

SA ENERGY ACQUISITION PUBLIC FACILITY CORPORATION

NOTICE OF MEETING

Notice is hereby given that the Board of Directors of the SA Energy Acquisition Public Facility Corporation will hold a public meeting in the Board Room located on the First Floor of the CPS Energy headquarters located at 500 McCullough, San Antonio, Texas **on Monday, October 31, 2022, at 3:40 p.m. or immediately following the Regular Board Meeting of the CPS Energy Board of Trustees.** The Board of Directors will consider specifically those matters referred to in the attached agenda, which is incorporated herein. The meeting will also be live-streamed.

The meeting will be streamed on [cpsenergy.com](https://www.cpsenergy.com).

Those wishing to speak on an agenda item during the Public Comment portion of the meeting must register starting Wednesday, October 26, 2022 at 5:00 p.m. until Friday, October 28, 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.

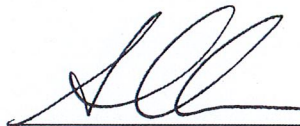
Written comments may be sent to publiccommentregistration@cpsenergy.com and will be shared with the Board prior to the start of the meeting.

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
October 26, 2022

0059 - CPM/CLERK
20220615 15:04:59.11



**SA ENERGY ACQUISITION PUBLIC FACILITY CORPORATION MEETING
TO BE HELD ON OCTOBER 31, 2022
LOCATION: CPS ENERGY BOARD ROOM (500 MCCULLOUGH AVE)
THIS MEETING WILL FOLLOW THE REGULAR BOARD OF TRUSTEES MEETING**

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. Willis Mackey
2	PUBLIC COMMENT Pre-Registration is from Wednesday, October 26, 2022 5:00 PM – Friday, October 28, 2022 1:00 PM. Dial (210) 353-4662 or Email PublicCommentRegistration@CPSEnergy.com	Discuss	Dr. Willis Mackey
CONSENT AGENDA			
3	APPROVAL OF CONSENT ITEMS: A. Minutes of the PFC Meeting held on 7/25/2022	Vote	Dr. Willis Mackey
REGULAR AGENDA			
4	PFC AUDIT RESULTS (Ms. Caroline Garcia, KPMG)	Discuss	Ms. Julie Johnson
5	UPDATE OF BYLAWS AND FORM 401	Discuss & Vote	Ms. Shanna Ramirez
6	CLOSE-OUT: Review Action Items from this meeting	Discuss	Ms. Julie Johnson
7	ADJOURNMENT	Execute	Dr. Willis Mackey
If the PFC meeting has not adjourned by 4:35 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.			

2022 OCT 31 10:56 AM

Draft for Review and Approval
at the October 2022 meeting



**Minutes of Meeting of
Board of Directors
July 25, 2022**

A regular meeting of the Board of Directors of SA Energy Acquisition Public Facility Corporation ("PFC" or "Corporation"), held in the Board Room on the First Floor of the CPS Energy headquarters located at 500 McCullough, San Antonio, Texas, was called to order on Monday, July 25, 2022 at 3:38 p.m. by Board President Dr. Willis Mackey.

The following Directors of the Corporation, constituting a quorum, were present and participated throughout the meeting:

- Dr. Willis Mackey, President
- Ms. Janie Gonzalez, Vice President
- Mr. Rudy Garza, Assistant Vice President
- Mr. John Steen
- Dr. Francine Romero
- Mayor Ron Nirenberg
- Mr. Cory Kuchinsky

Also, in attendance during the meeting were:

- Mr. Kevin Pollo, Executive Director
- Ms. Shanna Ramirez, Secretary
- Ms. Julie Johnson, Assistant Secretary
- Mr. David Ramirez, Treasurer
- Other CPS Energy leadership and staff members.

I. WELCOME / CALL TO ORDER

Board President Mackey welcomed everyone and called to order the meeting.

II. Public Comment

There were no members of the public wishing to provide public comment.

