SAN ANTONIO ELECTRIC AND GAS SYSTEMS, MANAGEMENT, AND OPERATIONS QUARTERLY UPDATE
(FOR THE FISCAL QUARTER ENDING JANUARY 31, 2026)

CITY OF SAN ANTONIO, TEXAS

CITY COUNCIL

Gina Ortiz Jones, Mayor

Dr.Sukh Kaur	Jalen McKee-Rodriguez	Phyllis Viagran
Edward Mungia	Teri Castillo	Ric Galvan
Marina Alderete Gavito	Ivalis Meza Gonzalez	Misty Spears
	Marc Whyte	

KEY MANAGEMENT & PERSONNEL

Erik Walsh – City Manager

Ben Gorzell, Jr. – Chief of Financial & Administrative Services

Troy Elliott – Chief Financial Officer

Debbie Racca-Sittre – City Clerk

Andrew Segovia – City Attorney

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

Dr. Francine Sanders Romero, Chair		Dr. Willis Mackey, Vice Chair
Janie Gonzalez, Trustee	John T. Steen, Jr., Trustee[1]	Gina Ortiz Jones, Mayor

Rudy D. Garza – President & Chief Executive Officer ("CEO")
Cory Kuchinsky – Chief Financial Officer ("CFO") & Treasurer
Shanna Ramirez, Esq. – Chief Legal & Ethics Officer & General Counsel ("CLEO & GC") & Board Secretary

EXECUTIVE MANAGEMENT

Rudy D. Garza – President & CEO

Cory Kuchinsky – CFO & Treasurer	Elaina Ball – Chief Strategy Officer
Shanna Ramirez, Esq. – CLEO&GC, & Board Secretary	Evan O'Mahoney – Chief Information Officer
Lisa Lewis – Chief Administrative Officer	DeAnna Hardwick – Chief Customer Strategy Officer
Richard Medina – EVP Energy Delivery	Benjamin Ethridge – EVP of Energy Supply

CONSULTANTS

McCall, Parkhurst & Horton L.L.P.
Cantu Harden Montoya LLP
Kassahn & Ortiz, P.C.
Co-Bond Counsel

PFM Financial Advisors LLC
Estrada Hinojosa
Co-Financial Advisors

[1] Mr. Steen's second term ended on January 31, 2026. City Council voted in favor of CPS Energy Board nominee Dr. Erika Gonzalez, whose five-year term begins February 1, 2026.

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HISTORY AND MANAGEMENT

The City of San Antonio, Texas (the "City") acquired its electric and gas utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Holding Company Act of 1935. The City bond ordinances (collectively, the "Bond Ordinances") authorizing the issuance from time to time of indebtedness secured by liens on and pledges of all income and revenues from the operation of the City's electric and gas systems (the "Systems") after deduction of Maintenance and Operations Expenses (such revenues, the "Net Revenues"), provide that the complete management and control of the Systems is vested in the City Public Service Board of San Antonio, Texas, conducting business as "CPS Energy" and managed by the Board of Trustees (the "Board"), comprised of the Mayor of the City and four United States ("U.S.") citizens permanently residing in Bexar County, Texas (the "County") (elected, upon the occurrence of a vacancy, by majority vote of the remaining Board members and confirmed by the city council of the City (the "City Council")).

The Mayor of the City is a voting member of the Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the Board and its conduct of the management of the Systems. The present members of the Board are:

Name & Position	Profession	Originally Appointed to the Board	Present Term Expires[1]
Dr. Francine Sanders Romero, Chair	Associate Professor & Chair of the Public Administration Department at the University of Texas at San Antonio	February 1, 2022	January 31, 2027
Dr. Willis Mackey, Vice Chair	Superintendent, Retired Judson Independent School District	April 6, 2018	January 31, 2028
John T. Steen, Jr.,[2] Trustee	Attorney and Investor, Law Office of John T. Steen	February 1, 2016	January 31, 2026
Janie Martinez Gonzalez, Trustee	President & CEO, Webhead	February 18, 2019	January 31, 2029
Gina Ortiz Jones, [3] Ex-Officio Member	Mayor, City of San Antonio	June 18, 2025	May 31, 2029

[1] Dr. Romero is serving her first term. Mr. Steen, Dr. Mackey, and Ms. Gonzalez are each serving their second terms.
[2] Mr. Steen's second term ended on January 31, 2026. City Council voted in favor of CPS Energy Board nominee Dr. Erika Gonzalez, whose five-year term begins February 1, 2026.
[3] Ms. Ortiz Jones was elected as Mayor of the City on June 7, 2025 and thereafter became an Ex-Officio Member of the Board.

All vacancies in membership on the Board are filled as follows: a nominee to fill such vacancy shall be elected by the majority vote of the remaining members of the Board, such majority vote to include the vote of the Mayor. The elected nominee is then submitted by the Mayor to the vote of the City Council for confirmation. A vacancy in certain cases may be filled by authorization from the City Council. At the expiration of their first five-year term of office, the members of the Board are eligible for re-appointment by election of the other Board members and confirmation by the City Council to one additional five-year term. In 1997, the City Council ordained that Board membership should be representative of the geographic quadrants established by the City Council. New Board members considered for approval by the City Council will be those whose residence is in a quadrant that provides such geographic representation.

The Board is vested with all of the powers of the City with respect to the management and operation of the Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in the Bond Ordinances, except regarding rates, condemnation proceedings, and the issuance of bonds, notes, or commercial paper. The Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements and additions to the Systems, and to adopt rules for the orderly handling of CPS Energy's affairs. The Board is further empowered to appoint and employ all officers and employees and must obtain and keep in force a "blanket" type employees' fidelity and indemnity bond (also known as commercial crime bond) covering losses in the amount of not less than $100,000.

The management provisions of the Bond Ordinances also grant the City Council authority to review Board action with respect to policies adopted relating to research, development, and planning.

ADMINISTRATION AND OPERATING PERSONNEL

CPS Energy had 3,660 employees as of January 31, 2026, which included approximately 1,233 skilled craft (hourly/field) employees. The average tenure of a CPS Energy employee is about 12.5 years. Most of the executive and supervisory personnel have experience in the utility industry, or other related experience required for their career field. CPS Energy provides employees with a broad range of employee benefit programs, including a defined benefit pension plan, group life insurance, group health (medical, dental and vision), and other benefits. CPS Energy culture, employee benefits and career growth opportunities all contribute towards the maintenance of a stable, well-qualified workforce which, between February 1, 2025, and January 31, 2026, recorded a turnover rate of 6.84%. CPS Energy reached a 4-year labor agreement with union leadership. The agreement is effective from February 1, 2023, through January 31, 2027. This agreement includes an annual general wage increase ("GWI") for all wage scale employees at the start of each fiscal year, on February 1. The GWI percentage is scheduled to be 4% in years 1-3 and 3.5% in the final year.

CPS Energy continues to enhance its performance management process, which measures performance against targeted performance goals and an established set of behaviors (i.e., core values and/or critical measures). Employees are engaged in working toward key performance goals that align to organizational and business unit/area strategies and objectives. The process is designed to provide continuous monitoring and a high level of coaching and feedback to reach performance expectations, to provide meaningful developmental opportunities, to emphasize how results are achieved, and to reward and recognize contributions toward business goals. In addition, CPS Energy actively manages comprehensive workforce development and succession planning processes to promote wider development opportunities for employees to learn and grow. These processes are based on the foundational ideas that all employees are expected to develop to their maximum capabilities and that succession planning must focus on ensuring that key positions will be staffed by employees who have the capacity to keep CPS Energy operating at its highest level of productivity.

CPS Energy's current members of the Executive Leadership Team include: Rudy D. Garza, President & CEO; Elaina Ball, Chief Strategy Officer; Shanna Ramirez, Chief Legal & Ethics Officer & General Counsel ("CLEO&GC") & Board Secretary; Lisa Lewis, Chief Administrative Officer ("CAO"); Evan O'Mahoney, Chief Information Officer ("CIO"); Cory Kuchinsky, Chief Financial Officer ("CFO") & Treasurer; DeAnna Hardwick, Chief Customer Strategy Officer; Benjamin Ethridge, Executive Vice President of Energy Supply and Richard Medina, Executive Vice President of Energy Delivery.

Mr. Rudy D. Garza is the President & CEO of CPS Energy, overseeing an energy portfolio of over 10,000 megawatts ("MW"), over $15 billion in assets, close to $4 billion in annual revenue, and a workforce of over 3,600 employees. Mr. Garza's leadership team has led innovative initiatives, including grid modernization, customer experience enhancements, and community resiliency. Mr. Garza has 30 years of experience as a leader in the energy industry and has served in both the public and private sectors over the course of his career. Mr. Garza successfully led CPS Energy through the approval of two rate cases in 2022 and 2023. He also led the comprehensive strategic engagement plan for Board approval of a blended generation planning approach to power the growing community now and in the future. Mr. Garza and his leadership team increased the capacity of CPS Energy's power generation portfolio by over 3,000 MW with the $2.2 billion acquisition of natural gas plants in the South and Gulf Coast Texas regions. These milestone acquisitions solidify CPS Energy as a regional energy utility. He joined CPS Energy in 2012 and previously served as Chief Customer & Stakeholder Engagement Officer and as Senior Vice President of Distribution Service & Operations where he oversaw the maintenance and construction activity of the electric distribution system. He also served CPS Energy in the role of Vice President of External Relations. Mr. Garza has a Bachelor of Science in Electrical Engineering from the University of Texas at Austin and a Master of Business Administration from the University of North Texas. He continues to serve his University of Texas at Austin alma mater as an Engineering Advisory Board member for the Cockrell School of Electrical Engineering. He is dedicated to public service and is actively engaged in his community through multiple board roles, including the Brooks Development Authority, greater:SATX, United Way of San Antonio & Bexar County, and the Large Public Power Council. He recently served as the United Way of San Antonio and Bexar County Campaign Co-Chair, where he exceeded a fundraising goal of $46 million.

Ms. Elaina Ball is the Chief Strategy Officer and leads strategic planning for CPS Energy. A key part of her role is the oversight and execution of CPS Energy's Vision 2027. Ms. Ball has over 20 years of experience working with both investor-owned and public power utility companies. She has provided effective leadership in power generation, transmission & distribution, market operations, technology, and business development functions. She has previously served as CEO for Fayetteville Public Works Commission in Fayetteville, North Carolina, as Chief Operating Officer for El Paso Electric and Austin Energy, Senior Vice President of Power Delivery at Entergy, and is a CPS Energy alumnus serving as Vice President of Technical Services & Energy Solutions in 2012. She also has extensive leadership experience with the South Texas Project ("STP"), having served on their Board of Directors, Owners' Committee, and Benefits' Committee. Ms. Ball has been actively engaged with multiple utility organizations including the Alltricity Network (formerly the Rocky Mountain Electrical League), the Association of Women in Energy, and the Smart Electric Power Alliance Board of Directors. She has also served with many community non-profits such as the Austin Science Education Foundation, El Pasoans Fighting Hunger, and Fayetteville Tech Community College. Ms. Ball holds a Bachelor of Science degree in Chemical Engineering from the University of Texas at Austin. She is also a graduate of the University of Idaho Utility Energy Executive program and a certified Six Sigma Black Belt.

Ms. Shanna Ramirez, J.D., CISM, is the CLEO&GC and Board Secretary. Ms. Ramirez oversees CPS Energy's Legal Services, Audit, Compliance, Ethics, Integrated Security, Transmission Rates & Revenues, and Government & Regulatory Affairs & Public Policy functions. She also provides leadership to Board Relations and serves as Secretary to the Board. Ms. Ramirez is responsible for driving strategic initiatives to advance the interests of CPS Energy's customers and community, including environmental, social, and governance goals. She also oversees cyber, physical, and data security, incident response, and business continuity. Ms. Ramirez joined CPS Energy in 2015 as Director & Senior Counsel and has extensive experience providing business and legal advice. She practiced employment litigation at Haynes and Boone, LLP and was Vice President & Deputy General Counsel for Fiesta Restaurant Group, Inc., supervising Legal Services, Safety & Risk, Claims, and Licensing & Compliance. Ms. Ramirez earned her Bachelor of Arts in History and Political Science from Trinity University and a Juris Doctor from the University of Maryland School of Law. She serves in many capacities, including as a member of the Keystone Energy Board and as a Director of the Association of Women in Energy. She serves as a Director and Incoming Chair with Clarity Child Guidance Center. She is also a graduate of the Executive Education Accelerated Development Program at Rice University.

Ms. Lisa Lewis is the CAO. She leads the Administrative Services team, including Human Resources, Safety & Occupational Health, Labor Relations, Supply Chain & Logistics, Facilities Management, and Real Estate. She is focused on enabling the CPS Energy workforce to evolve with the fast-changing utility industry. Ms. Lewis joined CPS Energy in 2000 and has worked in a variety of roles, last serving as Vice President of People & Culture from 2015 through 2020. She also served as Vice President of Corporate Communications & Corporate Responsibility from 2012 to 2015. She is an advocate for STEM education and workforce development and serves on the Board for San Antonio's CAST public high schools. Until recently, she served on the boards of Alltricity, an electric industry organization focused on training and safety, as well as the Alamo Area Council of Governments ("AACOG"). Before joining CPS Energy, Ms. Lewis worked in marketing, communications, and advertising for various service industry clients ranging from healthcare to public transit. She has a Bachelor of Arts in Communications from Texas State University.

Mr. Evan O'Mahoney is the CIO and is responsible for leading all aspects of the Enterprise Information Technology in the organization, overseeing Infrastructure & Operations, Enterprise Architecture, Business Solutions, Digital Experience, and Execution Excellence. Mr. O'Mahoney leads the development of digital and technology strategies that align with CPS Energy's enterprise objectives and sponsors Evolve, CPS Energy's Digital Transformation program, focused on enhancing employee productivity and delivering customer solutions with personalized experiences and real-time information access. In his previous role at CPS Energy, Mr. O'Mahoney served as Vice President of Technology Services, managing all aspects of technology operations. He also served as the Chief Technology Officer for Bexar County, where he spearheaded modernization initiatives, and he served as Director of Solutions & Professional Services at Toshiba Corporation, leading large-scale technology implementations for national and global organizations. Mr. O'Mahoney has a Bachelor of Business Administration from the University of the Incarnate Word, graduated from the Rice University Advanced Management Program, and is a Lean Six Sigma Black Belt. He is deeply engaged in the community, having completed Harvard Business School's Young American Leaders Program and serving organizations such as the ALS Association, United Way of San Antonio & Bexar County, and San Antonio RoadRunners. Mr. O'Mahoney currently serves on the Board of Youth Code Jam, a local nonprofit that creates opportunities for youth in the community to experience computer science and explore with code. In 2024, he was named a recipient of the San Antonio Business Journal ("SABJ") 40 Under 40 Award.

Mr. Cory Kuchinsky, CPA, is the CFO & Treasurer and oversees Accounting & Financial Reporting, Finance, Financial Planning, Budgeting Analysis & Management Reporting, Treasury, Strategic Pricing & Cost Recovery, Financial Operations, and Financial Information Systems Management. Mr. Kuchinsky joined CPS Energy in 2006 and has served in multiple leadership roles. As CFO, Mr. Kuchinsky led CPS Energy through two rate increases and successfully stabilized the company's credit outlook and, in a previous role, led the deployment of CPS Energy's Advanced Metering Infrastructure ("AMI"). Mr. Kuchinsky was named a 2024 SABJ C-Suite Awards Honoree. He also led CPS Energy to receive the Bond Buyer Deal of the Year Award in 2023 for the company's innovative financing structure following Winter Storm Uri. Mr. Kuchinsky is also on the Board of the DoSeum, a local nonprofit children's museum and elected to the Trinity University Alumni Association Board and the Texas Public Radio Board of Directors. Prior to joining CPS Energy, Mr. Kuchinsky worked for the Ernst & Young LLC San Antonio office. He holds a Bachelor of Science in Business Administration and a Master of Science in Accounting degree from Trinity University.

Ms. DeAnna Hardwick is the Chief Customer Strategy Officer and leads Community Impact, Customer Experience Operations, Customer Value Optimization, Enterprise Customer Experience, Resolutions & Solutions, and Corporate Communications & Marketing. Prior to her current role, she served as Executive Vice President of Customer Strategy. She has been instrumental in developing innovative approaches to serving customers. Under her leadership, an enhanced, streamlined tool was launched that makes it easier for customers to apply for bill assistance and has been a transformative resource for many customers. Before joining CPS Energy, Ms. Hardwick spent 15 years working at various Fortune 100 companies, where she was charged with delivering easily accessible and exceptional customer experiences. She holds a Bachelor of Science in Business Management from the University of Phoenix and is also a graduate of the University of Idaho Energy Executive Course and the Rice Advanced Management Program. She has participated in multiple leadership programs, including, the National Forum for Black Public Administrators, San Antonio Women's Chamber of Commerce, Leadership Texas Class of 2022, and Leadership San Antonio Class 47. In 2025, she was named a recipient of the SABJ's Women Leadership Award and joined the AACOG Board of Directors.

Mr. Benjamin (Benny) Ethridge, Jr., P.E., is the Executive Vice President of Energy Supply for CPS Energy. He oversees operations of CPS Energy's 11,000 MW of generation capacity, which includes a portfolio of over 2,100 MW of renewable generation, and over 1,000 MW of nuclear generation from the STP nuclear plant. Mr. Ethridge joined CPS Energy in 2015, bringing over 30 years of experience in the energy industry. He began his career as a construction engineer with Houston Lighting & Power Company. Following industry deregulation, Mr. Ethridge served in various technical, commercial, and operational leadership roles with Reliant Energy, Topaz Power Group, and NRG Energy. Mr. Ethridge earned a Bachelor of Science in Civil Engineering from Texas A&M University and a Master of Business Administration from Houston Baptist University. He is a registered professional engineer in the State of Texas (the "State"). Mr. Ethridge serves on the Association of Edison Illuminating Companies Executive Committee.

Mr. Richard Medina, P.E., is the Executive Vice President of Energy Delivery and is responsible for the safe, reliable and affordable delivery of electrical power and natural gas to CPS Energy's customers. He oversees the Engineering, Field Operations, Construction & Maintenance for Substation Transmission, Electric Distribution and Gas. He also serves over System Operations, Customer Reliability, and Asset Management Programs associated with electric and natural gas delivery. Mr. Medina has led many of CPS Energy's grid transformation initiatives including CPS Energy's electrification roadmap, optimization of EV infrastructure, and fostering alliances with local and national research leaders. He has been with CPS Energy for over 30 years and has held various leadership positions at CPS Energy. He has also served on several external boards and committees, such as EPRI, Texas A&M Smart Grid, Advanced Energy Economy, and others. Mr. Medina has a Bachelor of Science in Electrical Engineering from Texas A&M University and is a registered professional engineer in the State.

Aligned with senior management's "One Team" mentality and a strong commitment to its customers, community and employees, CPS Energy has increased its internal focus on talent development. Senior management has a robust Succession Planning Program that emphasizes development of talent on a regular basis, year-after-year. These efforts have proven beneficial, especially in instances when CPS Energy executives retire or are sought after by other entities. Accordingly, senior management, under the leadership of CPS Energy's President & CEO, works on robust and effective short- and long-term personnel plans that promptly address departures of talent, whenever applicable. These constructive plans include, but are not limited to, promotions, streamlined team re-assignments, recruiting, and other beneficial activities. CPS Energy carefully reviews workforce plans and potential retirements. Recognizing that multiple senior team members are retirement eligible, CPS Energy is not aware of any changes in senior management that are expected within the next twelve months; however, if any such change were to occur, CPS Energy would be prepared to address such change through its Succession Planning Program.

POLITICAL ACTION COMMITTEE PETITION

In the fall of 2020, a coalition of citizen groups, known as Our Power PAC (a political action committee) announced a petition seeking to amend the City Charter as it relates to CPS Energy and its governance structure (the "CPS Petition"). Among other things, the CPS Petition sought to (1) replace the Board with a board comprised of City Council members, (2) replace the President & CEO with a director to be selected by the newly comprised board, (3) proscribe the powers and duties of the director, (4) establish an advisory commission, and (5) mandate certain energy and rate related policies.

Under State law, the City Charter may only be amended once every two years. In order for any action to trigger an election to amend the City Charter, a valid petition consisting of at least 20,000 signatures of registered City voters gathered within 180 days of presentment must be received by the City Clerk for review and certification of the requisite number of signatures. The City Council, upon receipt of a certified petition, is then required to hold a public hearing and has sixty days to take action which (in addition to other actions) may include submitting the issue to the electorate by ordering an election on the next uniform election.

In January 2021, Our Power PAC publicly announced that the circulators did not receive the requisite number of signatures and the petition was not submitted to the City Clerk's office.

On November 12, 2020, the City, acting by and through CPS Energy, filed a bond validation action under Texas Government Code Chapter 1205 in Travis County to validate the Bond Ordinances' provisions to further protect CPS Energy from any effort to modify these contracts outside of the methods described therein. The Travis County District Court heard the matter on December 7, 2020 and issued a Final Judgment and Permanent Injunction. The Court specifically found that the provisions of the Bond Ordinances including the Original Commercial Paper Ordinance, that vest management and control of the Systems in the 5-member Board, establish 5-year terms for Trustees subject to one reappointment term, and set exclusive methods for amendment of the Bond Ordinances and each of the foregoing is "legal, valid, enforceable, and binding on the City" "for the entire time period during which the debt obligations of the Public Securities remain outstanding". The Court further declared that any actual or constructive amendment to the Bond Ordinances that failed to follow the exclusive methods set forth in the Bond Ordinances, which require a high-level of investor written consent, is invalid, and would result in an impairment of contract. The Court also entered a permanent injunction against any person filing proceedings that contest the Bond Ordinances or the public securities issued thereunder. On February 23, 2021, two individuals filed a motion for a new trial under Rule 329b of the Texas Rules of Civil Procedure and subsequently requested a hearing on the matter. At the hearing, the judge overruled the motion for a new trial. The matter was appealed, and oral arguments were heard on September 22, 2021 before the Third Court of Appeals (the "Third Court"). On November 18, 2021, the Third Court issued a memorandum opinion dismissing the appeal. On December 16, 2021, appellants filed a motion for rehearing *en banc* and a motion for rehearing, which were denied on April 11, 2022. Subsequently, the opponents filed a Petition for Review with the Texas Supreme Court, which was denied on February 24, 2023. On March 21, 2023, the opponents filed an Original Petition for Bill of Review to Set Aside Void Judgment in the trial court. The trial court granted a summary judgment in favor of CPS Energy on November 17, 2023, and the opponents appealed against that ruling to the Third Court. Pursuant to an order issued on August 26, 2024, the matter was transferred to the Fifteenth Court of Appeals of Texas (whose term began September 1, 2024) (the "Fifteenth Court"), who ultimately affirmed the trial court's ruling in favor of CPS Energy. Subsequently, the opponents filed yet another Petition for Review ("PFR") with the Texas Supreme Court of Texas on August 13, 2025. On August 15, 2025, CPS Energy filed a waiver of response to the PFR. On October 17, 2025, the Supreme Court of Texas ordered CPS Energy to file a response to the PFR, which was due on November 17, 2025. Subsequently, the Supreme Court of Texas requested merits briefing from the parties. All briefing is now complete. The parties continue to await the Supreme Court of Texas' final decision on whether to accept or deny the petition. CPS Energy intends to continue vigorously defending itself in this litigation; however, no prediction can be made with respect to the outcome of the litigation.

Management continues to engage with its stakeholders regarding its effective business strategies that have been thoughtfully designed to balance customer Operational Evolution, Financial Stability, Customer Experience, Team Culture, as well as Community Partnership and Growth.

CITY CHARTER

On November 14, 2023,the City's charter review commission was reconstituted (the "Charter Review Commission") to research and make recommendations for amendments to the City Charter related to the specific areas of ethics, City Council term length and compensation, City Manager tenure and compensation, the number of council districts and process for redistricting, and language modernization. The Charter Review Commission submitted its recommendations to City Council on June 5, 2024. On November 5, 2024, the City held a City Charter election whereby the following amendments were passed by the voters: A) adding a definition of "conflicts of interest", requiring sufficient funding to the ethics review board (the "Ethics Board") so it may perform all its assigned duties, and authorizing the Ethics Board to accept or decline complaints that have been resolved by an entity other than the Ethics Board; B) revising the language of the City Charter to account for outdated and superseded provisions; C) granting City Council the authority to set the full terms of the City Manager's employment including tenure and compensation; D) allowing City employees to participate in local political activity consistent with State and federal law while protecting employees against political retribution and maintaining a general prohibition on participation in local political activity for the City leadership team; E) setting the compensation for City Council members and the Mayor at $70,200 and $87,800 annually with annual future adjustments to correlate to the HUD income limits for the City; and F) extending the terms of all elected members of City Council, including the Mayor, from two years to four years and changing the term limits from four full terms to two full terms and keeping the terms concurrent. The City Council officially canvassed the election results on November 19, 2024. All of the propositions are now in effect. Separately, in December 2025, using authority granted by Senate Bill 1494 of the 89th Texas Legislature, the City Council approved a resolution to move all future municipal general elections from May of odd-numbered years to the November uniform election date in odd-numbered years. The next municipal election will be held in November 2029.

SYSTEM INDEBTEDNESS

GENERAL

To support the Systems' operations, the City maintains a dynamic debt portfolio, including taxable and tax-exempt, fixed and variable interest rate, long-term and short-term, and publicly marketed and privately-placed debt, all secured by liens on and pledges of the Systems' Net Revenues at various levels of priority. The components of this portfolio are described below.

LONG TERM INDEBTEDNESS

Senior Lien Obligations

The City has issued, and there are outstanding, debt obligations equally and ratably secured by and payable from a first and prior lien on and pledge of the Systems' Net Revenues (herein referred to as the "Outstanding Senior Lien Obligations"). As stated, these obligations are payable from and secured by a first and prior lien on and pledge of the Systems' Net Revenues, which lien and pledge is senior and superior to the liens thereon and pledges thereof securing the payment of the Junior Lien Obligations (as defined herein), the Commercial Paper Obligations (as defined herein), and the Inferior Lien Obligations (as defined herein). The City ordinances authorizing the issuance of the Outstanding Senior Lien Obligations (collectively, the "Senior Lien Ordinances") permit the issuance of additional obligations of the City payable from a first and prior lien on and pledge of the Systems' Net Revenues on parity with the lien thereon and pledge thereof securing the then-Outstanding Senior Lien Obligations (such additional obligations, the "Additional Senior Lien Obligations" and, together with the Outstanding Senior Lien Obligations, the "Senior Lien Obligations"), if certain historical earnings tests and other conditions are satisfied. The Senior Lien Ordinances also provide that no obligations of the City shall be issued that are payable from a lien on and pledge of the Systems' Net Revenues that is senior and superior to the lien thereon and pledge thereof securing the payment of the Senior Lien Obligations.

Outstanding Senior Lien Obligations

CPS Energy's Senior Lien Obligations, outstanding as of January 31, 2026 in the aggregate principal amount of $7,150,695,000, includes the following:

Dated Date	Issue Description	Original Par Amount	Amount Outstanding
March 1, 2012	City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2012	$ 521,000,000	$ 404,225,000
Aug.1, 2015	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2015	$ 320,530,000	$ 23,240,000
Nov. 1, 2015	City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2015	$ 235,000,000	$ 14,065,000
July 1, 2016	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2016	$ 544,260,000	$ 317,880,000
April 1, 2017	City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2017	$ 308,005,000	$ 267,320,000
Aug.1, 2017	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2017	$ 194,980,000	$ 194,980,000
Nov. 1, 2018	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2018	$ 218,285,000	$ 122,425,000
Dec. 1, 2018	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2018A	$ 130,220,000	$ 130,220,000
Sept. 1, 2019	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2019	$ 114,685,000	$ 114,685,000

Dated Date	Issue Description	Original Par Amount	Amount Outstanding
Jan. 1, 2020	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2020	$ 134,580,000	$ 134,580,000
Nov. 1, 2020	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020	$ 418,255,000	$ 304,360,000
April 1, 2022	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022	$ 413,720,000	$ 131,160,000
June 1, 2023	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2023A	$ 459,450,000	$ 458,055,000
June 1, 2023	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2023B	$ 177,130,000	$ 177,130,000
Nov. 1, 2023	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2023C	$ 162,715,000	$ 160,560,000
June 1, 2024	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024A	$ 452,220,000	$ 452,220,000
June 1, 2024	City of San Antonio, Texas Electric and Gas Systems Revenue & Refunding Bonds, New Series 2024B	$ 453,355,000	$ 450,205,000
June 1, 2024	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024C	$ 193,265,000	$ 193,265,000
Sept. 1, 2024	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024D	$ 487,995,000	$ 487,995,000
Sept. 1, 2024	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024E	$ 268,710,000	$ 268,710,000
Nov. 1, 2025	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2025A	$ 1,394,670,000	$ 1,394,670,000
Nov. 1, 2025	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2025B	$ 345,740,000	$ 345,740,000
Jan. 1, 2026	City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2026A	$ 603,005,000	$ 603,005,000

As additional security for the Senior Lien Obligations, the Senior Lien Ordinances establish that the Systems' Net Revenues must be first appropriated and pledged to the "City of San Antonio Electric and Gas Systems Parity Bond Retirement Account" (the "Retirement Account") previously created for the payment of principal of and interest on the Senior Lien Obligations. Within the Retirement Account there is established and maintained a reserve amount ("Reserve Amount") equal to not less than the average annual principal and interest requirements of all outstanding Senior Lien Obligations. In addition, CPS Energy has the right under the Senior Lien Ordinances to fund the Reserve Amount requirement by securing an insurance policy, surety policy, or other similar credit facility. The Reserve Amount for previously issued Senior Lien Obligations is currently funded by a qualified surety policy (the "Assured Guaranty Policy") under the Senior Lien Ordinances, provided by Assured Guaranty Municipal Corp. ("AGM"). Effective as of August 1, 2024, AGM merged with and into its affiliate Assured Guaranty Inc. ("AG") and the obligations under the Assured Guaranty Policy were assumed by AG as the successor to AGM. The Assured Guaranty Policy has a maximum coverage amount equal to $400,000,000 and an expiry date of February 1, 2057, which amount and expiry date will be sufficient to cover all currently outstanding Senior Lien Obligations. The Senior Lien Ordinances and the Assured Guaranty Policy detail the rights, duties, and obligations of the City in connection with the Assured Guaranty Policy and the methodology concerning draws under the Assured Guaranty Policy, the reimbursement obligation of the City in such event, and the City's ability to cause the reinstatement of the amounts available under the Assured Guaranty Policy.

Junior Lien Obligations

The City has issued, and there are outstanding, debt obligations equally and ratably secured by and payable from a lien on and pledge of the Systems' Net Revenues that are junior and subordinate to the first and prior lien thereon and pledge thereof that secures the Senior Lien Obligations, but prior and superior to the liens on and pledges of the Systems' Net Revenues securing the payment of the Commercial Paper Obligations and the Inferior Lien Obligations, respectively (such City obligations, the "Outstanding Junior Lien Obligations"). The City ordinances authorizing the issuance of the Outstanding Junior Lien Obligations (collectively, the "Junior Lien Ordinances") permit the issuance of additional City obligations secured by and payable from a junior lien on and pledge of the Systems' Net Revenues on parity with the lien thereon and pledge thereof securing the then-Outstanding Junior Lien Obligations (such additional obligations, the "Additional Junior Lien Obligations" and, together with the Outstanding Junior Lien Obligations, the "Junior Lien Obligations"), if certain historical earnings tests and other conditions are satisfied. The Junior Lien Ordinances also provide that no obligations of the City shall be issued that are payable from a lien on and pledge of the Systems' Net Revenues that is senior and superior to the lien thereon and pledge thereof securing the payment of the Junior Lien Obligations, except for the first and prior lien on and pledge of the Systems' Net Revenues that secures the payment of the Senior Lien Obligations.

The Junior Lien Ordinances, in comparison to the Senior Lien Ordinances, provide for less restrictive debt-related covenants to be complied with by the City in connection with their issuance and while they remain outstanding (such as no requirement to maintain a Junior Lien Obligations debt service reserve fund and an additional bonds test of one times average annual debt service of all then-outstanding Senior Lien Obligations and Junior Lien Obligations, including any contemplated series of Additional Junior Lien Obligations, as a condition to the issuance of Additional Junior Lien Obligations). The City has utilized this lien level to diversify its debt portfolio (including placement at this lien level of its long-term variable rate debt). As part of its debt planning process, the City evaluates each issuance of long-term debt prior to determining whether to issue such indebtedness as Additional Senior Lien Obligations or Additional Junior Lien Obligations.

Outstanding Junior Lien Obligations

CPS Energy's Junior Lien Obligations, outstanding as of January 31, 2026 in the aggregate principal amount of $2,162,465,000, includes the following:

Dated Date	Issue Description	Original Par Amount	Amount Outstanding
Feb. 1, 2010	City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Taxable Series 2010A (Direct Subsidy – Build America Bonds)	$ 300,000,000	$ 300,000,000
Jan. 1, 2015	City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015B	$ 125,000,000	$ 104,150,000
Nov. 1, 2015	City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015D	$ 100,000,000	$ 99,450,000
Nov. 1, 2019	City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2019	$ 252,640,000	$ 252,640,000
March 1, 2021	City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2021A	$ 330,700,000	$ 330,700,000
Jan. 1, 2022	City of San Antonio, Texas Electric and Gas Systems Fixed and Variable Rate Junior Lien Revenue Refunding Bonds, Series 2022	$ 359,465,000	$ 359,465,000
June 1, 2023	City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2023	$ 100,340,000	$ 100,340,000
Nov. 1, 2025	City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue and Refunding Bonds, Series 2025A	$ 615,720,000	$ 615,720,000

Outstanding Senior Lien Obligations And Junior Lien Obligations*

The following schedule is calculated on an accrual (rather than cash) basis and reflects annual debt service requirements on all outstanding Senior Lien Obligations and Junior Lien Obligations, excluding debt service payments accrued through January 31, 2026. Commercial Paper Obligations incurred under the Commercial Paper Programs and the Flex Notes issued under the Flexible Rate Revolving Note Private Placement Programs (as defined herein) are excluded. See "- SHORT TERM/INTERIM OBLIGATIONS" herein.

Year Ending January 31,	Total Senior Lien Obligations*	Junior Lien Variable Rate Obligations[1]	Junior Lien Fixed Rate Obligations[2]	Total Senior & Junior Lien Obligations[3]*
2027	$ 524,076,856	$ 28,305,288	$ 62,172,509	$ 614,554,653
2028	522,571,894	37,859,585	62,170,009	622,601,488
2029	507,215,244	45,115,098	81,707,259	634,037,601
2030	507,236,464	55,384,920	81,706,959	644,328,342
2031	503,400,766	57,294,008	92,362,804	653,057,579
2032	502,314,189	66,842,629	92,188,250	661,345,068
2033	502,310,689	66,836,271	95,581,550	664,728,511
2034	489,203,045	66,839,450	122,601,450	678,643,945
2035	531,349,552	66,839,450	119,456,950	717,645,952
2036	541,221,813	66,842,629	118,900,200	726,964,641
2037	541,709,642	66,836,271	118,305,750	726,851,663
2038	542,205,277	68,280,283	117,694,850	728,180,411
2039	534,142,504	75,918,035	117,047,214	727,107,752
2040	488,949,055	78,008,952	157,430,594	724,388,602
2041	489,632,926	77,531,050	156,707,344	723,871,320
2042	570,845,925	90,106,294	46,235,900	707,188,119
2043	527,467,419	108,123,797	46,236,900	681,828,116
2044	496,947,416	106,935,859	46,238,250	650,121,525
2045	480,381,052	128,330,423	27,363,500	636,074,975
2046	480,393,260	125,572,086	27,361,500	633,326,846
2047	467,169,033	113,177,400	27,366,000	607,712,433
2048	402,079,451	113,437,200	27,364,000	542,880,651
2049	367,982,477	84,528,750	27,363,000	479,874,227
2050	287,978,570	32,644,450	—	320,623,020
2051	60,833,724	124,704,450	—	185,538,174
2052	60,836,674	124,706,150	—	185,542,824
2053	60,829,787	124,705,300	—	185,535,087
2054	60,831,924	85,770,250	—	146,602,174
2055	5,699	85,771,200	—	85,776,899
2056	5,699	—	—	5,699
2057	105,699	—	—	105,699
Totals	$ 12,052,233,725	$ 2,373,247,528	$ 1,871,562,742	$ 16,297,043,996

* Some numbers may not total due to rounding.

[1] Assumes periodic redemptions in accordance with mandatory sinking fund requirements. Debt service calculated on variable rate Junior Lien Obligations in a term interest rate mode on the basis of the actual term interest period and of the applicable "stepped" interest thereafter to Stated Maturity, which rates and periods are as follows: 2015D Bonds – 1.125% term rate through November 30, 2026, and 7.00% "stepped" rate thereafter to December 1, 2045 Stated Maturity; the variable rate portion of the 2022 Bonds – 2.00% term rate through November 30, 2027 and 7.00% "stepped rate" thereafter to February 1, 2049 Stated Maturity, and 2023 Bonds – 3.65% term rate through November 30, 2026 and 8.00% "stepped rate" thereafter to February 1, 2053 Stated Maturity. The 2025 Bonds (including two term bonds) – 3.08% term rate through November 30, 2028, and 7.00% "stepped" rate thereafter to February 1, 2055 Stated Maturity and 3.20% term rate through November 30, 2030, and 7.00% "stepped" rate thereafter to February 1, 2055 Stated Maturity.

[2] Excludes regularly scheduled interest due on the Taxable Junior Lien Series 2010A anticipated to be offset by the refundable tax credit to be received from the Treasury as a result of such obligations being designated as "Build America Bonds" and "qualified bonds" under the Code. Also, considers the effects of Sequestration assuming a 5.7% reduction in tax credits which continues through September 2030.

[3] Senior Lien Obligations outstanding and Junior Lien Obligations outstanding represent the debt service requirements for the total outstanding debt payable from and secured by the Net Revenues of the Systems, excluding debt service payable with respect to the Commercial Paper Obligations and any Inferior Lien Obligations. See "- SHORT TERM/INTERIM OBLIGATIONS" herein.

Historical Net Revenues Coverage[1]
(Dollars in thousands)

	Fiscal Year Ended January 31,				
	2022	**2023**	**2024**	**2025**	**2026**
Gross Revenues[2]	$ 2,754,975	$ 3,469,577	$ 3,442,879	$ 3,643,570	$ 4,115,968
Maintenance & Operating Expenses	$ 1,743,521	$ 2,211,545	$ 1,967,750	$ 2,181,324	$ 2,760,403
Available For Debt Service	$ 1,011,454	$ 1,258,032	$ 1,475,129	$ 1,462,246	$ 1,355,565
Actual Principal and Interest Requirements:					
Senior Lien Obligations[3][4][8]	$ 331,844	$ 349,887	$ 366,255	$ 422,216	$ 444,298
Junior Lien Obligations[4]	$ 60,198	$ 77,548	$ 77,917	$ 72,508	$ 79,030
ACTUAL COVERAGE – Senior Lien[5]	3.05x	3.60x	4.03x	3.46x	3.05X
ACTUAL COVERAGE – Senior and Junior Liens[5]	2.58x	2.94x	3.32x	2.96x	2.59X
PRO FORMA MADS COVERAGE					
Senior Lien[6]					
Senior and Junior Liens[7]					

[1] Some numbers have been adjusted due to rounding.
[2] Calculated in accordance with the Bond Ordinances.
[3] Net of accrued interest where applicable.
[4] Includes a reduction related to the direct subsidy for the Build America Bonds.
[5] Calculation differs from "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" herein, by the inclusion of nonoperating expenses in the above schedule.
[6] Maximum annual debt service on Senior Lien Obligations.
[7] Maximum annual debt service on Senior Lien Obligations and Junior Lien Obligations is based upon the footnoted assumptions under "Outstanding Senior Lien Obligations and Junior Lien Obligations".
[8] Amount shown is gross debt service and does not include any cash contributions made.

Refundable Tax Credit Bonds

The refundable tax credits to be received by the City in connection with any obligations secured by Net Revenues of the Systems that are designated as obligations entitling the City to the receipt of refundable tax credits from the United States Department of the Treasury under the Internal Revenue Code (the "Code") (including, but not limited to, obligations designated as "Build America Bonds" and "qualified bonds" under the Code) will be considered as an offset to debt service for the purpose of satisfying any debt service coverage requirements under any ordinance, including satisfaction of any rate covenant, reserve fund requirement, or prerequisite to the issuance of additional indebtedness at any lien level. On January 14, 2026, the City refunded two of its three series of "Build America Bonds".

