July 22, 2022

Board of Trustees
Mr. Rudy Garza, Interim President & CEO

Dear Trustees and Mr. Garza:

Attached is our monthly Enterprise Performance Update which includes results through June 2022. This report, which will be posted to our website following the July 25, 2022 Board of Trustees' Meeting, includes three components:

- Tier 1 metrics (to be presented at the Board of Trustees meeting),
- Financial performance (supplemental summary below), and
- Updates on our community commitments.

<u>Financial Performance</u>

Financial results remain positive, and our key financial metrics are on par with or exceeding plan.

Due to higher sales than expected from weather-related demand, we are outperforming our budget net income by over $10 million YTD. While we do see potential headwinds from wholesale performance and customer receivables, we are still projecting net income to exceed plan on a full year basis. Our cash flows through the flow of funds are also strong. Repair & Replacement fund additions have exceeded plan by $13 million YTD, and we are forecasting above plan performance on a full year basis as well.

YTD financial highlights include the following:

- Our top line revenue was $244.1 million above plan. This was primarily driven by fuel costs that were $199.3 million above plan. Weather also played a factor in electric sales that were 7.1% above budget and gas sales that were 6.6% above budget.
- Wholesale revenues net of fuel are underperforming by $10.4 million YTD due to higher natural gas costs. If July and August are strong, it is still possible to meet full year expectations. We are watching wholesale performance closely.

- As mentioned in previous updates, rising interest rates remain a factor and continue to drive "mark to market" adjustments on our long-term bond investments. YTD, we are lower by $21.0 million. Importantly, these fair market value adjustments do not impact cash flow performance.
- Total revenue available for non-fuel expenses was in line with the budget plan.
- O&M expenses are slightly favorable to budget YTD, at $1.4 million. Favorability in lower technology spend is offset by spend related to weather events, gas leak repairs, and plant maintenance costs. Other non-fuel favorability (e.g., lower interest and debt-related costs and depreciation expense) contributed to total non-fuel expenses lower than plan by $10.7 million.
- Net income of $2.2 million was $10.7 million above budget.
- On the Flow of Funds, our R&R additions are $102.2 million YTD, modestly outperforming the budget by $13.0 million.

Summary of full year FY2023 financial projections:

- Adding June results to our full year projection, top line revenue is still forecasted to be above budget for the year.
- The application of ARPA funding to past-due accounts is still building momentum, and we are seeing persistently high aged receivables. As a reminder, our full-year financial forecast includes a net revenue reduction of ~$10 million to reflect the net impact of higher aged receivables and application of ARPA funds. Note that any additional bad debt expense will be an offset to revenues. We are closely monitoring our receivables to ensure our budget can absorb the variance to plan.
- Despite strong year-to-date O&M and interest and debt-related cost favorability, we expect non-fuel expenses to be on par with budget for the full year.
- Our full year projected net income of $90.2 million is above budget of $77.2 million.
- Projected year-end Key Financial Metrics remain on par with plan with some ratios showing slight improvements to budget: Adjusted Debt Service Coverage increased modestly to 1.87x, and our Debt Capitalization ratio improved more than 70 basis points relative to budget to 60.89%. Days Cash on Hand remains on par with budget, at 169 days.
- Note: We are monitoring macro-economic factors such as inflation and interest rates as we develop our full year financial performance estimates each month.

Thank you, again, for your leadership and support.

Sincerely,

Lisa

Cory Kuchinsky, CPA
CFO & Treasurer

Lisa Lewis
CAO

PK

Attachments

Copy COSA: Erik Walsh, City Manager
Ben Gorzell, CFO
Zack Lyke
Juan Valdez
Russell Huff

Copy CPS Energy: Rudy Garza, Interim President & CEO
CEO Direct Reports
Govt & Reg Affairs & Public Policy

MONTHLY PERFORMANCE UPDATE

PRESENTED BY:

Integrated Planning

July 25, 2022

Informational Update

AGENDA

- **METRIC PROGRAM OVERVIEW**
- **FY2023 TIER 1 METRIC PERFORMANCE - YTD 6/30/22**
  - **PEOPLE**
  - **OPERATIONAL**
  - **FINANCE**

TIER 1 METRIC PROGRAM
OVERVIEW

12 of 15 metrics remain on track to meet year end targets

Metrics at-risk of meeting year end targets

- Customer Satisfaction - Residential
- Enterprise Recordable Incident Rate (RIR)- New
- Portfolio Commercial Availability (PCA)- New

