



April 22, 2022

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

Dear Board Members and Mr. Garza:

Under your leadership, we have overcome many challenges in the last year. In today's headlines, we can see that the price of natural gas has been rising steadily across the globe, and utilities are experiencing some level of impact. For many years, we have implemented measures to protect our customers from price volatility and rising fuel costs, and we continue to be proactive as the environment evolves. Our proactive measures have lessened the impact of these changes in the natural gas markets.

Given the continued domestic and global pressures, there will be some impact to customers. It is important to remember, there is no financial benefit to CPS Energy when fuel prices go up; costs for fuel are passed directly to customers.

In this memo, I have provided a helpful summary of the trends we are seeing in the natural gas market, the steps we are taking, the impact we are seeing on customers' bills, how these bills compare to other utilities and affordability steps that customers can take.

Natural Gas Market Trends

The price of natural gas is determined by an open market and is influenced by both domestic and international market forces and has increased significantly in the last year. Events in Europe have caused sharp price increases. Demand for natural gas has grown faster than supply. Current natural gas prices are the highest in almost 15 years (since November 2008). This is being driven by:

- Global demand driving US exports higher. The U.S. exported record amounts of liquefied natural gas in 2021 (<https://www.eia.gov/todayinenergy/detail.php?id=51818>).

- Weather and growth depleting storage inventories. The United States ended the winter with the least natural gas in storage in three years (<https://www.eia.gov/todayinenergy/detail.php?id=52058>).
- Production of natural gas lags the growth in consumption.

Customer Impact

We continue to work diligently to protect our community from rising natural gas prices and to ensure availability of natural gas during peak demand, including by:

- Financial Hedging: Financial hedging instruments help protect against rising natural gas costs. These financial hedges allow us to effectively lock in the cost of gas months in advance.
- Long-term Gas Prepay: A long-term gas prepay arrangement through the SA Energy Acquisition Public Facility Corporation (PFC) enables discounted gas pricing. Since inception, the PFC has saved customers ~\$85M.
- Natural Gas Storage: Storage capacity allows us to store low-cost gas to be used when prices increase.
- Baseload Gas Purchases: Our cost of our baseload gas, which is the gas that we purchase in the same month it will be used, is set at the beginning of the month and is not subject to daily price volatility.
- Diversified Fuel Strategy for Electric Generation: Less than half of our electric generation capacity is susceptible to natural gas price increases.

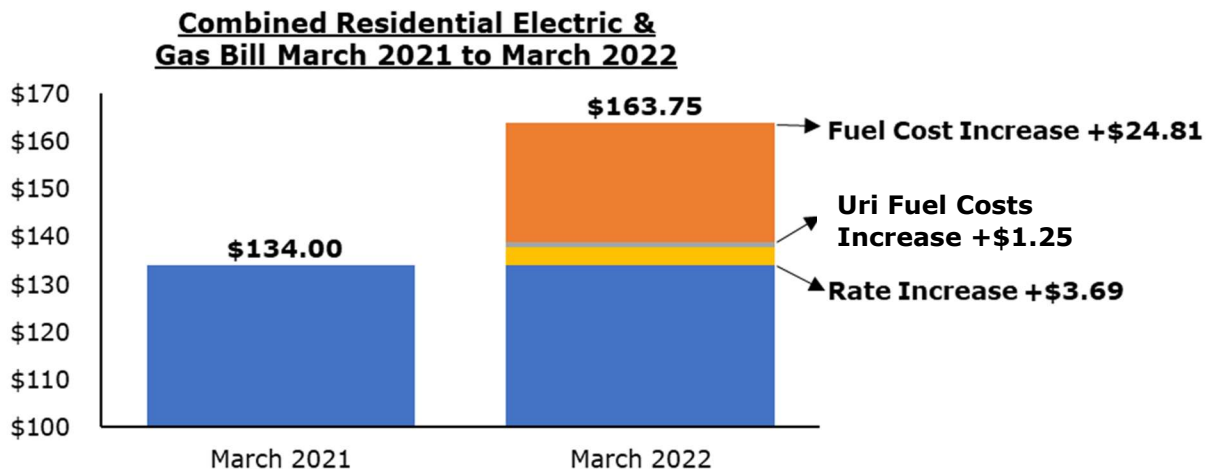
Despite these extensive efforts to shield our community from rising natural gas costs, CPS Energy's average fuel costs are increasing. The cost of generating electricity has increased by ~16% since this time last year, and the retail cost of natural gas fuel has increased by ~70% over the same period. These year-over-year increases are illustrated in the charts below.