The City has determined that the reduced amount of refundable tax credit payments to be received from the United States Treasury in relation to its outstanding obligations designated as "Build America Bonds" and "qualified bonds" under the Code as a result of the automatic reductions in federal spending effective March 1, 2013, pursuant to the Budget Control Act of 2011 (commonly referred to as "Sequestration"), and extensions thereof pursuant to the Bipartisan Budget Act of 2013 signed into law by President Barack Obama on December 26, 2013, will not have a material impact on the financial condition of the City or its ability to pay regularly scheduled debt service on its outstanding obligations when and in the amounts due and owing.

Under current law, Sequestration is scheduled to continue through 2030. Assuming Congress does not repeal the sequester, the percentage reduction that will be applied to payments of issuers of direct-pay bonds for Fiscal Years 2021 through 2030 will be 5.7 percent. Additionally, on June 22, 2020, the Internal Revenue Service (the "IRS") issued a notice that due to the suspension or limitation of operations related to the COVID-19 Pandemic (the "Pandemic"), the processing of returns for credit payments to issuers of qualified bonds, including requested payments, were being delayed and such payments continue to be subject to delays.

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SHORT TERM/INTERIM OBLIGATIONS

General Description And Purpose

The City, on behalf of the Systems, maintains various interim financing programs whose obligations are secured by and payable from liens on and pledges of the Systems' Net Revenues that are inferior to the respective liens thereon and pledges thereof that secure the Senior Lien Obligations and the Junior Lien Obligations (and which interim financing program liens are themselves stratified, as hereafter described). The legal authority for the programs that comprise each of these interim financing programs (hereinafter defined and referred to as the "Commercial Paper Obligations" and the "Inferior Lien Obligations", respectively) is the same, as is the permitted use of proceeds of debt thereunder issued and incurred (which includes capital improvements and extensions to the Systems, purchase of equipment, fuel and electricity, and refunding other City obligations secured by and payable from the Systems' Net Revenues).

These interim financing programs are utilized to support the Systems' capital needs and manage the Systems' capital improvement plan by matching funding needs with readily available funding sources. In addition, these programs bolster and enhance the Systems' liquidity position and provide to the Systems a capital source in the event of certain unexpected expenses. As drawn amounts under each of the programs within the respective programs align with minimal threshold amounts and schedule for entry into the capital markets, the City will typically convert these short-term obligations into long-term obligations by issuing Additional Senior Lien Obligations or Additional Junior Lien Obligations to refund the outstanding interim financing instruments. This process, which typically occurs at least annually, acts to convert and incorporate interim financing into the CPS Energy long-term debt management plan and to replenish the amount of borrowing capacity under the applicable interim financing regime.

Descriptions of the "third lien" Commercial Paper Obligations and of the "fourth lien" Inferior Lien Obligations are provided below.

Commercial Paper Programs

The City maintains an interim financing commercial paper regime that is currently comprised of the hereinafter-defined Original Commercial Paper Program, the New Series Commercial Paper Program, and the Extendible Municipal Commercial Paper Program. Evidences of indebtedness under these programs issued and incurred, as well as other obligations arising under contracts with third parties in support of such programs (including, primarily, with financial institutions who provide liquidity support for the Original Commercial Paper Program and the New Series Commercial Paper Program) and additional commercial paper or similar interim financing programs hereafter established by the City that enjoy a parity lien position on the Systems' Net Revenues as security for the repayment of the City obligations thereunder arising, are referred to as the Commercial Paper Obligations (defined herein).

The Commercial Paper Obligations are equally and ratably secured by and payable from a "third" lien on and pledge of the Systems' Net Revenues, which lien and pledge is junior and subordinate to the prior liens thereon and pledges thereof that respectively secure the Senior Lien Obligations and the Junior Lien Obligations, but prior and superior to the lien on and pledge of the Systems' Net Revenues securing the payment of the Inferior Lien Obligations. The Senior Lien Ordinances, the Junior Lien Ordinances, and the City ordinances establishing the existing programs under which Commercial Paper Obligations may be incurred (together, the "Commercial Paper Ordinances"), permit the issuance of additional obligations equally and ratably secured by and payable from a third lien on and pledge of the Systems' Net Revenues on parity with the lien thereon and pledge thereof securing the then-outstanding Commercial Paper Obligations (such additional obligations, the "Additional Commercial Paper Obligations" and, together with the outstanding Commercial Paper Obligations, the "Commercial Paper Obligations"). The Commercial Paper Ordinances describe the ability of the City to issue "Prior Lien Bonds", which are obligations secured by liens on and pledges of the Systems' Net Revenues that are senior and superior to the liens thereon and pledges thereof securing the Commercial Paper Obligations, but City obligations incurred under its various commercial paper programs and covenants relating to the Inferior Lien Obligations have established the Senior Lien Obligations and the Junior Lien Obligations as the only Prior Lien Bonds that may be issued and outstanding while the Commercial Paper Obligations and the Inferior Lien Obligations remain outstanding.

Pursuant to separate City ordinances, the City maintains for the benefit of the Systems interim financing programs under which it can from time-to-time issue taxable or tax-exempt commercial paper notes (in multiple series) in an aggregate principal amount at any time outstanding not to exceed $1,250,000,000 (such programs, the "Original Commercial Paper Program" and the "New Series Commercial Paper Program", respectively, and together, the "Commercial Paper Program"). Obligations issued under the Original Commercial Paper Program and the New Series Commercial Paper Program are limited to maturities of less than a year (though issuances are typically in the form of commercial paper notes having maturities of 270 days or less) and are provided liquidity support from third-party financial institutions that may be accessed by CPS Energy in the event of an inability to sell commercial paper notes under either such program to provide proceeds to pay maturing commercial paper notes. The amounts owed to such liquidity providers in the event of draw are subject to repayment over term-out periods that generally range from two to three years.

The New Series Commercial Paper Program was established to modernize elements of the Original Commercial Paper Program, while maintaining existing contractual arrangements applicable to the Original Commercial Paper Program deemed valuable and advantageous to CPS Energy. Pursuant to the respective City ordinances authorizing their establishment, obligations incurred under the Original Commercial Paper Program must mature on or prior to April 11, 2049, and obligations incurred under the New Series Commercial Paper Program must mature on or prior to February 27, 2055.

The City expanded the diversity of its Commercial Paper Program by enabling an extendible municipal commercial paper program (the "Extendible Municipal Commercial Paper Program") thereby supplementing the Original Commercial Paper Program and the New Series Commercial Paper Program by providing a financing program that provides the same benefits of those existing programs but without the requirement to maintain third-party liquidity with a financial institution. This program functions without the benefit of a third-party liquidity provider to provide a payment source for notes thereunder issued in the event of an inability to sell new notes to pay the principal amount of maturing notes at such time issued and outstanding. Instead of liquidity support, notes are initially issued with a maximum initial maturity of 180 days, which date is automatically extended by at least an additional 90 days to the maximum of 270 days, in the event of a failure to sell new notes to pay off maturity notes. During this extended maturity period of at least 90 days, CPS Energy is obligated to address the outstanding notes through its own sources of payment (whether by providing its own funds for payment, selling new notes to pay maturing notes, or issuing refunding bonds to refund and retire the outstanding notes). The Extendible Municipal Commercial Paper Program, effective April 15, 2025, allows notes to be issued in an aggregate principal amount of $150,000,000 at any one time outstanding and with individual maturities of (incorporating the sum of any initial maturity period and extended maturity period) not more than 270 days from issuance (but in no event later than May 2, 2064).

CPS Energy maintains an Extendible Municipal Commercial Paper Program Policy to manage liquidity risks associated with the Extendible Municipal Commercial Paper Program. The policy (i) sets forth the timeline and activities CPS Energy will follow when issuing extendible municipal commercial paper notes and approaching the original maturity date of outstanding notes and (ii) outlines the procedures to be followed by CPS Energy in the event of a failed placement of extendible municipal commercial paper notes intended to refund maturing notes.

CPS Energy maintains a Commercial Paper Program Policy to manage liquidity risks associated with the Commercial Paper Program. The policy (i) specifies the available sources of funding for payment of maturing commercial paper notes and (ii) outlines the procedures to be followed by CPS Energy in the event of a failed placement of commercial paper notes intended to refund maturing notes.

The tables below summarize the capacity and liquidity agreements benefiting the Original Commercial Paper Program and the New Series Commercial Program, respectively, as well as capacity details regarding the Extendible Commercial Paper Program.

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Summary of CPS Energy's Commercial Paper Programs

Original Commercial Paper Program, as of January 31, 2026[1]

Series	Program Capacity (thousands of USD)	Liquidity Provider	Effective Date	Scheduled Expiration Date	Notes Outstanding (thousands of USD)	Dealers
A	400,000	Bank of America, N.A.	August 31, 2021	June 19, 2026	400,000	JPM/LCM

Notes: J.P. Morgan Securities LLC ("JPM") / Loop Capital Markets LLC ("LCM")
[1] Please see EMMA for any recent event filings.

New Series Commercial Paper Program, as of January 31, 2026[1]

New Series	Program Capacity (thousands of USD)	Liquidity Provider	Effective Date	Scheduled Expiration Date	Notes Outstanding (thousands of USD)	Dealers
A-1	200,000[2]	JPMorgan Chase Bank, National Association	July 31, 2023	July 31, 2031	85,000	JPM/LCM/RBC/BOA
A-2	200,000[2]	JPMorgan Chase Bank, National Association	July 31, 2023	July 31, 2031	0	JPM
B	150,000	Truist Bank	July 31, 2023	July 31, 2028	42,800	JPM/LCM/RBC/BOA
C	125,000	PNC Bank, National Association	June 18, 2025	June 18, 2028	0	JPM/LCM/RBC/BOA
D-1	125,000[1][2]	Bank of America, N.A.	June 18, 2025	June 18, 2029	55,000	JPM/LCM/RBC/BOA
D-2	125,000[1][2]	Bank of America, N.A.	June 18, 2025	June 18, 2029	0	BOA
E	125,000	Wells Fargo Bank, National Association	June 18, 2025	June 18, 2028	0	JPM/LCM/RBC/BOA
F	125,000	Royal Bank of Canada	June 18, 2025	June 18, 2029	10,000	JPM/LCM/RBC/BOA

Notes: JPM / LCM / RBC Capital Markets, LLC ("RBC") / Bank of America, N.A. ("BOA")
[1] Please see EMMA for any recent event filings.
[2] Total liquidity available under hybrid liquidity facility permitting publicly marketed and privately placed notes.

Extendible Commercial Paper Program, as of January 31, 2026[1]

Series	Program Capacity (thousands of USD)	Liquidity Provider	Effective Date	Program Expiration Date	Notes Outstanding (thousands of USD)	Dealers
A	150,000	N/A	April 15, 2025	May 2, 2064	150,000	JPM/MS

Notes: JPM / Morgan Stanley & Co., LLC ("MS")
[1] Please see EMMA for any recent event filings.

Inferior Lien Obligations

The City has issued, and may be outstanding from time to time, debt obligations equally and ratably secured by and payable from a "fourth" lien on and pledge of the Systems' Net Revenues, which lien and pledge is inferior and subordinate to the prior liens thereon and pledges thereof that respectively secure the Senior Lien Obligations, the Junior Lien Obligations, and the Commercial Paper Obligations (such City obligations, the "Outstanding Inferior Lien Obligations"). The Senior Lien Ordinances, the Junior Lien Ordinances, the Commercial Paper Ordinances, and the City ordinances authorizing the incurrence of the Outstanding Inferior Lien Obligations (together, the "Inferior Lien Ordinances") permit the issuance of additional City obligations equally and ratably secured by and payable from a fourth lien on and pledge of the Systems' Net Revenues on parity with the lien thereon and pledge thereof securing the Outstanding Inferior Lien Obligations (such additional obligations, the "Additional Inferior Lien Obligations" and, together with the Outstanding Inferior Lien Obligations, the "Inferior Lien Obligations"). The Inferior Lien Ordinances also provide that no obligations of the City shall be issued that are payable from a lien on and pledge of the Systems' Net Revenues of the Systems that is senior and superior to the lien thereon and pledge thereof securing the payment of the Inferior Lien Obligations, except for the prior and superior liens on and pledges of the Systems' Net Revenues that secures the repayment of the Senior Lien Obligations, the Junior Lien Obligations, and the Commercial Paper Obligations, respectively.

As Outstanding Inferior Lien Obligations, the City maintains a Flexible Rate Revolving Note Private Placement Program, under which it is authorized to issue flexible interest rate revolving notes under (a) the Series A Flexible Rate Revolving Note Program (the "Series A Flex Notes") and (b) the Series B Flexible Rate Revolving Note Program (the "Series B Flex Notes", and together with the Series A Flex Notes, the "Flex Notes"), directly placed upon issuance with financial institutions under separate purchase agreements. Flex Notes issued under either program have a maximum maturity of one year from issuance, with no Series A Flex Notes having a final maturity beyond November 1, 2028 and no Series B Flex Notes having a final maturity beyond April 1, 2031; maturing Flex Notes can be replaced with new Flex Notes of the same series in non-cash transactions (subject to the terms and duration of the applicable purchase agreement at such time in effect). Series A Flex Notes are authorized to be issued in an aggregate principal amount not to exceed $100,000,000 at any one time outstanding; Series B Flex Notes are authorized to be issued in an aggregate principal amount not to exceed $500,000,000 at any one time outstanding.

The City has entered into respective note purchase agreements (dated February 24, 2023) with Truist Bank and Truist Commercial Equity, Inc., with terms that expire November 1, 2028, and pursuant to which such bank is obligated to purchase Series A Flex Notes in an aggregate principal amount up to the programmatic capacity of $100 million. The City has entered into additional note purchase agreements, as amended from time to time (each dated as of April 12, 2023) with JPMorgan Chase Bank, National Association for $225 million, Wells Fargo Bank, National Association for $200 million, and Frost Bank for $75 million, which obligates each bank to purchase Series B Flex Notes when issued in respective principal amounts that, in the aggregate, total the programmatic capacity of $500 million, with terms that expire on April 4, 2028.

Summary of CPS Energy's Flexible Rate Revolving Note Private Placement Programs, as of January 31, 2026[2]

Series	Program Capacity (thousands of USD)	Note Purchaser	Purchase Agreement Effective Date	Purchase Agreement Expiration Date	Notes Outstanding (thousands of USD)	Program Expiration Date
A	100,000	Truist Bank and Truist Commercial Equity, Inc.	February 24, 2023	November 1, 2028	—	November 1, 2028
B-1	225,000	JPMorgan Chase Bank, National Association[1]	April 12, 2023	April 4, 2028	—	April 1, 2031
B-2	200,000	Wells Fargo Bank, National Association[1]	April 12, 2023	April 4, 2028	—	April 1, 2031
B-3	75000	Frost Bank[1]	April 12, 2023	April 4, 2028	—	April 1, 2031

[1] Draws are required to be made pro rata among each of the three providers.
[2] Please see EMMA for any recent event filings.

RATINGS

Fitch Ratings, Inc. ("Fitch"), Moody's Ratings, Inc. ("Moody's"), and S&P Global Ratings ("S&P") have each assigned the following ratings to CPS Energy's outstanding Senior Lien Obligations and Junior Lien Obligations.

Summary of CPS Energy's Bond Ratings

Rating Agency	Senior Lien	Junior Lien
Fitch	AA-	AA-
Moody's	Aa2	Aa3
S&P	AA-	A+

An explanation of the significance of such ratings may be obtained from the company furnishing such rating. The ratings reflect only the respective views of such organizations, and neither the City nor the Board makes any representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the City's debt obligations. A securities rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time.

Periodically, rating agencies will evaluate and, on occasion as a result of these evaluations revise, their rating methodologies and criteria for municipal issuers such as the City. A revision in a rating agency's rating methodology could result in a positive or negative change in a rating assigned by that agency, even if the rated entity has experienced no material change in financial condition or operation. Any of the rating agencies at any time while any of the City's debt obligations remain outstanding could undertake such an evaluation process.

REFUNDINGS, REMARKETINGS, TENDERS, REDEMPTIONS, AND DEFEASANCES

CPS Energy routinely evaluates and reviews the possibility of refunding, remarketing, tendering, redeeming, and defeasing certain of its outstanding debt obligations (including commercial paper notes, flex notes, and bonds) to effectuate debt service savings, manage risk, or optimize its debt portfolio.

RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES

RETAIL SERVICE AREA

Electric

The CPS Energy electric system serves a territory of substantially all of the County and various other regions throughout the State. Certification of this service area was granted by the Public Utility Commission of Texas ("PUCT").

CPS Energy is currently the exclusive provider of retail electric service within this service area, including the provision of electric service to some federal military installations located within the service area. In 1999, the Texas Legislature enacted Senate Bill 7 ("SB 7"), which allows for retail electric competition within designated service areas upon a decision of the governing body having jurisdiction within such areas affirmatively acting to "opt-in" to such a competitive scenario. CPS Energy and the City have not elected to "opt in". Until and unless the City Council and the Board exercise the option to opt-in to retail electric competition (called "Texas Electric Choice" by the PUCT), CPS Energy has the sole right to provide retail electric services in its service area.

On April 26, 2001, after a thorough feasibility study was conducted and reviewed, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002, the date Texas Electric Choice became effective. As stated above, SB 7 provides that electric "opt-in" decisions are to be made by the governing body or the body vested with the power to manage and operate a municipal utility such as CPS Energy. Given the relationship between the Board and the City Council, any decision to opt in to electric competition would be based upon the adoption of resolutions by both the Board and the City Council. If CPS Energy and the City choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS Energy service area and CPS Energy would be authorized to offer retail electric energy in any other service areas open to retail competition in the Electric Reliability Council of Texas ("ERCOT"). See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – The Electric Industry Generally – ERCOT" herein. ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas; the term "ERCOT" also refers to the area within Texas served by this interconnected grid. See "DESCRIPTION OF FACILITIES – Electric System – Interconnected System" and "CUSTOMERS AND RATES – Customer Rates – Governmentally Imposed Fees, Taxes, or Payments" herein. CPS Energy has the option of acting in the role of the "Provider of Last Resort" (hereinafter defined) for its service area in the event it and the City choose to opt in. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – The Electric Industry Generally" and "ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein.

Gas

The CPS Energy gas system serves the majority of the County and portions of the surrounding counties of Comal, Guadalupe, and Medina. In the counties of Kendall, Karnes, Wilson, Atascosa, Guadalupe, and Caldwell, CPS Energy has gas facilities but currently is not serving any customers. In Texas, no legislative provision or regulatory procedure exists for certification of natural gas service areas. As a result, CPS Energy competes against other gas supplying entities on the periphery of its electric service area.

Pursuant to the authority provided by Section 181.026, Texas Utilities Code, among other applicable laws, the City has executed a license agreement (the "License Agreement") with the City of Grey Forest, Texas ("Grey Forest"), dated July 28, 2003, for a term through May 31, 2028. Pursuant to this License Agreement, the City permits Grey Forest to provide, construct, operate, and maintain certain natural gas lines within the boundaries of the City which it originally established in 1967 to provide extensions and other improvements thereto upon compliance with the provisions of the License Agreement and upon the payment to the City of a quarterly license fee of 3.0% of the gross revenues received by Grey Forest from the sale of natural gas within the Licensed Area (as defined in the License Agreement). Thus, in the Licensed Area (which comprises less than 6.2% of the CPS Energy natural gas service area), CPS Energy is in direct competition with Grey Forest, acting by and through Grey Forest Utilities, as a supplier of natural gas.

Franchise Agreements

CPS Energy maintains "Franchise Agreements" with 31 incorporated communities in the San Antonio metropolitan area. These Franchise Agreements permit CPS Energy to operate its facilities in the streets and public ways of these cities, in exchange for a franchise fee of 4.5% on electric and natural gas revenues earned within their respective municipal boundaries. Of the 31 cities, six have decided to increase their franchise fees to 5.5%. The effective dates of these agreements were February 1, 2015, for two municipalities, January 1, 2018, May 1, 2020, August 1, 2021, and February 1, 2024. Certain cities retain the ability to seek a 1% increase in their franchise fee under the applicable agreements related thereto.

WHOLESALE POWER

CPS Energy has an active program to optimize its excess power generation capacity in the wholesale power market, which includes both power purchases and power sales when such can be reasonably expected to reduce cost or generate revenue for the electric system. As a part of managing the power generation portfolio, CPS Energy may also purchase power if there is an unanticipated deficit in capacity, to maintain reserve margins, to enhance reliability for the electric system, or when economically prudent to reduce overall costs of its obligations in the ERCOT market. Trained, experienced staff in CPS Energy's Energy Supply & Market Operations ("ESMO"), who report to the CPS Energy Senior Director - Asset Management, conduct wholesale power transactions in accordance with established procedures. CPS Energy is a Qualified Scheduling Entity ("QSE") within ERCOT which allows CPS Energy to manage both load and generation in the ERCOT real-time and day-ahead markets. The QSE function is also managed by ESMO. The governance for ERCOT market activity is established by the Energy Markets and Risk Management Policy. Under this policy, the Energy Portfolio Strategy Committee, comprised of select executive leadership, provides comprehensive review and oversight of proposed wholesale transactions to ensure alignment with CPS Energy strategies, including evaluation of the associated risks. CPS Energy conducts wholesale power transactions only with approved counterparties with which CPS Energy has established master enabling agreements for such transactions. The enabling agreements outline payment and delivery terms and conditions of such sales and purchases and provide for written confirmation of each transaction between CPS Energy and its counterparts.

Long-term supply agreements were established with Central Texas Electric Cooperative ("CTEC"), the City of Boerne, Texas ("Boerne"), the City of Seguin, Texas ("Seguin"), and the Kerrville Public Utility Board ("KPUB") to provide energy supply for terms that began in June 2013. The CTEC contract ended at the end of calendar year 2021. The Boerne and Seguin contracts ended at the end of calendar year 2023, and the KPUB contract will end at the end of calendar year 2026. In addition, CPS Energy has converted its retail contracts with the City of Hondo, Texas ("Hondo"), the City of Castroville, Texas ("Castroville"), and Floresville Electric Light and Power System ("FELPS") into wholesale contracts as well. The FELPS' contract will conclude at the end of calendar year 2030. The Hondo contract was extended for five years through December 2027. The Castroville contract ended in December 2022. The requirements under the wholesale agreements are for firm energy obligations provided by CPS Energy. In December 2025, CPS Energy extended the current contract with Seguin through December 2033. In June 2025, CPS Energy entered into a contract with the City of Robstown, Texas (Robstown Utility Services) with a contract expiration of May 2030.

CPS Energy is open to entering into new long-term wholesale power sales agreements with public or private entities in the future. There is some potential to add new agreements or to extend existing agreements with certain counterparties who wish to continue to secure their power supply from CPS Energy. CPS Energy may also agree to provide a variety of supply arrangements on a short-term basis for terms ranging from one month up to one year with a variety of approved counterparties.

CUSTOMERS AND RATES

CUSTOMER RATES

CPS Energy's electric and gas monthly rate schedules list the currently effective monthly charges payable by CPS Energy customers. Each rate schedule briefly describes the types of service CPS Energy renders to customers billed in accordance with that rate schedule, plus customer eligibility criteria. Customers with similar load and usage characteristics are grouped into rate classes and are billed in accordance with the same rate schedule. The different electric rate classes include rate schedules for residential, commercial, and industrial customers. There are also rate schedules for street lighting, all night security lights, and wholesale power to other electric utilities. The gas rate schedules are categorized into general, commercial, and industrial.

RETAIL SERVICE RATES

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility ("IOU"). Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over electric IOUs primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally owned utilities ("MOUs"), such as CPS Energy, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. See "CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein. Under the PURA, a municipal governing body or the body vested with the power to manage and operate an MOU such as CPS Energy has exclusive jurisdiction to set rates applicable to all services provided by the MOU except for electric wholesale transmission activities and rates. Unless and until the City Council and Board choose to opt-in to electric retail competition or the Texas Legislature places CPS Energy into electric retail competition, CPS Energy retail service electric rates are subject to appellate, but not original rate regulatory jurisdiction by the PUCT in areas that CPS Energy serves outside the City limits. To date, no such appeal to the PUCT of CPS Energy retail electric rates has ever been filed. CPS Energy is not subject to the annual PUCT gross receipts fee payable by IOU electric utilities. See "ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein.

The Railroad Commission of Texas ("RRCT") has significant original jurisdiction over the rates, services and operations of natural gas utilities in the State. MOUs such as CPS Energy are generally excluded from regulation by the RRCT, except in matters related to natural gas safety. CPS Energy retail gas service rates applicable to ratepayers outside the City are subject to appellate, but not original rate regulatory jurisdiction by the RRCT in areas that CPS Energy serves outside the City limits. To date, no such appeal to the RRCT of CPS Energy retail gas rates has ever been filed. In the absence of a contract for service, the RRCT also has jurisdiction to establish gas transportation rates for service to Texas State agencies by a MOU. A MOU is also required to sell gas to and transport State-owned gas for "public retail customers", including State agencies, State institutions of higher education, public school districts, United States military installations, and United States Veterans Affairs facilities, at rates provided by written contract between the MOU and the buyer entity. If an agreement to such a contract cannot be reached, a rate will be set by the legal and relevant regulatory body.

The City has covenanted and is obligated under the Bond Ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all maintenance and operating expenses of the Systems and to pay the debt service requirements on all revenue debt of the Systems, including the outstanding Senior Lien Obligations, any Additional Senior Lien Obligations, the outstanding Junior Lien Obligations, any Additional Junior Lien Obligations, the Subordinate Lien Obligations, and any Inferior Lien Obligations, and to make all other payments prescribed in the Bond Ordinances.

CPS Energy has periodic rate increases, with the most recent electric and gas base rate increase of 4.25% approved by the Board on December 4, 2023 and approved by the City Council on December 7, 2023. The rate increase, which became effective February 1, 2024, covers the following investments: (1) infrastructure reliability and resiliency, including reinforcing CPS Energy's power plants, wires, and poles; (2) assessment of needs and design of a future technology platform to replace current end-of-life platform; (3) meet the substantial growth of the community by expansion of existing substations, construction of new substations, installing transformers and equipment, and upgrade or replace aging service districts; and (4) hiring and training of employees and employee retention, in preparation for continuous retirements. The rate increase is expected to generate an additional $85 million annually. For the average residential customer, the rate increase is expected to add $4.45 or 2.7% (includes base plus fuel and regulatory revenue) to the monthly bill. A 3.85% base rate increase was previously implemented on March 1, 2022 (the first such rate increase since a 4.25% electric and gas base rate increase became effective on February 1, 2014). In conjunction with the March 1, 2022 rate increase, costs associated with the severe winter storm that occurred between February 12, 2021 through February 19, 2021 throughout a majority of the continental United States, including Texas ("2021 Winter Weather Event") and recorded as part of the regulatory asset (the "Regulatory Asset"). The Regulatory Asset was approved by City Council on January 13, 2022 for the unrecovered costs of purchased natural gas and power, plus legal, interim financing, and other contractual charges, which began to be recovered on customer bills through the fuel cost adjustment. These costs, which under current estimates are not anticipated to exceed $1 billion in the aggregate, are expected to be amortized over a period of 25 years and recovered through fuel costs (taking into consideration, among other factors, affordability and monthly customer bill impact). When combined with the $1.26 or 0.8% (for paid 2021 Winter Weather Event costs of approximately $414 million) per month in the fuel adjustment portion of a customer's bill related to the regulatory asset, the total average bill increase was estimated to be $5.10 or 3.3% for the average electric and natural gas residential customer. CPS Energy expects it will continue to periodically seek electric and gas base rate increases as required to maintain debt service coverage, debt-to-equity, and liquidity ratios.

Year-after-year, CPS Energy's management team continually monitors and analyzes its cash and revenue positions. Within this process, CPS Energy assesses its projections for actual and anticipated costs and expenses. This information is also used to evaluate the scope and timing of potential requests for rate adjustments. When possible, the CPS Energy team shares this approach with the public to ensure there is general awareness that rate adjustments will be needed from time-to-time. As shared with the public, Board, and City, CPS Energy will be closely tracking budget results through the summer months of 2026 before deciding on whether to seek community support for a rate adjustment.

In addition to standard service rates, CPS Energy also provides several rates and riders for a variety of programs and products. Since May 2000, under Rider E15, CPS Energy has offered a monthly contract for renewable energy service (currently wind-generated electricity). The High Load Factor ("HLF") rate, first offered in February 2014, is available to customers with new or added load of 10 MW or greater. The HLF rate requires eligible customers to maintain an annual billing load factor of 90 percent or more and meet the requirements of Rider E16. Rider E16 offers discounts off the Super Large Power ("SLP") and HLF demand charge for a period up to four years for new or added load of at least 10 MW. Under certain conditions, the discount may be extended for up to an additional six years. Eligible customers that qualify for Rider E16 discounts must also meet City employment targets or other related performance metrics and targets for purchases of goods or services from local businesses. Rider E17, which became effective in September 2008, provides a discount on residential electric bills for customers with income at or below 125% of federal poverty guidelines, and meets at least one of several criteria, such as being at least 60 years old or having a disability. The current discount on the monthly bill is $13.48. The discount typically goes up when a base rate increase becomes effective. Rider G4 provides a similar discount for natural gas customers and is currently set at $4.88 per month. Since July 2012, under Rider E19, CPS Energy provides an optional service offering electricity generated by wind-powered turbines, solar-powered systems, or other renewable resources. Additionally, Rider E20, which became effective February 1, 2015, waives late fees for individuals 60 years or older with income at or below 125% of the federal poverty level. CPS Energy revised its "Rules and Regulations Applying to Retail Utility Service", effective March 1, 2019, which contains provisions for alternative payment plans, payment assistance, and extensions, and is now referred to as "CPS Energy Customer Terms and Conditions Applying to Retail Utility Service". The New Service Options ("NSO") tariff, effective October 2018, is an umbrella tariff that enables CPS Energy to offer new service options on a pilot basis, with oversight by the City's Office of Public Utilities. This tariff allows CPS Energy to provide innovative energy services while gauging customer interest and cost recovery requirements while gathering information to refine the offering. The Commercial Electric Vehicle Pilot Rate was the first offering under the NSO tariff. Several other pilots have been launched through this tariff since its inception, including offerings for public electric vehicle charging and resiliency service. The resiliency service pilot, designed to enhance reliability from natural gas generators, was successful and was approved as a full tariff in September of 2020.

CPS Energy also has rates that permit recovery of certain miscellaneous customer charges and for extending lines to provide gas and electric service to its customers. The Policy for Miscellaneous Customer Charges is approved periodically by the Board and is subject to a corresponding City ordinance.

In May 2009, the City Council established a mechanism to fund CPS Energy's Save for Tomorrow Energy Plan ("STEP"), an energy efficiency and conservation program to be funded largely through the electric fuel adjustment fee. See "CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein. The total cost of the STEP program during the 2009 to 2020 time period was approved at $849 million with annual costs ranging from $12.3 million to over $111 million. While approximately $11 million is currently recovered each year through existing base rates, the additional costs for the STEP program will be recovered through a STEP charge applied to the electric fuel adjustment as stated above. Through fiscal year ending on January 31, 2026, the accumulated cost for the STEP program was $1.097 billion. As of CPS Energy's fiscal year ending on January 31, 2026, CPS Energy quantified a cumulative reduction of 1,306 MW. Over the lifetime of STEP, the benefits of the program have exceeded the implementation costs to achieve energy savings.

As the STEP goal was achieved a year early, in January 2020, the Board and City Council voted to extend the existing STEP program. The extended program, known as "STEP Bridge", was approved to spend $70 million to reach a targeted, additional reduction of 75 MW. CPS Energy envisioned STEP Bridge delivering a diverse portfolio of programs to assist customers to save energy. Seeking feedback from a broad array of customers and key stakeholders, CPS Energy used the information that it gathered to update, design, and create programs and services that met the needs of its diverse set of customers. Due to the Pandemic and delays in achieving the STEP Bridge goals, CPS Energy sought and received City Council approval in January 2021 to extend the STEP Bridge program. The City Council authorized CPS Energy to expend up to an additional $70 million on energy efficiency and conservation programs to be completed by July 2022. On August 30, 2021, the Board requested staff to perform an analysis of the STEP program to determine whether to continue the program. The analysis was prepared by the Brattle Group and presented to the Board at its February 2022 meeting. On June 16, 2022, the City Council approved a plan for the new Sustainable Tomorrow Energy Plan (also known as "STEP") program to be funded as a $350 million initiative over the next five years. This average impact will continue to be $3.50 per month to a residential energy bill. The program goals include 410 MW of demand reduction, 1% energy savings per year, 16,000 weatherized homes, and 1.85 million tons of avoided carbon. For additional information on CPS Energy's STEP energy efficiency and conservation programs, and other strategic initiatives, see "COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein.

Customer Base, as of January 31, 2026[(1)(2)]

ELECTRIC			GAS		
	Number	Percent		Number	Percent
Residential	890,092	90.0 %	Residential	379,034	95.0 %
Commercial & Industrial	81,791	8.0 %	Commercial	17,287	4.0 %
All Night Security Lighting	11,448	1.0 %			
Street Lighting, Public Authorities & Other Utilities[(3)]	13,505	1.0 %	Industrial & Public Authorities[(3)]	2,841	1.0 %
Total	996,836	100 %	Total	399,162	100 %

(1) Certain numbers may not compute due to rounding.
(2) The data related to this table is updated quarterly.
(3) Also includes off-system sales customers.

PAST DUE ACCOUNTS

As of January 31, 2026, CPS Energy had approximately $115 million in past due customer accounts receivable. The past due amount is comprised of 36,000 inactive and 166,000 active accounts, owing $25 million and $90 million, respectively. The $115 million in past due accounts includes $46 million in installment plans, with an average length of 14 months, $25 million (36,000 customer accounts) in collections, and $44 million (107,000 customer accounts) at risk of disconnection. As of January 31, 2026, twenty-one percent (21%) of customer accounts were past-due, and among those approximately twenty-nine percent (29%) were managing their balances through installment plans. CPS Energy continues its efforts to actively take steps to support customers and implement collection actions to address accounts receivable.

GREEN TARIFF

CPS Energy continues to innovate to meet the emerging needs of its customers. On August 20, 2020, the City Council approved an optional "Green Tariff" for large commercial customers which offers access to renewable energy. This product option was created to facilitate large customers' goals of accelerating their access to renewable energy. Under this tariff, customers may ask CPS Energy to provide renewable energy from specific sources that meet their needs. The Green Tariff has three main components: a monthly grid share charge, a demand charge, and energy charges based on a renewable energy supply agreement. CPS Energy is also evaluating other optional product offerings that will enable customers to use renewable energy while still covering the full cost of service.

RESILIENCY TARIFF

In September 2020, CPS Energy converted a limited Resiliency Service pilot into a permanent tariff for its commercial customers. Under the Resiliency Service offering, CPS Energy or a third party will provide on-site backup generators capable of providing electricity to retail customers during outages of the electric system in exchange for a monthly Resiliency Service capacity fee. The natural gas backup generators are owned and operated by one of CPS Energy's suppliers. As of January 31, 2026, Resiliency Service had been enabled at 28 customer sites with a total capacity of 31.6 MW.

FUEL AND GAS COST ADJUSTMENT

The Systems' tariffs feature a fuel cost adjustment provision in the electric rates and a gas cost adjustment provision in the gas rates, which allow CPS Energy to reconcile fuel and gas cost variances above or below levels included in base rates. CPS Energy's electric rates are subject to a positive or negative monthly adjustment equal to the variance in the price of fuel above or below a base cost of $0.01416 per kilowatt-hour ("kWh"). Similarly, CPS Energy's base gas rates are subject to an adjustment equal to the variance in the price of natural gas above or below a base cost of $0.220 CCF, approximately equivalent to $2.167 per one million British Thermal Unit ("Btu"), a measure of energy content in fuel used in the power steam generation, and heating and air conditioning industries. Natural gas is usually measured in Btus. However, the foregoing is qualified by the 2021 Winter Weather Event, which may alter these costs.

GOVERNMENTALLY IMPOSED FEES, TAXES, OR PAYMENTS

The rates, as previously approved by various rate ordinances adopted by the City Council, may be adjusted without further action by the City Council to reflect the increase or decrease in fees, taxes, or other required payments to governmental entities or for governmental or municipal purposes which may be hereafter assessed, imposed, or otherwise required and which are payable out of or are based upon Net Revenues of the Systems.

In March 2000, two new governmental assessments resulting from regulatory changes in the Texas electric utility industry, including the open access wholesale transmission charges, were added to CPS Energy's electric billings as regulatory adjustments and are updated annually or as needed. The first assessment recovers additional ERCOT-related transmission expenditures not recovered through CPS Energy's current base rates. For CPS Energy residential customer rates, this adjustment (effective February 2025) adds $0.01340 per kWh sold. The second assessment relates to CPS Energy's share of the cost to fund the staffing and operation of ERCOT, the Independent System Operator ("ISO"), and the quarterly Electric Reliability Organization ("ERO") fee. The PUCT retains oversight authority over ERCOT. For all CPS Energy retail customers (effective February 2025), this charge increased bills by $0.00086 per kWh sold.

In March 2005, the RRCT began imposing a regulatory fee to cover the cost of regulation by the RRCT. The fee is based upon the number of active gas customers and is recovered from CPS Energy gas customers through the payment of an annual fee assessed one time during the year.

TRANSMISSION ACCESS AND RATE REGULATION

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), MOUs, including CPS Energy, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method, which sets the price for transmission at the system average for ERCOT. CPS Energy's wholesale open access transmission charges are set out in tariffs filed with the PUCT and are based on its transmission cost of service approved by the PUCT, representing CPS Energy's input to the statewide postage stamp pricing model. The PUCT's rule, consistent with provisions in PURA § 35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities to facilitate wholesale transmission service. Additional information on recovery of ERCOT transmission fees is discussed in "CUSTOMERS AND RATES – Customer Rates – Governmentally Imposed Fees, Taxes, or Payments" and transition to the nodal market is discussed in "DESCRIPTION OF FACILITIES – Electric System – Interconnected System" herein.

TEN-YEAR ELECTRIC CUSTOMER STATISTICS [(1)(2)]

Fiscal Year Ended January 31,[(3)]

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
RESIDENTIAL										
Average Monthly kWh/ Customer	1,119	1,117	1,122	1,111	1,119	1,059	1,153	1,110	1,081	1,079
Average Monthly Bill/ Customer	$ 120.25	$ 122.70	$ 124.14	$ 118.28	$ 119.04	$ 116.71	$ 141.18	$ 134.72	$ 132.78	$134.99
Average Monthly Revenue/kWh	$ 0.1075	$ 0.1098	$ 0.1106	$ 0.1065	$ 0.1063	$ 0.1102	$ 0.1224	$ 0.1214	$ 0.1228	$0.1251
COMMERCIAL AND INDUSTRIAL										
Average Monthly kWh/ Customer	11,049	10,967	10,874	10,810	10,048	10,293	10,932	11,323	11,565	1,982
Average Monthly Bill/ Customer	$ 978.60	$ 1,009.75	$ 1,003.04	$ 951.02	$ 908.91	$ 981.38	$ 1,166.17	$ 1,143.04	$ 1,148.36	$225.75
Average Monthly Revenue/kWh	$ 0.0886	$ 0.0921	$ 0.0922	$ 0.0880	$ 0.0905	$ 0.0953	$ 0.1067	$ 0.1009	$ 0.0993	$0.1139
ALL CUSTOMERS										
Average Monthly kWh/ Customer	2,326	2,299	2,284	2,251	2,158	2,096	2,238	2,204	2,192	2,187
Average Monthly Bill/ Customer	$ 221.98	$ 226.11	$ 226.20	$ 214.08	$ 209.09	$ 212.77	$ 253.48	$ 241.46	$ 239.22	$245.16
Average Monthly Revenue/kWh	$ 0.0954	$ 0.0983	$ 0.0990	$ 0.0951	$ 0.0969	$ 0.1015	$ 0.1133	$ 0.1096	$ 0.1091	$0.1121

[(1)] Excludes unbilled revenues and off-system sales.
[(2)] Numbers may not compute due to rounding.
[(3)] The data related to this table is updated annually as of January 31st.

