by Chair Dr. Mackey.

  
Shanna M. Ramirez  
Secretary of the Board

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<sup>1</sup> Trustee Steen requested his comments be included in the minutes. A full transcript of the meeting has been attached to these minutes. Trustee Steen's comments are attached as Attachment "E".




**CPS Energy Board of Trustees Meeting  
September 6<sup>th</sup>, 2022  
APPROVAL of PROCUREMENT ITEMS  
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1.	<b>Item Description:</b>	<b>Peer Review Services</b>
	<b>Purchase Category:</b>	<b>Professional Services</b>
	<b>Supplier:</b>	<b>Burns &amp; McDonnell Engineering Company, Inc.</b>

2.	<b>Item Description:</b>	<b>Transmission and Advanced Distribution Management SCADA Systems</b>
	<b>Purchase Category:</b>	<b>General Services</b>
	<b>Supplier:</b>	<b>Open Systems International, Inc.</b>

**Approval:**   
\_\_\_\_\_  
Lisa Lewis, Chief Administrative Officer

**Approval:**   
\_\_\_\_\_  
Rudy Garza, Interim President & CEO



## CPS Energy Board of Trustees Meeting

### September 6<sup>th</sup>, 2022

### Procurement Form 1

<b>Item Description</b>	<b>Peer Review Services</b>
<b>Purchase Order Value</b>	<b>\$1,000,000</b>
Purchase Category	Professional Services
Department	Office of the President
Interim President & CEO	Rudy Garza

### Detailed Description

CPS Energy staff recommend that a contract be awarded to Burns & McDonnell Engineering Company, Inc. a non-local, non-diverse firm, as the respondent who will provide the goods or services at the best value for CPS Energy based on the evaluation criteria set forth below.

This contract is for a qualified power market and utility planning expert to provide peer review of CPS Energy's ongoing generation strategy analysis, including ERCOT market assessments and their portfolio evaluation. This contract will allow CPS Energy to provide independent technical advisory support to CPS Energy and the Rate Advisory Committee (RAC) and provide review of the process and quality of the market and portfolio analysis completed.

### Subcontracting Opportunities

There are no subcontracting opportunities for these services.

The solicitation method for this procurement was a Request for Qualifications (RFQ)<sup>1</sup>. The Rate Advisory Committee considered the following weighted evaluation criteria to determine the best value.

Evaluation Criteria	Points
The ability to meet requirements	70
Experience and qualifications to perform the Services	30
<b>TOTAL</b>	<b>100</b>

<sup>1</sup> CPS Energy is unable to consider price or economic development as Evaluation Criteria for RFQ's.





**CPS Energy Board of Trustees Meeting  
September 6<sup>th</sup>, 2022  
Procurement Form 1**

**Recommended Respondent(s) & Award**

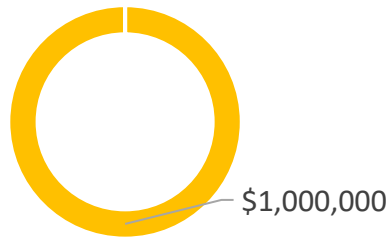
Respondent Name	SBA Classification & Details	Score	PO Value	PO #	Comments
Burns & McDonnell Engineering Company, Inc.	Non-Local / Non-Diverse	88	\$1,000,000	2203538	
<b>TOTAL</b>			<b>\$1,000,000</b>		

Four (4) additional respondents were not recommended for award: Rocky Mountain Institute; Siemens Industry, Inc.; Black & Veatch Management Consulting, LLC; and Energy Strategies, Inc.

**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
\$832,904,076	Capital	\$0	0%	\$0	\$0	\$0
\$729,676,030	Non-Fuel O&M	\$1,000,000	0.1%	\$0	\$0	\$0

**Procurement Item: Professional Services**



■ Non-Local / Non-Diverse



## CPS Energy Board of Trustees Meeting

### September 6<sup>th</sup>, 2022

### Procurement Form 2

<b>Item Description</b>	<b>Transmission and Advanced Distribution Management SCADA Systems</b>
<b>Purchase Order Value</b>	<b>\$15,000,000</b>
Purchase Category	General Services
Department	Energy Delivery Services
VP System Operations & Customer Reliability	LeeRoy Perez
EVP Energy Delivery Services	Richard Medina

### Detailed Description

CPS Energy staff recommend that a contract be awarded to Open Systems International, Inc., a non-local, non-diverse firm, as the respondent who will provide the software and services at the best value for CPS Energy based on the evaluation criteria set forth below. This contract is for five years and will expire on January 31, 2028.