PEOPLE METRICS AS OF 6/30/22

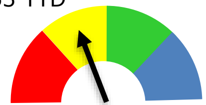
SERVING OUR CUSTOMERS & BUILDING OUR CULTURE

Customer Satisfaction - Residential

77.2 YTD

Recordable Incident Rate (RIR)

1.63 YTD

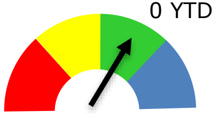


Employee Engagement - Enterprise

This metric is measured on an annual basis

Environmental Compliance Issues

0 YTD



Enterprise Readiness – Executives

This metric is measured on an annual basis

Things to Note

- Residential customer satisfaction remains at-risk given March rate increase and negative publicity from last year. Outreach to our community continues, focused on available bill assistance options for vulnerable customers.

- Recordable Incident Rate (RIR) is currently at-risk. YTD results are trending slightly higher than forecast. Operational leaders continue to stress stretching and warming up, as the majority of incidents are soft-tissue related.

* Metric details in appendix

Achieved | On Track | At Risk | Unrecoverable/Not Achieved | Indicates current performance

OPERATIONAL METRICS AS OF 6/30/22
DELIVERING RELIABLE PERFORMANCE

System Average Interruption Duration Index (SAIDI)

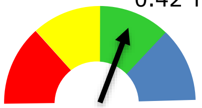
27.07 YTD

Critical IT Systems Availability

99.9% YTD

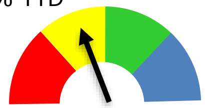
System Average Interruption Frequency Index (SAIFI)

0.42 YTD



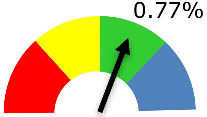
Portfolio Commercial Availability (PCA)

85.9% YTD



Gas System Growth

0.77% YTD



Things to Note

- Enhanced vegetation management is benefiting our reliability outcomes.
- Power Generation PCA is at-risk, due mostly to unplanned plant maintenance Rio Nogales, Spruce 2 and Sommers 1. Continuous system stress and high demand has reduced downtime to manage plant operations as issues arise.
- PCA recovery is dependent on future market pricing and continued power plant reliability.

* Metric details in appendix

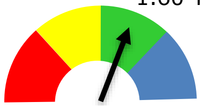
Achieved | On Track | At Risk | Unrecoverable/Not Achieved | ↑ Indicates current performance

FINANCIAL METRICS AS OF 6/30/22

FISCAL RESPONSIBILITY & TRANSPARENCY

Adjusted Debt Service Coverage (ADSC)

1.60 YTD



O&M Budget

283.9 YTD

Days Cash on Hand (DCOH)

118 YTD

Capital Budget

283.7 YTD

Senior Lien Bond Ratings

1 YTD

Things to Note

- Bad Debt continues to impact our financials driven by higher fuel costs which increase our customer's bills.
- Closely monitoring DCOH performance. Seasonality in the warmer weather is the key driver for YTD performance.
- We continue to support our customer needs through programs such as American Rescue Plan Act funds (ARPA).

* Metric details in appendix

Achieved | On Track | At Risk | Unrecoverable/Not Achieved | ↑ Indicates current performance

CPS ENERGY®

Thank You

APPENDIX

TIER 1 METRICS

ADDITIONAL INFORMATION

FY2023 TIER 1 METRIC SUMMARY
AS OF JUNE 30, 2022

Tier	Unrecoverable		At Risk		On Track		Achieved		Total Metrics
1	0	0%	3	20.0%	12	80.0%	0	0%	15

FY2023 OUTLIER SUMMARY-

Tier 1	Unrecoverable	N/A
	At Risk	Customer Satisfaction - Residential
	At Risk	Enterprise Recordable Incident Rate – (RIR)
	At Risk	Portfolio Commercial Availability – (PCA)