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TEN-YEAR GAS CUSTOMER STATISTICS [1][2]

Fiscal Year Ended January 31,[3]

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
RESIDENTIAL										
Average Monthly MCF/ Customer	2	2	3	3	2	2	3	2	2	2
Average Monthly Bill/ Customer	$ 22.81	$ 23.86	$ 23.59	$ 20.55	$ 20.15	$ 23.36	$ 35.85	$ 27.78	$ 24.38	$ 29.86
Average Monthly Revenue/MCF	$ 10.2985	$ 10.1782	$ 8.9054	$ 7.8460	$ 8.2550	$ 9.8188	$ 13.8656	$ 12.1413	$ 11.7907	$ 14.0806
COMMERCIAL										
Average Monthly MCF/ Customer	49	49	53	55	48	52	55	56	54	53
Average Monthly Bill/ Customer	$ 294.04	$ 304.61	$ 269.58	$ 206.59	$ 227.92	$ 347.36	$ 614.33	$ 412.02	$ 347.40	$ 477.06
Average Monthly Revenue/MCF	$ 5.9732	$ 6.1779	$ 5.0714	$ 3.7454	$ 4.7392	$ 6.6912	$ 11.1604	$ 7.3565	$ 6.4037	$ 8.9178
ALL CUSTOMERS										
Average Monthly MCF/ Customer	5	6	6	6	6	6	6	6	5	5
Average Monthly Bill/ Customer	$ 40.68	$ 43.10	$ 40.25	$ 32.94	$ 34.59	$ 43.90	$ 72.50	$ 52.14	$ 43.54	$ 56.61
Average Monthly Revenue/MCF	$ 7.5618	$ 7.5895	$ 6.6121	$ 5.2299	$ 5.9401	$ 7.8199	$ 12.1431	$ 9.0098	$ 8.2822	$ 10.7497

[1] Excludes unbilled revenues and off-system sales.
[2] Numbers may not compute due to rounding.
[3] The data related to this table is updated annually as of January 31st.

HISTORICAL RECORD OF CITY OF SAN ANTONIO GENERAL FUND BENEFITS FROM CITY'S ELECTRIC AND GAS UTILITY SYSTEMS

(Dollars in thousands)

Fiscal Year Ended January 31,[3]

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Payments To City[1][2]	$ 324,469	$ 338,455	$ 361,351	$ 342,989	$ 330,564	$ 352,558	$ 438,528	$ 449,351	$ 456,360	$ 497,088

[1] Payments to the City, by ordinance, are not to exceed 14% of CPS Energy's gross revenue (includes wholesale revenues) and includes cash payments and refund of charges for furnishing the City electricity and gas services, and for a street light replacement program.
[2] Excludes additional payments to the City. See "CAPITAL PROGRAM" herein.
[3] The data related to this table is updated annually as of January 31st.

FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY

	Fiscal Year Ended January 31,[4][5]				
	2022	**2023**	**2024**	**2025**	**2026**
ELECTRIC SYSTEM					
SALES IN kWh[1]					
Residential	10,100,166,676	11,296,200,170	11,141,324,600	11,146,609,415	11,419,458,722
Commercial & Industrial	9,700,763,781	10,490,429,954	10,780,441,863	11,164,919,081	11,494,944,438
Street lighting	65,694,823	65,900,927	65,228,930	63,922,322	63,290,858
Public authorities	2,684,302,829	2,843,769,037	2,864,660,166	2,982,032,007	2,939,970,843
Other utilities[2]	6,874,115,210	4,703,420,290	6,535,669,950	11,765,126,599	16,611,929,154
ANSL[3]	18,566,941	18,286,666	17,992,114	17,632,175	17,411,549
Total sales in kWh	29,443,610,260	29,418,007,044	31,405,317,623	37,140,241,599	42,547,005,564
AVERAGE NUMBER OF CUSTOMERS					
Residential	794,899	816,163	836,435	859,250	881,899
Commercial & Industrial	78,540	79,966	79,340	80,451	81,520
Street lighting	2,655	2,861	2,952	3,042	3,108
Public authorities	7,439	7,637	7,869	8,079	8,220
Other utilities[2]	12	10	9	12	16
ANSL[3]	13,646	13,719	13,700	13,657	13,579
Total customers	897,191	920,356	940,305	964,491	988,342
kWh SALES PER CUSTOMER					
Residential	12,706	13,841	13,320	12,972	12,949
Commercial & Industrial	123,514	131,186	135,877	138,779	141,008
GAS SYSTEM					
SALES IN MCF[1]					
Residential	10,005,049	11,096,561	10,034,283	9,231,600	9,594,998
Commercial	10,793,246	11,473,026	11,674,291	11,281,077	11,117,102
Industrial	1,009,329	1,210,412	1,910,092	1,102,867	1,079,090
Public authorities	3,150,485	3,290,786	3,167,368	3,126,877	3,309,362
Total sales in MCF	24,958,109	27,070,785	26,786,034	24,742,421	25,100,552
AVERAGE NUMBER OF CUSTOMERS					
Residential	350,393	357,658	365,520	372,115	377,075
Commercial	17,326	17,369	17,370	17,329	17,318
Industrial	30	30	29	28	25
Public authorities	2,760	2,804	2,807	2,764	2,810
Total customers	370,509	377,861	385,726	392,236	397,228
MCF SALES PER CUSTOMER					
Residential	29	31	27	25	25
Commercial	623	661	672	651	642
Industrial	33,644	40,347	65,865	39,388	43,164

[1] Excludes unbilled revenues.
[2] Includes off-system sales.
[3] All Night Security Lighting.
[4] Numbers may not compute due to rounding.
[5] The data related to this table is updated annually as of January 31st.

FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE[1]

	Fiscal Year Ended January 31,[9]				
	2022	**2023**	**2024**	**2025**	**2026**
ELECTRIC SYSTEM					
BILLED REVENUES					
Residential	$ 1,113,300,881	$ 1,382,676,560	$ 1,352,256,246	$ 1,369,084,365	$ 1,428,536,493
Commercial & Industrial	924,935,424	1,119,043,616	1,088,266,374	1,108,642,804	1,181,319,580
Street lighting	17,280,260	18,553,315	18,534,328	19,265,766	19,641,943
Public authorities	229,381,492	272,977,031	259,225,595	265,278,607	271,542,196
Other utilities[2]	216,872,471	239,066,816	380,981,634	565,424,648	804,615,549
ANSL[3]	5,873,985	6,268,779	6,206,888	6,442,454	6,493,588
Other	21,278,198	26,310,311	31,380,012	29,485,072	51,660,707
Total revenues	$ 2,528,922,711	$ 3,064,896,428	$ 3,136,851,077	$ 3,363,623,716	$ 3,763,810,056
OPERATION & MAINTENANCE EXPENSE					
Production	$ 1,144,465,210	$ 1,462,914,926	$ 1,226,991,052	$ 1,377,588,041	$ 1,804,221,423
Transmission	18,170,779	22,801,389	24,301,534	27,291,704	28,735,201
Distribution	107,182,854	127,529,949	151,088,276	168,738,385	204,007,520
Regulatory assessments	79,468,880	99,947,713	99,827,746	112,707,584	112,707,584
Energy efficiency	67,148,014	56,787,062	54,746,266	57,094,230	47,085,045
Customer accounts & information	21,873,797	26,714,517	31,269,087	35,048,340	35,334,396
Administrative & general	128,520,655	137,080,304	140,163,926	156,314,176	180,291,916
Payroll taxes[4]	6,925,500	6,746,474	7,897,078	8,802,991	9,685,913
Total expenses	$ 1,573,755,689	$ 1,940,522,334	$ 1,736,284,965	$ 1,943,585,451	$ 2,422,068,998
Operating income - electric	$ 955,167,022	$ 1,124,374,094	$ 1,400,566,112	$ 1,420,038,265	$ 1,341,741,058
GAS SYSTEM					
BILLED REVENUES					
Residential	$ 98,237,598	$ 153,860,106	$ 121,829,057	$ 108,847,104	$ 135,102,986
Commercial & Industrial	78,221,757	141,069,015	98,165,371	78,353,360	107,480,099
Public authorities	18,710,961	33,794,610	21,342,920	17,721,042	27,239,784
Other	2,928,389	3,278,647	3,317,308	3,588,069	3,337,992
Total revenues	$ 198,098,705	$ 332,002,378	$ 244,654,656	$ 208,509,575	$ 273,160,861
OPERATION & MAINTENANCE EXPENSE					
Gas purchased	$ 115,380,880	$ 203,657,703	$ 109,693,700	$ 91,113,418	$ 153,627,159
Distribution	34,385,725	38,486,791	44,525,799	46,374,695	54,312,665
Customer accounts & information	10,389,629	12,689,804	14,842,397	16,695,812	16,907,226
Administrative & general	8,404,528	10,385,905	10,560,590	11,995,664	13,929,354
Payroll taxes[4]	381,045	410,116	537,066	631,814	673,345
Total expenses	$ 168,941,807	$ 265,630,319	$ 180,159,552	$ 166,811,403	$ 239,449,749
Operating income - gas	29,156,898	66,372,059	64,495,104	41,698,172	33,711,112
Combined operating income - Electric and gas	984,323,920	1,190,746,153	1,465,061,216	1,461,736,437	1,375,452,170
Nonoperating income[5]	27,953,413	72,678,847	61,373,580	71,436,266	69,698,532
Net revenues[6]	$ 1,012,277,333	$ 1,263,425,000	$ 1,526,434,796	$ 1,533,172,703	$ 1,445,150,702
DEBT SERVICE[7]					
Senior lien obligations - Principal and interest	$ 331,844,436	$ 349,887,061	$ 366,255,183	$ 422,215,875	$ 444,298,170
Junior lien obligations - Principal and interest	60,198,470	77,547,591	77,916,630	72,508,055	79,029,698
Other interest & debt-related costs	3,685,672	6,269,556	15,924,110	9,946,750	15,929,221
Total debt service	$ 395,728,578	$ 433,704,208	$ 460,095,923	$ 504,670,680	$ 539,257,089
DEBT SERVICE COVERAGE					
Senior & junior lien obligations, commercial paper, inferior lien[8]	2.56x	2.91x	3.32x	3.04x	2.68x
Senior lien obligations[8]	3.05x	3.61x	4.17x	3.63x	3.25x

[1] Excludes unbilled revenue and component units (STP Decommissioning).

[2] The increased wholesale revenues in FY2022 and FY2023 were primarily a result of increased market opportunities. The increased wholesale revenues in FY2024, FY2025, and FY2026 were primarily a result of increased generating capacity.

[3] All Night Security Lighting.

[4] Payroll taxes are allocated separately to Production, Transmission and Distribution.

[5] Excludes fair value adjustments and gain/loss from ineffective hedging transactions.

[6] Per Bond Ordinances.

[7] Amount shown is gross debt service and does not include any cash contributions made.

[8] Numbers may not compute due to rounding.

[9] The data related to this table is updated annually as of January 31st.

FINANCIAL MANAGEMENT OF THE SYSTEMS

MANAGEMENT DISCUSSION

CPS Energy's Basic Financial Statements and Independent Auditor's Report for the most recent fiscal year, as adopted by the Board and posted to the EMMA website (the "Basic Financial Statements") in satisfaction of CPS Energy's continuing disclosure obligations made with respect to its Outstanding Senior Lien Obligations and Outstanding Junior Lien Obligations, respectively (associated with CUSIP numbers 796253, 79625G and 796300), are hereby incorporated by reference into and made a part of this San Antonio Electric and Gas Systems, Management, and Operations Quarterly Update (the "Quarterly Update") as if set forth herein. CPS Energy prepares the Basic Financial Statements that include an unaudited Management's Discussion and Analysis ("MD&A") in connection with audited Basic Financial Statements and Related Notes as well as unaudited Required Supplementary Information ("RSI") of CPS Energy in accordance with generally accepted accounting principles ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). The audited Basic Financial Statements for each of the three most recently completed fiscal years and certain interim unaudited financial reports are made available by CPS Energy to the public and are accessible at www.cpsenergy.com. The terms "audited financial reports", "audited financial statements", "financial reports", and "financial reporting" herein are in reference to the audited and unaudited components of the financial package prepared in accordance with GAAP and GASB standards and provided in whole or in part within the Basic Financial Statements for the fiscal year ended January 31, 2026. The audited Basic Financial Statements for each fiscal year will be posted to EMMA by July 31, of the same year, in satisfaction of CPS Energy's continuing disclosure obligations as described above. See "INDEPENDENT AUDITORS" herein.

Certain historical financial information presented in this Quarterly Update in table format was derived from CPS Energy's annual audited financial reports, though the presentation format itself was not separately audited. Where indicated, certain information presented herein is unaudited. The operating results of the Systems reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and other operating costs, utility industry regulation and deregulation, environmental regulation, economic growth of the community, population, weather, and other matters; the nature and effect of which cannot at present be determined. See "FORWARD-LOOKING STATEMENTS AND INFORMATION AVAILABLE FROM ONLINE SOURCES" herein.

ACCOUNTING POLICIES

CPS Energy is subject to and complies with the provisions of GASB pronouncements and guidance made from time to time, upon assessment of applicability to and implementation by CPS Energy. GASB pronouncements and guidance to which CPS Energy adheres, and implements are described in its audited financial statements. For a description of recent GASB pronouncements and guidance, as well as CPS Energy's response thereto in connection with each fiscal year financial reporting, see the Basic Financial Statements.

Other than the changes resulting from GASB pronouncements and guidance that are described in the Basic Financial Statements for the fiscal year ended January 31, 2026, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ended January 31, 2026. Accounting and reporting changes that occurred during the reporting year related to implementation of GASB pronouncements and implementation were reflected in the fiscal year ending January 31, 2026. These accounting changes and the effects on the financial statements are described in greater detail in the MD&A and in the Notes to the Basic Financial Statements for fiscal year ended January 31, 2026.

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DEBT AND ASSET MANAGEMENT PROGRAM

CPS Energy has developed a debt and asset management program ("Debt Management Program") for the purposes of lowering the debt component of energy costs, maximizing the effective use of cash and cash equivalent assets and enhancing financial flexibility. An important part of the Debt Management Program is balancing the mix of financing tools available through the prudent employment of variable rate debt. CPS Energy does not currently use interest rate swaps but continues to assess them as potential debt management tools that could be incorporated into the CPS Energy debt portfolio in the future. The Debt Management Program also focuses on the use of unencumbered cash and available cash flow, when available, to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to lower interest costs, fund strategic initiatives and increase net cash flow. CPS Energy has a Debt Management Policy, providing guidelines under which financing, and debt transactions are managed. These guidelines focus on financial options intended to lower debt service costs on outstanding debt, including exercising options to refund higher interest debt, facilitate alternative financing methods to capitalize on the present market conditions, optimize capital structure, and maintain favorable financial ratios. Under these guidelines, CPS Energy's gross variable rate debt exposure will not exceed 25.0% of total outstanding debt, except when strategically necessary. CPS Energy's total variable rate debt is comprised of approximately 16.74% of its debt portfolio, as of January 31, 2026.

CPS Energy management continually evaluates the inventory of all non-core business assets and determines if these assets should be divested for more efficient use.

CONTINUING DISCLOSURE OF INFORMATION; DEBT COMPLIANCE

CPS Energy has established policies and procedures to ensure compliance with certain of its continuing disclosure undertakings under 17 CFR 240.15c2-12, entered into with respect to its outstanding debt obligations. Specifically, since 2019, each approved bond ordinance includes these policies and procedures as an exhibit. The CFO is the named individual in the policies and procedures bearing the responsibility of satisfying the City's obligations for its continuing disclosure undertakings through adherence to CPS Energy's policies and procedures. The primary area of responsibility for ensuring compliance with the required continuing disclosure undertakings is the Debt Management team. During the last five years, all required annual filings have been made on or before their due date.

CPS Energy is currently in compliance with all covenants and agreements related to its outstanding debt obligations.

In the last five years, CPS Energy has not defaulted in the payment or non-payment on any of its indebtedness or other contractual obligations.

FINANCIAL RESPONSIBILITY AND INTERNAL AND EXTERNAL REPORTING

CPS Energy management is responsible for designing and implementing an effective internal control environment that manifests in internal and external reporting for various purposes, including offering documents relating to capital markets debt issuances and related disclosure filings. This environment includes the policies, procedures, practices, technology, and organizational structures that help CPS Energy achieve its operational objectives, reliable financial reporting, and compliance with laws, regulations and policies (including determination of materiality of operational events for purposes of market disclosure). From time-to-time, this process results in the identification of deficiencies in procedural controls and opportunities for improvement and or enhancement of the control environment. The reporting construct reflects the values of CPS Energy and plays an important role in detecting, preventing, and (when circumstances warrant), mitigating the impacts of internal and external fraud. When deficiencies or malfeasance are identified, CPS Energy management follows an established internal process that includes prompt action to correct the issue and implement any necessary system improvements to address an identified deficiency. This evolving process allows CPS Energy staff to remain vigilant, continuously learning from experience and strengthening the internal control environment that targets protection of CPS Energy's assets and its operations.

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CAPITAL PROGRAM

Comprehensive programs for planning and construction to meet current and future electric and gas systems needs are continually being reviewed and updated and are aligned with the strategic plan. CPS Energy utilizes computer-based mathematical models for its forecasting processes. CPS Energy bases its near-term construction and operating needs on a five-year forecast. This short-term annual forecast is supported by a 25-year electric resource plan and is integrated into the long-term financial plan. These assumptions are subject to substantial change and are revised as necessary to serve CPS Energy's customers.

While energy efficiency and conservation are expected to reduce usage through STEP, positive customer growth is still expected. CPS Energy expects to see continued growth of its customer base for the Systems due to projected population growth in the San Antonio area. Over the 25-year horizon, the electric peak and electric sales compound annual growth rates are projected to be approximately 2.9% and 3.3% respectively, and the gas sales growth rate is projected to be about 1.1%. CPS Energy has continued to expand its electric customer extensions, with ongoing construction growth in this area. The capital projects are funded with transfers from internally generated funds, debt proceeds, and other sources.

A capital improvement plan is reviewed annually for planning purposes and may identify projects that may be deferred or omitted entirely in future years or financed with Special Facilities Bonds (as defined in the Bond Ordinances) and excluded from the Systems. In addition, the proposed funding sources for the plan may be modified to meet changing conditions. Likewise, as conditions change, new projects may be added that are not currently identified. CPS Energy continually monitors and updates the capital improvement plan with estimates of expenditures necessary to meet proposed and probable new environmental regulations and regulatory standards. CPS Energy's five-year capital improvement plan, including the fiscal year ending 2027 which is expected to be approved on March 30, 2026, is forecasted to be approximately $6.2 billion from February 1, 2026 to January 31, 2031.

A significant portion of the capital improvement plan will be investments required to meet the expected customer growth within CPS Energy's service area and to keep up with the refreshing and modernization of an aging infrastructure. Construction projects include facilities growth for electric transmission, electric generation, electric distribution, general properties, and gas facilities. A continued focused investment in reliability and resiliency and efforts to improve CPS Energy's operational resiliency, controls, and communication in emergency situations remains at the forefront of the capital improvement plan. Additional projects include those to maintain regulatory standards and additional investments for civic improvements.

As part of its capital improvement plan, CPS Energy utilizes debt issuances to partially fund construction projects and facility improvements to support expected customer growth.

Over the five-year period covered by the capital improvement plan, construction funding from debt proceeds is expected to average approximately $650 million per year.

BUDGET PROCESS

The Board is vested with the authority to expend and apply revenues of the Systems as further set forth in the Bond Ordinances, and pursuant to this authority, the Board maintains governance procedures regarding oversight and annual approval of the budget. Each year, CPS Energy's management team continually monitors and analyzes its cash and revenue positions. Within this process, CPS Energy assesses its projections for actual and anticipated costs and expenses. This information is used to prepare an annual capital and non-fuel operations and maintenance budget for the Systems. This information is also used to evaluate the scope and timing of potential requests for rate adjustments. CPS Energy's management team prepares and presents an annual capital and non-fuel operations and maintenance budget to serve as a tool in administering the management and operation of the Systems. The fiscal year 2027 capital and non-fuel operations and maintenance budget is expected to be presented to the Board and is expected to be approved on March 30, 2026. The capital budget for fiscal year 2027 is forecasted to be approximately $1,664 million. The fiscal year ending 2027 budget is expected to include $70 million for capital transmission projects that will be part of a future special facilities credit to be authorized and approved by the Board during the 2027 fiscal year. The non-fuel operations and maintenance budget for fiscal year 2027 is forecasted to be approximately $1,164 million.

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FISCAL YEAR PERFORMANCE THROUGH JANUARY 31, 2026

The following is a summary of the FY2026 year-to-date ("YTD") financial performance results (actual versus FY2026 plan (the "Plan")).

Total operating revenues were $4,116.0 million compared to $4,473.5 million included in the Plan, or $357.5 million below the Plan. Wholesale revenues net of fuel were below the Plan by $32.9 million. Fuel and regulatory expenses totaled $1,701.6 million compared to $2,000.8 million in the Plan, or $299.2 million under the Plan. Operation and maintenance expenses totaled $1,058.8 million compared to $982.2 million in the Plan, or $76.6 million over the Plan. Revenue net of operating expenses totaled $1,355.6 million compared to $1,490.5 million in the Plan, or $134.9 million under the Plan. Operation and maintenance expenses were over the Plan due to unplanned outages, emergency work and storms, streetlight maintenance and higher gas leak expenditures.

Debt service totaled $560.9 million compared to $543.5 million in the Plan, or $17.4 million over the Plan. The City payment totaled $497.1 million compared to $498.2 million in the Plan, or $1.1 million under the Plan. Total repair and replacement fund additions were $297.6 million compared to $448.8 million in the Plan, or $151.2 million under the Plan.

Total gross capital was $2,715.1 million compared to $1,500.7 million set forth in the Plan, or $1,214.4 million over the Plan due to the strategic acquisition of 4 natural gas-fired power plants (34 units total) in Harris, Brazoria, and Galveston counties which closed on September 24, 2025.

INSURANCE PROGRAM

CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major financial risks. The property insurance program provides $1.5 billion of replacement value for property and boiler, machinery loss coverage including comprehensive automobile coverage, damage related to wildfires, fire damage coverage for construction equipment, and valuable papers coverage.

The deductible levels for the property insurance policy are $5.0 million per occurrence for power plants, $2.5 million per occurrence for substations and $1.0 million per occurrence for all other property locations. The liability insurance program includes (1) excess liability coverage with a $110.0 million policy limit at a $3.0 million self-insured retention, and (2) excess workers compensation coverage with a $35.0 million policy limit at a $3.0 million self-insured retention. Other property and liability insurance coverages include directors and officers' liability, cyber insurance, employment practices liability, fiduciary liability, employee travel, event insurance, and commercial crime. CPS Energy also maintains insurance reserves, which as of January 31, 2026, totaled $29.5 million to cover losses under the self-insurance portion of the insurance program.

CPS Energy and the other participants in STP1 (defined herein) and STP2 (defined herein), as further defined herein, maintain the Nuclear Regulatory Commission ("NRC") required nuclear liability, worker liability, and property insurance, each of which includes provisions for retrospective assessments depending on occurrences at STP1 and STP2 and other commercial nuclear plants. CPS Energy is liable for 40% of the premiums and any retrospective assessments with respect to STP1 and STP2 insurance, and for costs of decontamination and repairs or replacement of damaged property in excess of policy limits.

ENTERPRISE RISK MANAGEMENT AND SOLUTIONS

The Enterprise Risk Management and Solutions ("ERMS") Division is under the direction of the Chief Strategy Officer and is responsible for enterprise risk assessments, integrated planning and performance benchmarking, internal controls program and commodity related middle office activities. As part of these responsibilities, each business day ERMS monitors counterparty credit related exposure.

In 2002, as part of its risk management and fuel and electricity purchasing policies, CPS Energy obtained the ability to hedge or mitigate price volatility associated with fuel and energy sales and purchases through the utilization of energy-based futures, options and swap contracts. The hedge program is operated in accordance with a written policy approved annually by the Board. The program oversight committee, composed of CPS Energy corporate officers and senior executives, approves operating procedures and corporate hedging strategies.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. Title VII of the Dodd-Frank Act, known as the "Wall Street Transparency and Accountability Act of 2010", substantially modified portions of the Commodity Exchange Act with respect to swaps and swap transactions. The law was designed to reduce systemic risk, establish new business conduct rules, increase transparency, and promote market integrity within the financial system. The Dodd-Frank Act gave both the Commodity Futures Trading Commission ("CFTC") and the SEC statutory authority to directly regulate the "Over the Counter" ("OTC") derivatives market, which include commodities currently being utilized by CPS Energy to hedge price risk in accordance with its own policies and procedures. CPS Energy operations are principally affected by the regulations promulgated under the Dodd-Frank Act by the CFTC. Development of regulations implementing the legislation has progressed, but the overall impact on CPS Energy remains uncertain pending completion of certain CFTC rulemakings. Exemptions intended to minimize the regulatory burden on commercial end-users and governmental entities have pared back obligations initially bearing upon CPS Energy. Certain CFTC rules and policy statements made necessary the modification of CPS Energy's contract arrangements with hedging counterparties, bringing in various representations, elections and commitments as to reporting obligations and other matters, and must be covered in new relationships. Similarly, filings with government authorities, relationships with third party services providers, and additional internal controls and responsibilities have been made necessary. On May 24, 2018, the U.S. President signed into law the Economic Growth, Regulatory Relief and Consumer Protection Act, which is designed to roll back or eliminate key parts of the Dodd-Frank Act and would provide smaller banking institutions with relief from the strenuous requirements originally imposed in 2010. On October 31, 2018, the Federal Reserve unveiled its plan for significantly paring back rules for regional and community banks, in direct response to the U.S. Congress' ("Congress") May 2018 legislation. CPS Energy continues to monitor the status of the Dodd-Frank Act, and any possible revisions and the effect thereof in order to remain compliant with current law.

As an "end user", CPS Energy would be exempt under currently proposed CFTC rules mandating clearing and margining of certain market participants' OTC commodity positions. The CFTC proposed rules as to "capital requirements" and financial condition reporting do not impose direct burdens on "end-user" market participants such as CPS Energy. If CPS Energy were made subject to onerous capital requirements, the organization's ability to hedge its portfolio could be impacted. Implementation of the Volcker rule, which restricts United States banks from making certain kinds of speculative investments that do not benefit customers, could affect liquidity in markets in which CPS Energy currently operates. CPS Energy takes part in the efforts of its trade organizations within CFTC rule-making processes to shape rules so that they allow commercial end-users and MOUs to avoid undue burdens when hedging their commercial risks. Out of those efforts, CPS Energy currently benefits from an exemption applying to certain non-financial energy transactions between government- and/or cooperative-owned electric utilities.

INVESTMENTS

Operating Funds

CPS Energy invests its operating funds as authorized by the Bond Ordinances and by federal and State law including, but not limited to, the Public Funds Investment Act, as amended, Texas Government Code Chapter 2256 ("Investment Act"), Texas Local Government Code Chapter 272, as amended, and in accordance with written investment policies approved by the Board. These Bond Ordinances, laws, and CPS Energy's investment policies are subject to change.

Under updated investment policies approved by the Board on November 17, 2025 and effective as of January 31, 2026, CPS Energy may invest its funds in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations, having a stated final maturity of 10 years or less, directly issued and guaranteed by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States or their agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated not less than "A" category or its equivalent; (6) interest-bearing banking deposits that are guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor; (7) interest-bearing banking deposits as described by Section 2256.009(a)(8) of the Investment Act; (8) a certificate of deposit ("CDs") or share certificate issued by a depository institution or a broker that has its main office or branch in the State of Texas, which is fully secured and/or federally insured; (9) securities lending programs that are 100-102% collateralized; (10) fully collateralized repurchase agreements; (11) certain bankers' acceptances; (12) commercial paper rated not less than "A-1" or "P-1" or equivalent by at least two nationally recognized credit rating agencies and that have a stated maturity of 365 days or fewer from the date of issuance; (13) no-load money market mutual funds that comply with Rule 2a-7; (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years; and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) certain guaranteed investment contracts that are funded by bond proceeds if authorized in the order, ordinance, or resolution authorizing the

issuance of the bonds; (16) investment pools that stabilize at a $1 NAV to the extent reasonably possible and are rated no lower than "AAA" or "AAA-m" or equivalent and meet all other requirements as stipulated in Section 2256.016 of the Investment Act; (17) in connection with a transaction authorized by Section 272.004 of the Texas Local Government Code, one or more of the investments, securities, guarantees, and/or insurance contracts or other contracts and agreements described in Section 452.108(d) of the Texas Transportation Code, including, but not limited to the following: payment agreements, financial guarantees or insurance contracts with counterparties having either a corporate credit or debt rating in any form, a claims-paying ability, or a rating for financial strength of "AA" or better; and (18) for the General Account only, hedging instruments authorized by Section 2256.0201 of the Investment Act and in accordance with CPS Energy's Energy Price Risk Management Policy for the purpose of managing risks of financial uncertainty or loss associated with adverse volatility in the pricing of CPS Energy's energy and fuel assets, to include energy based futures contracts, option contracts, swap contracts, insurance contracts, and structured contracts composed of combinations of hedging instruments.

CPS Energy is specifically prohibited from investing its funds in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (4) collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the change in the market index.

The weighted term to maturity of investments on January 31, 2026, was 0.59 years for CPS Energy's funds. CPS Energy's funds, as of January 31, 2026, were invested entirely in government agency obligations, collateralized mortgage obligations directly issued by and guaranteed by a federal agency, U.S. Treasury securities, money market mutual funds, investment pools, high quality municipal bonds, and Investment Act-compliant money market deposit funds. The market value of the investments held as of January 31, 2026, totaled approximately $1.415 billion. Based on market value, 74% of the portfolio was invested in money market mutual funds/investment pools, 19% in United States government agency obligations, 1% in collateralized mortgage obligations and other pass-through securities whose principal and interest are backed by Federal Agencies, 5% in high-quality municipal bonds, and 1% in U.S. Treasury securities. CPS Energy determines the market value of non-cash investments primarily through Interactive Data Corporation, a reputable third-party data provider, as well as by reference to Bloomberg's financial terminal, published quotations and other comparable information. No CPS Energy funds are invested currently in reverse repurchase agreements or derivative securities, securities whose rate of return is determined by reference to some other instrument, index, or commodity, except for certain natural gas options held under the Energy Price Risk Management Policy. See "RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – Wholesale Power", "MANAGEMENT OF THE SYSTEMS – Enterprise Risk Management and Solutions" and "DESCRIPTION OF FACILITIES – Electric System – Fuel Supply" herein.

Investment Policies

Under the Investment Act, CPS Energy is required to invest its funds in accordance with written investment policies that (1) primarily emphasize safety of principal and liquidity; (2) address investment diversification, yield, maturity, and the quality and capability of investment management; (3) include a list of authorized investments for CPS Energy funds and the maximum allowable stated maturity of any individual investment; (4) state the maximum dollar-weighted average maturity allowed for pool fund groups; (5) contain the methods to monitor the market price of investments acquired with public funds; (6) require the settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and (7) monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021 of the Investment Act. All CPS Energy funds must be invested consistently with formally adopted written investment strategies that specifically address each fund's investment. Each strategy describes its objectives concerning (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield. Under the Investment Act, CPS Energy investments under all investment policies must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived". CPS Energy is in compliance with the Investment Act requirements, including necessary training, yearly review of CPS Energy's investment policy, and approval of investment reports.

CPS Energy's general investment strategy is to: understand the suitability of investments to the financial requirements of CPS Energy; ensure preservation/safety of principal as well as liquidity; consider marketability of investments if the need arises to liquidate the investments before maturity; and diversify the portfolio, select maturities matching projected cash requirements and invest at market yield. It is a general CPS Energy practice to purchase securities rated "AA-" or higher (or equivalent rating) by nationally recognized credit rating agencies. As of the date of the filing of this Quarterly Update, CPS Energy does not currently hold any investment positions that are expected to result in material losses.

Consistent with the requirements of the NRC, Texas Property Code, the Investment Act, and as applicable, the PUCT, the STP Decommissioning Trust and the Master Trust (TCC Funded) ("TCC", as defined herein) will be invested consistent with the following objectives: (1) the funds will be invested with the objective of earning a reasonable return commensurate with the need to preserve the value of the assets; (2) the portfolio of securities will be diversified to the extent reasonably feasible given the size of the trust; (3) the asset allocation will take into consideration the acceptable risk level of the portfolio, the current and expected market conditions, the time horizon remaining before the commencement and completion of decommissioning, and the funded status of the trust; (4) while maintaining an acceptable risk level, the investment emphasis when the remaining life of the liability exceeds five years will be to maximize net long-term earnings and the investment emphasis in the remaining investment period of the trust will be on current income and asset preservation; and (5) in selecting investments, the impact of the investment on the portfolio's volatility and expected return net of fees will be considered.

Additional Provisions

Under the Investment Act for the Operating Funds, STP Decommissioning Trust and the Master Trust (TCC Funded), CPS Energy must: (1) review annually and, if desired, change its adopted written investment policies and strategies; (2) designate investment officers to be responsible for investment of its funds consistent with the investment policies of CPS Energy; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms seeking to sell securities to CPS Energy to (a) receive and review the CPS Energy investment policies; (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions not authorized by the CPS Energy investment policies; and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the CPS Energy investment policies; (6) provide specific investment training for CPS Energy's investment officers; and (7) review, revise, and adopt on an annual basis a list of qualified brokers that are authorized to engage in investment transactions with CPS Energy. See "Trust Funds" below.

For the STP Decommissioning Trust and the Master Trust (TCC Funded), CPS Energy is prohibited from being engaged as investment manager for the funds or from giving day-to-day management direction of the funds' investments. Therefore, the use of one or more professional investment managers is necessary to ensure that the trusts are managed in a manner so that the funds are secure and earn a reasonable return. CPS Energy has the following duties concerning the use of one or more investment managers: (1) a duty to determine whether the investment manager's fees for investment management services is reasonable, when compared to other such managers; (2) a duty to investigate and determine whether the past performance of the investment manager in managing investments has been reasonable; (3) a duty to investigate and determine whether the financial stability and strength of the investment manager is adequate for purposes of liability; (4) a duty to investigate and determine whether the investment manager has complied with the investment management agreement; and (5) a duty to investigate any other factors which may bear on whether the investment manager is suitable.

Trust Funds

STP Decommissioning Funds

CPS Energy invests in two specific decommissioning trusts, the STP Decommissioning Trust and the Master Trust (TCC Funded), in accordance with its decommissioning trust investment policy and as authorized by Texas law, the NRC and, where applicable, the PUCT. The STP Decommissioning Trust is the sinking fund created by CPS Energy for the sole purpose of financing the decommissioning expenses for its original 28% interest in STP. CPS Energy obtained the Master Trust (TCC Funded) after it purchased from AEP Texas Central Company ("TCC") its additional 12% interest in STP. As part of the acquisition of the additional interest in STP, CPS Energy obtained a proportionate amount of the nuclear decommissioning trust fund originally created by TCC. Responsibility for continuous funding of the Master Trust (TCC Funded) will remain the responsibility of TCC customers through final decommissioning of STP. At acquisition by CPS Energy of the additional interest in STP from TCC, the funds were transferred to CPS Energy by TCC and placed into the Master Trust (TCC Funded), which is entirely separate from the existing decommissioning trust fund held in the STP Decommissioning Trust created and maintained by CPS Energy for its original interest in STP. See "DESCRIPTION OF FACILITIES – Electric System – External Events Impacting Nuclear Power Generation Industry and STP1 and STP2, and CPS Energy's Response" herein for further discussion of CPS Energy's acquisition of the 12% interest in STP from TCC. CPS Energy's investments in the STP Decommissioning Trust and in the Master Trust (TCC Funded) are held by an independent trustee and are invested pursuant to a separate investment policy adopted by the Board and pursuant to the provisions of the trust agreements of each trust.

Effective September 1, 2005, the Investment Act was amended to allow a Texas municipality which owns a municipal electric utility to invest its decommissioning trust funds in any investment authorized by Subtitle B, Title 9 of the Texas Property Code. The broad investment authority found in the Texas Property Code includes, but is not limited to, the power to invest in equities.

STP Decommissioning Trust

Under the Texas Property Code, other applicable law and the South Texas Project Decommissioning Trust Investment Policy ("STP Investment Policy") approved by the Board, the STP Decommissioning Trust may be invested as follows: (1) funds may be invested in investments permissible by law under the guidance and regulations issued by the NRC and under the Texas Property Code; (2) funds should be diversified such that (a) no more than 5% of the securities held are issued by one entity, with the exception of the federal government, its agencies and instrumentalities, and (b) the portfolio shall contain at least 20 different issues of securities with municipal securities and real estate investment trusts diversified as to geographic region; (3) derivative securities are limited to those whose purpose is to enhance returns of the STP Decommissioning Trust without a corresponding increase in risk of the portfolio; (4) securities lending transactions must be collateralized at 100–102%; (5) fixed income securities may not be rated below "BBB-" by S&P and Fitch, or "Baa3" by Moody's at the time of purchase, and the overall fixed income portfolio must be rated no less than "A" by S&P and Fitch and "A2" by Moody's; (6) equity securities are permissible investments (a) limited to a cap of (i) 60% when the weighted average remaining life of the decommissioning liability exceeds 5 years, (ii) 30% when the weighted average remaining life of decommissioning liability ranges between 5 years and 2.5 years and during all years in which expenditures for decommissioning the nuclear units occur, and (iii) 0% when the weighted average remaining life of the decommissioning liability is less than 2.5 years, and (b) when the equities are of a type not considered to be speculative; (7) no load commingled funds of the United States, including investments in commingled real estate limited partnerships or funds; and (8) commingled funds that include United States equity-indexed funds, actively managed United States equity funds, balanced funds, bond funds, real estate investment trusts, and international funds are permissible investments, if the commingled funds are consistent with the goals stated in the STP Investment Policy. Commingled funds (a) may be focused on specific market sectors or concentrated in a few holdings only as necessary to balance the trust's overall investment portfolio mix, and (b) may contain some below investment grade bonds; but the overall portfolio of debt instruments shall have a quality level, measured quarterly, not below an "A" rating by S&P and Fitch, respectively, and "A2" by Moody's.

The STP Decommissioning Trust is specifically prohibited (1) from investing in derivatives if being used to increase the value of the portfolio by any amount greater than the value of the underlying securities; (2) from the use of leverage (borrowing) to purchase securities or the purchase of securities on margin; (3) from investing in corporate or municipal debt securities that have a bond rating below investment grade (below "BBB-" by S&P and Fitch or "Baa3" by Moody's) at the time that the securities are purchased and the appropriateness of continuing to hold a particular debt security must be reexamined if the debt rating of the company in question falls below investment grade after the debt security has been purchased; and (4) from investing in equity securities that are considered speculative (e.g., stocks of companies with limited operating history or that have low "safety" rankings from ratings agencies).

Investments in the STP Decommissioning Trust as of December 31, 2025[(1)], consisted of fixed income securities, equity securities, Real Estate Investment Trusts of the United States ("US REITs") and cash equivalents. The market value of cash, cash equivalents and investments (including accrued interest) held as of December 31, 2025, totaled approximately $622 million and was comprised of fixed income securities totaling approximately $337 million, equity securities (domestic and international) having a market value of approximately $246 million, US REITs in the amount of approximately $23 million, and the remaining $16 million being invested in cash and cash equivalents. Based upon market values, 66% of fixed income securities were invested in United States Government and Government Agency obligations, 26% were invested in corporate bonds and municipal bonds, 3% were invested in foreign bonds and other, and 5% was invested in cash and cash equivalents, such as money market funds.

(1) Data related to the investments in the STP Decommissioning Trust is updated on a calendar quarterly basis.

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Master Trust (TCC Funded)

Under applicable law, including NRC and PUCT regulations, and the STP Investment Policy, the Master Trust (TCC Funded), may be invested as follows: (1) funds may be invested in investments permissible by law under the guidance and regulations issued by the NRC and under the Texas Property Code; (2) funds are diversified such that (a) no more than 5% of the securities held are issued by one entity, with the exception of the federal government, its agencies and instrumentalities, and (b) the portfolio shall contain at least 20 different issues of securities with municipal securities and real estate investments diversified as to geographic region; (3) derivative securities are limited to those whose purpose is to enhance returns of the trust without a corresponding increase in risk of the portfolio; (4) securities lending transactions must be collateralized at 100-102%; (5) fixed income securities are not rated below "BBB-" by S&P and Fitch, or "Baa3" by Moody's, at the time of purchase; (6) equity securities are (a) limited to a cap of (i) 60% when the weighted average remaining life of the decommissioning liability exceeds 5 years, (ii) 30% when the weighted average remaining life ranges between 5 years and 2.5 years and during all years in which expenditures for decommissioning the nuclear units occur, and (iii) 0% when the weighted average remaining life of the decommissioning liability is less than 2.5 years, and (b) with at least 70% of the aggregate market value of the equity portfolio, including the individual securities in commingled funds, having a quality ranking from a major rating service and the overall portfolio of ranked equities with a weighted average quality rating equivalent to the composite rating of the S&P 500 index assuming equal weighting of each ranked security in the index; and (7) commingled funds that include United States equity-indexed funds, actively managed United States equity funds, balanced funds, bond funds, real estate investment trusts, and international funds that (a) are consistent with the goals stated in the investment policy, (b) are focused on specific market sectors or concentrated in a few holdings only if used as necessary to balance the trust's overall investment portfolio mix, and (c) may contain some below investment grade bonds; however, the overall portfolio of debt instruments shall have a quality level, measured quarterly, not below a "AA" rating by S&P and Fitch, respectively, or "Aa2" by Moody's.