This contract is for a single transmission and distribution SCADA solution from a single software vendor with two platforms for the Energy Management System (EMS) and Advanced Distribution Management System (ADMS).

This contract will allow CPS Energy to replace the end-of-life EMS application. It will also enable enhanced customer experience for storm and outage management, provide a foundation to enable resiliency and reliability improvements like Self Optimizing Grid, and allow alignment with current NERC compliance cybersecurity standards along with other technology advancements.

### Subcontracting Opportunities

Open Systems International, Inc. has committed to subcontract project support services to a diverse business.



## CPS Energy Board of Trustees Meeting September 6<sup>th</sup>, 2022 Procurement Form 2

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
Technical and Functional Requirements	30
The overall cost	20
Experience and qualifications to perform the Services	15
The financial soundness of the Respondent	10
Experience, warranty, quality control, and contingencies relating to the supply of software	10
Economic Development (local & diverse consideration)	10
The ability to meet CPS Energy's requirements	5
<b>TOTAL</b>	<b>100</b>

Recommended Respondent(s) & Award					
Respondent Name	SBA Classification & Details	Score	PO Value	PO #	Comments
Open Systems International, Inc	Non-Local / Non-Diverse	63%	\$15,000,000	2203427	
<b>TOTAL</b>			<b>\$15,000,000</b>		

Two (2) additional respondents were not recommended for award: Hitachi Energy USA, Inc. and GE Renewables Grid, LLC.

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
\$832,904,076	Capital	\$1,900,000	0.23%	\$650,000	\$4,500,000	\$650,000
\$729,676,030	Non-Fuel O&M	\$0	0%	\$0	\$140,000	\$144,000

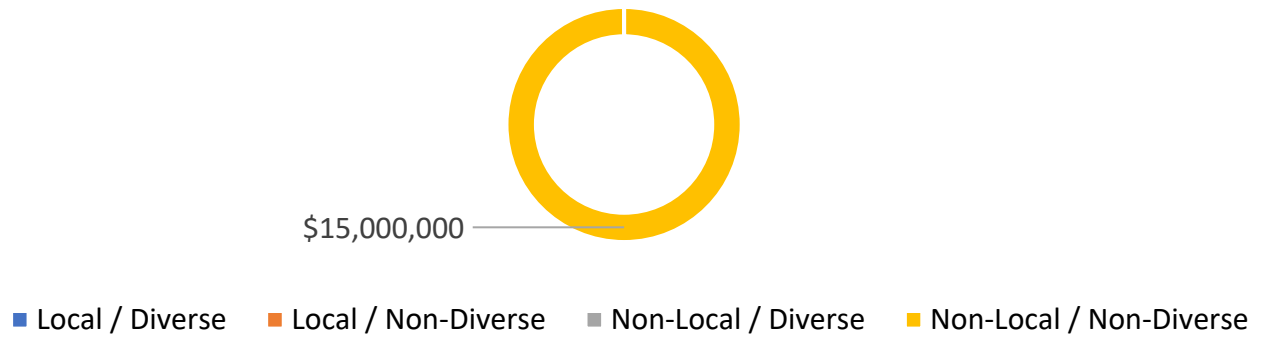


## CPS Energy Board of Trustees Meeting

September 6<sup>th</sup>, 2022

### Procurement Form 2

#### Procurement Item: General Services





## AUDIT & FINANCE COMMITTEE (A&F)

### EXECUTIVE SUMMARY AND CHAIR REPORT FROM THE JULY 21, 2022 MEETING

#### PREPARED FOR CHAIR JOHN STEEN

#### FOR REPORT AT THE AUGUST 29, 2022 BOARD OF TRUSTEES MEETING

The Audit & Finance Committee met on July 21, 2022. As part of the Audit & Finance Committee agenda, the Committee:

- A. Approved meeting minutes from the prior meeting held on May 11, 2022.
- B. Received an update on the Ethics Program, including a summary of cases that were opened and closed through June 24, 2022, and a trend analysis for FY2022 first Quarter versus FY2023 first Quarter.
- C. Received procurement preview regarding conduit, distribution transformers, and enterprise fuel supply. Moving forward procurement presentations will be provided at Committee meetings for awareness prior to being presented at Board of Trustees meetings.
- D. Received an update on the current state of accounts receivable and customer outreach.
  - a. Disconnections performed when possible, taking into consideration weather restrictions.
  - b. Customers past due on their bills are paying something but are not able to catch up. City of San Antonio staff is consulted regularly to see if additional ARPA funds are available to assist customers with paying their bills.
- E. Received an overview of FY2023 financing plan related approvals for surety policy and Private Letter Ruling.
- F. Provided status of audit projects for FY2023 and results of two projects completed since the last Committee meeting. Reached agreement that three financial metrics would be added to the Enterprise Reporting Dashboard.
- G. Provided invoice management controls update for Energy Supply, Gas Solutions, and Electric Distribution Services (EDS) and overview of activities performed to strengthen internal controls.
- H. During the closed session the Committee members discussed the requirement in the Audit & Finance Committee Charter (Charter) which states, “. . . at least one member who, based upon their experience, competencies, and skills, can be designated as a “financial expert.” The Charter also states, “Regardless of the committee assignments, if in any year the Board does not have a member with significant broad financial expertise, the collective governing body will engage an independent financial counselor/advisor to provide that needed contribution to the Board and this Committee.” Further discussion related to the designation or appointment of a financial expert will occur in an executive session of the full Board of Trustees.

The next meeting of the Audit & Finance Committee will be held in October 2022.



## EMPLOYEE BENEFITS OVERSIGHT COMMITTEE (EBOC)

### EXECUTIVE SUMMARY AND CHAIR REPORT FROM THE JULY 21, 2022 MEETING PREPARED FOR COMMITTEE CHAIR JOHN STEEN FOR REPORT AT THE AUGUST 29, 2022 BOARD OF TRUSTEES MEETING

The EBOC met on July 21, 2022. As part of the EBOC agenda, the Committee:

- A. Approved meeting minutes from the prior meeting held on May 11, 2022.
- B. Reviewed the Action Items list from the May 11, 2022 Meeting.

The Committee also received presentations regarding:


- C. A Benefit Plans Administrative & Financial Update, which highlighted the following: governance overview and calendar review; investment performance for YTD 2022 thru May, as well as performance for CY2021 and FY2022; and an update on the ongoing Administrative Committee Improvement Plan to address gaps and shortfalls in areas of people, performance (investment), and policies, practices, and controls.
- D. Health Plan Premiums & Plan Design, which highlighted a renewal of the pharmacy benefit administrator contract for a three-year period and a recommendation to keep health premiums and plan design the same for calendar year 2023, except for a slight enhancement to vision benefits. The EBOC approved these recommendations.

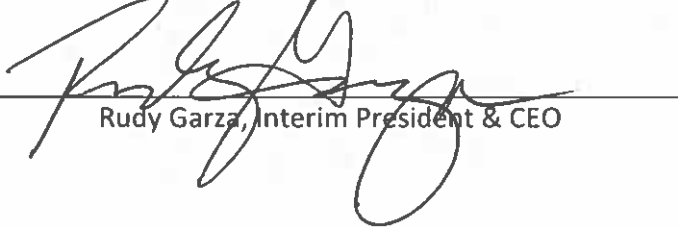
The next meeting of the EBOC will be held in October 2022.