FY2023 TIER 1 METRIC REPORT
AS OF JUNE 30, 2022

Metric Name	Business Unit	Measure Frequency	Unit	Target Indicator	Historical Actuals		Current Year			Year-End Forecast	Latest Estimate
					FY 2021 CY 2020	FY 2022 CY 2021	YTD Target	YTD Actual	Year-End Target		
Enterprise Readiness – Executives	Administration	annually	%	↑	88	83	75	N/A	75	On Track	N/A
Enterprise Recordable Incident Rate - (RIR)	Administration	monthly	#	↓	1.31	1.68	1.41	1.63	1.41	At Risk	1.58
Employee Engagement – Enterprise	Administration	annually	#	↑	4.10	3.99	N/A	N/A	4.04	On Track	N/A
Critical IT System Availability	Business & Technology Excellence (BTE)	monthly	%	↑	99.8	99.9	99.9	99.9	99.5	On Track	99.9
Customer Satisfaction – Residential [1]	Customer Strategy	quarterly	#	↑	83.2	78.9	79.0	77.2	79.0	At Risk	77.9
System Average Interruption Duration Index (SAIDI) [1]	Energy Delivery Services	monthly	#	↓	56.85	67.68	29.58	27.07	63.70	On Track	61.19
System Average Interruption Frequency Index (SAIFI) [1]	Energy Delivery Services	monthly	#	↓	0.93	1.01	0.46	0.42	0.98	On Track	0.94
Portfolio Commercial Availability [1]	Energy Supply	monthly	%	↑	93.9	77.1	88.9	85.9	88.9	At Risk	79.6
Adjusted Debt Service Coverage	Financial Services	monthly	#	↑	1.59	1.66	1.50	1.60	1.79	On Track	1.87
Capital Budget [2]	Financial Services	monthly	$	↓	630.8	689.5	314.0	283.7	832.9	On Track	785.3
Days Cash on Hand	Financial Services	monthly	#	↑	209	182	145	118	170	On Track	169
Enterprise Senior Lien Bond Ratings [3]	Financial Services	monthly	#	=	1	0	1	1	1	On Track	1
O&M Budget	Financial Services	monthly	$	↓	654.9	618.5	285.3	283.9	729.7	On Track	733.1
Gas System Growth	Gas Solutions	monthly	%	↑	2.33	1.97	0.77	0.77	1.85	On Track	1.85
Environmental Compliance Issues - NOE & NOV (Category A & B) Enterprise	Legal & General Counsel	monthly	#	↓	1	0	0	0	0	On Track	0

[1] These Metrics are measured on a calendar year cycle for industry comparison purposes
[2] Gross of CIAC
[3] 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.

FINANCIAL SERVICES UPDATE AS OF JUNE 30, 2022

ELECTRIC SALES
BY CUSTOMER SEGMENT- JUNE FY2023*

Customer Sector	Usage Growth	% of Total Load	% Impact on Total Usage
Residential	15.1%	46.3%	7.0%
Churches & Services	5.1%	6.7%	0.3%
Manufacturing	3.7%	2.2%	0.1%
Retail	5.5%	5.1%	0.3%
Educational Services	5.3%	5.0%	0.3%
Hotel & Food Services	6.2%	4.4%	0.3%
Other**	5.3%	30.3%	1.6%
Total System		**100.0%**	**9.9%**

*Billed June actual performance to budget.

**Other sector includes other commercial sectors, food & wood product manufacturing, municipals, lighting, etc.

ELECTRIC SALES
BY CUSTOMER SEGMENT- YTD FY2023*

Customer Sector	Usage Growth	% of Total Load	% Impact on Total Usage
Residential	13.5%	42.5%	5.8%
Churches & Services	5.0%	6.9%	0.3%
Manufacturing	17.9%	2.3%	0.4%
Retail	2.9%	5.2%	0.2%
Educational Services	2.8%	5.0%	0.1%
Hotel & Food Services	2.9%	4.5%	0.1%
Other**	0.4%	33.6%	0.2%
Total System		100.0%	7.1%

*Billed June actual YTD performance to budget.

**Other sector includes other commercial sectors, food & wood product manufacturing, municipals, lighting, etc.

KEY FINANCIAL METRICS
REVISED FORECAST VS. BUDGET

	Threshold	FY2023 Budget	FY2023 Forecast	Variance Favorable (Unfavorable)
Debt Service Coverage Ratio	1.50	1.79	1.87	0.08
Debt Capitalization Ratio	<60%	61.66%	60.89%	0.77%
Days Cash On Hand	150	170	169	(1)

Our revised forecast shows modest improvement in our coverage and leverage metrics driven by stronger energy demand and favorable debt management. Our DCOH metric is tracking closely to the approved budget.