The Master Trust (TCC Funded) is specifically prohibited (1) from investing in derivatives if being used to increase the value of the portfolio by any amount greater than the value of the underlying securities; (2) from the use of leverage (borrowing) to purchase securities or the purchase of securities on margin; (3) from investing in corporate or municipal debt securities that have a bond rating below investment grade (below "BBB-" by both S&P and Fitch, respectively, or "Baa3" by Moody's) at the time that the securities are purchased and the appropriateness of continuing to hold a particular debt security must be reexamined if the debt rating of the company in question falls below investment grade at some time after the debt security has been purchased; (4) from investing in equity securities where the issuer has a capitalization of less than $100 million; and (5) from investing in securities issued by the electric utility collecting the funds or any of its affiliates; however, investments may include commingled funds that contain securities issued by the electric utility if the securities of the utility constitute no more than 5% of the fair market value of the assets of such commingled funds at the time of the investment.

As of December 31, 2025[(1)], investments in the Master Trust (TCC Funded) consisted of fixed income securities, equity securities (domestic and international), US REITs and cash equivalents. The market value of cash, cash equivalents and investments held as of December 31, 2025 totaled approximately $228 million and was comprised of fixed income securities totaling approximately $122 million, equity securities having a market value of approximately $90 million, US REITs in the amount of approximately $8 million and the remaining $8 million being invested in cash and cash equivalents. Based upon market values, 65% of fixed income securities were invested in United States Government and Government Agency obligations, 26% were invested in corporate and municipal bonds, 2% were invested in foreign bonds and other, and 7% was invested in cash and cash equivalents, such as money market funds.

(1) Data related to the investments in the Master Trust (TCC Funded) is updated on a calendar quarterly basis.

EMPLOYEE BENEFITS

CPS Energy provides health, dental and vision benefits for employees, their spouses, and covered dependents, as well as Pension and Other Postemployment Benefits ("OPEB") as discussed in the following section. The health, dental, and vision benefits provided during active employment are funded on a pay-as-you-go basis, with premiums from the participants and CPS Energy designed to cover current year claims.

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PENSION AND OTHER POSTEMPLOYMENT BENEFITS

CPS Energy provides Pension and OPEB for its employees. There are four plans which include: the CPS Energy Pension Plan (the "Pension Plan"), the CPS Energy Group Health Plan, the CPS Energy Group Life Insurance Plan, and the CPS Energy Long-Term Disability Income Plan (the Group Health Plan, the Group Life Insurance Plan, and the Long-Term Disability Income Plan, collectively referred to herein as the "OPEB Plans"). All plans are reported on a calendar-year basis. While all plans are separately and independently audited, they are also included as fiduciary component units in CPS Energy's financial statements and required information related thereto is disclosed in the financial statements, related Notes and RSI. See "Basic Financial Statements – Note 11 – Employee Pension Plan" and "– Note 12 – Other Postemployment Benefits" in CPS Energy's Basic Financial Statements for the fiscal year ended January 31, 2026.

All plans are operated based on a Statement of Governance ("SoG") approved by the Board. The SoG provides for an Employee Benefits Oversight Committee ("EBOC"), which is composed of the President & CEO, the CFO & Treasurer, and the Audit & Finance Committee members of the Board. Among other functions, the EBOC approves all changes to the plans, engages external auditors, appoints members of an administrative committee (which manages daily operations and makes investment decisions) (the "Administrative Committee"), and approves all changes to the investment policy. All plan investments are made and managed in accordance with the investment policy, which requires diversification of assets and maintaining appropriate liquidity according to the needs of each plan.

CPS Energy retains an actuary to perform annual actuarial valuations for the Pension Plan and each of the OPEB Plans. Conducted in accordance with generally accepted actuarial principles and practices, the actuarial reports summarize the funding status of each plan for the current and prior year, as well as provide projected funding contribution recommendations for CPS Energy's next fiscal year. Additionally, information included in the actuarial reports provides the basis for CPS Energy's financial reporting of costs and liabilities related to the Pension and each of the OPEB Plans.

As of the date of the filing of this Quarterly Update, CPS Energy is current with its contribution requirements to the Pension Plan and each of the OPEB Plans, as it relates to CPS Energy's employees.

USE OF ASSUMPTIONS AND ESTIMATES

As a result of the annualized valuation methodology related to pensions, interim reporting period valuations of CPS Energy's Pension and Benefits Plans are difficult to forecast and can vary greatly from quarterly or annual results under normal operating conditions.

As set forth herein and in Notes 11, 12, and RSI of the Basic Financial Statements for fiscal year ended January 31, 2026, the disclosures relating to the Pension Plan and the OPEB Plans are based upon certain assumptions and estimates that may vary based upon the risk factors. To the extent that these assumptions and estimates do not materialize or are inaccurate, the financial information disclosed herein and in Notes 11, 12, and RSI of the Basic Financial Statements for fiscal year ended January 31, 2026, including the estimates as compared to the actual values of the assets and liabilities, could change substantially and in a materially adverse manner. The actuarial values determined for the measurement of benefit plan assets and liabilities were based on reasonable assumptions, which are estimates based on information available at the time the actuarial reports were prepared.

The actuarial assumptions used in the January 1, 2024 and 2023, valuation for amounts reported in fiscal year ended January 31, 2026 and fiscal year ended January 1, 2025, respectively, were based on the results of an actuarial experience study completed in calendar 2023 covering experience for the period January 1, 2020, through December 31, 2022.

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PENSION PLAN

The Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan and provides retirement and ancillary benefits for substantially all CPS Energy employees who attain age 21 and complete a minimum period of service and/or otherwise become eligible. The benefits provided by the Pension Plan are paid from a pension trust (the "Pension Trust") established by CPS Energy that is kept separate from, and in addition to the benefits employees are entitled to receive under any other CPS Energy program and under the federal Social Security Act. This Pension Plan and the Pension Trust were established by the Board in accordance with applicable law and are maintained for the exclusive benefit of the eligible employees and their beneficiaries.

In 2015, in conjunction with the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, which was later updated by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (described herein), CPS Energy elected to use regulatory accounting to capitalize the associated costs to recover through future rates. GASB Statement No. 68 required the immediate recognition of CPS Energy's previously unrecognized pension liability. For governmental entities other than those whose operations are rate regulated, the GASB Statement No. 68 adoption accounting required a charge to net position (equity) for the net effect of the restatements required to recognize the net pension liability. CPS Energy elected to use regulatory accounting, as allowed under GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement, to create a regulatory asset representing the net effect of the prior period restatement that is being amortized over a 50-year period.

On December 4, 2023, and December 7, 2023, the Board and City Council, respectively, approved expanded regulatory accounting, superseding the 2015 pension regulatory asset. With the authorized use of regulatory accounting for both pension and OPEB costs, a new regulatory asset was established and the amortization expense related to the 2015 pension regulatory asset ceased to be recorded in fiscal year ending 2024. As a result, any current year contributions to fund the Pension Plan are reflected as pension expense included in O&M on the Statements of Revenues, Expenses and Changes in Net Position and any difference between the funding and the GASB Statement No. 68 pension expense will be deferred as a regulatory asset on the Statements of Net Position. The established regulatory accounting for pension and OPEB costs establishes a regulatory asset to match the pension and OPEB expense to the funded amounts and the cost recovery through rates.

In March 2016, GASB issued Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73, the requirements of which were effective for CPS Energy beginning in fiscal year 2017. Specifically, Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in RSI, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement No. 82 did not have a significant impact on CPS Energy's financial reporting.

Refer to complete disclosures at Note 11 and RSI in the Basic Financial Statements for the fiscal year ending January 31, 2026, regarding CPS Energy's Net Pension Liability ("NPL") and pension expense and related details of plan features, plan funding, the measurement of NPL, underlying actuarial assumptions, discount rate assumptions and sensitivity, and deferred outflows of resources and deferred inflows of resources related to pension.

Information related to new accounting guidance applicable to CPS Energy is available in the Basic Financial Statements.

The following schedule presents selected multiyear trend information regarding NPL and related statistics. Amounts presented are determined as of the measurement date of the NPL for the following fiscal years:

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Pension Plan[1]

(Dollars in thousands)

Fiscal Year Ended	(a) Ending Total Pension Liability	(b) Ending Plan Fiduciary Net Position	(a-b) Ending Net Pension Liability	(b/a) Plan Fiduciary Net Position as a Percentage of Total Pension Liability
January 31, 2026	$2,735,403	$2,462,953	$272,450	90.0%
January 31, 2025	$2,592,155	$2,140,673	$451,482	82.6%
January 31, 2024	$2,357,824	$2,007,845	$349,979	85.2%
January 31, 2023	$2,234,500	$2,122,446	$112,054	95.0%
January 31, 2022	$2,164,873	$1,916,698	$248,175	88.5%

[1] The data related to this table is updated annually as of January 31st.

OPEB PLANS

The OPEB Plans are single employer-defined benefit contributory plans that are funded by employee contributions and annual contributions from CPS Energy. The assets of the OPEB Plans are stated at fair market value.

Most CPS Energy employees are eligible for Group Health and Life Insurance benefits upon retirement. CPS Energy's Long-Term Disability Income Plan provides income to eligible employees of CPS Energy who become disabled. CPS Energy established each plan as a "risk pool" as that term is defined in the Texas Political Subdivision Employees Uniform Group Benefits Act ("Benefits Act"), Chapter 172, Texas Local Government Code, as amended. These plans are each operated at all times and in all respects as a risk pool under the Benefits Act. The benefits provided by the OPEB Plans are paid from OPEB Trusts. The OPEB Plans and the OPEB Trusts were established by the Board in accordance with applicable law and are maintained for the exclusive benefit of the eligible employees and their beneficiaries.

In June 2015, GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. CPS Energy implemented Statement No. 74 in the OPEB Plan's fiscal year ended December 31, 2017 and adopted Statement No. 75 in CPS Energy's fiscal year ended January 31, 2018.

Like previously implemented pension guidance, GASB Statement No. 74 enhances note disclosures and RSI for all defined benefit OPEB plans that are administered through trusts that meet the specified criteria. It requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in ten-year RSI schedules. Statement No. 74 also requires that notes to financial statements include descriptive information, such as the types of OPEB provided, the classes of plan members covered, and the composition of the OPEB plan's board. Such OPEB plans also are required to disclose information about OPEB plan investments, including the OPEB plan's investment policies, concentrations of investments with individual organizations equaling or exceeding 5% of the OPEB plan's fiduciary net position.

Also, like previously implemented pension guidance, GASB Statement No. 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. For each qualifying plan providing postemployment benefits other than pensions, employers are required to report the difference between the actuarial OPEB liability and the related plan's fiduciary net position as the net OPEB liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to each plan were exceeded by the actuarially calculated contributions for those plans. Additionally, Statement No. 75 sets forth note disclosure and required supplementary disclosure requirements for defined contribution OPEBs.

In March 2017, GASB issued Statement No. 85, Omnibus 2017, which addressed practice issues that were identified during implementation and application of certain GASB Statements. Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which was adopted in CPS Energy's fiscal year ended 2018.

As previously mentioned on December 4, 2023 and December 7, 2023, the Board and City Council, respectively, approved expanded regulatory accounting for both pension and OPEB costs. As a result, a new regulatory asset was established and any current year contributions to fund the OPEB Plans are reflected as OPEB expense included in O&M on the Statements of Revenues, Expenses and Changes in Net Position. Additionally, any difference between the funding and the GASB Statement No. 75 OPEB expense will be deferred as a regulatory asset on the Statements of Net Position. The established regulatory accounting for pension and OPEB costs establishes a regulatory asset to match the pension and OPEB expense to the funded amounts and the cost recovery through rates.

Refer to complete disclosures in the Basic Financial Statements regarding CPS Energy's Net OPEB position and OPEB Expense and related details of plan features, plan funding, the measurement of Net OPEB (Asset) Liability, underlying actuarial assumptions, discount rate assumptions and sensitivity, and deferred outflows of resources and deferred inflows of resources related to OPEBs.

Health Plan[(1)]

(Dollars in thousands)

	(a)	(b)	(a-b)	(b/a)
Fiscal Year Ended	Ending Total OPEB Liability	Ending Plan Fiduciary Net Position	Ending Net OPEB (Asset) Liability	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
January 31, 2026	$381,083	$338,935	$42,148	88.9%
January 31, 2025	$322,601	$306,887	$15,714	95.1%
January 31, 2024	$251,091	$297,739	$(46,648)	118.6%
January 31, 2023	$277,024	$326,859	$(49,835)	118.0%
January 31, 2022	$240,024	$297,828	$(57,804)	124.1%

(1) The data related to this table is updated annually as of January 31st.

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Life Plan[1]

(Dollars in thousands)

Fiscal Year Ended	(a) Ending Total OPEB Liability	(b) Ending Plan Fiduciary Net Position	(a-b) Ending Net OPEB (Asset) Liability	(b/a) Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
January 31, 2026	$62,352	$59,554	$2,798	95.5%
January 31, 2025	$59,947	$54,736	$5,211	91.3%
January 31, 2024	$58,659	$53,872	$4,787	91.8%
January 31, 2023	$57,208	$57,987	$(779)	101.4%
January 31, 2022	$55,999	$53,686	$2,313	95.9%

[1] The data related to this table is updated annually as of January 31st.

Disability Plan[1]

(Dollars in thousands)

Fiscal Year Ended	(a) Ending Total OPEB Liability	(b) Ending Plan Fiduciary Net Position	(a-b) Ending Net OPEB (Asset) Liability	(b/a) Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
January 31, 2026	$6,260	$8,011	$(1,751)	128.0%
January 31, 2025	$6,831	$7,147	$(316)	104.6%
January 31, 2024	$7,094	$6,635	$459	93.5%
January 31, 2023	$6,363	$7,041	$(678)	110.7%
January 31, 2022	$7,092	$6,504	$588	91.7%

[1] The data related to this table is updated annually as of January 31st.

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Total OPEB Plans[1]

(Dollars in thousands)

Fiscal Year Ended	(a) Ending Total OPEB Liability	(b) Ending Plan Fiduciary Net Position	(a-b) Ending Net OPEB (Asset) Liability	(b/a) Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
January 31, 2026	$449,695	$406,500	$43,195	90.4%
January 31, 2025	$389,379	$368,770	$20,609	94.7%
January 31, 2024	$316,844	$358,246	$(41,402)	113.1%
January 31, 2023	$340,595	$391,887	$(51,292)	115.1%
January 31, 2022	$303,115	$358,018	$(54,903)	118.1%

[1] The data related to this table is updated annually as of January 31st.

An Actuarial Standard of Practice relating to the measurement of OPEB liabilities requires actuaries to select the best estimate assumptions with neither a conservative nor an aggressive bias, which requires the liability to reflect the benefit of certain pharmaceutical manufacturer rebates.

STRATEGIC INITIATIVES

The utility industry is witnessing rapid change and CPS Energy's strategic plan, Vision 2027 – An Evolving Utility, is designed to guide CPS Energy through this transformation in the near future. The strategic plan sets out clearly how CPS Energy will better serve its customers and community. CPS Energy's power generation plan includes a transition from coal generation to cleaner resources while also replacing aging gas steam units with a diverse mix of renewable and dispatchable energy sources, resulting in further emissions reductions.

San Antonio is one of the fastest growing cities in America, and the utility industry is faced with the challenge of integrating new technology while balancing societal and regulatory expectations, managing severe weather events, and remaining competitive in retaining and attracting talent.

To prepare for and take advantage of these changes, CPS Energy established a set of five strategic objectives with goals and key initiatives:

- Operational Evolution
- Financial Stability
- Customer Experience
- Team Culture
- Community Partnership & Growth

CPS Energy is executing four strategic initiatives to achieve Vision 2027's objectives:

- Power Generation Plan
- System Resiliency & Growth
- Evolve: Enterprise Resource Plan ("ERP")
- Customer Experience

These initiatives are the organization's priority in evolving to deliver on its mission of service today and tomorrow. (See " – CPS Energy Strategies – Vision 2027" below.)

Beginning in September 2023, CPS Energy's leadership team hosted internal workshops focused on setting goals for CPS Energy's future, receiving early employee feedback and aligning with industry trends. Throughout the Fall of 2024, CPS Energy engaged stakeholders, including CPS Energy employees and customers, through roadshow events, town hall discussions, and surveys that will help CPS Energy continue to refine the framework for addressing future challenges, and ensuring sustainable growth while continuing CPS Energy's commitment to deliver outstanding service and value to its customers. The result is CPS Energy's latest strategic framework, Horizon 2050, which was approved by the Board on January 31, 2025, and is a long-term strategic direction that focuses on addressing future challenges and opportunities. (See " – CPS Energy Strategies – Horizon 2050" below.)

In support of CPS Energy's commitment to provide world-class energy solutions to meet the diverse and unique needs of its customers, while acting as an economic engine to drive value and growth in the community, CPS Energy designed an integrated planning process ("CPS Energy Integrated Planning Process") to serve as its roadmap forward.

Through thoughtful leadership, partnerships and CPS Energy's passionate employees, management continues to strategically and successfully evolve its value portfolio to achieve top-tier safety, customer service, electric and gas delivery, generation availability, and financial performance.

CPS Energy's Integrated Planning Process is a coordinated, cross-functional effort that aligns strategic priorities with risk management and financial planning. This process is anchored in the CPS Energy Business Plan and supported by business unit plans that drive execution through major initiatives, milestones, performance measures, and goal alignment.

Performance targets and supporting measures are cascaded throughout the organization, creating a clear line of sight from enterprise-level objectives to business unit goals and individual accountability.

Progress is tracked through the Enterprise Scorecard, which enables ongoing monitoring, reporting, and analysis of performance trends. This disciplined approach ensures that CPS Energy remains focused on achieving its strategic goals.

CITIZENS ADVISORY COMMITTEE – COMMUNITY INPUT COMMITTEE

To enhance its relationship with the community and to provide community input directly to the Board and CPS Energy staff, CPS Energy established a 15-member Citizens Advisory Committee ("CAC"). The CAC met monthly with the primary goal of providing recommendations on utility-related projects and programs to offer a customer perspective on community issues, assisting in identifying strengths and offering suggestions for improvement to the organization. Representing the various sectors of CPS Energy's service area, the CAC encompassed a broad range of representatives in order to identify concerns and understand community issues. The City Council members nominated ten of the 15 members, one representing each City Council district. The other five members were at-large candidates who resided anywhere within the service territory. The Board approved all members of the CAC and each member could serve up to three, two-year terms.

On April 22, 2024, the Board accepted changes to the CAC bylaws modifying the group name to the Community Input Committee ("CIC"), expanding the committee members from 15 to 19, and revising the purpose, mission, and vision to clarify the bi-directional flow of information between the community and the Board through the CIC. The four new members representing the four quadrants of the CPS Energy service area were chosen by the Board on June 24, 2024. The CIC has three working groups: Power and Technology, Finance and Business, and Customer Relations and Communications.

RATE ADVISORY COMMITTEE

In January 2021, CPS Energy solicited applications for the community to participate in the Rate Advisory Committee ("RAC") that was formed by CPS Energy in December 2020. The RAC's mission is to provide helpful and unique knowledge and customer insights to the efforts and projects related to rate structure, rate design, and generation planning with the ultimate goals of helping the Board and management balance its strategic objectives and increasing the mutual understanding of public issues and concerns. The RAC consists of 21 members comprised of 11 appointees by the Board, including Mayoral appointees, and City Council appointees.

The RAC worked with CPS Energy throughout calendar year 2022 to evaluate various combinations of generation portfolios to identify the combination of generation resources that will allow CPS Energy to continue to provide reliable, affordable, and environmentally sustainable power to the community as it replaces retiring generation units over the next few years. On January 23, 2023, the Board approved a path forward to replace aging gas steam generation units retiring between the date hereof and 2029 and to cease coal operations no later than calendar year 2030.

In February 2023, the RAC moved to its next focus area of rate design with a series of meetings focused on affordability. The topic of bill affordability for customers was addressed from three vantage points—bill discounts, energy efficiency and conservation, and demand management. Following these discussions, RAC members in June 2023 completed a survey with their feedback on potential initiatives and measures to address affordability challenges. In August 2023, CPS Energy thanked the RAC for their hard work, dedication, and recommendations to the Board.

AFFORDABILITY DISCOUNT PROGRAM

On May 2, 2024, the City Council approved an update to its affordability discount program, with the federal poverty guidelines now at or below 150%, thereby expanding the number of total eligible customers by 29,151 to 134,502 customers within the City. Approximately $2 million in funding for this program is provided by wholesale revenue, and CPS Energy enrolled more than 80,000 customers. The change went into effect on June 1, 2024.

STATE AND NATIONAL LEGISLATION

For State and national legislative action regarding competition, CPS Energy continues to participate actively in the legislative process in Congress and the Texas Legislature to voice the interests of MOUs and the local community, and play an integral part in shaping the environment in which it operates. CPS Energy is actively evaluating all aspects of its business model, including the pricing components of its energy services, fully recognizing that the cost of electricity will be a crucial factor for success in a deregulated environment. Cost control efforts, along with further phases of debt management strategies, will persist in the coming years.

CPS ENERGY STRATEGIES

Historical Programs

In March of 2018, CPS Energy announced its Flexible Path[SM] strategy. The Flexible Path[SM] goals included integrating new and emerging technologies, such as battery storage and electric vehicles, expanding its use of renewable energy resources, and adding more programs and services to produce energy efficiency and increase demand response. In June of 2019, CPS Energy announced the next phase of such initiative, the FlexPOWER Bundle[SM]. The FlexPOWER Bundle[SM] initiative played an important part of the Flexible Path[SM], as such program was created as a deliberately blended approach to power generation through which CPS Energy added more solar resources coupled with battery energy storage and firming capacity.

CPS Energy executed an agreement with Consolidated Edison Development, Inc., a subsidiary of Con Edison Clean Energy Businesses, Inc., for a 300 MW solar project called Peregrine Solar to be located in Goliad County, representing the first initiative of CPS Energy's FlexPOWER Bundle[SM]. This project came online in February 2025 and is for a 25-year term. In October 2022, RWE Clean Energy, LLC (based out of Germany) announced it would be acquiring all of Con Edison Clean Energy Businesses. The transaction closed in March 2023. CPS Energy consented to the ownership change. In September 2022, CPS Energy reached an agreement with Kenlov Ashtrom Renewable Energy LLC, a subsidiary of Kenlov Renewable Energy and Ashtrom Renewable Energy ("KARE"), for the purchase of 180 MW of solar energy from the Tierra Bonita project. Developed and originated by KARE's U.S. development partner, OnPeak Power, this project provides CPS Energy with 180 MW of the full 305 MW from the Tierra Bonita solar farm located in Pecos County. The KARE agreement is a 20-year contract, and the project came online in late 2024. In January 2023, CPS Energy signed a contract with Ashtrom Renewable Energy, in collaboration with OnPeak Power, for 104 MW of the El Patrimonio solar project, which will be located in the County. The power purchase agreement (each, a "PPA") is a 20-year contract with an anticipated commercial operation date of September 2027. Additionally, as part of the agreement, Ashtrom Renewable Energy will provide community benefits, including the contribution of funds towards CPS Energy student scholarships, as well as on-site field day mentorship to local students during the construction of the facility in the County. Ashtrom Renewable Energy will also grant funds towards the construction of an outdoor classroom that can be used for field trip instruction.

In January 2023, CPS Energy signed a contract with Calpine, totaling approximately 522 MW of firming capacity from the Guadalupe Energy Center located in Guadalupe County. Firming capacity with natural gas is dispatchable, controllable, and reliable energy that can be utilized when the sun is not shining, or the wind is not blowing. The Calpine agreement began delivering power to CPS Energy in the Spring of 2023.

In January 2023, CPS Energy signed a contract with Eolian L.P., who will provide CPS Energy the exclusive right to dispatch a 50 MW, 2-hour duration battery energy storage project located in the County. This location, combined with the operating flexibility offered by energy storage, will further improve CPS Energy system resiliency as well as customer reliability. The agreement is a 20-year contract and became operational in July 2025.

CPS Energy and Quidnet Energy ("Quidnet") entered into a 15-year contract for an energy storage project to employ Quidnet's Geomechanical Pumped Storage technology. This includes pumped hydro storage, where water is pumped underground and stored between impermeable rock layers to keep the water under pressure. To produce electricity, the pressurized water is released to a hydroelectric turbine that generates emissions-free electricity. The project will be developed in two phases, starting with a 1 MW, 10-hour storage facility. As the project matures, CPS Energy has the option to expand the project to provide 15 MW, thus completing the second phase. CPS Energy's role in the partnership is that of the buyer of capacity provided by Quidnet's storage facility (thus mitigating CPS Energy's financial risk by mutually agreed upon operating standards). CPS Energy's financial obligation in buying the capacity is adjusted based on the storage facilities' actual operating performance.

Vision 2027

CPS Energy focuses on strategic objectives to meet CPS Energy's mission through the lenses of equity and security, enabled by technology and innovation. These strategic objectives include operational evolution, financial stability, customer experience, a culture of service, and community partnerships and growth. With these objectives, CPS Energy seeks to support community growth through the modernization of the grid, investing in generation sources, providing customers with enhanced experiences and options, balancing fiscal responsibility and community equity, ensuring a safe and service-driven culture, and continuing to support customer and operational needs.

Vision 2027, which was adopted in 2022, focuses on making significant progress towards executing its strategic initiatives to deliver reliable, affordable, and sustainable energy services to customers, including the following:

Power Generation Plan

- Complete Wave 2 Transition Plan of new acquisitions.
- Achieve commercial operational for new solar and storage resources.
- Award key contracts including engineering, procurement, and construction and major equipment supply for the Peaker Project and Spruce 2 Natural Gas Conversion Project.
- Support ERCOT reliability through execution of directed Reliability ("RMR") contracts.

System Resiliency & Growth

- Complete Emergency Management System Supervisory Control & Data Acquisition ("SCADA") System Roll-Out and continue upgrading Advanced Distribution Management System ("ADMS") SCADA System.
- Complete GIS Utility Network Phase 1 (Electric Data Migration) and start 2 (Electric Integration to ADMS).
- Execute gas strategies to include Permian Highway to Rio Nogales, Southgate to Rio Nogales, and North Outer Loop.
- Upgrade and modernize transmission system for resiliency and growth (multiple projects as part of South Reliability Electric Transmission Line Expansion).
- Submit TCOS rate filing package developed through significant cross-functional efforts and with internal and external legal guidance.

Evolve: Enterprise Resource Planning

- On-Boarding of System Implementation partner and remaining program team roles.
- Complete Global Design.
- Execute change management efforts and communication strategy.

Customer Experience

- Onboard a consultant to develop a customer experience ("CX") roadmap, refining customer segmentation and creation of customer journeys with personas.
- Form a CX Championship Team to define the CX framework, set goals, and create a communication and training plan to align employees in enhancing customer experience.
- Support the development and execution of products and services to include customer feedback and effective engagement.
- Process improvement for customer support efforts.

Horizon 2050 and Vision 2030

Horizon 2050 is CPS Energy's long-term strategic direction, designed to guide CPS Energy's growth, resilience, and innovation over the next 25 years. Vision 2027 provided short-term direction and has assisted CPS Energy to navigate a rapidly changing energy landscape, balancing challenges such as, extreme weather, regulatory uncertainty, and rising costs, while leveraging opportunities in technology, partnerships, and organizational culture. As CPS Energy looks ahead, CPS Energy is beginning to develop Vision 2030, a five-year plan, which will continue building on these priorities and keep CPS Energy aligned with the broader direction set by Horizon 2050.

The Horizon 2050 and the upcoming Vision 2030 strategic frameworks are summarized as follows:

Vision

- Empowering the community for generations

Mission

- To safely power the community with reliable, affordable, and cleaner energy

External Goals

- Reliability: Electric and gas services that are always on
- Value: Affordable prices, excellent options and affordable service
- Cleaner Energy: A balanced approach to reduce CPS Energy's environmental impact

Internal Goals

- Financial Strength: Financially resilient and competitively priced to fuel growth and safeguard investments for the community
- Team Excellence: Develop CPS Energy's team to drive to innovation and deliver excellence as "One Team"

Values

- Accountability, Integrity, Excellence, Safety & Wellbeing, Transparency, One Team

BUSINESS AND ECONOMIC DEVELOPMENT

CPS Energy works with local economic development organizations, including greater:SATX, to recruit, retain, and support the expansion of targeted businesses throughout CPS Energy's service territory. These efforts are intended to encourage growth in industries that may contribute to the regional economy and increase demand for electric and natural gas service. Targeted industries include renewable energy, manufacturing, aviation, aerospace, automotive, life sciences and biomedical, cybersecurity, and information technology, logistics and distribution, corporate business services, and large scale development.

Through its partnership with greater:SATX, CPS Energy also supports the recruitment of new business locations and expansion projects within its service territory. For example, Toyota Texas has announced an expansion of its regional operations through a $531 million capital investment, which is expected to create more than 400 additional high skilled jobs in the City. Other notable companies that have expanded or announced expansion plans in the service territory area include JCB, International, and Guidehouse.

Since 2021, these projects have brought a diverse range of industries, including business services, manufacturing, distribution, renewable energy, healthcare and biosciences, finance, cybersecurity, and information technology. CPS Energy believes these developments may contribute to future growth in electric and natural gas load within its service territory. In addition, these projects are associated with more than 19,000 jobs and over $7.6 billion in local capital investment. CPS Energy cannot provide assurance that all announced projects will be completed as currently planned or that projected economic and load growth will be realized.

OTHER ECONOMIC DEVELOPMENT

On June 2, 2016, the City Council passed an ordinance authorizing a competitive matter memorandum of understanding between the City and CPS Energy regarding the acquisition of electric and gas distribution systems at Lackland Air Force Base, Chapman Training Annex (formerly Lackland Training Annex), and Randolph Air Force Base (collectively, the "JBSA Sites").

On September 28, 2017, CPS Energy entered into a 50-year Utilities Privatization Contract ("JBSA Contract") with the Defense Logistics Agency ("DLA") to own, operate and maintain the natural gas and the electric distribution systems at the JBSA Sites. On July 1, 2019, CPS Energy and the DLA executed the Bill of Sale for the systems covered by the JBSA Contract, valued at $87.1 million and, in doing so, the Air Force transferred ownership of these systems to CPS Energy. The DLA provided immediate cost recovery for the transfer of assets, which began in Fiscal Year 2020 and as a result, there are no cash outlays for this transaction. The advanced recovery payment will be amortized to revenue over 50 years, the life of the JBSA Contract, on a straight-line basis. Additionally, the DLA will reimburse CPS Energy for the costs to operate, maintain, and upgrade these systems throughout the contract term. These payments will be adjusted annually based on changes to the Consumer Price Index. As of January 31, 2026, the overall net-present value of the fifty-year JBSA Contract was approximately $358,852,632.

On August 31, 2020, the Board approved a resolution of support for partnership with the City's municipally owned water and sewer utility system ("SAWS") and Itron to expand the intelligence of the SAWS' water distribution system to promote cost management and improve information and services to customers. Since then, a successful 6-month pilot was conducted during which 2,500 meters were installed utilizing CPS Energy's technology from the smart grid initiative. After the successful pilot, SAWS and CPS Energy moved into City-wide rollout, which is expected to be complete sometime in 2026. Upon completion of the City-wide deployment, CPS Energy will have approximately 600,000 SAWS' meters utilizing the smart grid network.

As further described herein, the Board approved an agreement with SAWS regarding the operation by CPS Energy of generators to be located at certain SAWS' facilities.

On August 31, 2020, the Board approved a Resolution of support for a partnership with SAWS and Itron to expand the intelligence of the SAWS' water distribution system to promote cost management and improve information and services to customers. Since then, a successful 6-month pilot was conducted during which 2,500 meters were installed utilizing CPS Energy's technology from the smart grid initiative. After the successful pilot, SAWS and CPS Energy moved into City-wide rollout, which is expected to be completed in the first quarter 2026. With completion of the City-wide deployment, CPS Energy will have approximately 600,000 SAWS' meters utilizing the smart grid network.

As further described herein, the Board approved an agreement with SAWS regarding the operation by CPS Energy of generators to be located at certain SAWS' facilities.

DESCRIPTION OF FACILITIES

ELECTRIC SYSTEM

Power Generation Sources

CPS Energy currently operates 56 non-nuclear electric generating units, 2 of which are coal-fired, 51 of which are gas-fired, 2 solar photovoltaic ("PV") sites, and 1 Battery Energy Storage System ("BESS"). The current unit count takes into account recently mothballed facilities and consolidation of units by generation source. Some of the gas-fired generating units may also burn fuel oil (ultra-low sulfur diesel), which provides fuel flexibility and greater resiliency. CPS Energy also owns a 40% interest in STP's two existing nuclear generating Units 1 and 2. These nuclear units supplied 20.0% of CPS Energy's total generation for the twelve months ending January 31, 2025. See "DESCRIPTION OF FACILITIES - ELECTRIC SYSTEM - Gas / Fuel Oil Plants" for more detail.

On October 18, 2023, CPS Energy formally launched a request for proposal ("RFP") for up to 500 MW of energy storage systems, as part of its power generation plan approved by the Board in 2023. Projects under this request that were diverse in technologies were welcomed, as well as responses from both large-scale and smaller sized projects. The smaller scale projects can be strategically placed at different locations within the CPS Energy service area, providing another tool to meet community growth and the ability to improve reliability in specific locations. This request was the first time CPS Energy issued a notice solely for standalone storage projects, although past RFPs have included storage as an overall component. From this RFP, CPS Energy successfully contracted 470 MW of battery energy storage projects.

On July 31, 2025, CPS Energy formally launched a RFP for up to 400 MW of additional wind energy, as part of its power generation plan approved by the Board in 2023. The deadline for submitting proposals was September 5, 2025. CPS Energy is working through the final stages of the selection process and has already engaged certain counterparties to initiate contract discussions. CPS Energy expects to execute contracts related to this RFP some time in the second quarter of calendar year 2026.

On November 13, 2025, CPS Energy formally launched a RFP for up to 600 MW of additional solar energy, as part of its power generation plan approved by the Board in 2023. The deadline for submitting proposals was January 9, 2026. CPS Energy is working through the final stages of the selection process and has already engaged certain counterparties to initiate contract discussions. CPS Energy expects to execute contracts related to this RFP some time in the second quarter of calendar year 2026.

On December 11, 2025, CPS Energy formally launched a RFP for up to 500 MW of additional transmission scale and/or distribution scale storage, as part of its power generation plan approved by the Board in 2023. The deadline for submitting proposals was January 30, 2026. CPS Energy is currently evaluating the proposals. CPS Energy expects to engage counterparties and execute contracts related to this RFP some time in the second quarter of calendar year 2026.

See "DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Gas/Fuel Oil Plants" herein for a description of CPS Energy's recent acquisitions. See also "DESCRIPTION OF FACILITIES – Electric System – Nuclear" herein. The generating plants are normally referred to by the plant name and number (i.e., Spruce1 for Spruce unit 1, Braunig3 for Braunig unit 3). See "DESCRIPTION OF FACILITIES – Electric System – Generating Capability" herein.

Generating Capability[(1)]

Dispatchable or Firm Supply	Unit	Fuel	Year Installed	Summer Net Max Capability MW[(2)]	Total Summer Capability MW	Type
STP (40% Ownership)[(3)]	Unit 1	Nuclear	1988	521.0		
	Unit 2	Nuclear	1989	518.0	1,039.0	Nuclear
STP PPA[(3)]	PPA	Market	2024	200.0	200.0	Market
Spruce	Unit 1	Coal	1992	560.0		
	Unit 2	Coal	2010	785.0	1,345.0	Coal
Arthur Von Rosenberg (NGCC 2x1)	Unit 1	Gas	2000	515.0		
Sommers	Unit 1	Gas	1972	420.0		
	Unit 2	Gas	1974	410.0		
Barney Davis[(4)]	Unit 1	Gas	1974	200.0		
MBL West	MBLCT 1[(5)]	Gas	2004	46.0		
	MBLCT 2[(5)]	Gas	2004	46.0		
	MBLCT 3[(5)]	Gas	2004	46.0		
	MBLCT 4[(5)]	Gas	2004	46.0		
MBL East	MBLCT 5[(5)]	Gas/Oil	2010	48.0		
	MBLCT 6[(5)]	Gas/Oil	2010	48.0		
	MBLCT 7[(5)]	Gas/Oil	2010	48.0		
	MBLCT 8[(5)]	Gas/Oil	2010	47.0		
HO Clarke[(9)]	Unit 1	Gas	2021	45.0		
	Unit 2	Gas	2021	45.0		
	Unit 3	Gas	2021	45.0		
	Unit 4	Gas	2021	45.0		
	Unit 5	Gas	2021	45.0		
	Unit 6	Gas	2021	45.0		
	Unit 7	Gas	2021	45.0		
	Unit 8	Gas	2021	45.0		
Mark One[(9)]	Unit 1	Gas	2022	45.0		
	Unit 2	Gas	2022	45.0		
	Unit 3	Gas	2022	45.0		
	Unit 4	Gas	2022	45.0		
	Unit 5	Gas	2022	45.0		
	Unit 6	Gas	2022	45.0		
	Unit 7	Gas	2024	45.0		
	Unit 8	Gas	2024	45.0		

Dispatchable or Firm Supply	Unit	Fuel	Year Installed	Summer Net Max Capability MW[2]	Total Summer Capability MW	Type
Remy Jade[9]	Unit 1	Gas	2024	45.0		
	Unit 2	Gas	2024	45.0		
	Unit 3	Gas	2024	45.0		
	Unit 4	Gas	2024	45.0		
	Unit 5	Gas	2024	45.0		
	Unit 6	Gas	2024	45.0		
	Unit 7	Gas	2024	45.0		
	Unit 8	Gas	2024	45.0		
Topaz[9]	Unit 1	Gas	2021	45.0		
	Unit 2	Gas	2021	45.0		
	Unit 3	Gas	2021	45.0		
	Unit 4	Gas	2021	45.0		
	Unit 5	Gas	2021	45.0		
	Unit 6	Gas	2021	45.0		
	Unit 7	Gas	2021	45.0		
	Unit 8	Gas	2021	45.0		
	Unit 9	Gas	2021	45.0		
	Unit 10	Gas	2021	45.0		
Laredo Plant (CT)[4]	Unit 1	Gas	2008	91.0		
	Unit 2	Gas	2008	86.0		
Rio Nogales[5] (NGCC 3x1)	Unit 1	Gas	2012	784.0		
Barney Davis (NGCC 2x1)[4]	Unit 2	Gas	2010	623.0		
Nueces Bay (NGCC 2x1)[4]	Unit 1	Gas	2010	644.0		
Guadalupe Energy Center[7]	PPA	Gas	2023	522.0	6,200.0	Gas/Oil
Commerce BESS[8]	Unit 1	BESS	2019	10.0		
Padua 1 Grid	PPA	BESS	2025	50.0	60.0	BESS
Total Dispatchable or Firm Supply[10]					8,847.0	

[1] Data as of January 31, 2026.
[2] Summer net max capability reflects net summer rating for CPS Energy owned plants.
[3] Current net summer electric rating (MWe) for CPS Energy's share of STP1 and 2. See "DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Nuclear" herein. Additional 2% ownership acquired on May 2, 2024, subject to the receipt of various approvals and not included in table.
[4] Purchase of plants completed on May 1, 2024.
[5] Plants renamed MBL (Milton B. Lee) CT (Combustion Turbine) as of March 6, 2014.
[6] The Rio Nogales Plant was commissioned in 2002 and purchased by CPS Energy on April 9, 2012. See "DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Gas/Fuel Oil Plants" herein.
[7] Effective Spring 2023, CPS Energy contracted for a gas toll PPA for 522 MW of NGCC capacity.
[8] BESS – Battery Energy Storage System.
[9] Purchased on September 23, 2025.
[10] Decrease from 8,961 to 8,847 MW is due to permanent reduction of Barney Davis 1 from 292 MW to 200 MW due to reduced boiler performance. Minor adjustments due to four combined cycle plants performance. based on summer 2025 operational performance review.