Draft for Review and Approval
at the October 2022 meeting

III. CONSENT AGENDA

A. Approval of Consent Agenda: Board Meeting Minutes from February 28, 2022

Director Steen moved to approve the minutes, Director Nirenberg seconded and the motion passed.

B. Approval: Directors & Officers (D&O) Insurance Program

Director Nirenberg moved to approve, and Director Romero seconded. Director Steen made a motion to amend the Directors & Officers Insurance Program to provide that the insurance policy limit be increased from \$20M to \$30M. The motion to amend was seconded by Director Nirenberg. Discussion was held and the motion to amend failed. Board President Mackey called the original motion to approve, and the motion passed.

IV. Close-Out

There were no action items from the meeting to review.

ADJOURNMENT

There being no further business to come before the Board of Directors, upon motion by Director Romero, seconded by Board Vice President Gonzalez, the meeting was adjourned by Board President Mackey at 3:51 p.m.

Shanna M. Ramirez
Secretary of the Board



SA Energy Acquisition Public Facility Corporation

Discussion with Those Charged with Governance

Audit results for the year ending January 31, 2022

Prepared on: October 26, 2022

Presented on: October 31, 2022

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Audit results: Overview

Outstanding matters

Customary outstanding matters as of October 26, 2022 are listed on slide 4.

Deficiencies

Material weakness identified in relation to the valuation of PFC's commodity swap derivative instrument as described on slide 9.

Auditors' report

Unmodified report on PFC's financial statements.
Modified report on PFC's internal control over financial reporting.
See additional discussion on slide 10.

Uncorrected Misstatements

Uncorrected misstatement associated with the effects of PFC's non-GAAP policy is detailed on slide 6.

Corrected Misstatements

Corrected misstatement associated with PFC's commodity swap derivative instrument is detailed on slide 7.

Other

\Refer to slide 15 for list of inquiries.





Required Communications to Those Charged with Governance

Prepared on: October 26, 2022

Presented on: October 31, 2022



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Summary: Audit results required communications and other matters

		Response
Audit results	Outstanding matters	<p>Outstanding matters as of October 26, 2022 are as follows:</p> <ul style="list-style-type: none"> • Receipt of final letters (e.g. attorney and management representation letters) • Review status of engagement partner and concurring review partner • Final review of financial statements <p>The issuance of our opinions will signify the resolution of these outstanding matters.</p>
	Significant unusual transactions	No significant unusual transactions identified during the audit.
	Uncorrected audit misstatements	See slide 6.
	Corrected audit misstatements	See slide 7.
	Financial presentation and disclosure omissions	No matters to communicate.
	Non-GAAP policies and practices	See slide 8.
	Material weaknesses and significant deficiencies in internal control	See slide 9.
	Auditors' report	See slide 10.
	Changes to our risk assessment and planned audit strategy	No matters to report.
	Significant accounting policies and practices	No matters to report.
	Significant accounting estimates	See slide 12.
	Significant financial statement disclosures	See slide 13.
	Group audit engagement considerations	No matters to report.





Summary: Audit results required communications and other matters

		Response
Audit results	Related parties	No matters to report.
	Going concern	No matters to report.
	Other information	No matters to report.
	Subsequent events	No matters to report.
	Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
	Noncompliance with laws and regulations	No matters to report.
	Significant difficulties encountered during the audit	No matters to report.
	Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
	Management's consultation with other accountants	No matters to report.
	Difficult or contentious matters for which the auditor consulted	The engagement team consulted with KPMG's Department of Professional Practice related to the accounting and valuation for PFC's commodity swap derivative instrument.
	Disagreements with management	No matters to report.
	Other significant matters	No matters to report.
Written communications	Engagement letter, management representation letter, including summary of uncorrected misstatement, internal control deficiency letter, and minutes representation letter to be distributed under separate covers.	
Independence	See slide 14	
Inquiries	See slide 15	



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Uncorrected audit misstatements

\$(000's)		
Description of misstatement	Quantitative income statement effect	
	Iron curtain	Rollover – year to date
Long-term debt, net Amortization of net premium		
<i>Effect of PFC's non-GAAP policy to use the redemption price method of amortizing its bond premium in place of the effective interest method required by GAAP.</i>	\$ 782	\$ 75
Total	782	75
Change in net position	\$ 0	\$ 0
Percentage	-%	-%

Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if we have concluded that the uncorrected misstatements are immaterial to the financial statements under audit.