NET INCOME
YEAR TO DATE ACTUAL VS. BUDGET

($ in millions)	FY2023		
Description	**Budget**	**Actuals**	**Variance: Favorable (Unfavorable)**
<u>Revenue available for nonfuel expenses</u>			
Electric	$ 1,038.5	$ 1,239.7	$ 201.2
Gas	89.6	132.5	42.9
Total operating revenue	1,128.1	1,372.2	244.1
<u>Less:</u>			
Electric fuel, distribution gas & regulatory	422.5	621.8	(199.3)
Payments to the City of San Antonio	147.0	170.8	(23.8)
Net operating revenue	558.6	579.6	21.0
Nonoperating revenue	15.0	(6.0)	(21.0)
Total revenue available for nonfuel expenses	573.6	573.6	-
<u>Nonfuel expenses</u>			
Operation & maintenance	285.3	283.9	1.4
Depreciation, amortization & decommissioning	202.6	198.3	4.3
Interest & debt-related	94.2	89.2	5.0
Total nonfuel expenses	582.1	571.4	10.7
Net Income (Loss)	$ (8.5)	$ 2.2	$ 10.7

Non-cash items such as investment fair value adjustments impact total net income but does not impact financial metrics such as ADSC or DCOH. These items impact the equity portion in the debt / capitalization metric.

Highlights:

- **Operating Revenue**
  - YTD Electric Billed Sales are 7.1% higher than budget
  - Electric revenue higher due to weather-driven sales consumption and higher fuel costs (which are reflected in higher fuel charges on the bill), partially offset by:
  - Wholesale Revenue Net Fuel which is currently under budget, driven by higher additional fuel costs in May and June
- **Non-Operating Revenue**
  - Primarily driven by lower fair market value of investment portfolios from rising interest rates
- **Operating & Maintenance**
  - YTD Favorable due to timing of multiple BTE initiatives & STP plant investment projects, which were somewhat offset by higher than planned weather events, gas leak repairs, and plant maintenance costs
- **Interest & debt-related**
  - Reflects favorable execution to plan

Due to weather related demand, Net income is favorable YTD.

NET INCOME

5+7 LE FORECAST VS. BUDGET

($ in millions) Description	FY2023 Budget	Forecast	Variance: Favorable (Unfavorable)
Revenue available for nonfuel expenses			
Electric	$ 2,716.6	$ 3,120.8	$ 404.2
Gas	229.7	362.0	132.3
Total operating revenue	2,946.3	3,482.8	536.5
Less:			
Electric fuel, distribution gas & regulatory	1,069.9	1,535.0	(465.1)
Payments to the City of San Antonio	388.2	448.1	(59.9)
Net operating revenue	1,488.2	1,499.7	11.5
Nonoperating revenue	36.4	29.2	(7.2)
Total net revenue available for nonfuel expenses	1,524.6	1,528.9	4.3
Nonfuel expenses			
Operation & maintenance	729.7	733.1	(3.4)
Depreciation, amortization & decommissioning	486.2	481.9	4.3
Interest & debt-related	231.5	223.7	7.8
Total nonfuel expenses	1,447.4	1,438.7	8.7
Net Income (Loss)	$ 77.2	$ 90.2	$ 13.0

Non-cash items such as investment fair value adjustments impact total net income but does not impact financial metrics such as ADSC or DCOH. These items impact the equity portion in the debt / capitalization metric.

Highlights:

- **Operating Revenue**
  - Electric Billed Sales are forecasted to be 3.3% higher than budget
  - Revenue higher due to weather-driven sales growth and higher fuel costs (which are reflected in higher fuel charges on the bill)
  - ~$10M net reduction to revenue as past due accounts remain high
- **Non-Operating Revenue**
  - Primarily driven by lower fair market value of investment portfolios
- **Operating & Maintenance**
  - Primarily driven by vegetation management, multiple initiatives within Customer Strategy, gas leak survey and repair costs plus AvR overhauls, offset by lower spend on plant investment projects at STP
- **Interest & debt-related**
  - Reflects favorable execution to plan

Currently, we are projecting full year net income to be favorable to budget.