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Renewable Nameplate Capability

Other Generation & Renewable Nameplate Capability	Unit	Fuel	Year Installed	Summer Net Max Capability MW[2]	Total Summer Capability MW	Type
Desert Sky Wind Farm[10]	PPA	Wind	2002	63.4		
Cottonwood Creek Wind Farm (Sweetwater3)[10]	PPA	Wind	2005	139.3		
Sweetwater 4	PPA	Wind	2007	240.8		
Penascal[10]	PPA	Wind	2009	320.0		
Cedro Hill	PPA	Wind	2010	160.0		
Los Vientos	PPA	Wind	2012	200.1	1,123.6	Wind
Nelson Gardens	PPA	Landfill Gas	2014	4.2	4.2	Landfill Gas
Blue Wing	PPA	Solar PV[11]	2010	13.9		
Sinkin 1	PPA	Solar PV[11]	2012	9.9		
Sinkin 2	PPA	Solar PV[11]	2012	9.9		
Somerset	PPA	Solar PV[11]	2012	10.6		
Alamo 1	PPA	Solar PV[11]	2013	39.2		
St. Hedwig (Alamo 2)	PPA	Solar PV[11]	2014	4.4		
Eclipse (Alamo 4)	PPA	Solar PV[11]	2014	39.6		
Solar Host (Community Solar)[12]	PPA	Solar PV[11]	2015	5.0		
Walzem (Alamo 3)	PPA	Solar PV[11]	2015	5.5		
Helios (Alamo 5)	PPA	Solar PV[11]	2015	95.0		
Solara (Alamo 7)	PPA	Solar PV[11]	2016	106.4		
CEC Beck (Community Solar)[12]	Owned	Solar PV[11]	2016	1.0		
Sirius 1 (Alamo 6)	PPA	Solar PV[11]	2017	110.2		
Sirius 2 (Pearl)	PPA	Solar PV[11]	2017	50.0		
Lamesa II (Ivory)	PPA	Solar PV[11]	2018	50.0		
Commerce PV	Owned	Solar PV[11]	2019	5.0		
Big Sun (Community Solar)[12]	PPA	Solar PV[11]	2019	5.0		
Tierra Bonita	PPA	Solar PV[11]	2024	180.0		
Peregrine Solar	PPA	Solar PV[11]	2025	300.0	1,040.6	Solar PV
Total Other Generation & Renewable Nameplate Capability					2,168.4	
Total Capability[13]					**11,015.4**	

[10] Capacity updated to reflect contracted nameplate capacity after contract renegotiation and turbine uprate.
[11] Solar PV capacity is reported on an alternating current ("AC") nameplate basis.
[12] Community Solar pilot project "CEC Beck" added to CPS Energy renewable portfolio table to align with other corporate reporting.
[13] Decrease from January 31, 2025 is due to CPS Energy ceasing operation at Braunig1 and Braunig2 units on April 1, 2025.

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Nuclear

Nuclear is one of CPS Energy's base energy options, providing about 20% of CPS Energy's total net annual generation for the twelve months ending January 31, 2026. STP is a two-unit nuclear power plant with Unit 1 and Unit 2 (or "STP1" and "STP2") having a combined nominal output of approximately 2633.1 MW. STP is located on a 12,220-acre site in Matagorda County, near the Texas Gulf Coast, approximately 200 miles from the City. CPS Energy currently owns 40% of these units. Participant Ownership ("Participants") in STP1 and STP2 and their shares therein are as follows:

Ownership Effective January 31, 2026[1][2]

Participants	%	Nominal Output MW
Constellation Energy	44.0	1,158.6
CPS Energy	40.0	1,053.3
City of Austin-Austin Energy	16.0	421.2
	100.0	2,633.1

[1] On November 1, 2023, NRG Energy, holder of a 44% interest in STP, was acquired by Constellation Energy. The 44% interest in STP1 and STP2 is wholly owned by Constellation South Texas a subsidiary of Constellation Energy. CPS Energy's 2% additional ownership interest discussed below is subject to various approvals.
[2] The data related to this table is updated annually as of January 31st.

STP is maintained and operated by a non-profit Texas corporation ("STP Nuclear Operating Company" or "STPNOC") financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs the STPNOC, with each owner appointing one member to serve with the STPNOC's chief executive officer ("CEO"). All costs and output continue to be shared in proportion to ownership interests.

The STPNOC Board of Directors selected Charles "Chuck" Kharrl as the CEO/CNO ("Chief Nuclear Officer"), effective June 9, 2025. Kym Harshaw, who was the prior acting CEO/CNO, retired in June 2025.

On June 1, 2023, NRG Energy announced that the company had entered into a definitive agreement for the sale of their 44% share of ownership of STP to Constellation Energy ("Constellation"). CPS Energy filed litigation in Matagorda County to seek a legal determination of its rights as a co-owner under existing agreements related to STP. In addition, CPS Energy filed a motion with the NRC to dismiss, stay, or intervene in the license transfer application related to the proposed sale. The purpose of these filings was to ensure that CPS Energy's rights under existing agreements were preserved and followed by all parties. Austin Energy later joined the Matagorda County litigation as a plaintiff to protect their contract rights under applicable STP agreements. On November 1, 2023, NRG Energy, Inc announced its subsidiaries Texas Genco LP LLC and Texas Genco GP LLC completed the sale of NRG South Texas LP, a 44% ownership interest in the STP, to Constellation. Constellation, NRG, CPS Energy, and Austin Energy subsequently agreed to enter into settlement negotiations and stayed the Matagorda County litigation as well as the NRC proceeding to work toward a mutually agreeable solution. On May 2, 2024, CPS Energy, Austin Energy, NRG and Constellation resolved their disputes regarding the proposed sale of an interest in STP by NRG to Constellation South Texas LLC (formerly NRG South Texas LP) and the related contractual rights of CPS Energy and Austin Energy. As part of this resolution, CPS Energy and Austin Energy dismissed the Matagorda County litigation and withdrew their NRC objections. The settlement also included CPS Energy entering into an agreement to acquire an additional 2% ownership of STP from Constellation and a long-term Purchase Power Agreement with Constellation. The 200 MW PPA with Constellation is in effect; CPS Energy has not closed on the additional 2% ownership share of STP. When the transaction closes (anticipated to be by the second quarter of calendar year 2026), CPS Energy's ownership of STP will be 42%, Constellation's will be 42%, and Austin Energy's ownership will remain at 16%. CPS Energy currently has the benefit of the PPA associated with the transaction. The NRC approved the request for ownership transfer on December 11, 2024. CPS Energy is working with federal and State regulators to complete the transfer and has not set a transfer date.

In September 2017, the NRC approved STPNOC's license renewal applications for STP1 and STP2 that extends the operating licenses to 2047 and 2048, respectively.

During the 2021 Winter Weather Event, STP1 automatically shut down on February 15, 2021 amid bitter cold temperatures. The unit located in Bay City, Texas, was subsequently repaired, started and operating at 36% of capacity by the early morning of February 18, 2021 before ascending back to 100% capacity. STP2 remained online throughout the event at full generating capacity.

STP completed corrective actions to ensure the station is ready for winter weather operations. These actions included replacement of missing or degraded heat trace systems and piping insulation, revising the station's Winter Readiness procedure, and training on the station's winter readiness for Operations, Maintenance, and Engineering personnel. In addition, STP submitted TAC 25.55 required Winter Weather Readiness Reports to ERCOT on December 1, 2021. ERCOT inspectors were onsite on December 6, 2021 to tour the plant and confirm STP's compliance.

Five-year South Texas Project Capacity Factor[(1)(2)]

	2021[(4)]	2022[(3)]	2023[(3)]	2024[(4)]	2025[(3)]
Unit 1	94.9%	105.7%	94.5%	85.9%	105.3%
Unit 2	95.9%	94.4%	104.4%	86.4%	93.5%
Average	95.4%	100.1%	99.4%	86.2%	99.4%

(1) As of calendar year ended, December 31.
(2) Capacity Factor based on nameplate rating of 1250.6 MW per unit.
(3) Greater than 100% due to plant upgrades.
(4) Two planned refueling/maintenance outage years.

Coal Plants

Coal, with its relatively stable low cost, contributed to CPS Energy's total net annual generation in Fiscal Year 2025 and provided 1,345 MW of reliable capacity in the ERCOT market.

The Spruce Plant is located at the Calaveras Power Station southeast of the City. The Spruce Plant shares Calaveras Lake's cooling capacity with the Sommers gas plant. The Spruce Plant is equipped with substantial environmental controls. CPS Energy obtains its low sulfur content coal from the Powder River Basin area of Wyoming.

The Spruce Plant consists of two large, well-maintained units. Spruce1 and Spruce2 were installed in 1992 and 2010, respectively. Spruce1 can provide 560 net MW of capacity to the BES. Spruce2 can provide 785 net MW of capacity to the BES. See "DESCRIPTION OF FACILITIES – Electric System – Generating Station Events" and "DESCRIPTION OF FACILITIES – Electric System – Generating Capability" herein. The units are usually base loaded and remain online 24/7 for dispatch to the electric system by ERCOT. CPS Energy has an SCR on the Spruce2 unit. See "COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Air Act – Nitrogen Oxides ("NO_x")" herein. To support new effluent and coal combustion residual standards, CPS Energy has completed installation of new water discharge treatment technology on the Spruce1 and Spruce2 units. See "COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Water Act – New Effluent Standards" and "COMPLIANCE AND REGULATION – Environmental Matters – Other Environmental Issues – Coal Combustion Residuals" herein. On February 28, 2022, the Board approved spending $50 million on a three-acre pond at Spruce to remain compliant with applicable environmental laws. The pond was completed in October 2023 and is currently in service.

The Deely Plant is also located at the Calaveras Power Station. The Deely Plant consists of two large units, Deely1 and Deely2, which were installed in 1977 and 1978, respectively, and were both rated to provide 420 net MW of capacity to the Bulk Electric System ("BES") operated by ERCOT. Both Deely units were deactivated at the end of calendar year 2018, as described in "DESCRIPTION OF FACILITIES – Electric System – Additional Generation Opportunities". The Deely Plant status changed from "mothballed" to "decommissioned and retired permanently" with North American Electric Reliability Corporation ("NERC"), the Energy Information Administration, and ERCOT effective July 7, 2023.

CPS Energy was considering the installation of new water discharge treatment technology to meet environmental compliance standards by the end of 2028. However, based on the new generation plan approved by the Board on January 23, 2023, the project has been canceled as Spruce1 is approved to cease operation in December 2028 and Spruce2 will be converted to natural gas by the end of 2027.

Gas / Fuel Oil Plants

The Sommers Plant, located at the Calaveras Power Station, comprises two large steam units operating on natural gas that share Calaveras Lake's cooling capacity with the Spruce Plant. Sommers1 and Sommers2 were installed in 1972 and 1974, respectively. Sommers1 can provide 420 net MW of intermediate/peaking capacity to the BES. Sommers2 can provide 410 net MW of intermediate/peaking capacity to the BES. Both units are offered to the ERCOT Energy Market and are selected to operate as market economics and load demand dictates. The units are typically cycled during peak load months in the summer and winter based on the load demand and market pricing for the day. During the shoulder months of fall and spring, the units typically operate in a standby mode available to cover CPS Energy native load obligations as well as to take advantage of ERCOT market opportunities. Sommers1 is planned to cease operation in March 2027 and Sommers2 is planned to cease operation in March 2029 as outlined in the new generation plan approved by the Board on January 23, 2023.

The Braunig Plant and Arthur Von Rosenberg Plant ("AvR Plant") are located at the Braunig Power Station southeast of the City and share Braunig Lake's cooling capacity. The Braunig Plant has three steam units which operated on natural gas. Braunig1, Braunig2, and Braunig3 were installed in 1966, 1968, and 1970, respectively. Braunig1, Braunig2, and Braunig3 were able to provide 217, 230, and 400 net MW, respectively, of capacity to the BES. Braunig1, Braunig2, and Braunig3 were originally planned to cease operation in March 2025 as outlined in the new generation plan approved by the Board on January 23, 2023. The foregoing must receive ERCOT approval prior to implementation through the submission of notifications of suspension of operations (an "NSO") which is the formal process used to inform ERCOT when a unit will be retired, seasonally run only, or mothballed. CPS Energy submitted the NSO to ERCOT on March 13, 2024 and a response was received by CPS Energy on April 22, 2024. ERCOT completed its reliability analysis and as a result, ERCOT issued an RFP for Must-Run Alternatives ("MRA"). Per ERCOT's response, the purpose of the request is to solicit more cost-effective alternatives than entering into a RMR agreement regarding the Generation Resources. In addressing the need to support ERCOT System reliability, any decision on whether to enter into an RMR or MRA service agreement must evaluate the costs and benefits of the service. ERCOT requested CPS Energy submit updated NSO forms to include standby costs and fuel adders. ERCOT initiated a RMR agreement for Braunig 3 on February 24, 2025. The contract term is from March 2, 2025 to March 1, 2027. CPS Energy will be reimbursed by ERCOT for all eligible RMR costs. As of April 1, 2025, CPS Energy has ceased operation at the Braunig1 and Braunig2 units. ERCOT did not issue RMR contracts for Braunig1 & Braung2.

The Braunig site also has four simple cycle combustion turbines (renamed Milton B. Lee East Plant) which provide quick-start peaking energy for CPS Energy's generation portfolio, as well as Black Start capability to ensure CPS Energy's generation assets can expeditiously come online in an outage situation. The Milton B. Lee East Plant was installed in 2010. Three of the four units can provide 48 MWs, and one of the units provides 47 MWs net capacity to the BES. Each unit consists of a generator driven by a General Electric LM6000 Combustion Turbine. These combustion turbine units may be fueled with either gas or ultra-low sulfur No. 2 diesel making them very flexible and able to take advantage of ERCOT market volatility. The units are operated as peaking units and are utilized to provide reliable and valuable energy in high demand periods as well as to meet CPS Energy's ancillary service obligations.

The AvR Plant, located adjacent to the Braunig Plant, uses combined cycle technology that is 25% to 30% more fuel efficient than gas steam and combustion turbine generation technologies and provides a competitive low heat rate asset for CPS Energy. The AvR Plant's three generators combine to provide 518 net MW of reliable competitive capacity to the BES. The plant consists of two GE 7FA Frame Combustion Turbines driving one generator each and a GE D11 Steam Turbine driving another generator. The exhaust heat from both turbines is used to generate steam to drive the steam turbine generator. The plant can operate in a 1x1 configuration with one combustion turbine and the steam turbine, or a 2x1 configuration with both combustion turbines in service along with the steam turbine giving it the flexibility to maximize its value. The CT1 compressor/turbine rotor was replaced in November 2023 and the CT2 compressor/turbine rotor was replaced in December 2024.

The Milton B. Lee West Power Station, located in the southwest portion of the County, has four additional quick-start natural gas simple cycle combustion turbines that provide 184 net MW of flexible capacity for CPS Energy. The Milton B. Lee West Plant was installed in 2004. Each of the four units can provide approximately 46 net MW of capacity to the BES. Each unit consists of a generator driven by a GE LM6000 Combustion Turbine. These combustion turbine units operate on natural gas. The units are operated as peaking units and are utilized to cover energy in periods of high demand and ancillary service obligations of CPS Energy.

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On April 9, 2012, CPS Energy closed on the acquisition of the Rio Nogales natural gas combined cycle power plant (the "Rio Nogales Plant"), located in Seguin. The low heat rate 798 MW (net summer rating with duct firing) plant was purchased from Tenaska Capital Management, LLC and provides CPS Energy with reliable, efficient generation capacity. Natural gas is supplied to the plant through a pipeline lateral that accesses the Oasis pipeline, a DCP Midstream pipeline, and a Kinder Morgan/Houston pipeline joint venture pipeline. Water sources for the plant consist of treated sewage effluent from Seguin's wastewater treatment plant, surface water from the Guadalupe River, and ground water from the Schertz/Seguin Local Government Corporation well field in Gonzales County. All the Rio Nogales Plant's water is supplied through an agreement with Seguin. The agreement was entered into in 2001 and has a primary term of 25 years, terminating in 2027 with options to extend the agreement for up to three additional five-year terms. CPS Energy initially sold the plant capacity into the ERCOT wholesale market (including bilateral sales) during the first few years of ownership. The plant capacity is now dedicated to CPS Energy native load demand (corresponding approximately with the reduction in generating capacity attributable to the deactivation of Deely1 and Deely2, which occurred on December 31, 2018). See "DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Coal Plants" herein. The CT1 rotor was replaced in March 2023, and a project to replace the CT2 rotor was completed at the end of April 2025. The CT3 rotor was successfully replaced in April 2024.

On May 1, 2024, CPS Energy announced the closing on the acquisition of Talen Energy Corporation's ("Talen") (OTCQX: TLNE) approximately 1,735 MW generation portfolio located in the South Zone of the ERCOT market for $785 million, subject to customary net working capital adjustments. These assets include natural gas plants in Corpus Christi and Laredo (defined herein). CPS Energy and Talen previously announced the transaction on March 27, 2024. Under the terms of the agreement, CPS Energy has acquired all assets associated with the 925 MW Barney Davis and 633 MW Nueces Bay natural gas-fired generation facilities, both located in Corpus Christi, Texas ("Corpus Christi") as well as its 177 MW natural gas-fired generation facility in Laredo, Texas ("Laredo"). There are a combined total of 66 operations employees at these sites, and they all have retained employment with CPS Energy.

The Barney Davis facility consists of a gas-fired steam electric unit (Unit 1) that was constructed in 1973 and a 2x1 repowered combined cycle unit that began operation in 2010. The repowered combined cycle unit included two new GE 7FA.03 gas turbines, two new Nooter Ericksen Heat Recovery Steam Generators ("HRSG"), and a repurposed steam turbine from Unit 2. The facility is located on approximately 1,992 acres in Nueces County, about 10 miles south of Corpus Christi. The site contains a cooling lake of approximately 1,100 acres.

The Nueces Bay facility is comprised of a 2x1 repowered combined cycle unit that began operation in 2010. The repowered combined cycle unit includes two new GE 7FA.03 gas turbines, two HRSGs, and a repurposed steam turbine from Unit 7. The facility originally consisted of seven oil and gas-fired, steam electric generating units. Units 1 through 5 (boilers and steam turbines) were retired and have been demolished. Unit 6 has also been retired and the boiler has been demolished, although the steam turbine has been retired in place. The Unit 7 steam turbine and generator were repurposed for use in the combined cycle plant. The two GE 7FA gas turbine/ generator sets are referred to as Units 8 and 9. The facility is in Nueces County, within the Corpus Christi inner harbor Port District at the northern boundary of the Corpus Christi. The plant is located on approximately 75 acres of land. The cooling water intakes are located south of the property owned by the Corpus Christi Port Authority. The 30-year agreement, signed in 2000, grants the Nueces Bay facility use of approximately 2 acres of land for operation and maintenance of the circulating water system.

The Laredo plants consist of two GE LMS100 gas turbine generators commissioned in 2008 and located in Webb County, in the City of Laredo, on 49 acres. The facility originally had three natural gas and oil-fired units, although they have since been decommissioned and retired in place, with only partial demolition and removal of equipment.

This action to acquire the Corpus Christi and Laredo assets supports CPS Energy's generation plan, approved on January 23, 2023 by the Board. It secures an additional 1,735 MWs of power for the greater community, which became available on May 1, 2024. The addition of these units aligns with the generation plan, which includes the retirement of older units and the addition of a blend of gas, solar, wind, and energy storage.

On September 15, 2025, CPS Energy and PROENERGY entered into a definitive agreement under which CPS Energy would acquire four natural gas power generation facilities with an aggregate electric capacity totaling 1,632 MW for $1.387 billion, subject to standard net working capital adjustments. The transaction closed on September 23, 2025. Located in the ERCOT market, the acquired assets include state-of-the-art, recently constructed peaking natural gas plants in Harris, Brazoria, and Galveston Counties. The acquired assets are dual-fuel capable, providing CPS Energy future optionality to transition to a hydrogen fuel blend that would enable reduced carbon emissions, aligning with CPS Energy's commitment to the CAAP's goals and enhancing fuel security. See " – Generation Plan Adjustments – Additions" below.

This purchase is in alignment with CPS Energy's community-led and Board approved generation and resource plan. Pursuing unique opportunities, such as acquiring these new operating assets, eliminates permitting, supply chain, construction, and execution risks at a lower cost to building new power facilities as was originally contemplated in the January 2023 Board approved generation and resource plan, and supports CPS Energy's long-term objectives of providing reliable, affordable, and cleaner energy to its customers and community. This decision eliminates approximately $3.7 billion in future planned capital expenditures, including maintenance capital, and accelerates the timeline for capacity delivery by several years. Net of the acquisition cost and associated maintenance capital, the transaction is expected to save approximately $1.8 billion nominally compared to CPS Energy's current plan.

This acquisition represents a pivotal step in CPS Energy's long-term generation strategy, delivering immediate dispatchable capacity while materially reducing capital exposure and development risk. These assets—modern, dual-fuel natural gas peaking units—are uniquely positioned to support CPS Energy's reliability goals in a rapidly evolving ERCOT market. As part of the transaction, CPS Energy has assumed the associated gas and transportation agreements from PROENERGY, which ensure an operationally smooth integration.

The HO Clarke plant is a quick-start simple-cycle gas turbine peaking facility located on approximately 16 acres of land in Houston, roughly 9 miles from Houston's center. The facility comprises 8 simple cycle peaking turbines; 6 units began commercial operations in January 2021 ("HO Clarke I") and two (2) units began in November 2021 ("HO Clarke II"). HO Clarke provides a combined capacity of 384 MW in ERCOT's Houston Zone.

The Topaz plant is a quick-start simple-cycle gas turbine peaking facility located on approximately 22 acres of land in Texas City, Texas, roughly 33 miles from Houston's center. The facility comprises 10 simple cycle peaking turbines; 7 units began commercial operations in July 2021 ("Topaz I") and 3 units began in September 2021 ("Topaz II"). Topaz provides a combined capacity of 480 MW in ERCOT's Houston Zone.

Mark One plant is a quick-start simple-cycle gas turbine peaking facility located on approximately 16 acres of land in Angleton, Texas, roughly 37 miles from Houston's center. The facility comprises 8 simple cycle peaking turbines; 6 units began commercial operations in October 2022 ("Mark One I") and 2 units began in September 2024 ("Mark One II"). Mark One provides a combined capacity of 384 MW in ERCOT's Houston Zone.

Remy Jade plant is a simple-cycle gas turbine peaking facility located on approximately 49 acres of land in Crosby, Texas, roughly 22 miles from Houston's center. The facility comprises 8 simple cycle peaking turbines; 6 began commercial operations in June 2024 ("Remy Jade I") and 2 units began in September 2024 ("Remy Jade II"). Remy Jade provides a combined capacity of 384 MW in ERCOT's Houston Zone.

Generation Plan Adjustments

The following indicate modifications to CPS Energy's generation portfolio:

Additions

The following comprise the four generation facilities acquired from PROENERGY on September 23, 2025. See " – Power Generation Facilities Acquisition" above.

Resource/Technology	Commercial Operation Date	Capacity (MW)
HO Clarke (48x8)	2021	384
Mark One (48x8)	2023	384
Topaz (48x10)	2021	480
Remy Jade (48x8)	2024	384
Grand Total		1,632MW

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Subtractions

As of the date hereof (subject to change), the following planned power facilities have been removed from the approved generation and resource plan contemplated in January 2023. See " – Power Generation Facilities Acquisition" above.

Resource/Technology	Planned Commercial Operation Date	Capacity (MW)
RICE[(1)]	2030	-440
RICE	2032	-220
RICE	2033	-440
RICE	2034	-220
Hydrogen CT[(2)]	2036	-240
Grand Total		(1,560MW)

(1) Reciprocating Internal Combustion Engine.
(2) Hydrogen Combustion Turbine.

Strategically, these purchases in 2024 and 2025 provided an opportunity to secure and pull forward approved generation plan investment and reduce aggregate capital spend through the displacement of planned higher-cost, new construction generation assets. In addition to the cost benefits, this investment also improves reliability at a lower price to the CPS Energy community and mitigates risks such as increased costs due to inflation and supply chain constraints associated with a new build.

Due to the acceleration, CPS Energy anticipates having an overall reserve margin above native load demand which will provide much-needed reliability during critical operational months and mitigate risks due to unforeseen outages or extreme temperatures. CPS Energy's existing practice meets the native load demand and the long-term municipal contract obligations first, with any excess remaining sold into short-term bilateral contracts or into the ERCOT wholesale day ahead and/or real time markets.

CPS Energy's Vision 2027 plan includes its generation plan that contemplates the retirement of 2,541 MW of older and inefficient dispatchable generation capacity before 2030. CPS Energy has added 730 MW of solar energy and 50 MW of energy storage to date as part of its generation plan, with an additional 500 MW energy storage RFP in the works. With the addition of these facilities, environmental emissions are anticipated to stay on track to meet the City's Climate Action and Adaptation Plan (the "CAAP") emissions reduction commitment by 2030. In addition, it provides CPS Energy with the flexibility to add more renewable energy and storage with this benefit of firming capacity (power that is available as needed) in place.

Renewable Resources

CPS Energy has one of the strongest and most diverse renewable energy programs in Texas, including local solar, West Texas solar, South Central Texas solar, West Texas wind, coastal wind and landfill gas. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ELECTRIC UTILITY RESTRUCTURING IN TEXAS – Environmental Restrictions of Senate Bill 7 and Other Related Regulations" herein.

As a step in diversifying its energy resource plan, CPS Energy is proactively pursuing renewable energy supplies. CPS Energy is currently receiving renewable energy under several long-term contracts and has contracts for projects in various phases of development.

As of January 31, 2026, CPS Energy has 1,123.6 MW of wind, 1,040.6 MW of solar and 4.2 MW of landfill gas generated energy for a total other generation and renewable energy capacity in operation of 2,168.4 MW.

Wind

- Desert Sky: consisted of two contracts for wind-generated energy from the Desert Sky Wind Project: a 20-year contract for 135 MW and a 15-year contract for 25.5 MW. These contracts were renegotiated into one single contract, with a termination date of December 31, 2021, in response to a request from the developer to repower the project with improved equipment. The plant capacity factor improved, providing CPS Energy with additional MWh at a lower cost per MWh than the original contracts. The term of the new contract remained the same as the original contracts. The repower was completed in August 2018 and added approximately 8 MW of nameplate capacity. The Desert Sky Wind contract has since been renegotiated to extend through December 31, 2027 and now provides a total of 63.4 MW.
- Cottonwood Creek (Sweetwater 3): this wind farm was also repowered, and the contract was extended in late 2025 and increased offtake capacity to 108.5 MW. This new 5-year contract is scheduled to end in calendar year 2030.
- Sweetwater 4: a 20-year contract for 240.8 MW from the Sweetwater 4 Wind Farm.

- Penascal: originally a 15-year contract for 76.8 MW of capacity. This contract was extended in April 2024 for a 3-year term and increased CPS Energy's offtake to 160.8 MW. In April 2025, CPS Energy agreed to another extension to April 2028. CPS Energy now is receiving 160.8 MW of capacity from Penascal 1, 111.6 MW from Penascal 2, and 47.6 MW from Penascal 3 for an aggregate amount of 320 MW.
- Los Vientos: a 25-year contract for 200.1 MW of capacity.
- Cedro Hill: a 20-year contract for 150 MW of capacity. This contract was renegotiated in January 2023 with a revised termination date of November 2045, in response to a request from the developer to repower the project with improved equipment. The repower occurred in December 2024 and increased CPS Energy's offtake to 160 MW.

Solar

- Blue Wing: a 30-year contract for 13.9 MW which entered into commercial operation in November 2010.
- Sinkin 1 and Sinkin 2: consists of two 25-year contracts, each 9.9 MW which became operational in May 2012.
- Somerset: a 25-year contract for 10.6 MW, which became operational in August 2012. Sinkin 1 and 2 and Somerset Solar projects comprise what was formally referred to as the SunEdison Project. See "Strategic Initiatives – Business and Economic Development" herein.
- Commerce (Southwest Research Institute): In August 2018, renewable energy infrastructure developer Renewable Energy Systems was selected by CPS Energy to construct an innovative solar and energy storage project, located at Southwest Research Institute and is the first co-located solar and storage project interconnected at the distribution level within ERCOT. This project broke ground on October 9, 2018 and went online in February 2020. This project has 17,752 solar panels that produce about 5 MW of solar, enough to power approximately 1,250 homes. The project also includes a Battery Energy Storage System, with 10 MW of storage capacity, which provides flexibility to store energy by charging when market prices are low and discharge the stored energy when market prices are high.
- Peregrine Solar: In May 2022, CPS Energy executed a 25-year agreement with Consolidated Edison Development, Inc., a subsidiary of Con Edison Clean Energy Businesses, Inc., for a 300 MW solar project to be located in Goliad County. In October 2022, RWE Clean Energy, LLC (based out of Germany) announced it would be acquiring all of Con Edison Clean Energy Businesses, Inc. The transaction closed in March 2023. CPS Energy consented to the ownership change. Commercial operation began in February 2025.
- Tierra Bonita: In September 2022, CPS Energy reached an agreement with Kenlov Ashtrom Renewable Energy LLC, a subsidiary of KARE, for the purchase of 180 MW of solar energy. Developed and originated by KARE's U.S. development partner, OnPeak Power, this project will provide CPS Energy with 180 MW of the full 305 MW from the Tierra Bonita solar farm located in Pecos County. The KARE agreement is a 20-year contract and came online in late 2024.
- El Patrimonio: In January 2023, CPS Energy signed a contract with Ashtrom Renewable Energy, in collaboration with OnPeak Power, for 104 MW of the El Patrimonio solar project, which will be located in the County. This is a 20-year contract with an anticipated commercial operation date of September 2027.
- Exodus Solar: In December 2023, CPS Energy signed a contract with Exodus Solar LLC, that will provide CPS Energy 150 MW in Caldwell County. The agreement is a 25-year contract with an anticipated commercial operation date of calendar year 2028. Additionally, as part of the agreement, Genesis Consolidated Industries will provide community benefits, including the contribution of funds as well as efforts to establish various training programs in the community related to renewables projects and developments.

CPS Energy executed a Master Agreement with OCI Solar Power for approximately 400 MW from seven facilities. All seven facilities have been or became operational in early 2017. See "Strategic Initiatives – Business and Economic Development" herein. Each individual facility comprising OCI Solar's 401.8 MW has an existing PPA.

- Alamo 1: a 39.2 MW project which achieved commercial operation in December 2013.
- Alamo 2 (St. Hedwig): a 4.4 MW project which achieved commercial operation in March 2014.
- Alamo 4 (Eclipse): a 39.6 MW project which achieved commercial operation in August 2014.
- Alamo 3 (Walzem): a 5.5 MW project which achieved commercial operation in January 2015.
- Alamo 5 (Helios): a 95 MW project which became operational at the end of December 2015.
- Alamo 7 (Solara): a 106.4 MW project which became operational in September 2016.
- Alamo 6 (Sirius 1): a 110.2 MW project in Pecos County, which became operational in March 2017.

In addition to the 25-year PPAs executed under the Master Agreement with OCI, CPS Energy has also executed two separate 25-year PPAs for:

- Pearl: a 50 MW project located adjacent to Alamo 6. Project Pearl became operational on October 16, 2017.
- Ivory: a 50 MW project located near the City of Lamesa, Texas, which previously sold to D.E. Shaw Renewable Investments and began commercial operation on December 20, 2018.

In March 2017, CPS Energy and OCI executed an Amended and Restated Master Power Purchase and Economic Development Agreement. The original Master Agreement was replaced in order to simplify the agreement and reflect pertinent terms going forward.

Landfill Gas

- Covel Gardens: CPS Energy ended a long term contract in 2024 for this landfill gas-generated energy project totaling 9.6 MW which came on-line in December 2005.
- Nelson Gardens: Under an additional 15-year contract, the Nelson Gardens 4.2 MW landfill gas generation project achieved commercial operation in April 2014.

An estimate of less than 1.0 MW of solar electricity will be produced by CPS Energy's Solartricity Producer Program. The Solartricity Producer Program is a limited pilot project that is currently closed to any new subscribers and is not included in the "Generating Capability" table. Each Solartricity Producer Program participant has a 20-year contract with CPS Energy. In addition, the pilot "Simply Solar" programs discussed in "COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein, currently constitute approximately 10 MW of solar capacity. When including these pilot programs, CPS Energy's renewable portfolio capacity increases to 2,111.7 MW. Only CEC Beck is included in the "Generating Capability" table, since it is owned and operated by CPS Energy and to align with other corporate reporting.

As further described herein, CPS Energy executed several agreements in 2022 and 2024 for the purchase of solar capacity once these new projects are fully developed and operational at various future dates. See "Strategic Initiatives – CPS Energy Strategies – Historical Programs" herein.

Storage Resources

- Padua 1: a 50 MW, 2-hour duration battery energy storage project with Eolian, L.P. located in the County. This location, combined with the operating flexibility offered by energy storage, will further improve CPS Energy Systems' resiliency as well as customer reliability. The agreement, signed in January 2023, is a 20-year contract and became operational in July 2025.
- Padua 2: a 150 MW, 4-hour duration battery storage project with Eolian, LP located in the County. The agreement, signed in July 2024, is a 20-year contract with an anticipated commercial operation date of April 2026.
- Ferdinand Grid: a 200 MW, 4-hour duration battery storage project with Eolian, LP in the County. The agreement, signed in July 2024, is a 20-year contract with an anticipated commercial operation date of June 2026. Subsequent to contract signing, Eolian sold their interest to Ambar Power.
- Alamo ESS 3: a 120 MW, 4-hour duration battery storage project with OCI Energy located in the County. The agreement, signed in October 2024, is a 20-year contract with an anticipated commercial operation date of December 2026.

Other Contracted Resources

In January 2023, CPS Energy signed a contract with Calpine to provide a total of approximately 522 MW of firming capacity located in Guadalupe County at the Guadalupe Energy Center. Firming capacity with natural gas is dispatchable, controllable, and reliable energy that can be utilized to support increasing amounts of renewable generation. The Calpine agreement began delivering power to CPS Energy in the Spring of 2023. In addition, in May of 2024, CPS Energy negotiated for a 200 MW ERCOT market PPA with Constellation Energy. This is a 10-year agreement for around-the-clock power.

Peak Demand And Native Load

In the CPS Energy service territory, a new system peak demand of 5,910 MW was set on August 21, 2024, surpassing the previous 2024 record of 5,883 MW. A new winter peak demand record of 5,346 MW was also set on January 16, 2024. CPS Energy continues to provide innovative and growing conservation and demand-response programs, such as automatically adjusting participating customers' thermostats served to keep CPS Energy's peak demand lower than it otherwise would have been. See "DESCRIPTION OF FACILITIES – Electric System – Generating Capability" herein.

Replacement Power For Events

Depending upon the time of the year and actual customer demand, unplanned outages may or may not result in a need to purchase power from other providers on the ERCOT wholesale market. While replacement power can be more expensive to CPS Energy's customers than generation from its own facilities, CPS Energy's existing rate structure allows the cost of replacement power to be funded through its monthly fuel and gas cost adjustment fee. CPS Energy makes no representation as to the costs of replacement power and qualifies the foregoing in response to any natural disasters including the 2021 Winter Weather Event.

ASSETS SUPPORTING GENERATION

Braunig and Calaveras Lakes are CPS Energy-owned man-made lakes that provide cooling for CPS Energy's generating units at these lakes. These lakes utilize treated sewage effluent and runoff waters to maintain operating levels. CPS Energy was a pioneer in the use of non-potable, recycled water from treated sewage effluent for cooling purposes, thereby saving higher quality, potable ground water for other uses.

CPS Energy has contracted with SAWS to provide a maximum of 50,000 acre-feet of treated sewage effluent per year to CPS Energy. CPS Energy projects that these contract volumes, along with water available under existing water rights, will provide sufficient cooling capacity for existing and planned generation units at Braunig and Calaveras Lakes. However, low flow in the San Antonio River could create challenges in pumping make-up water from the river to keep the lakes in optimal operating conditions.

CPS Energy owns an additional 3,064 acre-feet of Edwards Aquifer ground water rights to supply process water and some cooling water to other power plants in its service territory. In 2019, CPS Energy leased 2,000 acre-feet of its Edwards Aquifer water to SAWS for a five-year term, as described in "COMPLIANCE AND REGULATION – Environmental Matters – Water Resources Planning" herein. This water had gone unused in the past and CPS Energy projects that the retained 1,069 acre-feet of water is sufficient to maintain power plant operations even in drought conditions. CPS Energy also purchases potable water from SAWS and East Central Special Utility District through standard water delivery rates for power plant process water and miscellaneous plant needs.

CPS Energy continues to manage water-related legal, supply, and conservation issues through participation with local and regional water stakeholder groups. CPS Energy has conserved water by using technologies such as once-through cooling ponds (instead of cooling towers), increased power plant efficiency projects, the installation of water-efficient gas turbines (versus gas steam turbines), and new water treatment technologies. CPS Energy continues to study other water conservation technologies, such as dry cooling. See "COMPLIANCE AND REGULATION – Environmental Matters" herein.

Seguin supplies potable and reuse water to CPS Energy's Rio Nogales Power Station. In July 2020, Seguin voted and passed a wastewater system upgrade project which will shut down the Walnut Branch Treatment Plant in 2027. The Walnut Branch Treatment Plant supplies reuse water to the Rio Nogales Power Station. Currently, the water supply from Seguin includes 75% potable water and 25% reuse water. Following the treatment plant shutdown, the Rio Nogales Power Station plans to use 100% potable water provided by Seguin. CPS Energy has notified Seguin of the acceptance of additional potable water as replacement of the reuse water. CPS Energy is also evaluating onsite storage and additional water supply alternatives.

The acquisition in May 2024 included two plants in Corpus Christi which use sea water for cooling. Both sites have more than adequate water rights to support plant cooling even in severe drought. The Laredo plants were purchased at the same time with water rights from the Rio Grande River adequate to operate the site at a 40% capacity factor. A drought management plan was completed and identified available water alternatives that can be explored in the future if needed.

CPS Energy is in the process of updating the current strategic water and drought management plan to include the following: Rio Nogales, Barney Davis, Nueces Bay, Laredo and the newly acquired facilities in the Houston area. The process will take approximately two years and will identify alternative water sources and conservation processes during extreme drought.

For description of other assets of the Systems that support generation, please see "DESCRIPTION OF FACILITIES – Fuel Supply" herein.

SMART GRID MODERNIZATION PROGRAM

Starting in 2013, CPS Energy began building a converged AMI and distribution automation ("DA") network. The rollout of new electric meters and gas interface management units ("IMUs") using this network began in 2014 in order to reduce operational costs and improve reliability. A new energy portal was implemented to give customers the opportunity to better track and manage their energy usage. The project was completed in the summer of 2018. The combined cost of the network, electric and gas upgrades was $264 million. Operational savings, accurate reads, and distribution automation are all factored into the program. Savings are expected to cover the cost in approximately 13 years. As of January 31, 2026, approximately 1.4 million smart grid devices have been installed pursuant to this program. See "COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs – Energy Conservation" herein. In addition, CPS Energy is utilizing smart grid technologies to ensure grid resilience and reduce the impacts of power events during natural disasters such as flooding and hurricanes.

SMART STREETLIGHTS

CPS Energy and the City have partnered on a joint RFP to pilot and award a smart streetlight control solution with added smart city use cases. Smart streetlight controls will enable centralized monitoring, provide locations of streetlights, and provide streetlight failure and status reports which will improve maintenance planning and increase operational efficiency. The solution will provide a foundation for future technologies such as enhanced control of streetlights and adaptive lighting schedules.

The smart streetlight platform can also be leveraged by smart city use cases. The City identified several smart city use cases that it piloted, which included the following: temperature and air quality monitoring, flood detection, noise detection, and smart parking.

CPS Energy and the City selected two solution providers to pilot smart streetlight control and smart city applications within the City's three Innovation Zones (Downtown, Medical Center, and Brooks City Base) over a 6-month period. The pilot period concluded on October 15, 2021. An initial evaluation of the results of the streetlight pilot are complete, and such results are being shared with internal and external shareholders. CPS Energy has finalized the evaluation of results from the pilot. While the results of the pilot are promising, CPS Energy is deferring the implementation of the Smart Streetlights until 2031 to focus on the operational streetlight deployment and maintenance.

NEW PRODUCTS AND SERVICES

CPS Energy continually evaluates its entire portfolio of electric and gas products and services to more fully meet customers' needs. To that end, in the latter half of calendar year 2020, CPS Energy received approval from the Board and City Council for three new offerings now available to commercial customers. First, CPS Energy developed a tariff that provides large commercial customers with improved access to renewable energy sources. Under this optional Green Tariff (as described under "CUSTOMERS AND RATES – Green Tariff"), CPS Energy procures renewable energy from a source chosen by the customer, and then sells it to the customer through the Green Tariff. Second, CPS Energy converted a limited Resiliency Service pilot into a permanent tariff for its commercial customers. Under the Resiliency Service offering, CPS Energy or a third party will provide on-site backup generators capable of providing electricity to retail customers during outages of the electric system in exchange for a monthly Resiliency Service capacity fee. The natural gas backup generators are owned and operated by one of CPS Energy's suppliers. As of January 31, 2026, Resiliency Service has been enabled at 28 customer sites with a total capacity of 31.6 MW. See "CUSTOMERS AND RATES – Resiliency Tariff" herein. The Green Tariff and Resiliency Service offerings have both been fully approved.