**CPS Energy Board of Trustees Meeting  
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<b>1. Item Description:</b>	<b><u>Weatherization Program</u></b>
<b>Purchase Category:</b>	<b>General Services</b>
<b>Supplier:</b>	<b>Franklin Energy Services, LLC</b>

**Approval:**   
\_\_\_\_\_  
Lisa Lewis, Chief Administrative Officer

**Approval:**   
\_\_\_\_\_  
Rudy Garza, Interim President & CEO



**CPS Energy Board of Trustees Meeting**  
**September 6<sup>th</sup>, 2022**  
**Procurement Form 1**

<b>Item Description</b>	<b>Weatherization Program</b>
<b>Purchase Order Value</b>	<b>\$20,200,000</b>
Purchase Category	General Services
Department	Enterprise Risk & Development
VP Enterprise Risk & Development	Jonathan Tijerina
Chief Financial Officer & Treasurer	Cory Kuchinsky

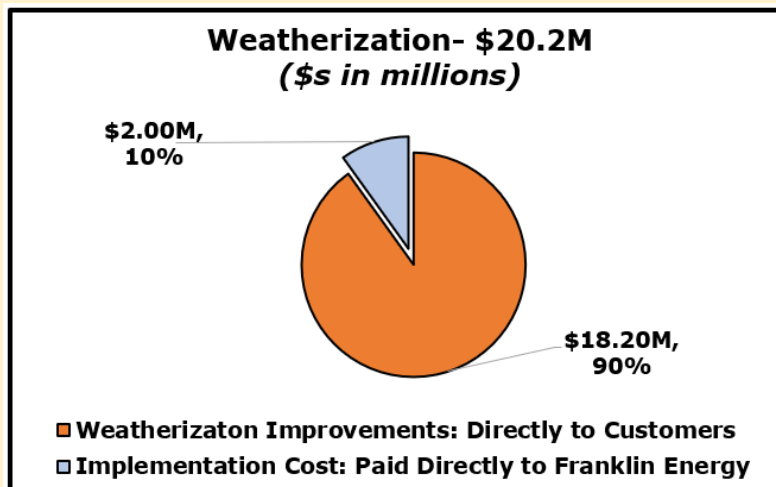
**Detailed Description**

CPS Energy staff recommends awarding Franklin Energy Services, LLC a new contract for up to 12 months of Weatherization services. Franklin Energy Services, LLC, a local, non-diverse firm, was selected based on an extensive RFP process as the respondent who provided the goods or services at the best value for CPS Energy based on program delivery, cost and value, experience, safety performance, community impact, and financial soundness.

Franklin Energy Services, LLC has provided implementation services for the weatherization program since 2016 and has a successful track record of meeting program targets.

This contract is integral to meeting the energy and demand savings goals, as well as equity goals, established under the new energy efficiency and conservation savings program approved by City Council on June 16, 2022.

The weatherization program serves our customers with the most need. As shown on the chart below, 90% of contract funds will be pass-thru costs that will be paid to subcontractors for labor and improvements in homes with the remaining 10% paid to Franklin Energy Services, LLC for their program administration support.







## CPS Energy Board of Trustees Meeting September 6<sup>th</sup>, 2022 Procurement Form 1

### Subcontracting Opportunities

Franklin Energy Services, LLC subcontracts 90% of overall spend to the following diverse businesses:

- Cool Component Htg & A/C, Inc. – local, small, Hispanic American-owned business
- Roadrunner Remodeling, Inc. – local, small, Hispanic American-owned business
- Rams Weatherization & Construction, LLC – local, small, Woman-owned, Hispanic American-owned business
- The Right Choice Heating and Air, Inc. – local, small, Woman-owned, Veteran-owned
- M&M Weatherization Company – local, HUBzone business

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
The overall cost and value of program(s)	25
Respondent's ability to meet CPS Energy's requirements for Program Delivery Capabilities and Quality Control	25
Safety records and training program	20
Respondent's Company and Firm Overview to include experience and qualifications to perform the Services and references	10
Economic Development (local & diverse consideration)	10
The financial soundness of Respondent	5
Ability to adhere to CPS Energy IT Security Requirements	5
<b>TOTAL</b>	<b>100</b>



**CPS Energy Board of Trustees Meeting  
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Procurement Form 1**

**Recommended Respondent(s) & Award**

Respondent Name	SBA Classification & Details	Score	PO Value	PO #	Comments
Franklin Energy Services, LLC	Local / Non-Diverse	74	\$20,200,000	2203235	
<b>TOTAL</b>			<b>\$20,200,000</b>		