FLOW OF FUNDS
YEAR TO DATE ACTUAL VS. BUDGET

($ in millions)	FY2023		
Description	Budget	Actuals	Variance: Favorable (Unfavorable)
Revenues, net of unbilled	$ 1,117.8	$ 1,347.1	$ 229.3
Less: city payment (CP) per flow of funds	147.0	170.8	(23.8)
Revenues, net of unbilled & CP	970.8	1,176.3	205.5
Less: fuel & regulatory expense	417.9	618.8	(200.9)
Revenues, net fuel & regulatory	552.9	557.5	4.6
Operation & maintenance	286.1	284.6	1.5
Debt service	177.6	170.7	6.9
Total expenses	463.7	455.3	8.4
6% Gross Revenue to R&R	67.1	80.8	13.7
Remaining to R&R	22.1	21.4	(0.7)
Total R&R fund additions	$ 89.2	$ 102.2	$ 13.0
Total gross non-transmission capital	$ 232.2	$ 259.7	$ (27.5)

Highlights:

- **Revenue (operating & non operating), net of unbilled:**
  - YTD Electric Billed Sales are 7.1% higher than budget
  - Electric revenue higher due to weather-driven sales consumption and higher fuel costs (which are reflected in higher fuel charges on the bill) partially offset by:
  - Wholesale Revenue Net Fuel which is currently under budget driven by higher additional fuel costs in May and June
- **Operating & Maintenance**
  - YTD Favorable due to timing of multiple BTE initiatives & STP plant investment projects, which were somewhat offset by higher than planned weather events, gas leak repairs, and plant maintenance costs
- **Debt Service**
  - Reflects favorable execution to plan
- **Capital**
  - Higher primarily due to customer growth

R&R contributions are favorable to budget YTD.

FLOW OF FUNDS
5+7 LE FORECAST VS. BUDGET

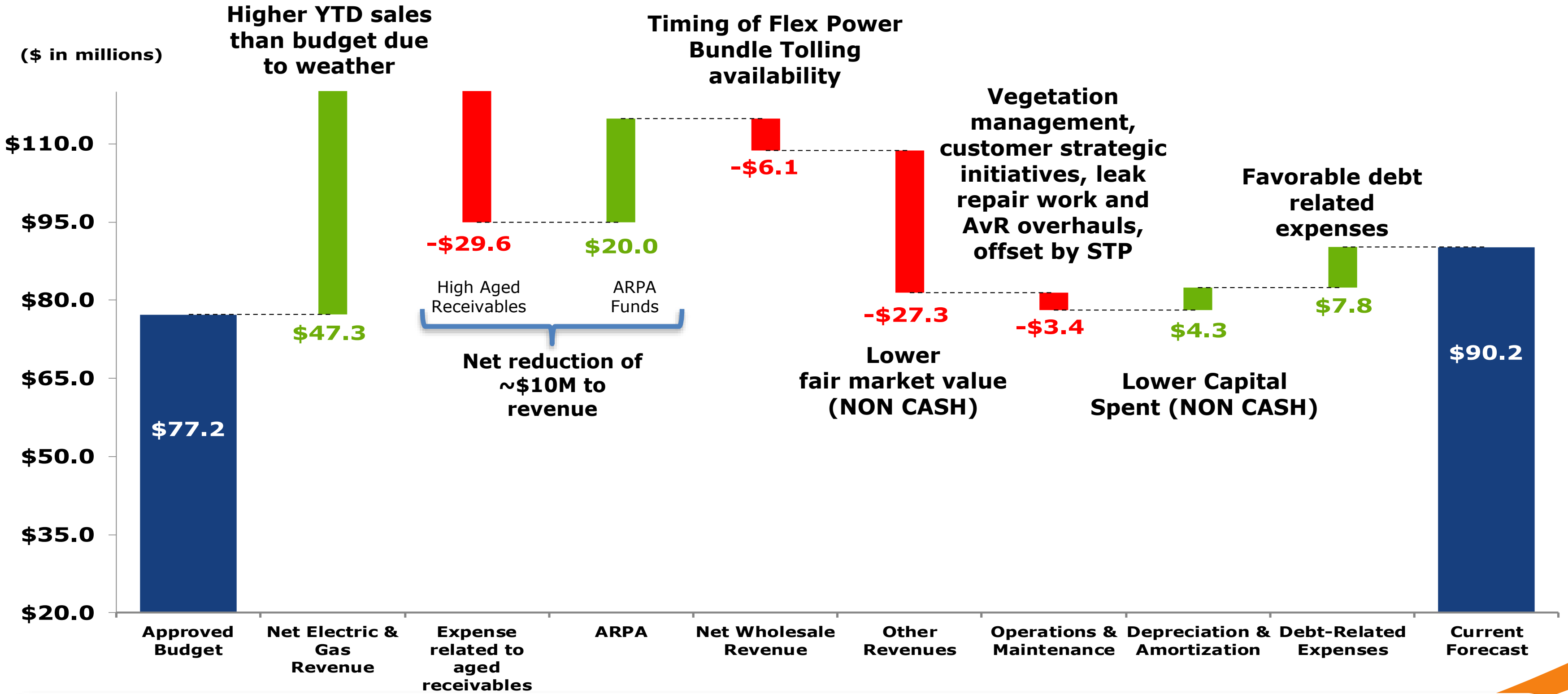
($ in millions)	FY2023		
Description	**Budget**	**Forecast**	**Variance: Favorable (Unfavorable)**
Revenues, net of unbilled	$ 2,958.5	$ 3,513.4	$ 554.9
Less: city payment (CP) per flow of funds	388.2	448.1	(59.9)
Revenues, net of unbilled & CP	2,570.3	3,065.3	495.0
Less: fuel & regulatory expense	1,058.8	1,526.2	(467.4)
Revenues, net fuel & regulatory	1,511.5	1,539.1	27.6
Operation & maintenance	731.2	734.0	(2.8)
Debt service	435.4	429.9	5.5
Total expenses	1,166.6	1,163.9	2.7
6% Gross Revenue to R&R	177.5	210.8	33.3
Remaining to R&R	167.4	164.4	(3.0)
Total R&R fund additions	$ 344.9	$ 375.2	$ 30.3
Total gross non-transmission capital	$ 618.9	$ 682.0	$ (63.1)