Lastly, in support of growing demand for distribution-level interconnection by energy storage facilities seeking to access to the ERCOT wholesale energy markets as generation resources, CPS Energy finalized regulatory approvals of updates to its existing Wholesale Distribution Service ("WDS") tariff. The updated WDS tariff enables eligible transmission service customers to interconnect at various locations within the distribution system at applicable rates for utilizing the portion of distribution assets ascribed to the location of interconnection. Consistent with the Board's recommendation, the WDS tariff updates were approved by the City Council on September 17, 2020. The WDS tariff, which offers transmission service to customers served at distribution voltage, is subject to the joint jurisdiction of the City Council (regarding appropriate cost recovery for use of distribution assets) and the PUCT (to ensure nondiscriminatory rates and terms of access to the transmission system via the distribution network). CPS Energy filed its application with the PUCT for administrative approval of the updated WDS tariff on October 12, 2020, in Docket No. 51409, which was subsequently challenged by two energy storage companies requesting a hearing on the merits. The PUCT granted the request for a contested hearing and forwarded the matter to the State Office of Administrative Hearings ("SOAH") for adjudication. On June 25, 2021, the SOAH administrative law judges approved the WDS tariff rates on an interim basis subject to potential adjustment pending the final resolution of the case. On September 15, 2022, the PUCT issued a final order approving CPS Energy's revised WDS tariff as filed, consistent with a settlement agreement reached among the parties to their contested proceeding.

QUALIFIED SCHEDULING ENTITY

CPS Energy operates as an ERCOT Level 4 QSE representing all of CPS Energy's assets and load. The communication with ERCOT and the CPS Energy power plants is monitored and dispatched 24 hours per day/365 days a year. Functions are provided from the Energy Market Center housed within the main office of CPS Energy. Backup facilities have also been created. QSE functions include load forecasting, day ahead and real time scheduling of load, generation and bilateral transactions, generator unit commitment and dispatch, communications, invoicing, and settlement. The QSE operates in all aspects of the ERCOT Market, including submitting bids and offers in the Day Ahead Market ("DAM"), operating generation and load in the Real Time Market ("RTM"), participating in Congestion Revenue Rights auctions, and offering Ancillary Services into the grid.

TRANSMISSION SYSTEM

CPS Energy maintains an electric transmission network for the movement of large amounts of electric power from generating stations to various parts of the service area, to or from neighboring utilities, and for wholesale energy transactions as required. This network is composed of 138 kV and 345 kV lines with autotransformers to provide the necessary capability in the movement of bulk power.

DISTRIBUTION SYSTEM

The distribution system is supplied by 97 substations strategically located on the high voltage 138 kV transmission system stepping down to distribution system voltages of 34.5 kV, 13.2 kV and 4 kV. The City's central business district is served by nine underground networks, each consisting of four primary feeders operated at 13.2 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt secondary spot system. This system is designed for the highest level of distribution reliability.

Approximately 8,442 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of 778 miles of three-phase equivalent distribution lines, 87 miles of three-phase downtown network distribution lines, and 6,680 miles of single-phase underground residential distribution lines.

INTERCONNECTED SYSTEM

The electric system is integrated with more than 100 other utilities, municipalities, independent power producers, power marketers, and co-operatives in Texas to form ERCOT, which covers a large portion of Texas. The ERCOT system is operated entirely within the State and is connected to other reliability councils and Mexico through asynchronous connections, providing only limited import/export capability. CPS Energy and the eight utilities listed below are the major transmission entities in ERCOT:

American Electric Power Service Corporation	Austin Energy
Brazos Electric Power Co-op Inc.	CenterPoint Energy
LCRA Transmission Services Corp.	Oncor Electric Delivery Company LLC
South Texas Electric Co-op Inc.	Texas-New Mexico Power Co.

The transmission facilities of CPS Energy, the eight above entities, and those of other transmission facility owners have been integrated into a single control area, which is operated by ERCOT acting as the ISO. ERCOT operates the transmission grid through each of the transmission-owning entities that maintain direct control and maintenance of their respective portions of the transmission infrastructure.

On August 10, 2023, ERCOT set a peak record for electric demand of 85,508 MW compared to the grid's previous all-time high demand of 83,961 MW on August 9, 2023. The winter peak record for electric demand was set on February 20, 2025, reaching 80,525 MW compared to the grid's previous winter peak record of 78,349 MW on January 16, 2024. Increased power usage in response to weather conditions, commercial and industrial demand growth, data-center, and population growth has impacted and may continue to impact the grid's ability to prospectively operate effectively and efficiently and both the Texas Legislature and the PUCT are actively making changes by focusing on improving the safety and reliability of the electric system.

Pursuant to the PUCT's open access transmission rule, discussed under "CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein, ERCOT members and other wholesale market participants jointly established, by a filing with the PUCT in 1996, the ERCOT organization as an ISO and an integrated electronic transmission information network. ERCOT's responsibilities were augmented in 1999 under SB 7 for the retail competitive market and include alternate dispute resolution procedures, coordination of the scheduling of ERCOT generation and transmission, directing the redispatch of ERCOT generation and transmission transactions for economic purposes, preserving system reliability, and administering the electronic transmission information network. Beginning July 31, 2001, ERCOT began operating the interconnected system as a single control area, in contrast to the multiple control areas historically in place, as part of the transition to the retail competitive market, which was fully implemented on January 1, 2002.

In December 2010, ERCOT transitioned from its existing "Zonal" market structure to a "Nodal" market structure. Instead of simply facilitating the scheduling of generation resources and loads, the Nodal market ERCOT optimizes the dispatch of all generating units in the RTM using Security Constrained Economic Dispatch ("SCED"). Resource operators submit offer curves to ERCOT and load serving entities submit bid curves to ERCOT. The SCED engine optimizes deployment of generation assets (constrained by the limits of the transmission system) to meet demand through an electronic auction run every five minutes. To provide predictability in the RTM, ERCOT also operates a financial DAM. This voluntary market allows market participants to sell resources and buy load one day prior to the operating day, securing positions and adding predictability to their revenues and costs. The DAM is conducted by ERCOT itself, and each participant must show adequate creditworthiness to participate. CPS Energy participates in both the DAM and the RTM daily. ERCOT's costs of converting to a single control area and of administering system operations for the competitive retail market are recovered through an administrative fee assessed to system participants, including CPS Energy, allocated on an energy basis. CPS Energy recovers the fee through the billing adjustment discussed above under "CUSTOMERS AND RATES – Customer Rates – Governmentally Imposed Fees, Taxes, or Payments".

ERCOT also manages commercial operations of the wholesale power market, as well as acts as a single clearinghouse for retail customer switches and metering information.

CPS Energy is a qualified scheduling entity, load serving entity, distribution service provider, resource entity, and transmission service provider ("TSP") in the ERCOT wholesale market, and is thereby obligated to comply with all rules established by ERCOT as reflected in its protocols, planning guides, and operating guides, which are subject to change from time to time and subject to oversight and approval by the PUCT.

CPS Energy is also complying with the reliability standards of NERC, including the Critical Infrastructure Protection standards. CPS Energy must comply with these standards as a Transmission Planner, Transmission Owner, Transmission Operator, Distribution Provider, Generator Owner and Generator Operator. CPS Energy is continually monitoring proposed new reliability standards, new versions of existing standards, and the potential of violations related to the standards. CPS Energy does not anticipate any violations that would have a material financial impact. CPS Energy's NERC Audit was completed in July 2023. One finding was identified, which was fully mitigated.

NUCLEAR POWER GENERATION INDUSTRY, STP1 AND STP2

The NRC evaluates plant performance by analyzing two distinct inputs: inspection findings from the NRC's inspection program and performance indicators that are reported by the licensee. Inspection findings and performance indicators are given a color designation based on their safety significance. The current plant assessment for STP can be found at a summary level at http://www.nrc.gov/NRR/OVERSIGHT/ASSESS/pim_summary.html, or by writing to United States Nuclear Regulatory Commission, Public Document Room, O-1F-13, Washington, D.C. 20555. Such information is not incorporated into or made a part of this Quarterly Update.

The NRC regulations require that each holder of a nuclear plant operating license submit to the NRC a decommissioning plan, which contains, among other things, a cost estimate for decommissioning such plant and either a funding plan or a guaranty method for covering decommissioning costs for such plant. Participants in STP have filed a decommissioning plan for the STP in compliance with these regulations, which include representations by each Participant that has established a trust into which it annually pays, throughout the life of the STP, amounts which, when accumulated with investment income, are projected to provide the funds required by the rules to pay its respective portion of such decommissioning costs.

CPS Energy maintains decommissioning funds for its 28% interest in STP separate from decommissioning funds associated with its 12% STP interest ("former AEP TCC interest") to meet its decommissioning obligations for its entire 40% interest in STP. See Note 15 to CPS Energy's Basic Financial Statements. Total funds in each Trust are allocated to decommissioning costs, spent fuel management and site restoration. The funds available for decommissioning costs are based on cost estimates most recently provided in a cost study finalized in May 2023. As of December 31, 2025, and 2024, CPS Energy had accumulated approximately $622 million and $552 million, respectively, in the 28% Trust. Based on the most recent available annual calculation of financial assurance

(required by the NRC every two years), as of December 31, 2024, the 28% Trust funds available for decommissioning costs totaled $350 million, which exceeded the estimated NRC requirement of $138 million. With respect to decommissioning funds for the former AEP TCC interest, the acquisition by CPS Energy and Texas Genco of AEP TCC's interest in STP includes, proportionately, the responsibility for decontamination and decommissioning, but also resulted in the transfer of decommissioning funds held in trust by AEP TCC. Under PUCT's Substantive Rules Applicable to Electric Service Providers – Nuclear Decommissioning – Rule 25.303, AEP TCC collected decommissioning fees from its historical retail customers, which were paid into trust accounts applicable to the new shares of STP acquired by CPS Energy and Texas Genco. Based on analysis of the May 2023 cost study, funds are projected to be adequate to meet expected costs. The need for additional funding is subject to review and adjustment by the PUCT every five years or at the request of an interested person including CPS Energy or Constellation Energy Group. As of December 31, 2025, and 2024, the CPS Energy balance in the Decommissioning Master Trust Related to the South Texas Project Interest Acquired from AEP Texas Central Company, "Master Trust (TCC Funded)", was $228 million and $203 million, respectively. Based on the most recent annual calculation of financial assurance, as of December 31, 2024, the TCC Funded Trust funds available for decommissioning costs for CPS Energy's 12% interest in STP totaled $139 million, which exceeded the estimated NRC requirement of $59 million. See "FINANCIAL MANAGEMENT OF THE SYSTEMS – Investments – Trust Funds – STP Decommissioning Funds" and "Master Trust (TCC Funded)" herein for information concerning the value of investments in the decommissioning trusts. Actual decommissioning costs could vary substantially from the estimate of such costs depending on future regulatory requirements, the method used for decommissioning, and other factors, and the amounts in the decommissioning trusts may or may not be adequate to pay these costs. See "FINANCIAL MANAGEMENT OF THE SYSTEMS – Investments – Trust Funds – STP Decommissioning Trust" herein.

Used Nuclear Fuel Management

Under the Nuclear Waste Policy Act, 42 U.S.C. 10101, et seq. ("NWPA"), the Department of Energy ("DOE") has an obligation to provide for the permanent disposal of high-level radioactive waste, which includes used nuclear fuel at United States commercial nuclear power plants such as STP. To fund that obligation, all owners or operators of commercial nuclear power plants have entered into a standard contract under which the owner(s) pay a fee to the DOE of 1.0 mill per kilowatt hour (1M/kWh) electricity generated and sold from the power plant along with additional assessments. In exchange for collecting this fee and the assessments, DOE undertook the obligation to develop a high-level waste repository for safe long-term storage of the fuel and, no later than January 31, 1998, to transport, and dispose of the used fuel. To date, no high-level waste repository has been licensed to accept used fuel. The National Association of Regulatory Utility Commissioners ("NARUC") has challenged further collection of this fee. On November 19, 2013, the U.S. Court of Appeals for the District of Columbia (the "D.C. Circuit Court") ruled in favor of NARUC and ordered DOE to submit to Congress a proposal to reduce the fee to zero until certain conditions are met. While the reporting of volumes will continue, effective May 16, 2014, the rate changed to 0.0 mill per kilowatt hour (0/M/kWh), or no fee.

To date, the DOE has not accepted used fuel from any domestic commercial nuclear power plant. According to the filings in one recent suit brought against the DOE, at least 66 cases have been filed in the Court of Federal Claims against the DOE related to its failure to meet its obligations under the NWPA by the existing owners or operators of nuclear facilities seeking damages related to ongoing used nuclear fuel storage costs. In early 2016, a federal district court in Washington, D.C. ruled against the DOE, ordering the government to clean up the Hanford Nuclear Reservation in response to NWPA violations. Entergy Nuclear Generation Company ("Entergy") and Boston Edison Company ("Boston Edison") filed suits alleging a $40 million claim before the Court of Federal Claims regarding allegations that the DOE failed to compensate a nuclear energy company for nuclear waste storage fees incurred. In an opinion and order addressing both companies' claims, dated February 14, 2017, the court dismissed Boston Edison's complaint (based on the rationale that such claim was not yet ripe) and dismissed the government's motion to stay discovery related to the Entergy case due to Boston Edison's claim resolution by the court.

On August 31, 2000, in Maine Yankee Atomic Power Company, et al. v. US, the United States Court of Appeals for the Federal Circuit affirmed that the DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. After that decision, the DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while the DOE continues to develop a permanent high-level waste repository. In early February 2013, STPNOC, on behalf of the owners of STP, entered a similar settlement with the DOE. Under the terms of the settlement, the DOE will reimburse STP for certain costs that will be incurred in continuing onsite storage of all its used nuclear fuel. As with similar settlements throughout the nuclear industry, the terms of the agreement call for the DOE to reimburse for certain costs incurred through December 2013. In early November 2013, STPNOC and its outside counsel received notice from the Department of Justice ("DOJ") that the DOE was offering to extend the terms of the settlement to allow for the DOE to reimburse for costs incurred through December 2016. The settlement extension (addendum) was executed on January 24, 2014 and extended the term of the Spent Fuel Settlement Agreement with the DOE through December 31, 2016. In November 2016, STPNOC and its outside counsel received notice from the DOJ that the DOE extended the terms of the settlement through December 31, 2019. On June 25, 2020 STPNOC and its outside counsel received notice from the DOJ that the DOE extended the terms of the settlement through December 31, 2022. On March 5, 2023, STPNOC and its outside counsel received notice from the DOJ that the DOE proposes extending the terms of the settlement through December 31, 2025. The extension was executed on April 4, 2023. On January 5, 2026, STPNOC and its outside counsel received notice from the DOJ that the DOE proposes extending the terms of the settlement through December 31, 2028.

Additionally, In re Aiken County, 725 F.3d 255 (D.C. Cir. 2013), the court ordered the NRC to comply with the NWPA and use available funds to resume consideration of the DOE's Yucca Mountain application as a possible depository. NRC staff concluded the Yucca Mountain to be a safe location, but the DOE must still obtain acquisition rights and complete licensing requirements. On May 6, 2016, NRC issued its final supplement to the environmental impact statement examining the use of the Yucca Mountain as a permanent repository for used nuclear fuel and high-level radioactive waste. After analyzing the potential impacts on groundwater and surface groundwater discharge, the NRC determined all impacts would be "small". The adjudicatory hearing, which must be completed before a licensing decision can be made, remains suspended. On December 16, 2016, the DOE released its "Draft Plan for a Defense Waste Repository", evaluating the possibility of a separate disposal repository (other than the Yucca Mountain). The preliminary plan describes the technical, regulatory, risk management, cost, and schedule consideration thereof and remained open for comment until March 20, 2017. In January 2017, the Government Accountability Office issued a report that assessed DOE's analysis of the defense-only repository as excluding major costs "that could add tens of billions of dollars" and including a schedule that "appears optimistic", in light of "past repository siting experiences". On September 20, 2022, Nevada Governor Steve Sisolak and the Nevada Agency for Nuclear Projects announced the filing of a new legal motion to bring an end to failed federal plans to construct a repository for the Yucca Mountain. As of the date of the filing of this Quarterly Update, no funding for the Yucca Mountain repository is pending before the Congress.

Until the DOE fulfills its responsibilities under the NWPA (which includes a permanent underground disposal facility), the NWPA has provisions directing the NRC to create procedures to provide for interim storage of used nuclear fuel at the site of a commercial nuclear reactor. Pursuant to STPNOC analysis of NRC guidance, STPNOC constructed an on-site independent spent fuel storage installation ("ISFSI" also known as "Dry Cask Storage") and commenced dry cask loading operations of spent nuclear fuel in January 2019. The expenditures for the spent fuel management project are being funded by the STP owners as the costs are incurred. CPS Energy funds its 40% ownership share of these costs and periodically requests reimbursement from its Decommissioning Trusts spent nuclear fuel subaccount for allowable costs. See "FINANCIAL MANAGEMENT OF THE SYSTEMS – Investments – Trust Funds – STP Decommissioning Trust" herein.

Annually, STPNOC submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned by STP to the owners upon receipt of funds from the DOE. CPS Energy reimburses the Decommissioning Trusts for the settlement amount received from the DOE. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Decommissioning Trusts. Any costs not reimbursable by the DOE or the Trusts are recorded as STP operational and maintenance expenses or capital costs.

CPS Energy received reimbursement for certain initial costs related to the Dry Cask Storage project incurred prior to May 1, 2012. A second claim submitted to the DOE under the Spent Fuel Settlement Agreement was submitted on October 31, 2013 and sought reimbursement for covered costs during the period of May 1, 2012 through July 31, 2013. On April 14, 2014, the DOE issued a letter that denied reimbursement for certain costs associated with upgrading the spent fuel dry cask handling cranes. On May 8, 2014, STPNOC agreed to accept the DOE's decision but reserved the right to seek reimbursement for future costs associated with upgrading the cranes. CPS Energy expects that the DOE will render its decision regarding the eligibility for reimbursement of future crane upgrade costs as part of the review process for each annual claim. For those costs that have been deemed, or that in the future may be determined to be, non-reimbursable by the DOE, CPS Energy expects to pay these costs using funds currently held in the STP Decommissioning Trusts. CPS Energy received its share of the allowable reimbursement costs from the DOE on August 6, 2014. The third claim with the DOE under the Spent Fuel Settlement Agreement was submitted on October 31, 2014 and sought reimbursement for covered costs during the period of August 1, 2013 through July 31, 2014. In January 2015, $3.2 million was recorded for STP

spent fuel management project capital costs. On February 25, 2015, STPNOC received DOE's "Determination Letter" regarding this claim which disallowed reimbursement of certain costs associated with dry cask handling crane upgrades. STPNOC filed a Request for Reconsideration with the DOE on March 27, 2015. On June 25, 2015, the DOE issued a Supplemental Determination letter which determined that a portion of the costs to upgrade the dry cask handling cranes was reimbursable as an allowable cost. CPS Energy received its share of the allowable reimbursement costs from the DOE on August 21, 2015 for the third claim. The fourth claim with the DOE under the Spent Fuel Settlement Agreement was submitted on October 30, 2015 and sought reimbursement for covered costs during the period of August 1, 2014 through July 31, 2015. On March 3, 2016, STPNOC received DOE's "Determination Letter" regarding this claim which disallowed reimbursement of certain costs. On June 13, 2016, CPS Energy received its share of the allowable reimbursement costs from the DOE for the fourth claim. The fifth claim with DOE under the Spent Fuel Settlement Agreement was submitted on October 28, 2016. On February 13, 2017, STPNOC received DOE's "Determination Letter" regarding this claim for reimbursement of certain costs. On June 14, 2017, CPS Energy received its share of the allowable reimbursement costs from the DOE for the fifth claim under the Spent Fuel Settlement Agreement. On April 11, 2018, DOE issued its "Determination Letter" regarding the October 2017 claim from STP. STP accepted the DOE's "Determination Letter" on April 20, 2018 and payment was received on June 1, 2018. The seventh claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2018 for the period of August 1, 2017 to July 31, 2018. On April 29, 2019, CPS Energy received its share of the allowable reimbursement costs from the DOE. The eighth claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2019 for the period of August 1, 2018 to July 31, 2019. On June 24, 2020, CPS Energy received its share of the allowable reimbursement costs from the DOE. The ninth claim under the Spent Fuel Settlement Agreement with the DOE was submitted in was submitted in late October 2020 for the period of August 1, 2019 to July 31, 2020. On April 19, 2021, CPS Energy received its share of the allowable reimbursement costs from the DOE. The tenth claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2021 for the period of August 1, 2020 to July 31, 2021. On April 19, 2022, CPS Energy received its share of the allowable reimbursement costs from the DOE. The eleventh claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2022 for the period of August 1, 2021 to July 31, 2022. On April 11, 2023, CPS Energy received its share of the allowable reimbursement costs from the DOE. The twelfth claim under the Spent Fuel Settlement Agreement with the DOE was submitted in October 2023 for the period of August 1, 2022 to July 31, 2023. On April 9, 2024, CPS Energy received its share of the allowable reimbursement costs from the DOE. On October 29, 2024, the thirteenth claim under the Spent Fuel Settlement Agreement with the DOE was submitted for the period of August 1, 2023 to July 31, 2024. On April 1, 2025, CPS Energy received its share of the allowable reimbursement costs from the DOE. On October 29, 2025, the fourteenth claim under the Spent Fuel Settlement Agreement with the DOE was submitted for the period of August 1, 2024 to July 31, 2025. On March 18, 2026, CPS Energy is expected to receive its share of the allowable reimbursement costs from the DOE.

A June 2012 decision by the D.C. Circuit Court vacated the NRC's waste confidence rule update. In response, the NRC issued an order stating that final approval of licenses dependent on the waste confidence rule, such as new reactor licenses and license renewals (combined construction and operating license application – "COLA"), would not be granted until the court ruling had been addressed. Subsequently, the NRC directed staff to develop a new waste confidence rule and Generic Environmental Impact Statement ("GEIS") by September 2014. In January 2014, the NRC revised the review schedule for the GEIS and to have a new final rule by October 3, 2014. The slight delay in schedule was related to time lost during the government shutdown and lapse of appropriations in October 2013. On August 26, 2014, the NRC approved the GEIS and final rule (renamed the Continued Storage Rule). In a separate order, NRC approved lifting the licensing suspension once the Continued Storage Rule becomes effective. The rule became effective on October 20, 2014. On September 29, 2014, intervenors filed a petition to suspend the new rule with the Atomic Safety and Licensing Board (a unit of the NRC) and a proposed contention opposing the NRC's action. On February 26, 2015, the NRC issued a decision that rejects the petition, the proposed contention, and the motion to reopen filed by the intervenors in September 2014. On January 28, 2015, the intervenors filed a petition with the NRC to require reactor specific environmental impact statement for each license application for a new reactor and license extension (renewal). The NRC issued a decision in April 2015 that denied the petition. On April 24, 2015, the intervenors filed a petition with the NRC to intervene in the STP1 and STP2 license renewal and STP3 and STP4 license application proceedings regarding the Continued Storage Rule. On May 1, 2015, NRC staff responded to the intervener's hearing request and motion to reopen the record in the license renewal proceeding for STP1 and STP2. The NRC concluded the intervention petition was inadmissible because it raised an issue that was beyond the scope of the proceedings by challenging an NRC rule without requesting a waiver of the rule. Furthermore, the NRC noted that the petition failed to raise a genuine issue of material fact or law and was filed late without good cause. The motion to reopen was deemed inadmissible because it was "untimely without addressing an extremely grave issue", did not address a significant environmental issue, and did not demonstrate that a materially different result would be likely if its proposed new contention had been raised at the beginning of the proceeding. Furthermore, a move to reopen and request to allow "placeholder" contentions to challenge the 2014 Continued Storage Rule and GEIS were denied by the NRC on June 9, 2015.

In late October 2014, the states of New York, Vermont, Massachusetts, and Connecticut filed a timely petition for review of the Continued Storage Rule by the D.C. Circuit Court. The NRC issued further guidance in February 2015 determining the AEA does not require a waste confidence safety filing and declined to suspend final licensing decisions. Intervenor-Respondents filed a brief with the D.C. Circuit Court on September 11, 2015 in support of the Continued Storage Rule. Petitioners' reply briefs were due by October 23, 2015. The U.S. Court of Appeals heard oral arguments on February 12, 2016. On June 3, 2016, the D.C. Circuit Court upheld the NRC's justification for allowing spent nuclear fuel to be stored on-site at active facilities. Petitions for rehearing were later denied by the court.

ADDITIONAL GENERATION OPPORTUNITIES

One of CPS Energy's strongest aspects of operational and financial effectiveness has been the benefit it has derived from its diverse and low-cost generation portfolio. Continued diversification is a primary objective of the CPS Energy management team. Accordingly, this team periodically assesses future generation options that would be viable for future decades. This extensive assessment of various options involves projections of customer growth and demand; technological viability; financial investment requirements; annual asset operation and maintenance costs; environmental impacts; and other factors. See "DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Gas/Fuel Oil Plants" herein for a description of CPS Energy's recent acquisitions.

CPS Energy continues to monitor proposed regulatory changes that could raise the costs of operating plants, such as those that have been proposed for units that use carbon-based fuels. To work towards mitigating this carbon based regulatory risk, CPS Energy management deactivated its two oldest non-scrubbed coal units, Deely1 and Deely2, at the end of 2018 (and whose supply to native load was substantially replaced with the Rio Nogales Plant output; see footnotes to the table appearing under "DESCRIPTION OF FACILITIES – Electric System – Generating Capability" and "Generating Station Events – Rio Nogales" herein). CPS Energy management is pursuing a multifaceted strategy with the goal of maintaining a well-balanced portfolio. In addition to analyzing traditional generation sources and aggressively growing its renewable energy portfolio, as described in the "Generating Capability" table, CPS Energy is expanding its efforts towards community-wide energy efficiency and conservation. These mitigation efforts are very important to CPS Energy's strategic energy plans and specifically to its new generation needs. See "CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein. Additionally, CPS Energy management has explored and continues to cooperatively develop opportunities with the City Council for potential changes in ordinances, codes and administrative regulations focused on encouraging commercial and residential utility customers, builders, contractors and other market participants to implement energy conservation measures. For additional information on CPS Energy's energy efficiency and conservation program, see "COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein.

CPS Energy annually assesses generation resource options to meet its expected future electric requirements. This assessment includes updates to fuel prices, wholesale electric market forecasts and its electric peak demand forecast which incorporates the most recent economic, demographic and historical demand data for the CPS Energy service territory. Additionally, this assessment includes updated demand reductions due to the STEP energy efficiency and conservation program.

Before a commitment is made to construct the next generation facility, CPS Energy management pursues several objectives. These objectives include additional stakeholder input; expanded community education about the long-term energy and conservation needs of the community; continued option analyses and evaluations, including CPS Energy's own formalized cost estimates; additional Board approval to move forward; and expanded presentations to the City Council, which governs the related rate increases and bond issuances that may be required to support any generation construction project or existing generation asset purchase.

GENERATING STATION EVENTS

In addition to routine planned generation maintenance and repairs, there were several unforeseen events at the power generation facilities that occurred in the past five years. Certain unplanned events that had potential financial impact to CPS Energy greater than $1 million (including costs to address loss of revenue and costs of replacement load) are hereafter described. In addition, CPS Energy's generation facilities were impacted by the 2021 Winter Weather Event and CPS Energy continues to make adjustments to address the impacts and effects thereof.

AvR Plant

On September 11, 2023, the AvR Plant entered a planned maintenance outage to replace an excitation system control module on CT1 and replace steam turbine valve actuator servos. When the part replacements were completed, the outage ended, and the unit was released for operation on September 15, 2023.

On September 6, 2021, the AvR Plant Combustion Turbine ("CT1") tripped offline due to a high exhaust temperature spread. Plant personnel investigated the issue and determined that extensive compressor damage had occurred. Plant personnel have engaged with the Original Equipment Manufacturer ("OEM") to further analyze the event. The damaged compressor was repaired and reassembled by the OEM. The unit was returned to service on November 4, 2021. The AvR Plant steam turbine was derated during the duration of the CT1 outage.

On February 15, 2021, both the AvR Plant CT1 and 2 and the steam turbine were derated due to low incoming supply gas pressure during the 2021 Winter Weather Event. On February 16, the AvR Plant CT1 was taken off-line due to low incoming supply gas pressure. CT1 remained in outage and the steam turbine remained derated until February 18, when incoming natural gas supply pressure could support full unit capacity.

On February 15, 2021, the AvR Plant steam turbine tripped offline and was attributed to extreme cold weather-related failure of a steam seal pressure transmitter sensing line. The steam turbine trip also caused the AvR Plant CT2 to trip due to high hot reheat bypass temperature. Maintenance personnel restored the sensing line and installed temporary heat trace and insulation. The unit was restarted later that day.

On February 14, 2021, the AvR Plant CT1 was taken offline due to a steam leak from a failed drainpipe beneath the Heat Recovery Steam Generator ("HRSG"). After the area was safe for personnel entry, maintenance personnel removed and replaced a section of drain line, and the unit was restarted on February 14, 2021. The AvR Plant steam turbine was derated during the CT1 outage.

Braunig

On January 24, 2026, Braunig3 started "Reliability Must Run" operation.

On April 1, 2025, CPS Energy ceased operations at Braunig1 and Braunig2.

On January 24, 2025, Braunig3 entered into a forced maintenance outage due to underground boiler blowdown piping failure. Welding repairs were made, and the unit returned to service on February 7, 2025.

On November 3, 2024, Braunig1 entered an unplanned outage due to a LP turbine crossover steam leak. The expansion joint was repaired, and the unit returned to service on November 10, 2024.

On August 3, 2024, Braunig2 entered a forced outage due to the loss of auxiliary cooling water. The cooling water strainers were cleaned and faulty pressure sensing lines were replaced before releasing the unit for operation on August 9, 2024.

On May 21, 2024, Braunig3 was derated to 400 MW net due to the inability to meet previously attained net output of 412 MW. The cause of this derate has been attributed to degradation of the boiler draft system that reduces steam production capabilities.

On April 24, 2024, Braunig1 entered a forced outage due to a motor boiler feed pump motor failure during startup. A replacement motor was procured and commissioned before ending the outage and releasing the unit for operation on May 5, 2024.

On April 1, 2024, Braunig1 entered a derate due to "B" condensate pump being removed from service for a planned overhaul. Following the pump overhaul and successful commissioning, the derate ended, and the unit was released to full load operation on May 9, 2024.

On January 19, 2024, Braunig3 entered a forced outage due to a condenser tube leak, causing high chlorides in the boiler. The outage was then extended after experiencing a turbine water induction event. This event was suspected to have been caused by leak-by on the attemperator supply valves. The condenser tube leak and attemperator valves were repaired before ending the outage and releasing the unit for operation on January 25, 2024.

On December 1, 2023, Braunig3 entered a maintenance outage to address multiple maintenance items, including the main condensate flow control valve. The outage ended and the unit was released back to operation on December 15, 2023.

On October 9, 2023, Braunig3 entered a maintenance outage to repair a boiler waterwall tube leak. Weld repairs were made and NDE inspections were performed before the unit was released for operations on October 14, 2023.

On August 28, 2023, Braunig2 was derated to 210 MWs net due to continuing boiler feed water issues. Maintenance personnel identified an issue with the boiler feed pump's fluid drive coupling oil level control, which caused reduced pump speeds. The derate ended on September 7, 2023.

On August 10, 2023, Braunig2 was derated by 10 MW due to boiler feedwater flow issues caused by boiler feed pump speed deficiencies. Maintenance personnel identified an issue with the boiler feed pump's fluid drive coupling oil level control, which caused reduced pump speeds. Repairs to the level control were made and the derate ended on September 7, 2023.

On August 9, 2023, Braunig3 was further derated to 382 MWs net due to continuing boiler air flow issues.

On June 13, 2023, Braunig3 was derated by 20 MW due to boiler air flow limitations.

On July 12, 2022, Braunig3 was taken offline due to a water chemistry excursion caused by condenser tube leaks. Maintenance personnel plugged the condenser tube leaks and performed a leak check prior to releasing the unit back to operations. On July 15, 2022, plant operations were attempting to release the unit when they discovered the main gas trip valve had failed to operate correctly and the outage was extended to repair the valve. The unit was returned to service on July 21, 2022.

On May 17, 2022, Braunig2 was derated due to the loss of 2B condensate pump. The 2B condensate pump was sent to a pump vendor for inspection and repair. Significant pump wear and damage was discovered during the inspection. The pump was repaired, reinstalled, and released back to service on August 18, 2022.

On February 18, 2021, Braunig2 was taken offline due to a steam leak on turbine extraction steam line. Maintenance personnel replaced a gasket on the non-return check valve on the line, and the unit was released for dispatch on February 19, 2021.

On February 16, 2021, Braunig2 tripped offline on high burner gas pressure when several gas burners failed to light while load was increasing. Maintenance personnel addressed several electrical and controls issues on various burners on the boiler. The unit was restarted later that evening but was derated twice due to gas burner issues. Maintenance personnel troubleshot and were able to establish all gas burners, and the unit was released to full load operation on February 17, 2021.

On February 16, 2021, Braunig2 tripped offline due to a low drum level trip caused by low coupling lube oil temperature on the shaft driven boiler feed pump. This led to the feed pump speed decrease, which caused the drum level to swing and ultimately cause the unit to trip. After the trip, the cooling water supply regulator was adjusted to control the coupling lube oil temperature, and the unit was restarted and released to dispatch later that day.

Rio Nogales

On July 14, 2025, plant staff identified a steam leak coming from one of the three ST Cold Reheat relief valves. After evaluation of repair options and current market pricing, it was determined to schedule a maintenance outage to remove the valve and have it repaired in the shop. The valve was reinstalled, and the unit was returned to service on July 20, 2025.

On February 21, 2025, Rio Nogales CT1 tripped offline due to flame instability issues at full load. The unit was returned to service at full load operation on March 6, 2025.

On February 19, 2025, Rio Nogales CT2 tripped offline due to flame instability issues at full load. The unit was returned to service at full load operation on February 20, 2025.

On December 5, 2024, Rio Nogales CT3 entered a planned maintenance outage due to hot reheat bypass crack repairs. Maintenance completed the repairs, and the unit was released to full load capability on December 9, 2024.

On August 23, 2023, Rio Nogales Plant output was reduced due to low incoming gas supply pressure at 11:34 AM. Full load operation was restored when the incoming gas supply pressure increased to levels that could sustain full unit capacity at 12:50 PM.

On June 11, 2022, Rio Nogales tripped offline and was unable to restart due to mechanical issues associated with the HP/IP steam turbine that was installed in November 2021. The cause was associated with manufacturing and field assembly errors that have since been corrected. The unit returned to service on July 16, 2022, following a 35-day outage to perform the repairs. The IP turbine stages were replaced with new equipment during the Spring 2023 maintenance outage.

On February 15, 2021, Rio Nogales CT2 was derated due to the Combustion Turbine inlet bleed heat valve not modulating. Maintenance crews replaced a failed solenoid on the inlet bleed heat valve, and the unit was returned to full load operation later that day.

On February 14, 2021, Rio Nogales CT3 tripped offline due to a faulty pressure transmitter reading on the Combustion Turbine exhaust pressure. The pressure transmitter was removed from service, and the unit was restarted on February 15, 2021 and operated with a redundant transmitter indication.

On February 14, 2021, Rio Nogales plant output was reduced due to low incoming gas supply pressure during the 2021 Winter Weather Event. Full load operation was restored when incoming gas supply pressure increased to levels that could sustain full unit capacity on the morning of February 15, 2021, but the unit was again de-rated later than night as gas pressure reduced. Full load operation was restored on February 16, 2021.

Milton B. Lee

On April 15, 2023, Milton B. Lee ("MBL") CT3 entered a forced outage after a borescope inspection revealed damage to the High-Pressure Turbine Stage 1 Buckets. This finding was deemed unserviceable according to OEM Specifications and required all buckets to be replaced. MBL CT3 remained in a forced outage state while the buckets were replaced and was released back to commercial operation on May 19, 2023.

On February 16, 2021, MBL CT7 and CT8 were derated due to their compressor water injection systems being taken out of service in order to conserve demineralized water supply for Braunig1, Braunig2, and AvR Plant. The ability to produce demineralized water supply for the MBL East CT units was being impacted by low incoming City water supply pressure during the 2021 Winter Weather Event. As water pressure began to rise back to normal levels, CT8 was restored to full operation on February 18, 2021, followed by CT7 on February 19, 2021.

On February 16, 2021, MBL CT8 was operating on natural gas when dispatch requested to switch fuel sources. It was cycled off in attempt to restart with fuel oil. During the initial start attempt, the operations suspected that a fuel oil leak was present. The initial startup attempt was suspended to allow for additional inspections. After confirming that no leaks were present, another startup attempt was performed, and the unit was released to dispatch on fuel oil later that day.

Beginning February 15, 2021, the MBL West site incoming gas supply pressure was limited during the 2021 Winter Weather Event. MBLW CT1, CT2, CT3 and CT4 all experienced multiple derates between February 15 and February 19, 2021, due to the reduced gas pressure. Once gas supply pressures returned to normal levels, the plants were released to full operation dispatch.

On February 14, 2021, MBL CT5 failed to start due to Compressor Discharge Pressure ("CDP") purge solenoid valve issues. A replacement CDP purge valve solenoid was ordered, and expedited shipping was requested. However, due to travel restrictions during the 2021 Winter Weather Event, the arrival was delayed. The solenoid was replaced, and the unit restored to operation on February 23, 2021.

Barney Davis

On August 18, 2025, Barney Davis Unit 1 entered a forced outage due to a boiler tube leak. The forced outage continued through the start of scheduled outage beginning October 28, 2025. The forced outage has been extended to June 30, 2026.

On May 12, 2025, Barney Davis Unit 1 GT4 tripped during startup. It was determined that the GCB 'C' Phase 89 disconnect linkage was not connected resulting in the relay trip. The unit was returned to full service on June 3, 2025.

On March 13, 2025, Barney Davis Unit 2 entered a forced outage due to underground failure of the CCW system. The unit returned to service on March 17, 2025.

On July 29, 2024, Barney Davis Unit 1 entered a forced outage due to a boiler tube leak. Welding repairs were completed, and the unit returned to service on August 2, 2024.

Nueces Bay

On January 29, 2026, Nueces Bay ST7 tripped offline. The combustion turbines were shut down in a controlled manner which was caused when current transformer on the steam turbine failed. Return to service is scheduled for March 28, 2026.

On November 7, 2025, Nueces Bay STG7 tripped on excitation issue. The unit was returned to service on November 9, 2025.

On June 6, 2025, Nueces Bay Energy Center was made unavailable due to the steam turbine stop valves not functioning per design. Operations and plant maintenance replaced the servo and dump valves. The unit returned to full capacity on June 18, 2025.

On August 18, 2024, Nueces Bay GT8 experienced an extended forced outage event due to a generator circuit breaker failure. The unit was released from outage on October 2, 2024. There was a loss of 304 MW net unavailable during the 45-day outage. The unit was released to full load with no restrictions at the conclusion of the event.

Laredo

On December 2, 2024, Laredo Unit 5 entered an unplanned maintenance outage due to tube leak on intercooler. Repairs were made to intercooler, and the unit returned to service on December 15, 2024.

Sommers

On October 24, 2025, Sommers1 was derated to 190 MW net due to a boiler door hotspot. On October 30, 2025, Sommers 1 entered a maintenance outage to perform boiler door hotspot repairs. The unit returned to service on November 8, 2025.

On October 9, 2025, Sommers1 entered a planned maintenance outage to remove Main Steam line mesh screens and to repair a boiler door leak on 1 & 1/2 floor east side. The unit returned to service on October 22, 2025.

On July 12, 2025, Sommers2 entered a forced outage to repair a low pressure turbine blade failure. The outage is currently in progress and is estimated to be returned to service on May 6, 2026.

On July 10, 2025, Sommers1 entered a forced outage to repair a main steam line leak. The unit was restored to full capacity on September 19, 2025.

On June 11, 2025, Sommers2 entered a maintenance outage to repair 2A forced draft fan. The unit was restored to full capacity on June 12, 2025.

On May 26, 2025, Sommers2 entered a maintenance outage to repair 2A forced draft fan. The unit was restored to full capacity on May 29, 2025.

On May 18, 2025, Sommers1 entered a planned maintenance outage to repair a condenser tube leak and boiler tube leak on 2 1/2 floor corner #2. The maintenance repairs were completed, and the unit returned to full capacity on May 24, 2025.

On March 14, 2025, Sommers2 started a maintenance outage to perform repairs to a boiler hot-spot. The unit returned to service on March 23, 2025.

On November 18, 2024, Sommers2 entered a maintenance outage to repair a steam driven boiler feed pump casing leak. The unit was released to full load capacity on November 26, 2024.

On August 18, 2024, Sommers2 was taken offline due to a boiler casing leak that required immediate repairs. Maintenance personnel performed repairs, and the unit returned to service on August 22, 2024.