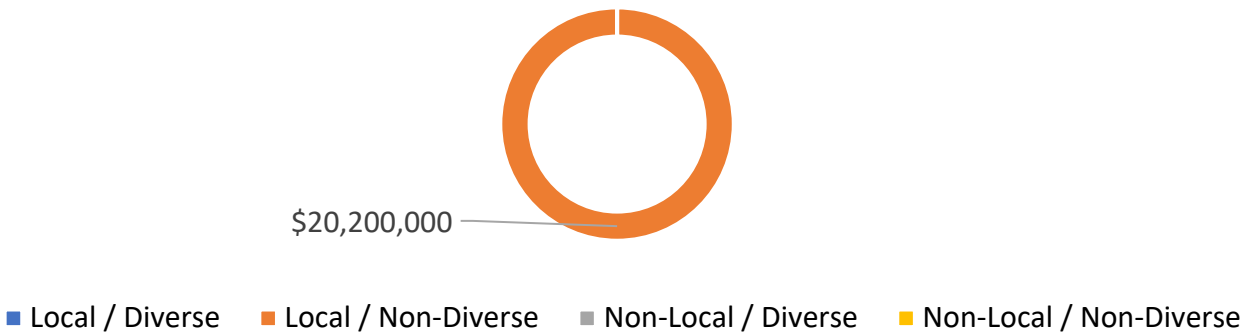
Seven (7) additional respondents were not recommended for award: CLEARResult Consulting, Inc.; Cool Component Htg & A/C, Inc.; ICF Resources, LLC.; TRC Solutions, Inc.; Roadrunner Remodeling, Inc.; Rams Weatherization and Construction, LLC.; and NA3 Group PLLC.

**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
\$832,904,076	Capital	\$0	0%	\$0	\$0	\$0
\$2,285,821,000	*Operating Budget	\$8,400,000	0.37%	\$11,800,000	\$0	\$0

\*This represents the full operating budget, which combines Fuel, Non-Fuel O&M and other operating expense.

**Procurement Item: General Services**



9/6/22

### STATEMENT OF JOHN STEEN

Re: Recommendation regarding President & CEO Selection, including President & CEO's Compensation Package and Contract: Discussion and Possible Vote on Rudy Garza (Agenda Item #11)

The selection of a permanent CEO is perhaps the most important decision a board like ours makes. Given the very serious challenges CPS Energy is facing, I'd be hard pressed to name a more consequential selection this board will make. So to say I'm disappointed with how this process has been handled is an understatement.

Members of this board often stress that transparency is important, and I agree, so let me explain briefly how we got to where we are today. After our previous CEO announced her departure, this board at a special meeting held November 1, 2021, appointed Rudy Garza interim CEO. I'm not sure why there was such a lengthy delay, but it wasn't until mid-May – almost six and a half months later – that the firm of Russell Reynolds Associates was retained to conduct the search for our new CEO. I was neither provided an explanation of why this engagement was delayed over half a year nor afforded the opportunity to vote on the hiring of Russell Reynolds. Thereafter, until our recent special board meeting on August 23rd, my only touchpoint with Russell Reynolds was when I was interviewed about the qualities I'd like to see in our next CEO. When the board met August 23<sup>rd</sup>, my expectation was that, even though there'd been a protracted and inexplicable delay of ten months, we were at last nearing the launch of our CEO search. Instead the other trustees voted to halt the search and elect Mr. Garza. This decision was made without so much as considering a single other candidate – not one. To repeat, Russell Reynolds never launched its search and thus never offered up to us any candidates to whom Mr. Garza could be compared. (This is general knowledge that anyone interested can verify.) I've got extensive experience in this area. For forty years I've served on various boards and commissions and been involved in numerous high-profile CEO searches, for example, the searches for the Texas Department of Public Safety chief and the Texas Higher Education Commissioner, and I've never seen a CEO search – especially one as critical to the future well being of an organization – handled in such a shambolic fashion.

I'm not sure I'm at liberty to comment directly on the compensation Russell Reynolds Associates receives for its services, but it's generally known that most such firms charge a percentage fee. On average, retained executive search fees are one-third (33%) of the candidate's first year total cash compensation plus search-related expenses. By that standard Russell Reynolds is in line to receive hundreds of thousands of dollars. I now question whether hiring that firm was a prudent and justifiable expenditure.