FUEL COSTS

ELECTRIC & RETAIL GAS



Despite our efforts, the rising cost of natural gas is having an unavoidable impact on customers' bills. In total, average combined residential electric and gas bills for March 2022 were ~22% higher than bills in March 2021. Our recent rate increase and additional fuel purchases were responsible for a small portion of this increase (~4% increase). Fuel cost increases were responsible for elevating March 2022 bills by ~18%. A detailed comparison of average residential bills has been provided in the chart below.



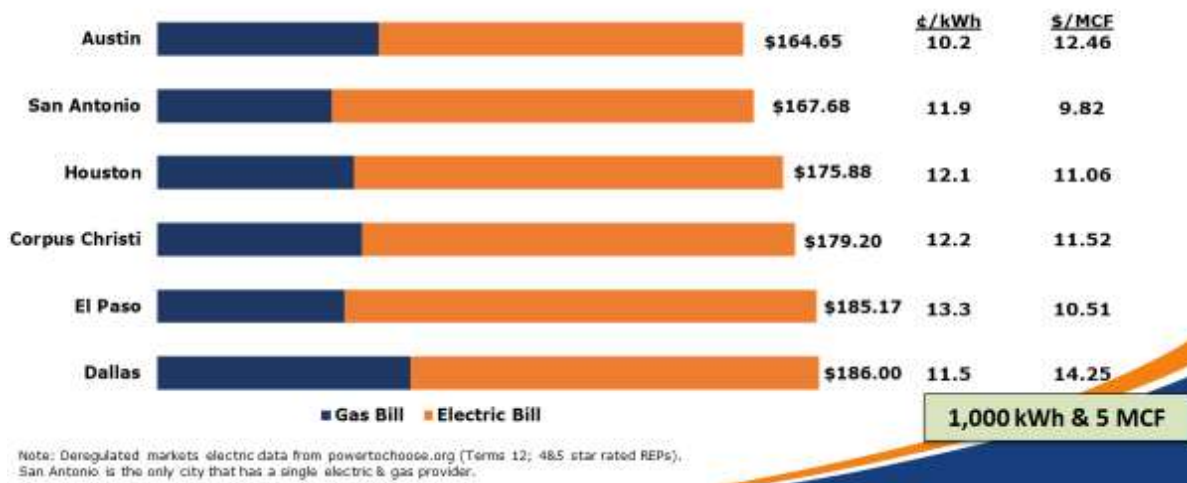
The rising cost of natural gas is impacting all utilities, and we will continue to benchmark against other markets. Through March, our residential bills remain among the lowest in Texas. Below is the monthly residential bill

comparison of Texas cities presented at standardized electric and gas usage levels.

TEXAS CITIES COMBINED RESIDENTIAL BILL COMPARISON



TRAILING TWELVE MONTHS ENDING MARCH 2022



Ensuring Affordability

We are watching fuel costs daily, and we continue working to stabilize the impact of the natural gas market on our customers. That said, there are many tips and resources available to help our customers reduce their energy use:

- Customers can get simple tips to help them be more energy efficient at home by visiting www.cpsenergy.com/en/my-home/savenow/energy-saving--tips.html.
- We offer rebate programs that help our customers offset the cost of upgrading the efficiency of their home or business. Our full list of rebate programs can be found here: www.cpsenergy.com/en/my-home/savenow.html.
- Our Casa Verde Weatherization Program helps income-qualifying homeowners and renters reduce energy loss (and costs) with free energy efficiency improvements. Customers can apply for the program at <https://residential.savenow.cpsenergy.com/casaverde>.
- We will continue to create awareness of energy savings tips through our communications and marketing efforts as we enter the summer months.

As always, we continue to work with customers that need payment assistance. Our Customer Service team uses a variety of payment programs and assistance options to meet the unique needs of each customer. Customers

can learn about and access these programs by calling (210) 353-2222 and by visiting www.cpsenergy.com.

We will keep you informed regarding the impact of natural gas costs on customer bills and our financial performance. Thanks again for your leadership and support.

Sincerely,

A handwritten signature in black ink, appearing to read 'Cory', with a stylized flourish at the end.

Cory Kuchinsky, CPA
Chief Financial Officer (CFO) &
Treasurer

CPK

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