On August 12, 2024, Sommers1 entered a maintenance outage due to the loss of the 1C boiler circulating pump and the 1A boiler circulating pump already out of service. The unit was released to full load capacity on August 18, 2024.

On June 28, 2024, Sommers2 was derated from 410 MW to 190 MW net due to the loss of one of the condensate pumps caused by a failure to the collector brush assembly. The motor was transported offsite for component inspections and repairs. The unit was restored to full load operation on August 14, 2024.

On May 27, 2024, Sommers1 entered a planned maintenance outage to repair a boiler tube leak on 2nd floor corner #3. Maintenance repairs were completed, and the unit returned to full capacity on June 1, 2024.

On November 9, 2023, Sommers1 entered a planned outage to complete Bus 12 relay testing and watt meter upgrades. The unit was released to full load capability on November 16, 2023.

On June 25, 2023 Sommers2 experienced an unplanned outage due to high vibration on the exciter #7 bearing. The event was caused by exciter axial lead failure. The axial leads were replaced, exciter equipment was repaired, and the unit returned to service on July 12, 2023.

On May 6, 2022, Sommers1 planned outage was extended an additional 23 days to perform unforeseen repairs on the boiler feed pump turbine’s second and third stage turbine blades. The unit was returned to service on May 29, 2022.

On February 16, 2021, Sommers2 was derated to 365 MWs net due to the forced draft fans' inlet guide vanes not responding to position commands. The unit was brought off-line on February 20, 2021, for inspections and maintenance personnel identified a broken fan inlet guide vane shaft. The unit was restarted without repairs to meet market capacity demand and was eventually brought offline on February 24, 2021, to perform repairs. The unit was restored to full load operation on February 25, 2021.

On February 15, 2021, Sommers2 was manually tripped by operations because of erratic and nonsensical value readings on critical systems. The erroneous readings were attributed to extreme cold weather-related failure of sensing lines for a Boiler Circulating Water pump transmitter, Feedwater flow transmitters and a Throttle Pressure transmitter. Maintenance personnel thawed the sensing lines and installed temporary heat trace, and the unit restarted on February 15, 2021.

Spruce

On January 25, 2026, Spruce2 tripped offline due to an air preheater trip.The unit returned to service on January 26, 2026.

On January 21, 2026, Spruce1 was derated to 370 MW due to a suspected tube leak. On January 27, 2026, Spruce1 entered a maintenance outage to perform boiler tube leak repairs. The unit is expected to return to service on February 7, 2026.

On December 12, 2025, Spruce2 entered a planned maintenance outage to repair a tube leak. The unit was returned to service on December 20, 2025.

On November 19, 2025, Spruce2 entered a planned maintenance outage to repair a tube leak. The unit was returned to service on December 2, 2025.

On August 10, 2025, Spruce1 entered an outage to perform inspections and repairs related to a boiler tube leak. The unit was returned to service on August 18, 2025.

On July 3, 2025, Spruce2 was taken offline to address a boiler tube leak. The repairs were completed, and the unit was returned to service on July 14, 2025.

On June 12, 2025, Spruce2 was taken offline in a controlled shut down due to a boiler tube leak. Maintenance personnel performed repairs to the damaged boiler tubes, and the unit returned to service on June 25, 2025.

On May 28, 2025, Spruce1 tripped offline due to a high furnace pressure caused by a boiler tube leak. Maintenance personnel performed repairs to the damaged boiler tubes, and the unit returned to service on June 13, 2025.

On February 7, 2025, Spruce2 was taken offline in a controlled shut down due to a boiler tube leak. Maintenance personnel performed repairs to the damaged boiler tubes, and the unit returned to service on February 15, 2025.

On January 25, 2025, Spruce2 was taken offline in a controlled shut down due to a boiler tube leak. Maintenance personnel performed repairs to the damaged boiler tubes, and the unit returned to service on January 31, 2025.

On October 12, 2024, Spruce1 entered an unplanned maintenance outage due to submerged scraper conveyor out of service due to large accumulation of bottom ash. Maintenance personnel removed bottom ash and returned the unit to service on October 23, 2024.

During August and September 2024, Spruce2 experienced two separate forced outages due to several boiler tube leaks in the finishing reheat section. Maintenance personnel performed repairs to the damaged boiler tubes, and the unit was released to full capability following each respective outage.

On July 3, 2024, Spruce1 entered a planned maintenance outage to re-install 1A induced draft fan variable frequency drive. Maintenance personnel performed work, and the unit returned to service on July 13, 2024.

On June 9, 2024, Spruce2 was taken offline due to an external boiler water wall tube leak. Maintenance personnel performed repairs to the damaged boiler tubes, and the unit returned to service on June 14, 2024.

On May 25, 2024, Spruce1 entered a planned outage to repair 1B turbine boiler feed pump oil leak repair and to install induced draft fan duct blanks. Maintenance personnel completed the tasks, and the unit returned to service on June 1, 2024.

On April 25, 2024, Spruce1 experienced a failure on the 1A Induced Draft Fan, and the unit is currently derated to 275MW net. The unplanned derate was released on July 15, 2024.

On April 23, 2024, Spruce2 entered a planned maintenance outage for automatic voltage regulator thyristor bridge repair. Maintenance personnel completed the tasks, and the unit returned to service on May 1, 2024.

On November 7, 2023, Spruce2 experienced an unplanned outage due to an Exciter Bridge failure. Inspection and repairs were completed, and the unit was released to full capability on November 11, 2023.

On August 28, 2023, Spruce2 was taken offline due to boiler tube leak in a lower temperature SH section. Plant maintenance performed repairs to the damaged boiler tubes, and the unit was returned to service on September 3, 2023.

On August 5, 2023, Spruce1 was taken offline due to boiler tube in the RH front pendant section. Plant maintenance performed repairs to the damaged boiler tubes, and the unit was returned to service on August 9, 2023.

On June 13, 2023, Spruce1 experienced a failure on its Turbine Overspeed device. Plant maintenance completed repairs, and the unit was returned to service on June 22, 2023.

On May 6, 2023, Spruce2 experienced an unplanned outage due to 2B Forced Draft Fan Variable Frequency Drive ("VFD") Transformer failed windings. Rental VFDs were installed, and the unit was released to full load capability on June 7, 2023.

On April 4, 2023, Spruce2 was derated to 400 MWs due to the Variable Frequency Drive Transformer failure on one of the two Forced Draft fans. On May 6, 2023, the unit entered a forced outage due to the failure of the Variable Frequency Drive Transformer on the second Forced Draft Fan. Rental Variable Frequency Drives were installed, and the unit returned to full load operation on June 7, 2023.

On March 23, 2023, Spruce2 experienced an unplanned outage due to an AvR Plant fault. SCR, bridge, and cards were replaced. The unit was released to full load capability on March 29, 2023.

On August 31, 2022, Spruce1 was taken offline due to boiler tube leaks in the waterwall section. Plant maintenance performed repairs to the damaged boiler tubes, and the unit was returned to service on September 7, 2022.

On August 7, 2022, Spruce1 was taken offline due to boiler tube leaks in the reheat section. Plant maintenance performed repairs to the damaged boiler tubes, and the unit was returned to service on August 16, 2022.

On August 4, 2022, Spruce2 was taken offline due to boiler tube leaks in the reheat section. Plant maintenance performed repairs to the damaged boiler tubes, and the unit was returned to service on August 28, 2022.

On July 26, 2022, Spruce1 was taken offline after an oil piping flange from the generator step up transformer was found to be overheating. The cause was attributed to the lack of an electrical isolation kit that failed to be installed during commissioning. The proper isolation kit was installed on the flange by CPS Energy maintenance teams. The unit was returned to service on July 28, 2022.

On May 19, 2022, Spruce2 was taken offline due to boiler tube leaks in the superheat and reheat sections. Plant maintenance performed repairs to the damaged boiler tubes, and the unit was returned to service on May 28, 2022.

On May 12, 2022, Spruce1 was taken offline to inspect the voltage regulator and excitation transformer cooling systems due to high temperatures coming into alarm. Both cabinets were inspected and cleaned and a cooling fan in the voltage regulator cabinet was found inoperable and causing a high temperature alarm. The fan was repaired, and the unit was returned to service on May 14, 2022.

On September 6, 2021, Spruce1 was taken offline due to a Submerged Scraper Conveyor ("SSC") failure in the bottom ash handling system. Plant personnel investigated the issue and determined that the SSC take-up tensioner shaft assembly had failed. Plant maintenance repaired the SSC, and the unit was returned to service on September 14, 2021.

On August 2, 2021, Spruce2 was taken offline due to a boiler water tube leak. Plant maintenance performed repairs to the damaged boiler tubes, and the unit was returned to service on August 13, 2021.

On February 14, 2021, Spruce1 entered a forced outage when a unit fan tripped causing a significant amount of ash to drop into the ash removal system resulting in a unit trip. The ash removal system was removed from service, and the unit was returned to service at a reduced capacity on natural gas February 15, 2021. On February 16, 2021, operations established partial coal firing on the unit utilizing 2-3 pulverizers, which provided additional reduced capacity through February 20, 2021. The unit began a shutdown to repair the ash removal system on February 20, 2021 and was returned to full load operations on February 24, 2021.

STP1

On November 10, 2024, STP1 returned to service after a planned refueling outage exceeded the planned duration by 2.5 days. The primary drivers for the extended duration were items requiring repair prior to plant restoration and vendor performance.

On July 24, 2024, an automatic reactor trip occurred on STP1. The cause of the trip was a catastrophic failure of switchyard shunt reactor RT2, resulting in a fire and loss of offsite power to STP1. Damage was limited to the shunt reactor RT2 and supporting structures in the switchyard. STP1 was restored to service on August 1, 2024.

On February 28, 2024, STPNOC reported a broken spring on a STP1 main steam outlet safety relief value. To conduct the repair of this condition, STP1 was taken offline on February 29, 2024. Following repairs, STP1 was returned to service on March 4, 2024, and reached 100% power on March 5, 2024.

On January 21, 2024, STP1 entered a forced outage to complete repairs following an oil leak in the Main Turbine electric-hydraulic control system. The cause of the leak was a failed flexible hydraulic oil hose. Damage from the oil leak and subsequent small fires were limited to insulation within the high-pressure turbine enclosure. The repairs were completed, and the unit was returned to service on January 30, 2024 and reached 100% power on January 31, 2024.

On June 23, 2021, STP1 was taken offline due to a failed Moisture Separator Reheater relief valve. The relief valve prematurely opened forcing a down power in an unsuccessful attempt to reseat the valve. Following shutdown, the relief valve was replaced, and the unit was returned to service on June 27, 2021 and reached 100% power later that day.

On February 15, 2021, an automatic reactor trip occurred in STP1. The trip resulted from a loss of feedwater attributed to extreme cold weather-related failure of a pressure sensing line to the feedwater pumps. STP staff validated the issue did not exist in STP2. STP1 was repaired, and the unit was returned to service on February 17, 2021. STP1 reached 100% power on February 18, 2021.

STP2

On November 21, 2025, STP2 experienced a forced outage caused by a loss of off-site power to the main transformer and unit auxiliary transformer that caused a switchyard lockout, initiated by a spurious actuation of the pilot line differential relay. The issues were corrected and STP2 was returned to service on November 25, 2025 and achieved 100% power on November 26, 2025.

On June 18, 2024, STP2 was taken offline to repair an unisolable steam leak from a 3/4in sensing line connected to steam turbine for the main generator. Following repairs, STP2 was connected to the grid on June 19, 2024 with return to 100% power on June 20, 2024.

On May 12, 2024, an automatic reactor trip occurred on STP2 due to the lockout of the Unit Auxiliary Transformer. Emergency Diesel Generators automatically started to energize safety related buses as per plant design. Following the reactor trip, Reactor Coolant Pump 2B seal was replaced due to a failed section of the seal. STP2 connected to the grid on May 19, 2024, with full power reached on May 21, 2024.

On May 11, 2024, STP2 returned to service after a planned refueling outage exceeded the planned duration by 17 days. The primary drivers for the extended duration were due to vendor performance and oversight.

FUEL SUPPLY

CPS Energy acquires and manages the fuel supply for its electric generating units and natural gas distribution system. CPS Energy's generating units utilize a diverse fuel supply that currently includes coal, natural gas, nuclear, and fuel oil (but see "Strategic Initiatives" herein for recent Board actions). While coal, natural gas, and nuclear fuel represent the primary fuel supply, certain CPS Energy power plants also have the capability to burn petroleum coke to supplement coal, while others can burn fuel oil (diesel) as an alternate fuel or to supplement natural gas. This dual fuel capability provides greater reliability and operational flexibility.

CPS Energy has taken several measures to provide additional certainty of fuel supply and additional operational flexibility:

- Increased total natural gas storage capacity
- Increased daily natural gas storage withdrawal capability
- Increased both baseload purchases and financial hedges
- Increased volume of fuel oil stored onsite to double the number of days of on-hand inventory
- Added new natural gas suppliers and firm transportation to CPS Energy's portfolio

CPS Energy's coal units are designed to use Powder River Basin ("PRB") coal from Wyoming. Coal is secured through contracts providing prices that reflect current market conditions. Delivery of PRB coal to CPS Energy occurs on the Union Pacific Railroad ("UP") with BNSF Railway having access rights to CPS Energy's coal yard at Calaveras Power Station. While CPS Energy will take every reasonable step to assure the continuity of its coal supply, CPS Energy cannot predict whether any future coal shipment delays or curtailments could have a material adverse effect on the availability of its coal-fired generating stations. The current rail transportation contract with UP is effective through December 31, 2031 and provides more favorable rates and similar delivery flexibility compared to recent rail contracts. UP is currently delivering coal to CPS Energy at full capacity. CPS Energy does not anticipate any operational impacts related to coal delivery.

CPS Energy owns 1,134 and leases 104 aluminum railcars, which are used in unit trains to haul coal from mines in the Southern Powder River Basin of Wyoming to the Calaveras Power Station. CPS Energy performs railcar maintenance and servicing on owned railcars at its railcar maintenance facility located at Calaveras Power Station.

CPS Energy acquires and manages the combined natural gas supply requirements for its gas-fired generating units and gas distribution system through a diversified contract portfolio with a number of suppliers. In accordance with the CPS Energy Fuels Management Procedures, designated CPS Energy staff may enter into natural gas supply transactions using master enabling agreements, which incorporate standard commercial terms. CPS Energy has over 90 master enabling contracts with natural gas suppliers under which CPS Energy purchases its natural gas requirements. CPS Energy manages firm natural gas transportation and storage contracts with various service providers for local gas distribution and generation and to serve the Rio Nogales Plant, with limited ability to share services between CPS Energy facilities.

CPS Energy also owns and operates natural gas transmission facilities, consisting of two larger systems and some short segments connected to power plants. The North Gate Pipeline and the South Gate Pipeline are the two larger systems. The North Gate Pipeline is a 24-inch steel pipeline which extends 17.2 miles from southern Comal County into the northern portion of the County. Natural gas can be supplied to the pipeline through Enterprise Texas Pipeline's ("Enterprise") 30-inch West Texas Pipeline.

The South Gate Pipeline comprises 60.3 miles of 24 and 30-inch steel pipeline, of which 46.9 miles of 30-inch pipeline extends south into Karnes County. A major meter station in Karnes County connects to the joint venture pipeline owned by Kinder Morgan and Energy Transfer. In early 2016, CPS Energy added a new pipeline interconnection at the Karnes meter station that provides direct access to gas supplies from the Eagle Ford Shale production area. In July of 2024, CPS Energy added an interconnection on South Gate in Karnes County with Kinder Morgan. On May 1, 2023, CPS Energy completed the purchase from Markwest Texas PNG Utility LLC of two lateral pipelines that interconnect to the DCP Guadalupe and Houston Pipeline/Kinder Morgan intrastate pipelines and directly serve the Rio Nogales Power Plant. CPS Energy also operates numerous taps throughout the system connecting to Enterprise, on the North Gate and South Gate Pipelines. Most of the major natural gas delivery stations are owned by CPS Energy and remotely monitored by the CPS Energy control center, for more reliable operation. CPS Energy utilizes its diverse natural gas supply portfolio and interconnects with these pipelines for its power plant and distribution system natural gas requirements. With CPS Energy's acquisition of the CCL power plants in May of 2024, CPS Energy now has gas interconnections with Kinder Morgan in those areas. In February of 2025, CPS Energy interconnected with Kinder Morgan PHP to bring Waha priced gas (gas from the Waha hub in West Texas) to Rio Nogales. With CPS Energy's acquisition of the East Texas Units in September of 2025, CPS Energy now has interconnections with Kinder Morgan, Florida Gas Transmission, BIG Pipeline, and Tetco.

Periods of prolonged cold weather, during which natural gas supply has previously and may prospectively fall short of demand, may necessitate the curtailment of gas use for boiler fuel. The Natural Gas Policy Act subjects intrastate gas, including gas intended for boiler fuel uses, to the Presidential emergency purchase authority and emergency allocation authority to assist in meeting interstate natural gas requirements for high priority uses. CPS Energy's gas supply is subject to the ability of its gas suppliers to make available sufficient quantities of supply, as well as fluctuations in market prices.

Fuel oil can be used for generation, when needed, at the MBL East plant. At this plant, CPS Energy maintains fuel oil inventory and fuel oil receipt capability by truck. Inventory and receipt capability at these plants are options to support operation during natural gas supply disruptions or price events.

An Energy Price Risk Management Policy was implemented in 2002 to reduce the effects of energy price volatility consistent with the policy. At times, financial derivative instruments are utilized to hedge natural gas prices. Natural gas prices remain subject to volatility in the market. See "RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – Wholesale Power" and "FINANCIAL MANAGEMENT OF THE SYSTEMS – Enterprise Risk Management and Solutions" herein.

On June 14, 2007, CPS Energy entered into a prepaid natural gas transaction with SA Energy Acquisition Public Facility Corporation ("SAEA" or "PFC"), a non-profit public facility corporation previously created by the City pursuant to Chapter 303, as amended, Texas Local Government Code, and J. Aron & Company, a subsidiary of Goldman Sachs Group ("J. Aron"). This transaction enabled the PFC to purchase a 20-year supply of natural gas from J. Aron totaling approximately 20,000 MMBtu per day (the "PFC Transaction"). CPS Energy has contracted to purchase this gas for use in its gas distribution system under a take-and-pay gas purchase agreement, obligating CPS Energy to pay a monthly index-based price less a fixed discount for delivered gas. See "DESCRIPTION OF FACILITIES – Gas System" herein. The PFC prepaid for this gas by issuing $644,260,000 of tax-exempt fixed rate bonds and used the proceeds to make the prepayment to the natural gas supplier. This prepaid gas transaction was described in the offering document relating to such PFC bonds, in which the transaction and related risks were disclosed. On February 25, 2013, and June 30, 2016, SAEA executed certain amendments to the Prepaid Gas Agreement and related documents. Under the 2013 amendments, Goldman Sachs & Co. LLC ("Goldman") surrendered for cancellation $111,060,000 of the SAEA bonds which were owned by J. Aron, Goldman, or affiliates. In exchange, SAEA agreed to reduce future required natural gas delivery volumes from 104.6 million

MMBtu to 81.3 million MMBtu, reflecting a reduction in required volumes to be delivered that corresponds to the par value of the bonds that were surrendered. Under the 2016 amendments, the investment contract for the debt service fund for the bonds was novated from DEPFA Bank, PLC to J. Aron. The amendments contain provisions in the event of a downgrade in the credit rating on the guaranteed investment contract ("GIC") provider. If the higher rating between J. Aron and its guarantor, Goldman, falls below "BB+" by S&P, or "Ba1" by Moody's, which results in a ratings event, J. Aron is required to provide collateral equal to 100% of the invested balance held by J. Aron plus any accrued interest. As of January 31, 2026, no collateral balances were posted.

The PFC bonds are currently rated by Fitch, Moody's, and S&P at "A", "A2", and "BBB+", respectively. On May 1, 2020, Fitch revised the outlook on fifteen prepaid energy transactions, including the PFC Transaction, from stable to negative, based on Fitch's assessment of the credit quality of the various counterparties, including the revision of Goldman Sachs Group Inc.'s Issuer Default Rating to negative from stable. On February 1, 2021, Moody's upgraded Goldman Sachs' Group Inc. from "A3" to "A2" and upgraded the PFC bonds to "A2". In addition, on January 27, 2022, Moody's upgraded Royal Bank of Canada, the commodity swap counterparty and guarantor, from "Aa2" to "Aa1". The PFC credit ratings have no impact on the day-to-day operations of CPS Energy or its respective credit ratings. CPS Energy continues to purchase and receive natural gas at the discounted price, but only when delivered. However, if a party providing funds (or gas to be sold to produce funds) used to pay the PFC's bonds were to default, the PFC's gas supply agreement could be terminated, thereby eliminating future fuel expense savings passed through to CPS Energy customers.

On November 23, 2020, the trustee for the PFC bonds issued a notice in which it received a request from Syncora Guarantee Inc. ("Syncora"), joined by Assured Guaranty Corp. ("Assured Guaranty Corp."), that the trustee is seeking court approval to execute documents that would replace Syncora with Assured Guaranty Corp. (now known as Assured Guaranty, Inc.) as the issuer of certain policies insuring payments due to the PFC under the Natural Gas Supply Agreement (as defined in the indenture related to the PFC bonds). On January 29, 2021, the trustee issued an additional notice announcing the commencement of a trust instruction proceeding where the trustee requested, among other things, direction and instruction in connection with Syncora's request to novate the policy. A preliminary order was issued by the court on March 11, 2021, approving the relief requested in the petition, and notice was given for interested parties to submit objections. No objections were received, and the preliminary order was final as of April 30, 2021. An event notice was filed regarding the finality of the order.

Nuclear fuel procurement for STP is managed by the STPNOC staff with oversight and guidance provided by the Participants. STP fuel supply requires uranium oxide, conversion of uranium oxide to uranium hexafluoride, enrichment of fissile uranium 235 isotope from 0.7% to about 4.5%, design and fabrication of fuel assemblies. Prior to May 2014, fuel supply also provided for disposal of spent fuel assemblies. In May of 2014, the DOE suspended the collection of the spent fuel disposal fee pending identification of an alternative disposal facility. No plan to reinstitute the nuclear waste fee has been identified; however, some sources indicate there is a possibility of the fee being reinstated no earlier than 2026. Uranium supply is typically provided by primary producers, either through long-term contracts or through favorable short-term and/or spot market purchases. Uranium conversion services are obtained under contracts with primary producers, spanning several years of duration, covering STP through 2032. Enrichment requirements are contracted with Urenco USA and Orano through 2032. Fabrication requirements are contracted with Westinghouse through STP's renewed operating license term. See "DESCRIPTION OF FACILITIES – Electric System – External Events Impacting Nuclear Power Generation Industry and STP1 and STP2, and CPS Energy's Response – Used Nuclear Fuel Management" herein.

GAS SYSTEM

Transmission System

The gas transmission system consists of a network of approximately 116 miles of steel mains that range in size from 8 to 30 inches. Over 89 miles of gas transmission was placed into service since 2000 and approximately 77% is less than 30 years old. The entire system is coated and cathodically protected to mitigate corrosion. The gas transmission system operates at pressures between 135 psig and 1,100 psig and supplies gas to the distribution system and CPS Energy Generating Plants. SCADA computer system monitors the gas pressure and flow rates at many strategic locations within the transmission system. Additionally, most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

CPS Energy completes the required integrity assessments of the gas transmission system, in accordance with State and federal transmission integrity rules, using the most recently available technology. Over 95% of the system mileage is being inspected using In-Line-Inspection technology. Furthermore, CPS Energy maintains an ongoing reassessment plan and maintains a more conservative leak survey and patrol schedule interval than is required by regulation.

Distribution System

The gas distribution system consists of 25 gate/tap and 361 district pressure regulating stations and a network of approximately 6,225 miles of mains. The system consists of 2 to 30-inch steel mains and 1-1/4 to 8-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 485 psig. All steel mains are coated and cathodically protected to mitigate corrosion. Critical areas of the distribution system are also remotely monitored by SCADA and designated critical pressure regulating stations and isolation valves are also remotely controlled by SCADA.

CPS Energy has been methodical in its assessment and renewal of distribution infrastructure utilizing a risk-based leak survey approach to identify both mains and services that are in highest need of replacement and has an annual budget for on-going system renewal.

Rule Relating to Replacement of Gas Distribution Facilities

On August 1, 2011, CPS Energy implemented its plans in compliance with RRCT Rule § 8.209 Distribution Facilities Replacement as set forth at 16 TAC Chapter 8 – Pipeline Safety Regulations and the Federal Distribution Integrity Management Plan ("DIMP") rules. CPS Energy has utilized a risk-based approach to facility replacement for a number of years, and it has been successful in significantly reducing system leak rates and mains and services as well as lost and unaccounted for gas. These plans will continue to strengthen CPS Energy's renewal processes and support the continued safe operation of the gas system.

RRCT Audit Results

The RRCT conducted a Critical Infrastructure Weatherization audit in December 2025 for the Guadalupe 16", Higdon 24", Calaveras 16" & 24", Braunig Plant 20", and Leon Creek 16" Pipelines. No alleged violations of the applicable weather emergency preparation measures were found in the areas reviewed.

The RRCT conducted six New Construction Audits August 2025 through January 2026 that resulted in zero alleged violations. The audits involved the review of new facility installations records and the field construction activities during the facility install.

The RRCT conducted a Specialized Audit of the CPS Energy Distribution Integrity Management Plan which resulted in zero alleged violations. The audit took place on September 4, 2025. During the evaluation, RRCT selected physical conditions, written procedures, and records were reviewed. No violations were found in the areas reviewed.

The RRCT 2025 Annual Distribution Audit conducted in May 2025 resulted in seven alleged violations involving cathodic protection system deficiencies, missed leak survey schedule deadlines, missed atmospheric coating remediation deadlines, and pressure regulation station operational matters. Four of the seven alleged violations cited were corrected before the audit, during the audit, or prior to the submission of the plan of correction to the RRCT, which occurred on August 4, 2025. The remaining three alleged violations have all been corrected with the final correction being completed on January 5, 2026. A Plan of correction completion for the remaining three alleged violations was mailed to the RRCT on January 7, 2026. The alleged violation involving the missed leak survey schedule deadlines was discovered internally during calendar year 2024 and corrected promptly thereafter. However, the RRCT assessed an administrative penalty for this item. CPS Energy agreed to settle on September 17, 2025, and the settlement is currently pending final approval by the Commission.

The RRCT conducted seven New Construction Audits during the 2025 calendar year from March through July 2025 that resulted in zero alleged violations. The audits involved the review of new facility installations records and the field construction activities during the facility install.

The RRCT conducted a Specialized Audit of the CPS Energy Transmission Integrity Management Plan which resulted in zero alleged violations. The audit took place June 10-13, 2024. The audit consisted of a detailed review of the plan's identified HCA, identified threats, pipeline assessments, and supporting records.

The RRCT conducted a Specialized Audit of the CPS Energy DIMP on November 4-7, 2024 that resulted in two alleged violations. The alleged violations involved an insufficient procedure in identifying risk reduction measures required beyond code and documenting the completion of the evaluation of measures to reduce risks within the plan. The audit consisted of a detailed review of the System's existing and potential threats, the evaluating of each, the implementation of the measures to reduce or eliminate each risk, and the program's performance and effectiveness. Actions to correct where completed, submitted, and approved by the RRCT on January 10, 2025.

The RRCT conducted a Specialized Audit of the CPS Energy Control Room Management Plan on December 2-5, 2024 which resulted in three alleged violations. The alleged violations involved procedure deficiencies and missing records. The plan of correction was submitted to the RRCT on January 15, 2025.

The RRCT 2024 Annual Distribution Audit conducted in May 2024 resulted in seven alleged violations involving various pipeline deficiencies relating to the cathodic protection system, pressure regulating station operational matters, leak survey inspection interval exceedance, and operator qualification records found at the time of the audit. For the alleged violations cited, only three will require a plan of correction. The correction plan was submitted to the RRCT by the required deadline of July 12, 2024.

The RRCT 2023 Annual Distribution Audit conducted in May 2023 resulted in three alleged violations involving various pipeline deficiencies relating to the cathodic protection system, Grade 2 leak re-evaluation activities, and above ground facility condition found at the time of the audit. Two of the three alleged violations were corrected prior to the submission of the plan of correction to the RRCT on June 26, 2023. The approved plan of correction was completed on December 20, 2023.

The RRCT conducted a Specialized Audit of the CPS Energy Operation and Management Manual (the "O&M Manual") which resulted in one alleged violation. The audit took place on June 12-16, 2023. The alleged violation involved procedures required for the safe operation of launcher/receivers during maintenance activities. The plan of correction was submitted to the RRCT on July 20, 2023. All actions to correct the alleged violation have been completed and were accepted by the RRCT on November 17, 2023.

The RRCT conducted a Transmission Comprehensive Audit of CPS Energy's transmission system, which resulted in zero alleged violations. The audit took place on December 4-7, 2023. The audit consisted of a detailed review of operation & maintenance records and field inspection of corresponding transmission facilities.

The RRCT conducted a Specialized Audit of the CPS Energy Drug & Alcohol Plan, which resulted in zero alleged violations. The audit took place on April 10-12, 2023. The audit consisted of a detailed review of the plan's required components, testing protocols, and records.

The RRCT conducted a Specialized Audit of the CPS Energy Operator Qualification Plan, which resulted in zero alleged violations. The audit took place on June 27-30, 2022. The audit consisted of a detailed review of plan's required components, qualification of individuals performing covered tasks on the natural gas pipeline system, and qualification of records.

The RRCT conducted a Specialized Audit of the CPS Energy Natural Gas Transmissions and Distribution procedures and programs for alignment with Section 114 of the PIPES Act of 2020 (the "PIPES Act"). The audit resulted in one alleged violation being cited. The audit took place on August 3-4, 2022. CPS Energy's response to the RRCT included a statement of disagreement with their findings and included an example of meeting the intent of Section 114 of the PIPES Act in relation to the alleged violation. The RRCT responded on September 23, 2022 in agreement and considered the matter corrected.

The RRCT 2022 Annual Distribution Audit conducted in May 2022 resulted in four alleged violations involving various pipeline deficiencies relating to cathodic protection system deficiencies, pipeline marker condition, and pressure regulating station operational matters. The alleged violations cited are being addressed with the plan of correction that was submitted to the RRCT on June 22, 2022. All actions to correct the alleged violations have been completed and accepted by the RRCT.

The RRCT conducted a Specialized Audit of the CPS Energy DIMP, which resulted in zero alleged violations. The audit took place on March 28-31, 2022. The audit consisted of a detailed review of current practices in identifying existing and potential threats, evaluating each, and implementing measures to reduce or eliminate each, as well as the program's performance and a review of performance and effectiveness records for compliance with federal and state rules.

The RRCT conducted Specialized Audits of the CPS Energy Public Awareness and Damage Prevention Programs, which resulted in zero alleged violations. The audits took place on March 21-24, 2022. The audits were comprised of a detailed review of each program for specific components and requirements for meeting all federal and state rules and referenced guidance.

The RRCT conducted nine New Construction Audits during the 2022 calendar year from January through September that resulted in zero alleged violations. The audits were comprised of records review and field operation of construction activities during new facility installations. The RRCT conducted similar audits during calendar year 2021 that resulted in one alleged violation. The response to the RRCT, with a plan of corrections to address the alleged violation, was submitted on June 24, 2021, and corrections were implemented on July 30, 2021.

The results of the 2021 RRCT Annual Distribution Audit conducted in May of 2021 resulted in seven alleged violations involving valve checking, various pipeline deficiencies, and pressure regulating station operational matters. The alleged violations cited are being addressed with a mitigation plan and a response to the RRCT with a plan of correction. The response to the RRCT with the plan of correction to address the alleged violations was submitted on July 24, 2021, and all corrections have been completed.

The results of the 2020 RRCT Annual Distribution Audit conducted in May of 2020 resulted in six alleged violations involving valve checking, various pipeline deficiencies, and pressure regulating station operational matters. The alleged violations cited are being addressed with a mitigation plan and a response to the RRCT with a plan of correction. The response to the RRCT with the plan of correction to address the alleged violations was submitted on August 10, 2020. All alleged violations were addressed with an approved plan of corrections and completed on September 10, 2021.

RRCT Subsequent Audit Results

The RRCT performed a specialized audit and safety evaluation of a distribution pipeline facility due to a complaint on November 21, 2025. There were no violations found during the investigation.

The RRCT conducted an evaluation of CPS Energy's operational activities near a residential structure on February 12, 2020. Operations records were reviewed over a period of months which resulted in one alleged violation. The alleged violation was addressed with a plan of correction sent to RRCT on August 21, 2020.

The first alleged violation involved leak survey records pertaining to the calibration of equipment used during the activity. The RRCT found that records were not maintained to show calibrated equipment used during past surveys of this area. The RRCT assessed an administrative penalty for this finding, and it was settled on May 28, 2020. The second alleged violation involved the auditor witnessing the use of improperly maintained equipment during the investigation of the incident. In its response to this item, CPS Energy provided proof of compliance supporting equipment being maintained as required and the alleged violation was dismissed. CPS Energy also modified its equipment calibration schedule to coincide with the manufacturer's recommendations and controls to remove the functionality of the equipment past the re-calibration due dates.

RRCT Damage Prevention

The RRCT rules set forth in 16 TAC Chapter 18 Underground Pipeline Damage Prevention provide guidance for pipeline operators and third-party excavators to reduce pipeline damage during excavation activities. All reportable third-party damages are reviewed by the RRCT and occasionally CPS Energy is assessed a penalty based on the root cause in the form of a Damage Prevention Docket.

For calendar year 2025, CPS Energy responded to 235,679 locate requests through January 31, 2026; the RRCT has assessed CPS Energy penalties on 35 dockets totaling $87,500. CPS Energy responded to 261,822 locate requests during the 2024 calendar year and was assessed penalties on 43 dockets totaling $106,000. In comparison, CPS Energy responded to 243,257 locate requests and had $84,000 assessed in penalties in calendar year 2023 and 244,282 locate requests with $38,000 assessed in penalties in calendar year 2022.

Other Electric And Gas Systems Statistics[1]

	Electric System			Gas System	
	Transmission System	Overhead Distribution System	Underground Distribution System & Network	Transmission Pipeline	Distribution System
Substations	18[2]	97	n/a	n/a	n/a
Miles of Lines	1,567	8,442	7,458[3]	n/a	n/a
Miles of Lines	n/a	n/a	87[4]	n/a	n/a
Kilovolts	138/345	4/13.2/34.5	4/13.2/34.5	n/a	n/a
Miles of Main	n/a	n/a	n/a	116	6,225.32
Main Sizes (inches)	n/a	n/a	n/a	8 - 30	1.25 – 30
Main Pressures (psig)	n/a	n/a	n/a	135 - 1,100	9 - 485[5]

[1] As of January 31, 2026.
[2] Includes switchyards.
[3] Underground single phase, includes 778 miles three-phase commercial, industrial lines.
[4] Downtown Network three-phase.
[5] Maximum allowable operating pressure.

GENERAL PROPERTIES

Operation Control System

CPS Energy's electric transmission and distribution systems, substations, power plant switchyards, and major gas regulating points are continually monitored. Abnormalities register an alarm and control room operators can operate and control certain circuit breakers and valves as required, maintaining reliable delivery of gas and electric service. In addition to control capability, the system gathers data that is electronically recorded for various reporting needs.

CPS Energy's operations are highly dependent on a comprehensive operational technology ("OT") and information technology ("IT") infrastructure that is supported by a team of technical experts. The OT and IT systems are regularly updated and are monitored for vulnerabilities to best ensure the security of CPS Energy and customer information. Continuous monitoring and risk mitigation will continue to be necessary as CPS Energy installs additional intelligent field equipment and increases its dependency on technology and software.

CPS Energy is identified as a creditor by the standards set forth in the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"). One of the intended purposes of the FACT Act was to protect customer information. CPS Energy is currently compliant with the FACT Act and has existing internal policies, procedures and trainings in place for continued compliance.

CPS Energy makes a concerted effort to maintain its geographical information mapping system ("GIS"), which supports its gas, electric transmission and distribution system activities. This system is used to maintain information on the locations within CPS Energy's infrastructure. From time-to-time, location errors are detected by individuals (contractors, other utilities and CPS Energy employees). When such problems are detected, the specific issue is addressed promptly, including correcting the problem encountered and the updating of GIS.

Support Facilities

Core business operations are supported by various support facilities used for maintenance of such items as meters, transformers, communication equipment, vehicles, railroad cars and heavy construction equipment. These maintenance facilities, together with warehouses, administrative offices, customer service centers and storage areas, are strategically located throughout the service area to minimize driving time to work locations.

General Offices And Customer Service Centers

The Main Office Complex ("Complex"), located at 500 McCullough Avenue in San Antonio, Texas, is the headquarters site for CPS Energy. CPS Energy's General Offices are located at the intersection of McCullough and Avenue B. Executive, administrative, financial, information technology and engineering functions are located at the Complex. The building has 494,000 square feet of space and consists of 11-story and 14-story towers joined by a 3-story section. This building allowed for consolidation of all headquarters' functions in a single campus to improve operational efficiency. An adjacent 6 story garage has been constructed to accommodate employee and company vehicle parking, as well as housing amenities available to employees and the community in the area. CPS Energy moved into the new headquarters during the fall of 2020. In 2025, CPS Energy purchased for $12 million the surface parking lot totaling just under 2 acres in the front of the Complex supporting primarily contractors and visitors to the Complex. Previously, the purchased lot was leased during business hours.

The old complex was not sufficient to accommodate all of CPS Energy's office and parking needs, which has since been sold. On February 5, 2021, CPS Energy sold the Navarro piece of the former complex to BH Properties, a Los Angeles based real estate company, for $22.5 million. The main office piece of the old complex was sold on December 21, 2021 for $19 million. The tower garage and service parking lot adjacent to the old complex also sold for $5.6 million.

CPS Energy's customer service center staff provides information concerning customer accounts and processes customer payments. Customer service centers and authorized pay agents are located geographically in all sectors of the service area. These centers are convenient to the customers' homes and in locations readily accessible to freeways and public transportation. At the present time, the Northside Customer Service Center, which recently relocated, serves as a walk-in center only. The customer call center and additional general office space for personnel have been relocated to the Complex. The previous Northside Customer Service Center was declared surplus by the Board on September 24, 2018 and was sold on November 22, 2021 for approximately $5.3 million.

Construction Centers And Service Centers

CPS Energy owns six construction centers (East, Southwest, Northwest, Malone, Mission Road, and Nacogdoches), accommodating electric and gas distribution and transmission construction, repair and maintenance services, support personnel for administration, planning, training, warehousing functions, and garage facilities. The Energy Management Center for CPS Energy controls the electric grid for the service territory and provides training and conference facilities. Additional training facilities are located at the former Tuttle power plant facility.

CPS Energy began construction on a new construction center on WT Montgomery Road in 2025. The project is expected to be complete in 2027 and will enable consolidation and closure of some existing construction centers.

CPS Energy owns the Green Mountain facility that houses the System Measurement & Technology, Customer Engineering business units, all the electric metering operations equipment, test and calibration labs, and associated warehousing functions. This facility serves as the inventory and asset management point for electric metering and the deployment point for the AMI Program. Local builders and developers also visit the Green Mountain facility to coordinate new construction services with the support personnel in Customer Engineering.

Villita Assembly Building

The Villita Assembly Building is in downtown San Antonio at 401 Villita Street near the CPS Energy old complex. CPS Energy declared the property as surplus and listed it for sale. The property was sold in February 2023 for $5.3 million.

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Vehicles And Work Equipment

CPS Energy operates and maintains a diversified vehicle and equipment fleet of roughly 2,500 units. These units range from light to heavy duty vehicles and construction equipment that are specific to maintaining natural gas and electric infrastructure and large coal moving equipment to support generation. A total of eight garages, with a majority located at various construction centers, one located at the Calaveras Campus Coal Yard, and one at the Streich Road location, are staffed with skilled technicians. CPS Energy technicians use manufacturers' diagnostics software to perform in-house, proactive maintenance and repairs. A new Fleet Management Software and vehicle GPS tracking system (Telematics) were implemented in 2021. Enterprise Fleet began adopting full Electric Vehicles in 2022 and as of January 31, 2026, CPS Energy has a total of 21 units ranging from Light Duty to Heavy Duty units. In addition, nearly 40 hybrid on-road vehicles are in service. CPS Energy's mission is to provide the safest and most reliable fleet through environmental stewardship, efficient repair and maintenance, employee development, and cost-conscious asset management aligned with industry best practices. This group provides solutions from vehicle and equipment acquisition to decommissioning, which drives efficient, effective, and expedient service to CPS Energy's customers. Furthermore, Enterprise Fleet is environmentally responsible, participating in CPS Energy's recycling program that includes tires, batteries, oil, and other materials. CPS Energy's procurement strategy includes plans to continue acquiring a range of alternative-fueled fleet and to electrify units throughout the company where appropriate.