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Corrected audit misstatements

\$(000's)		
Description of misstatement	Debit	Credit
<i>To record the corrected valuation of the commodity swap derivative instrument as of January 31, 2022:</i>		
Derivative instrument – commodity swap (current portion)		\$ 13,238
Derivative instrument – commodity swap (noncurrent portion)		43,704
Derivative instrument loss	56,942	
<i>To record the corrected valuation of the commodity swap derivative instrument as of January 31, 2021:</i>		
Derivative instrument – commodity swap (current portion)	\$ 32,454	
Derivative instrument – commodity swap (noncurrent portion)	135,199	
Net costs recoverable from future participant billings		167,653



Non-GAAP policies and practices

The Company has adopted certain accounting policies or practices that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. The Company has evaluated the effect of the application of such policies and practices on the financial statements and its assessment of internal control over financial reporting and concluded that such effect is not material to the 2022 financial statements or to its assessment of internal control over financial reporting.

Non-GAAP polices and practices	Impact of non-GAAP policies and practices
Bond premium amortization	<p>PFC amortizes its bond premium utilizing the redemption price method, however, GASB 62 requires amortization of premiums and discounts to be made under the effective interest method.</p> <p>Management has quantified the difference between the two methods and concluded the non-GAAP policy does not have a material effect on the financial statements in the current or future periods.</p>

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Material weaknesses and significant deficiencies in internal control

Material weaknesses

Description	Potential effects	Status
Commodity swap derivative instrument valuation	KPMG and management have concluded a material weakness exists related to the valuation of PFC's commodity swap derivative instrument.	Unremediated

Significant deficiencies

Description	Potential effects	Status
No matters to report	N/A	N/A

All other deficiencies in ICFR noted during the audit that are of a lesser magnitude than a material weakness or significant deficiency have been communicated to management in writing.



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Reports

- As of October 26, 2022, we expect to issue the following opinions and reports:
 - Unmodified opinion on the financial statements of SA Energy Acquisition Public Facility Corporation as of January 31, 2022
 - Adverse opinion on SA Energy Acquisition Public Facility Corporation's internal control over financial reporting as of January 31, 2022
 - Agreed-Upon Procedures Report on SA Energy Acquisition Public Facility Corporation's compliance with the Public Funds Investment Act (PFIA) for the year ended January 31, 2022

Matters affecting the form and content of the auditors' report

- An Other matter paragraph is expected to be added to the financial statement opinion related to the inclusion of required supplementary information as follows:

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



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Risk assessment and planned audit strategy

- No significant changes made to our risk assessment, scope, or planned audit strategy compared to our annual audit plan presentation made on January 20, 2022, other than the evaluation of the commodity swap derivative instrument.
- No changes to identified significant risks:
 - Presumed risk of management override of internal controls
- Accounting estimates with an identified risk of material misstatement are as follows:
 - Fair value of the commodity swap derivative instrument



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Significant accounting estimates

Fair value of the commodity swap derivative instrument

- In order to hedge against reductions in natural gas sales revenues from changes in monthly market index prices, the PFC entered into an International Swaps and Derivatives Association Master Agreement and related Schedule, Credit Support Annex and Confirmation (collectively referred to as the Commodity Swap Agreement) with the Royal Bank of Canada Europe Limited, the commodity swap counterparty, on June 14, 2007.