Highlights:

- **Revenue (operating & non operating), net of unbilled**
  - Electric Billed Sales are forecasted to be 3.3% higher than budget
  - Revenue higher due to weather-driven sales growth and higher fuel costs (which are reflected in higher fuel charges on the bill)
  - ~$10M net reduction to revenue as past due accounts remain high
- **Operating & Maintenance**
  - Primarily driven by vegetation management, multiple initiatives within Customer Strategy, gas leak survey and repair costs plus AvR overhauls, offset by lower spend on plant investment projects at STP
- **Debt Service**
  - Reflects favorable execution to plan

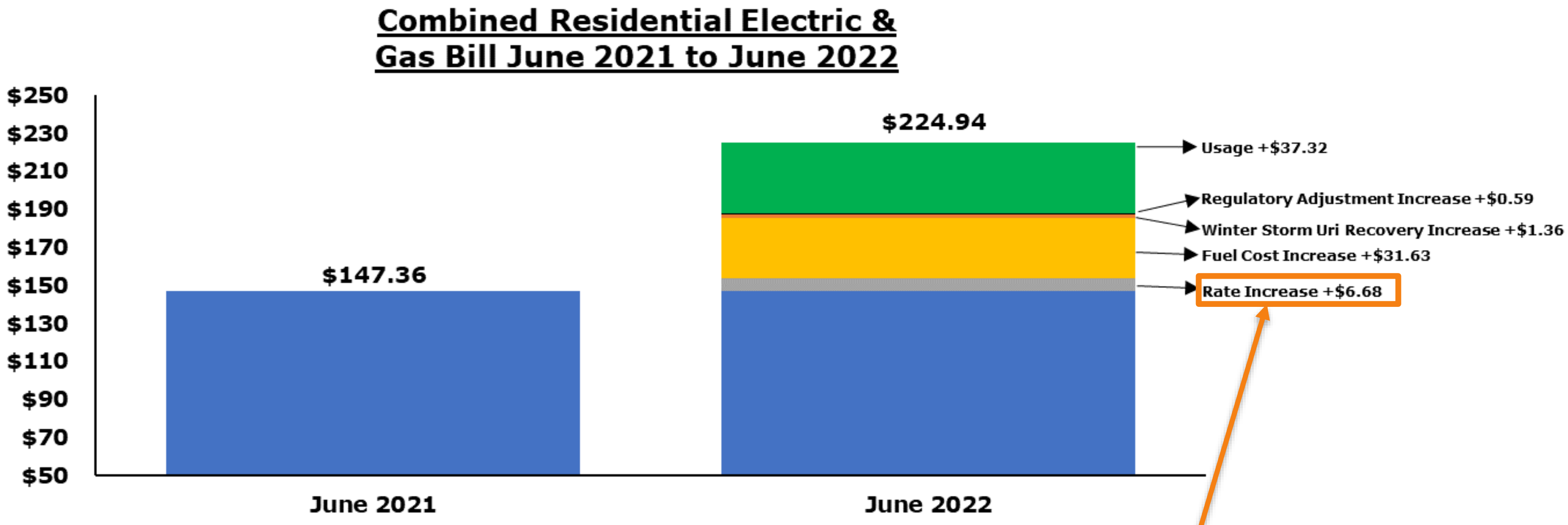
Currently, we are projecting FY2023 R&R contributions to track favorably to budget.