I suspect the one expectation the associates of Russell Reynolds had when they arrived at our August 23<sup>rd</sup> board meeting was that there had to be a reckoning on the CEO's compensation package before a high-profile search could be launched. Instead they learned by watching the open session portion at the end of our meeting, like every one else, that their

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services were essentially no longer required. I'm guessing they were as surprised by this outcome as I was.

I remarked late last year, when we were faced with the difficult task of finding our next CEO, that the biggest challenge we'd encounter is getting any dynamic, top-tier executive interested in the job given the compensation package. When you compare Mr. Garza's current compensation of \$427,000 per year to comparable public-owned utilities or investor-owned utilities, it's not just low, but drastically low. I can quantify in detail what I mean by "drastically low," but the data I've been provided is contained in a pamphlet that's been stamped by our General Counsel: "Confidential-Competitive Matters." I only wish I could prove my point to those of you listening to this meeting by giving you actual numbers. In any case, I suppose the members of the Personnel Committee found themselves in a bind. How were they going to attract applicants with a compensation package so drastically low? But instead of addressing this compensation issue head-on, they decided to truncate the CEO search before it ever started.

It's interesting to note that it was Mr. Garza who stated emphatically during a board meeting earlier this year that it was he, as interim CEO, who eliminated the compensation-at-risk/incentive program not only for his position, but also for senior management. Two things to consider: First, Mr. Garza eliminated the compensation-at-risk/incentive program, which effectively vitiated our CEO search process, but, after he was selected on August 23rd, he was invited to negotiate and has negotiated a substantially higher compensation package for himself. Second, the elimination of our compensation-at-risk/incentive program has contributed significantly to the worrisome exodus of senior management that's been occurring. Our top executives expect to be paid close to what their peers in the industry are paid, and, when they're not, they leave. In summary, this process has been flawed from top to bottom, but allow me to move on to Mr. Garza's qualifications to be our permanent CEO.

When our previous CEO departed somewhat unexpectedly, Mr. Garza received what some have called a "battlefield promotion." Since taking the reins ten months ago, he's had positive accomplishments. Perhaps his major accomplishment has been to keep the electricity on and the gas flowing during one of the hottest summers on record. It was a daunting challenge, and Mr. Garza's team rose to the occasion. On the other hand, he's had missteps such as his inability to get a handle on the bad-debt situation. I'm not going to repeat concerns I've detailed previously, but let's just say that our bad-debt problem is not only not under control, it's getting worse. Since our last regular board meeting, that figure has increased from \$160 million to \$175 million. Management's approach isn't working so well, and a recalibration or a course correction has been slow in coming. So the results of Mr. Garza's 10-months as interim CEO have been mixed.

I want to preface what I'm about to say by noting that I've known Rudy Garza for over six years and worked with him on a number of matters, and he's a fine person and a capable executive. My concern is that his resumé does not describe a person who's positioned himself to lead a \$13 billion electric and gas utility. While Mr. Garza did obtain an electrical engineering degree from UT Austin, a notable accomplishment, his first job out of college was with TXU Energy, where he worked for 16 years and ultimately became their state advocacy director and chief lobbyist. His next job was with the City of Corpus Christi as director of intergovernmental relations and assistant city manager, which he held four years. In 2012, he came to work for CPS Energy as vice president of external relations and held that position until 2016. So, for his

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first 20 years in the workforce, he was mostly involved with governmental relations. Indeed, if you survey his entire career, it's been in the fields of legislative affairs and community engagement, except for approximately three years in distribution services and operations. As far as I can tell, he has no experience in one of the most important and risky aspects of running a utility, and that's generation.

Before he received his battlefield promotion ten months ago, if you had asked someone in the industry about Rudy Garza, a likely response would have been: "He's a superb governmental relations specialist – one of the best in the business." Through his governmental and community activities, he's contributed meaningfully to the welfare of CPS Energy, but these activities haven't adequately prepared him to be a CEO.

Bottom line: I like and respect Rudy Garza and acknowledge and applaud his lobbying expertise. Lately, he's been a valuable part of our leadership team in his role as chief customer & stakeholder engagement officer. But he's not the right person to lead CPS Energy during one of the most difficult periods in its 80-year history.

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