Under the Commodity Swap Agreement, on a monthly basis over 20 years, the PFC will pay a floating price equal to the monthly IFERC West Texas (WAHA) natural gas index and receive a fixed price for notional quantities of natural gas, corresponding to the quantities of natural gas to be received under PFC's Prepaid Gas Agreement. The Commodity Swap Agreement meets the definition of a derivative instrument under GASB 53 and is recorded on the statement of net position at fair value.

Audit findings

Management's process used to develop the estimates

- The PFC estimates the fair value of the commodity swap by using a forward price curve and forecast to estimate the earnings or losses that will occur as a result of the Commodity Swap Agreement over the remaining life of the agreement. The resulting unrealized gains or unrealized losses were discounted to reflect the net present value.

Significant assumptions used that have a high degree of subjectivity

- N/A – no significant assumptions used that have a high degree of subjectivity.

Indicators of possible management bias

- N/A – no indicators of possible management bias were identified.

Conclusions

- We believe management's assumptions used for the fair value of the commodity swap derivative instrument are appropriately accounted for and material matters are disclosed.



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Significant financial statement disclosures

Description of significant financial statement disclosures	Audit results
Cash, Cash Equivalents and Investments	PFC discloses its invested balances in accordance with its Investment Policy. Money market mutual fund investments are accounted for using amortized cost. PFC's investment in its Guaranteed Investment Contract is reported at cost in accordance with GASB Statement No. 31, <i>Certain Investments and External Investment Pools</i> , as it is a nonparticipating contract.
Net Costs Recoverable from Future Participant Billings	PFC discloses that it accounts for its regulated operations under the provisions of GASB Statement No. 62, <i>Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements</i> .
Prepaid Gas Supply	PFC discloses the significant terms of its Prepaid Gas Agreement with J. Aron & Company.
Long-Term Debt	PFC discloses its long-term debt activity and balances, including disclosure of future debt payments and compliance with all significant debt covenants.
Commodity Swap	PFC discloses the significant terms of its commodity swap derivative instrument, various risk exposures, and valuation methodology in accordance with GASB Statement No. 53, <i>Accounting and Financial Reporting for Derivative Instruments</i> .



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Independence communications

The following are circumstances or relationships that, in our professional judgment, may reasonably be thought to bear on independence, and to which we gave significant consideration, in reaching the conclusion that independence has not been impaired.

Relationship	Description of relationship and relevant safeguards, if applicable	Fees (for services)
Accounting Research Online subscription	Access to KPMG's Accounting Research Online, which is a web-based financial reporting research tool that aggregates publicly available published authoritative literature.	Complimentary
Custom Learning Portal	Access to KPMG's Custom Learning Portal, which provides access to public training events, such as KPMG conferences, and self-study web-based trainings. The Customer Learning Portal does not result in client-specific advice or guidance, courses are provided "off-the-shelf".	Complimentary



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The following inquiries are in accordance with AU-C 260

Are those charged with governance aware of:

- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
- Any significant communications with regulators?
- Any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the financial statements, including the following:
 - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
 - Whether all required information has been included in the financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

Do those charged with governance have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting the Company?
 - If so, have the instances been appropriately addressed and how have they been addressed?

Additional inquiries:

- What are those charged with governance's views about fraud risks in the Company?
- Who is the appropriate person in the governance structure for communication of audit matters during the audit?
- How are responsibilities allocated between management and those charged with governance?
- What are the Company's objectives and strategies and related business risks that may result in material misstatements?
- Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?
- What are those charged with governance's attitudes, awareness, and actions concerning (a) the Company's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud?
- Have there been any actions taken based on previous communications with the auditor?
- Has the Company entered into any significant unusual transactions?
- Whether the entity is in compliance with other laws and regulations that have a material effect on the financial statements?
- What are the other document(s) that comprise the annual report, and what is the planned manner and timing of issuance of such documents?
- Have any subsequent events occurred that might affect the financial statements?





Questions?

For additional information and audit committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, visit the KPMG Audit Committee Institute (ACI) at www.kpmg.com/ACI

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