FY2023 REVISED NET INCOME FORECAST
BUDGET TO FORECAST WALK-FORWARD



The net effect of these forecast improved net income modestly to bring it above the budget for the full year, from strong energy sales and lower expenses.

RESIDENTIAL BILL IMPACT



Although the rate increase portion of the bill is higher during the summer (Jun-Sep), bills are still projected to experience +~$3-4 on average due to the rate increase for the full year

The rising cost of natural gas has resulted in an unavoidable impact on customers' bills.

Note: Winter storm Uri Recovery = $0.00087*1413 kWh (average electric usage for June) + $0.013349*10 CCF (average gas usage for June)

COMMUNITY COMMITMENTS UPDATE AS OF JUNE 30, 2022

COMMUNITY COMMITMENTS MONTHLY UPDATE

HIGH LEVEL STATUS ON HOW WE ARE BETTER SERVING OUR CUSTOMERS

Legend
On-Track
At-Risk

Strategic Objectives	Major Commitments	Status	Update
Community Partnership & Growth	Energy Efficiency & Conservation Program Public Input		• Engagement efforts continue to educate on the potential of future programs • New "STEP" program and goals were approved in June for new 5-year plan.
	Generation Resource Planning Public Input		• Engaged with Rate Advisory Committee (RAC) on Gen Plan Update; items presented: Energy Market Transformation, RAC Consultants (Modeling support for CPSE and a RAC Advisor), and Modeling, Assumptions & Scenarios. • Briefed the Board & Citizen Advisory Committee (CAC) on Gen Plan progress & timeline. Next CAC update will be in July
	Rate Design Public Input		• Cost of service study with outside vendor is underway (targeting October completion); Rate Design discussions planned to begin with the RAC once Cost of Service Study is complete.
Customer Experience	Connect Customer with Support		• Added 4K customers to Affordability Discount Program; Currently 62k customers with target of 65K customers • Total number of ARPA credits applied increased to 6k for residential customer accounts for ~ $6.9M
Engaged & Service Oriented Culture	Safety Culture Fundamentals		• Safety Training and BBS completions are on track
	Retain & Attract Talent		• Exceeded Q1 hiring goals and expect to exceed projections for the Q2. However, turnover remains higher than historical average with headcount slightly increasing since FY22 year-end • Compensation market pricing efforts are helping close the gap in competing for talent; however, our ability to compete on compensation for advanced level STEM roles remains at risk
Operational Evolution	Strengthen Generation Capabilities to meet Extreme Conditions		• MBL West fuel oil design activities continue; gas turbine modification proposal being updated • MBL West & East freeze protection project in procurement process • Working with Market Policy team on proposed PUC Phase 2 weatherization requirements • Awarded contractor work package for Coal Yard garage panel installation • Priority 2 work packages are currently 78% complete • Negotiating contracts for natural gas transportation & storage services
	Enhance Communication & Grid Management in Major Events		• Increased emergency work due to multiple storm events in May/June • $4.78M YTD; 242 miles of planned trimming completed • LiDAR data for CPS Energy service territory processing completed • Deployed 65 automated reclosers to better manage outages & grid; 45% of 144 goal completed • Situational Awareness Solution - RFP development near completion; 10+ potential platform providers identified for RFP response
	Support Expanding Community		• Mitigated all impacts to projects through alternative designs & continue to maintain consistent updates to customers • Project delays continues to increase with continued supply chain issues • Continued residential & commercial growth
	Digital ERP Plan to Mitigate System End of Life		• ERP Business Case and Transformation roadmap walkthrough with CEO & Direct Reports completed. Technology RFP detailed planning started with Legal and Supply Chain. • Digital & Data Transformation site observations and leadership interviews underway with detailed planning in-progress to support strategic roadmap development.
	IT System Modernization		• Vendor selected and approved by SCADA steering committee in June. Team presented strategy to Operations & Oversight Committee. • 100% complete with business & IT interviews for data center application migrations. Initial High-level wave plan was presented in June with detailed planning scheduled through August.