Real Estate Holdings

CPS Energy owns various properties throughout the service territory and a collection of buildings, totaling 2.5 million square feet, which includes office buildings, service centers, warehouses, data centers, parking garages, vehicle maintenance facilities, tool shops and a community center. CPS Energy has divested itself of its Jones Avenue Service Campus.

CPS Energy constructed a 66,000 square foot, 1 megawatt, Tier III data center in 2013, which became operational in May 2015. The total cost of the facility was approximately $47 million. The property also houses an electric substation.

CPS Energy listed the following two surplus properties for sale in 2024. The Cherry Ridge/Malibu property is a 14.03 acre property located at the North-East intersection of IH-10 and Loop 410 in the City. This property was not utilized by CPS Energy, has no improvements, and is valued at approximately $11.13/sf. ($6.8 million). Public marketing of this property began on September 5, 2024. The property sold for $5.9 million on December 16, 2025. The Mission Rd./Gugert property is a 16.82 acre property located at US-90 between Mission Road and Probandt Street. This property was once a CPS Energy power plant and work center storage for various CPS Energy business units. This property is valued at approximately $11.46/sf. ($8.4 million). Public marketing of this property began on August 29, 2024. Sale execution and closing is anticipated by the end of the fourth quarter in 2026.

COMPLIANCE AND REGULATION

GENERAL REGULATORY CLIMATE

The election of President Trump in November 2024 resulted in a host of new administrators to top government agencies, including the Environmental Protection Agency (the "EPA"). On January 29, 2025, the U.S. Senate confirmed former New York U.S. Congressman, Lee Zeldin, as the administrator of the EPA. It is anticipated that the Trump administration may pursue efforts to roll back environmental rules promulgated by the EPA under previous presidential administrations.

The presidential election and various U.S. Supreme Court decisions have the continued ability to affect environmental positions within U.S. government agencies. Notably, on June 28, 2024, the U.S. Supreme Court issued an opinion in Loper Bright Enterprises v. Raimondo, representing a reduction in the authority of federal agencies and raises questions on the future timing and consistency of interpretations of the specific application of laws by the courts. Although there are no immediate material impacts to CPS Energy, CPS Energy will continue to monitor matters as they progress under this new rule.

In Ohio v. EPA, the U.S. Supreme Court temporarily blocked the EPA implementation of the Federal Implementation Plan (the "FIP") while several states, companies and industry groups challenged the rule in federal court. Because it remains unclear whether the State Implementation Plan (the "SIP") or FIP will apply to Texas, CPS Energy will continue to prepare for the potential application of either, using the most conservative emissions standards as a guide in future planning until the final standard is determined.

ENVIRONMENTAL MATTERS

CPS Energy operations have the potential to affect the environment in a variety of ways, but primarily through discharges to air, land and water. To minimize environmental impact, CPS Energy constructs and operates its facilities according to, and, in certain areas, in excess of, the standards established for the utility industry by federal, state, and local laws and regulations. CPS Energy's commitment to the environment is evidenced by its official environmental policy, which places the responsibility for regulatory compliance on all CPS Energy employees, regardless of job function or title. CPS Energy maintains a full-time Environmental Department consisting of educated and trained technicians and professionals who oversee the enforcement of this policy. Since 1996, internal environmental operating procedures have been developed to provide guidance to CPS Energy employees as to how to perform their jobs in a way that protects the environment.

CPS Energy endeavors to ensure its facilities comply with applicable environmental regulations and standards; however, no assurance can be given that normal operations will not encounter occasional technical difficulties or that necessary permits and authorizations will be received. Federal and State standards and procedures that govern the control of the environment and Systems' operations can change. These changes may arise from legislation, regulatory action, appeals of past judicial decisions, and judicial interpretations regarding the standards, procedures, and requirements for compliance and issuance of permits. Therefore, there is no assurance that the Systems' current operations, current or future construction related thereto, and contemplated projects will remain subject to the regulations that are currently in effect. Furthermore, changes in environmental law and standards may result in increased capital and operating costs of the Systems.

The EPA released four major environmental rules in early May 2024, one of which is the highly anticipated carbon rule (the "Carbon Rule"). The final Carbon Rule places strict limits on carbon emitted by power plants and impacts existing coal and natural gas-fired steam boilers and new natural gas-fired combined cycle plants. For new natural gas combined cycle plants, which run more than 40 percent of the time, the rule requires plants to reduce 90 percent of their CO_x emissions by 2032. This rule does not include reciprocating engines. Whether the EPA will be developing similar carbon rules for existing natural gas combined cycle plants under the Trump Administration is uncertain at this time.

In addition to the final Carbon Rule, the EPA released the final rules for ELG, CCRs, and MATs (each as defined herein). The new rules will limit water pollution from coal plants, strengthen regulations on coal ash and limit mercury and other toxins from burning coal for electricity.

On March 12, 2025, EPA Administrator Lee Zeldin announced the agency will advance the goals of Executive Order 14154, "Unleashing American Energy," by rolling back many of the environmental rules issued under the prior administration. This includes numerous regulations that impact public power, including: the greenhouse gas rule for existing coal fired power and new natural gas units (which he refers to as Clean Power Plan 2.0), Mercury and Air Toxic Standards Residual Risk and Technology Review, the PM2.5 National Ambient Air Quality Standards ("NAAQS"), the 2009 endangerment finding for GHGs (defined herein), the Federal Implementation Plan for the 2015 Ozone NAAQS, the Greenhouse Gas Reporting Rule, regional haze regulations, the Risk Management Program, the section 111 regulations for methane emissions from oil and gas sources, the social cost of carbon, the effluent limitations guidelines rule, coal combustion residual rules, and exceptional events rules.

FEDERAL CLEAN AIR ACT

Congress enacted the Clean Air Act Amendments of 1990 ("Clean Air Act Amendments") with the intent of improving ambient air quality throughout the United States. All of CPS Energy's generating sites have been issued Federal Operating (Title V) permits and Federal Acid Rain (Title IV) permits under the Clean Air Act by the Texas Commission on Environmental Quality ("TCEQ"), the environmental agency for the State. CPS Energy received a Plantwide Applicability Limit ("PAL") permit from the TCEQ for the Calaveras Power Station. This PAL permit sets a cap on emissions at the site based on past emissions. This is a voluntary permit submitted by CPS Energy to provide flexibility to better manage facility-wide emissions. The PAL permit allows CPS Energy to have limited flexibility in maintaining its generating units at the Calaveras Power Station while enhancing environmental protection. CPS Energy's PAL permit includes a commitment to maintain emission reductions already achieved.

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On September 8, 2009, the EPA proposed to disapprove key aspects of the Texas clean air permitting program that do not meet federal Clean Air Act requirements followed by other states. On August 13, 2012, the United States Court of Appeals for the Fifth Circuit (the "Fifth Circuit") ruled the EPA overstepped its regulatory authority in violation of the Clean Air Act when it belatedly rejected revisions to the State plan, known as the Texas Flexible Permit Program ("TFPP"), for issuing air permits. In late December 2014, the EPA signed off on the TFPP, of which the proposed rule was published in the Federal Register on December 31, 2014. Several citizens and environmental groups disagreed with the EPA's decision and sued in early 2015, asserting the EPA's approval was "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law". In a notice dated April 17, 2015, the EPA extended public comment on the TFPP to May 18, 2015. The Fifth Circuit issued an opinion in July 2015 affirming the EPA's original approval of the TFPP. The EPA officials stated they would continue to work with the TCEQ to implement the TFPP as approved. In early February 2017, the EPA gave final approval of the TFPP. On July 3, 2017, the D.C. Circuit Court held in Clean Air Council v. Pruitt that the EPA's decision to stay implementation of portions of a final rule concerning methane and other greenhouse gas emissions lacked authority, and the court vacated the stay. Subsequently on July 10, 2017, the EPA asked the court to recall its mandate vacating the stay, to gain additional time for consideration of further appeal. On August 10, 2017, the court rejected a request by states and industry groups to reconsider the July panel ruling that lifted the EPA's stay of portions of the rule intended to curb methane emissions from new oil and gas infrastructure. On December 2, 2019, the former EPA Administrator Andrew Wheeler signed the "Revised Policy on Exclusions from 'Ambient Air'", which modifies the definition to allow for exclusions of certain areas of a source's property from ambient air. On May 29, 2020, the Fifth Circuit ruled unanimously in Environmental Integrity Program v. EPA that the EPA does not need to second guess states' Clean Air Act permitting decisions. The court denied a subsequent petition for rehearing and substituted its opinion stating that Title V permitting is not the appropriate vehicle for examining the substantive validity of permits. The Environmental Integrity Program subsequently filed suit in the D.C. Circuit Court asking that the Court order the EPA to undertake certain actions related to the air permits issued by the TCEQ related to 8 Texas facilities.

The EPA revised its major New Source Review ("NSR") applicability regulations to clarify when the requirement to obtain a major NSR permit applies to a source proposing to undertake a physical change or a change in the method of operation (i.e., a project) under the major NSR preconstruction permitting programs. Under these programs, an existing major stationary source proposing to undertake a project must determine whether that project will constitute a major modification subject to the major NSR preconstruction permitting requirements by following a two-step applicability test. The final rule clarifies that both increases and decreases in emissions resulting from a proposed project can be considered in Step 1 of the major NSR major modification applicability test. The consideration of emissions increases and decreases in Step 1 is referred to as project emissions accounting. This final rule became effective December 24, 2020.

On February 22, 2024, the EPA released the pre-publication version of the proposed rule entitled "Prevention of Significant Deterioration and Nonattainment New Source Review: Regulations Related to Project Emissions Accounting". The EPA proposes revisions to the New Source Review regulations that affect the aggregation of projects as part of emissions calculations for pre-construction permitting. The EPA also seeks to broaden the "reasonable possibility" recordkeeping and reporting requirements. The proposed rule has not yet been published in the Federal Register. Comments will be due 60 days after publication. On July 21, 2025, the EPA published a withdrawal of its 2024 proposed rule amending its NSR preconstruction permitting regulations. The proposed rule included the proposed regulatory revisions in three significant areas of the New Source Review regulations that impact new source permitting and review of existing source projects:

- The definition of the term "project" by identifying criteria for determining the scope of a project that may be subject to NSR regulations;
- NSR applicability emissions accounting provisions, by requiring that emissions decreases in Step 1 (the significant emissions increase determination) be enforceable; and
- Reasonable possibility monitoring, recordkeeping and reporting provisions in the NSR regulations by broadening their applicability "to improve compliance with, and enforcement of, the NSR applicability process".

In August 2022, the EPA released an interim guidance document in the form of 18 frequently asked questions that details the EPA's stance on Environmental Justice ("EJ") issues and civil rights. This document provides the reasoning behind the EPA's focus on EJ and contains suggestions for state and local agencies to implement EJ into their permitting process. Currently, there are no required analyses for EJ or civil rights issues as far as air permitting for projects. It should be noted that the guidance itself is not legally binding and does not create any new legal rights or responsibilities. It is meant to provide information to federal, state, and local environmental permitting programs to help meet their responsibilities to integrate EJ and civil rights into environmental permitting processes. The potential impact of this document includes state agencies placing EJ integration at the forefront of the permitting process. CPS Energy has ongoing projects and future projects that could be affected by any such modifications (especially in non-rural areas). CPS Energy could see EJ screening and analysis in the air permitting timeline to be expanded and require more lead time before construction can begin. Also, in areas where a potential EJ issue is identified, enhanced community engagement might be required, which can affect public image and require additional environmental approvals.

Sulfur Dioxide ("SO_2"): One objective of the Clean Air Act Amendments is to reduce emissions of SO_2, a gaseous emission formed during the combustion of coal by coal-burning power plants. Although the Spruce1 and older gas units are the only units that receive allowances, all the CPS Energy generating units are subject to the Clean Air Act Amendments' Acid Rain program SO_2 emission allowance system. All new units also must comply with the program even though no new allowances are provided for them. An allowance is an authorization to emit one ton of SO_2 during or after a specified year. Under the emission allowance system, each affected generating facility is issued annual allowances based upon a variety of factors. No utility may emit more tons of SO_2 in a year than are authorized by its total allowances. Allowances issued to one generating facility may be used by a utility to offset the emissions of another generating facility. Allowances not needed by the recipient utility for its current emissions may be banked for future use, or they may be sold or otherwise transferred. CPS Energy upgraded the Spruce1 scrubber in early 2009 prior to Spruce2 coming online because of a commitment made in the Spruce2 air permitting process which required Spruce1 to reduce SO_2 emissions by the amount expected to be emitted by Spruce2.

In addition to the Acid Rain program, the EPA wrote the Clean Air Interstate Rule ("CAIR") that would further reduce SO_2 by reducing the value of the Acid Rain program allowances. On July 11, 2008, the D.C. Circuit Court vacated the CAIR in its entirety. In late December 2008, the D.C. Circuit Court granted the EPA's petition to remand CAIR to the EPA to be "fixed" rather than be vacated. The EPA finalized a rule to replace CAIR in July of 2011. The new rule was the Cross-State Air Pollution Rule ("CSAPR"), which required a 50% reduction in SO_2 starting January 2012. CPS Energy planned to meet the reductions by utilizing ultra-low sulfur coal and by reducing the dispatch of the Deely units. In January 2013, the courts denied an EPA petition to keep CSAPR in place.

On April 29, 2014, the U.S. Supreme Court reversed a D.C. Circuit Court decision that vacated CSAPR in its entirety. The U.S. Supreme Court remanded the case back to the D.C. Circuit Court for additional proceedings consistent with its opinion. The decision did require the EPA to begin immediate implementation of CSAPR, so CAIR remained in place while additional issues were addressed. On January 16, 2015, the EPA filed its brief on the merits in the D.C. Circuit Court regarding the remaining legal challenges to CSAPR that were not decided by the April 29, 2014 decision. With the use of ultra-low sulfur coal at the Deely units, CPS Energy had enough SO_2 allowances to meet the CAIR requirements.

On October 23, 2014, the D.C. Circuit Court lifted its stay of the EPA's CSAPR. Compliance options under the rule began on January 1, 2015. Phase 1 emission budgets began to apply on January 1, 2015, for the annual programs and applied in 2016. On June 1, 2015, the EPA published a proposed rule providing notice of the availability of preliminary calculations of emission allocations to certain units under CSAPR, specifically regarding the first round of new unit set-aside allowance allocations for the year 2015. On July 28, 2015, the D.C. Circuit Court issued an opinion that upheld EPA's CSAPR but remanded without vacating EPA's 2014 SO_2 and ozone season NO_x (defined herein) budgets for several states, including Texas. The court did not vacate any emissions' budgets, but instead declared them "invalid" and instructed the EPA to reconsider them. Some Texas units received additional allowances. Phase 2 emission budgets began January 1, 2017. As stated above, with the use of ultra-low sulfur coal at the now-deactivated Deely units, CPS Energy met the SO_2 targets for CSAPR. On September 21, 2017, the EPA signed a rule finalizing withdrawal of the FIP provisions that require affected electricity generating units ("EGUs") in Texas to participate in Phase 2 of the CSAPR trading programs for annual emissions of SO_2 and NO_x Texas will stay in the most stringent NO_x Ozone Season Program.

The EPA issued the final primary SO_2 NAAQS on June 2, 2010. The EPA determines designations for potential non-attainment areas in different rounds. On August 10, 2015, the EPA signed a final standard that requires state agencies, like the TCEQ to submit additional information. Specifically, the TCEQ must provide additional data for sources that emit greater than 2,000 tons per year, such as the Calaveras Power Station. The TCEQ identified 25 sources in the State with emissions greater than 2,000 tons per year (with the Calaveras Power Station the only location identified in the County) and notified the EPA on January 15, 2016 of these locations. The State identified the characterization approach planned for each identified source prior to the July 2016 deadline. For any source to be evaluated with modeling, states were required to submit a modeling protocol by July 1, 2016 (of which the State complied), a modeling analysis by January 13, 2017, and annual reports thereafter, to the EPA. On June 30, 2016, the EPA submitted the final second round SO_2 NAAQS designations to be published in the Federal Register. For sources to be monitored, the SO_2 monitors must have been in operation by January 1, 2017. Any enforceable emissions limits agreed to must have been adopted and effective by January 13, 2017. States and tribes were permitted to submit exceptional events' demonstrations to the EPA explaining event influenced SO_2 by July 14, 2017. The EPA announced completion of its Round 3 SO_2 area designations on December 21, 2017 after evaluating air quality modeling and monitoring data, analyzing established emission limits, and reviewing areas not subject to the EPA's Data Requirements Rule. A supplement to these designations was issued on March 28, 2018. States were required to certify their 2019 monitoring data for Round 4 designations by March 1, 2020, and the EPA notified states of intended modifications by September 2, 2020. On December 21, 2020, the EPA took the final step to implement the Round 4 designations for SO_2 set in 2010; however, Round 4 designations were not published in the Federal Register and are undergoing review in accordance with the "Regulatory Freeze Pending Review Memorandum" that White House Chief of Staff Ronald Klain, issued on January 20, 2021. With Deely deactivated in 2018, the Calaveras Power Station site is now under the 2,000 tons per year threshold. On February 25, 2019, the EPA issued a decision to retain the existing NAAQS for SO_2 based on its judgement that the current NAAQS protects public health, with an adequate margin of safety. The existing standard, established in 2010, is 75 ppb based on the 3-year average of the 99% of the yearly distribution of 1-hour daily maximum concentrations. On July 23, 2019, the EPA issued a final Notice of Data Availability ("NODA") required by CSAPR, listing new units that receive a "1st Round" 2019 SO_2 allowance allocation and allocation amounts.

The EPA previously engaged in a residual risk and technology review ("RTR") that is required by section 112 of the Clean Air Act. The results from the RTR showed that emissions of hazardous air pollutants ("HAPs") have been reduced such that the residual risk is at acceptable levels, that there are no developments in HAPs emissions controls to achieve further cost-effective reductions beyond the current standards, and, therefore, no changes to the Mercury and Air Toxics Standards (the "MATS") rule are warranted. Litigation contesting the validity of the foregoing actions immediately commenced.

Nitrogen Oxides: In addition to SB 7 regulations that require NO_x reductions at CPS Energy's formerly grandfathered gas units, the TCEQ implemented additional rules. Chapter 117 of Title 30 of the Texas Administrative Code, regarding Control of Air Pollution from Nitrogen Compounds regulations ("Chapter 117"), requires all fossil fuel power plants to achieve a NO_x emission level cap. For coal units this cap is based on a NO_x emission rate of 0.165 lb/MMBtu (pounds per million British thermal units) by mid-2005; for gas units this cap is based on a NO_x emissions rate of 0.14 lb/MMBtu. However, CPS Energy management chose to comply with a system cap rather than the emission specifications. CPS Energy has met the system cap for the past compliance years. The revised CAIR reduced the NO_x emission rate to less than 0.15 lb/MMBtu in the first phase and were accomplished via statewide allocations that were required to be met in 2009 with further reductions by 2015. The CAIR rule was a cap and trade rule which means that specific units are not required to meet any emission limit, only that they have adequate NO_x allowances for the amount they emit. CPS Energy made further reductions in NO_x by installing selective catalytic reduction ("SCR") technology on Deely2 in 2011 and currently has SCR on Spruce2.

As stated earlier, the EPA, in July 2011, finalized CSAPR for the purpose of replacing CAIR. The proposal included Texas in an Ozone Season only NO_x program and an Annual NO_x program. Ozone season includes the summer months of May through September. Because CPS Energy began installing NO_x reduction technologies in 1997, the targets for CSAPR can be met with current equipment (but such compliance does not provide reserve margins for future regulations). CSAPR was intended to be effective on January 1, 2012; however, the D.C. Circuit Court put the rule on hold, and on August 21, 2012, the court vacated CSAPR and required the EPA to continue administering CAIR pending the promulgation of a valid replacement. In January 2013, the courts denied a petition to keep CSAPR in place, so CAIR remained as the requirement for NO_x. See the SO_2 disclosure above for a discussion concerning the current status of CSAPR litigation.

On October 23, 2014, the D.C. Circuit Court lifted its stay of the EPA's CSAPR. Compliance options under the rule began in 2015. Phase 1 emission budgets began to apply on January 1, 2015, for the annual programs and May 1, 2015, for the ozone-season NO_x program and applied in 2016. Phase 2 emission budgets began to apply in 2017 and subsequent years. On September 14, 2015, the EPA issued a preliminary Notice of Data Availability, as required by CSAPR, which lists new units eligible for a "2nd Round" 2015 CSAPR NO_x Ozone Season allowance allocation. On November 12, 2015, the EPA issued a final Notice of Data Availability, as required by CSAPR, which details the 2015 allowance allocations to certain new units eligible for a 2nd Round CSAPR ozone season new unit set-aside allocation, and to CSAPR existing units in states in which the new unit set-asides for the 2015 CSAPR ozone season were undersubscribed. On November 16, 2015, the EPA proposed an update to the CSAPR for the 2008 NAAQS by issuing the proposed CSAPR Update Rule. On December 15, 2015, the EPA issued a preliminary Notice of Data Availability, as required by CSAPR, which lists new units eligible for a "2nd Round" 2015 CSAPR NO_x Annual, SO_2 Group 1, or SO_2 Group 2 allowance allocation. The EPA later issued, on February 12, 2016, a final Notice of Data Availability, as required by CSAPR, that details compliance year 2015 allowance allocations to certain new units eligible for a "2nd Round" CSAPR NO_x Annual, Group 1 SO_2, or Group 2 SO_2 new unit set-aside allocation and to CSAPR existing units in states in which the new unit set-asides for 2015 for those annual CSAPR Trading Programs that were undersubscribed. On February 26, 2016, the EPA issued a ministerial action affirming changes to CSAPR that align the dates in CSAPR's rule text with its revised implementation schedule for 2015 Phase 1 implementation and 2017 Phase 2 implementation (this change was made in 2014 on an interim basis). On May 27, 2016, the EPA issued a preliminary NODA, as required by CSAPR, that listed new units eligible for a "1st Round" 2016 CSAPR NO_x Annual, NO_x Ozone Season, or SO_2 Group 1 or SO_2 Group 2 allowance allocation and allocation amounts. On June 21, 2017, the EPA issued a NODA on emission allowance allocations to certain units from the new unit set asides ("NUSAs") for the 2017 control periods and posted the calculations on the EPA website. The EPA completed calculations for the second round of allocations from the NUSAs for the 2017 control periods to new units and posted the calculations as of February 16, 2018. In February 2019, the EPA completed the second final round of NODA and published the NUSA from the 2018 control period, and in May 2019, the EPA provided the preliminary NODA for the first round of allocation allowances from the NUSA. On July 23, 2019, the EPA issued a final NODA, as required by CSAPR, that lists new units that receive a "1st Round" 2019 CSAPR NO_x. With the use of the Spruce2 SCR, CPS Energy will be able to meet the NO_x targets.

On February 12, 2020, the EPA issued a final Notice of Data Availability, as required by CSAPR, that lists new units that receive a "2nd Round" 2019 CSAPR NO_x Annual, NO_x Ozone Season, or SO_2 allowance allocation and allocation amounts. The notice also details 2019 allowance allocations to CSAPR existing units in states in which the new unit set-asides for 2019 for those CSAPR trading programs were undersubscribed.

On September 7, 2016, the EPA released its final CSAPR update rule for the 2008 ozone NAAQS. The final rule makes a few key changes, by establishing a one-time allowance conversion that transitions a limited number of banked 2015 and 2016 allowances for compliance use in CSAPR Update states in 2017 and beyond. In May 2017, this rule began to reduce summertime (May through September) NO_x emissions from power plants in 22 states in the eastern U.S., providing up to $880 million in benefits and reducing ground-level ozone exposure for millions of Americans. The rule will reduce air quality impacts of ozone pollution that crosses state lines and will help downwind areas meet and maintain the 2008 ozone air quality standard. The EPA also refined its methodology for establishing emission budgets to better reflect power sector NO_x reduction potential by using historical data in combination with projections of potential NO_x emission rate improvements in each state. These refinements resulted in changes to individual state emission budgets and the combined total increased slightly (by less than 5 percent) from the proposed rule. For CPS Energy, this resulted in a reduction of Ozone Season NO_x allowances from 4,650 to 3,698 tons, with only about a third of the banked allowances from 2015 and 2016 rolling over. In response to the D.C. Circuit Court's remand of the CSAPR Phase 2 SO_2 emissions' budgets, the EPA proposed to remove the State from the CSAPR SO_2 and NO_x trading programs on November 3, 2016. Such removal includes withdrawal of the FIP, sources in the State will not contribute significantly to nonattainment, and therefore the EPA will have no requirement to issue a new FIP. The proposal also includes a sensitivity analysis showing actions taken in response to the remand. The rule was published on January 4, 2017, and a public hearing was held on January 10, 2017. Comments to the rule were closed on March 6, 2017. On September 21, 2017, the EPA signed a rule finalizing withdrawal of the FIP provisions that require affected EGUs in Texas to participate in Phase 2 of the CSAPR trading programs for annual emissions of SO_2 and NO_x. Texas will stay in the most stringent NO_x Ozone Season Program. On October 29, 2020, a CSAPR update was published by the EPA in response to a previous ruling by the D.C. Circuit Court. The update was written under the Clean Air Act's "Good Neighbor" provision and was previously the subject of a remand in the D.C. Circuit Court. The court was concerned with the ability of upwind states (the "Upwind States") to allow significant contributions to downwind air quality problems beyond the 2021 deadline for the 2008 ozone standard. In response, the EPA revised CSAPR to address the concern. The air pollution rule updates a trading program for NO_x emissions designed to help eastern states meet federal ozone limits. The EPA finalized the rule on March 15, 2021 in accordance with court order as revised on April 30, 2021, and a petition for review was subsequently filed in the D.C. Circuit Court.

On February 28, 2022, the EPA signed a proposal to disapprove SIP submittals from Arkansas, Louisiana, Oklahoma, and Texas, along with 15 other states, regarding interstate transport for the 2015 8-hour Ozone Standard. Comments on the proposed disapprovals were due April 25, 2022. The Cross-State Air Pollution Rule (a.k.a. Good Neighbor Rule) was finalized March 15, 2023. The rule imposes a significant reduction in ozone-forming emissions of NO_x from power plants and industrial facilities and has not impacted CPS Energy to date. The foregoing is subject to continued litigation, and Texas is not currently required to meet the new CSAPR.

Group 3 Trading Program requirements. On June 27, 2024, the U.S. Supreme Court stayed the EPA's Good Neighbor Rule. The Texas SIP disapproval is still pending a review of the merits in the Fifth Circuit (see "Cross-State Air Pollution Rule" herein).

On December 13, 2024, the EPA proposed a rule lowering NO_x emissions from new, modified, and reconstructed stationary CTs and stationary gas turbines. The comments were due March 13, 2025. The standards subject to revision for CTs will be located in 40 CFR Subpart KKKKa. In general, the EPA proposes a best system of emission reduction ("BSER") of combustion controls with the addition of post-combustion SCR for CTs in the small, medium, and large subcategories. However, at smaller sizes and at lower operating levels, the EPA proposes standards based on the use of combustion controls without SCR. Currently, CPS Energy has no plans to build new combustion turbines. CPS Energy has submitted comments on this rule (see "Carbon Dioxide and Greenhouse Gases" herein).

Mercury: In early 2004, the EPA published a proposed rule to reduce mercury to a level of 21 X 10-6 lb/MWh (pounds per MW hour) for new units (about 2.0 lb/trillion Btu) and CPS Energy agreed to this level for the new Spruce2 unit. The final rule published in May 2005, called the Clean Air Mercury Rule, established mercury emission limits on new and existing units and set up a cap and trade system starting on January 1, 2010. The final rule had a less stringent mercury limit for new units; however, CPS Energy agreed to the previously proposed level and the final Spruce2 unit permit has a mercury limit (2.0 X 10-5 lb/MWh), which is currently being met.

On February 8, 2008, the D.C. Circuit Court vacated the Clean Air Mercury Rule. Since the procurement and installation of continuous mercury monitors was already in process, CPS Energy decided to complete the installation. The EPA proposed a rule in March 2011 for all HAPs including mercury, commonly referred to as the MATS rule. The limits are very stringent, and all four CPS Energy coal units will need mercury specific reduction technologies added in order to comply. The rule allowed three years for compliance from the final rule date. The rule was finalized on December 16, 2011. The rule also included limits for HAPs such as non-mercury metals (measured as particulate matter and acid gases measured as hydrochloric acid or sulfur dioxide). The rule requires continuous monitoring of mercury, particulate matter and acid gases by March 2015, and CPS Energy complies with such requirements. On April 21, 2015, the EPA completed review of requests to reconsider certain aspects of MATS, denying all such requests. The U.S. Supreme Court consolidated three EPA cases in early 2015 and agreed to hear arguments regarding whether the EPA unreasonably refused to consider costs in determining whether it is appropriate to regulate HAPs emitted by electric utilities. On June 29, 2015, the U.S. Supreme Court overturned the EPA's rules limiting mercury and HAPs released from power plants, thus ruling

the EPA should have considered the compliance costs when crafting the regulations. In December 2015, the D.C. Circuit Court agreed to leave intact the MATS rule while government officials decided how to best account for implementation costs. Subsequently, 20 states asked the U.S. Supreme Court to stay the Clean Air Mercury Rule, which the court rejected in March 2016. On June 13, 2016, the U.S. Supreme Court denied a writ of certiorari, but sent the rule back to the D.C. Circuit Court after finding the EPA improperly failed to consider the cost of the rule before promulgating it. The D.C. Circuit Court allowed the rule to stay in place while the EPA revised to comply with the U.S. Supreme Court's finding. In April 2016, the EPA released a cost analysis that determined the rule was still valid. On February 10, 2017, several states, local governments, and two energy companies submitted an intervenor brief supporting the rule, stating the EPA proved its necessity. On April 27, 2017, a three-judge panel at the United States Court of Appeals for the D.C. Circuit Court granted the EPA's request to pause the MATS litigation. Since the coal units already have technologies to control particulate matter and acid gases, the only additional technology required was mercury reduction technology. CPS Energy installed activated carbon injection (a mercury reduction technology) on Spruce1 and Spruce2 in early 2013 and Deely1 and 2 in July 2014 to meet the April 2015 compliance deadline. On April 14, 2016, the EPA issued a final finding that it is appropriate and necessary to set standards for emissions of air toxics from coal- and oil-fired power plants. This finding responds to a decision by the U.S. Supreme Court that the EPA must consider cost in the appropriate and necessary findings supporting the MATS. The EPA subsequently denied two petitions for reconsideration related to the standard for periods of startup and shutdown authorized in lieu of numeric standards for coal- and oil-fired power plants. The EPA amended its power plant electronic reporting requirements as it relates to MATS and further proposed additional revisions in April 2020 identifying certain data elements to be reported by power plants. The EPA's goal was that emissions of mercury from power plants be reduced 70% from 1999 levels, resulting in a 15-ton cap nationwide in 2018. The EPA submitted its pre-publication proposal to reconsider the MATS rule for power plants to the White House Office of Management & Budget ("OMB") for interagency review. On April 17, 2019, 21 state attorney generals and other regulators urged the EPA not to revise its 2016 final findings. On April 16, 2020, the EPA completed a reconsideration of the appropriate and necessary finding for the MATS, correcting flaws in the approach to considering costs and benefits while ensuring that HAPs emissions from power plants continue to be appropriately controlled. The EPA is maintaining its MATs emissions standards as Administrator Wheeler previously announced. The EPA is not removing coal- and oil-fired power plants from the list of affected source categories for regulation under section 112 of the Clean Air Act, so MATS remains in effect. The foregoing actions have been the subject of litigation. See "COMPLIANCE AND REGULATION – Environmental Matters – Sulfur Dioxide" herein.

On April 16, 2020, the EPA issued the final MATS rule. As a general matter and as expected, the final rule invalidates the "necessary and appropriate" finding but keeps in place the existing MATS regulations. In addition, the EPA completed the residual risk and technology review for the MATS rule, confirming that no further emissions controls are needed to address any potential residual risks from the emissions of coal-fired power plants. The final action leaves emission limits in place and unchanged. The EPA on May 22, 2020 published in the Federal Register the Final Revised Supplemental Finding and Results of the Residual Risk and Technology Review. The EPA considered compliance costs relative to benefits and concluded it is not "appropriate and necessary" to regulate EGUs for HAPs but is leaving the current emission standards in place. The EPA also took final action on the residual risk and technology review, finding that HAPs emissions have been reduced such that residual risk is at acceptable levels and thus no changes to the MATS rule is warranted. On July 17, 2020, the EPA issued a final action identifying data elements to be reported electronically by power plants using the "Emissions Compliance and Monitoring Plan System Client Tool" and extended the submission of certain reports using portable document format file through December 31, 2023.

On November 19, 2020, the EPA finalized amendments that apply to National Emission Standards for HAPs. The amendments implement that plain language reading of the "major source" and "area source" definitions of section 112 of the Clean Air Act and provide that a major source can be reclassified to area source status at any time upon reduction of its potential to emit HAP below the major source thresholds.

On January 31, 2022, the EPA issued a proposed rule to take several actions under the MATS rule. The EPA is proposed to reinstate the "appropriate and necessary" requirements to regulate HAPs including mercury, from power plants, after considering costs. The rule would ensure that the existing standards for MATS would remain in effect and unchanged.

On February 1, 2022, the EPA issued a Notice of Proposed Rulemaking on the current MATS rule that reaffirms the finding that rules for coal- and oil-fired steam generating units are appropriate and necessary. The rule would ensure the existing standards for MATS would remain in effect and unchanged. In response to a January 2021 executive order, the proposed rule also solicits information on the cost and performance of new or improved technologies that control hazardous air pollutants, improved methods of operations, and risk related information for the EPA to re-evaluate the residual risk and technology review for MATS. CPS Energy is currently meeting all the requirements of MATS.

The proposed MATS rule was published on April 24, 2023. The rule would require the filterable particulate matter ("PM") limit be lowered to 0.010 lb/mmbtu, require all coal units to have PM analyzers in place within three years of publication, and require all units to use the same definition of "startup", which was designated as "definition 1" in the original rule. The new standard of 0.010 lb/mmbtu has already been achieved by both of the CPS Energy coal burning units. The rule would require particulate matter monitors on Spruce 1 and 2. The initial cost could be between $200,000 and $400,000 per unit depending on whether one or two analyzer per unit were required. Additional costs for operations and maintenance will be assessed per unit. The final rule was published May 7, 2024. The compliance period began three years from the effective date of July 8, 2024. The requirements for a PM analyzer will occur in and around July 2027. Spruce 1 is scheduled to operate until December 2028 and therefore require PM analyzers beginning on July 8, 2027.

To ensure compliance, PM analyzers will be installed on Spruce 1 and 2. CPS Energy submitted a request to receive the Presidential Exemption on the MATS Repeal. This would extend the date of compliance with the 2024 MATS rule from July 2027 to July 2029. This would be after the conversion of Spruce2 and the retirement of Spruce1 and would eliminate the need to installed the PM analyzers. CPS Energy was not on the first or second list of companies that were granted the exemption.

The EPA proposed on June 17, 2025, to repeal specific amendments to the MATS Update Rule that was promulgated on May 7, 2024. The parts of the update rule that had impact to CPS Energy were the removal of definition 2 of startup, the lowering of the filterable PM standard, and the requirement to have a PM analyzer installed by July 2027. The proposed repeal does not facilitate the return of definition 2 of startup, but it does increase the filterable PM standard and removes the requirement for a PM analyzer.

Ozone: On March 12, 2008, the EPA revised the NAAQS for ground-level ozone (the primary component for smog). This revision was part of a required review process mandated by the Clean Air Act, as amended in 1990. Prior to the revision, an area met the ground-level ozone standards if the three-year average of the annual fourth-highest daily maximum eight-hour average at every ozone monitor (the "eight-hour ozone standard") was less than or equal to 0.08 parts per million ("ppm"). Because ozone is measured out to three decimal places, the standard effectively became 0.084 as a result of rounding. The EPA's March 2008 revision changed the NAAQS such that an area's eight-hour ozone standard must not exceed 0.075 ppm rather than the previous 0.084 ppm.

The Clean Air Act requires the EPA to designate areas as "attainment" (meeting the standards), "nonattainment" (not meeting the standards), or "unclassifiable" (insufficient data to classify). As a result of the revisions to the NAAQS, states were required to make recommendations to the EPA no later than March 12, 2009 for areas to be classified as attainment, nonattainment, or unclassifiable. In 2009 former Texas Governor Rick Perry submitted a list of 27 counties in Texas, including the County, which should be designated as nonattainment. The final designations were put on hold while the EPA worked on revising the standard even further downward.

On January 6, 2010, the EPA formally proposed a regulation that would lower the primary NAAQS for ozone to a level within a range of 0.060 to 0.070 ppm. The EPA postponed issuing a final rule revising the ozone NAAQS standards from August 31, 2010 to October 2010. At the end of 2010, the EPA postponed the final rule until July 2011. On September 2, 2011, President Obama requested that the EPA withdraw its draft of the NAAQS revision. On September 22, 2011, the EPA issued a memorandum stating it would designate areas as non-attainment under the 2008 ozone standard of 0.075 ppm. On December 18, 2014, the EPA completed its initial nonattainment designations under the 2012 annual fine particle standard, issuing a revision to the list on March 31, 2015.

On November 26, 2014, the EPA proposed ozone standards to within a range of 65 to 70 parts per billion ("ppb"), while taking comment on a level as low as 60 ppb. The proposed revision to the NAAQS was published in December 2014. On October 1, 2015, the EPA lowered the NAAQS for ground level ozone from 75 ppb to 70 ppb, "based on extensive scientific evidence about the ozone's effects on public health and welfare". The EPA was under a court order to finalize this rulemaking on or before such date. Under the Clean Air Act, the EPA has two years from the time it finalizes a revised NAAQS to complete the designation process. On February 25, 2016, the EPA issued the area designations for the 2015 NAAQS in a memorandum, which also outlined the important factors that the EPA intends to evaluate in making the final nonattainment area boundary decisions for these standards. On August 3, 2016, the TCEQ approved a recommended nonattainment designation for the County and submitted that recommendation to the Texas Governor for consideration. The Texas Governor's recommendations of area designations within the State were due to the EPA by October 1, 2016. The EPA was expected to make final designations by October 1, 2017. On June 6, 2017, the EPA sent a letter to each state Governor stating that designations will be delayed by one year, which would have made October 2018 the new deadline; however, on August 11, 2017, the EPA stated it would provide designations by the original October 1, 2017 date. Some final designations were issued in 2017, but the EPA did not make all designations by October 1, 2017. On December 5, 2017 several states filed suit in the Northern District of California alleging the EPA had a duty to designate all areas within the county, as opposed to a partial designation of the counties released so far. Several environmental groups filed a lawsuit in the same court the day prior alleging the same causes of action. If the EPA issued a designation that deviated from a state's recommendation, the EPA was required to notify the state at least 120 days prior to promulgating the final designations. Following the issuance of final designations, states are required to submit SIPs outlining how they will reduce pollution to meet the new standards. See "Cross-State Air Pollution Rule" herein for further discussions regarding SIPs. These SIPs are due to the EPA by a date established under a separate rule but will be no later than three years after the EPA's final designations (e.g., 2021 for the EPA designations made in 2018.) On December 19, 2017,

the D.C. Circuit Court issued an order requiring the EPA to file a report describing when it planned to issue a final rule establishing air quality designations for the 2015 ozone NAAQS. In conjunction with the revised NAAQS, the EPA proposed separate rules to address monitoring the new standard. Generally, the proposal from the EPA would require a greater number of EPA-approved monitors in both urban and non-urban areas and longer ozone monitoring seasons in many states. For Texas, the proposal calls for year-round monitoring throughout the State. On July 17, 2018, the EPA, in response to a March 12, 2018 order of U.S. District Judge Haywood S. Gilliam Jr., finalized the designations for the eight counties in the San Antonio area (the "San Antonio Area"), which took effect on September 24, 2018, sixty days after being published in the Federal Register. Of the eight counties in the San Antonio Area, only the County has been designated as marginal Nonattainment. Because the marginal Nonattainment classification is closest to meeting the federal ozone standard, achieving Attainment will require fewer mandatory planning and control requirements. The TCEQ issued a response stating that it disagreed with the EPA's decision to designate the County as Nonattainment but that it would work with local stakeholders to address the Nonattainment designation. Because the City has been designated as a marginal Nonattainment area, a SIP is not required. In response to this designation, City leaders appointed the San Antonio Metropolitan Health District Director to develop an Ozone Action Plan and lead efforts to improve the area's air quality. On August 28, 2018, the State (including the Texas Governor and the TCEQ) sued the EPA in the Fifth Circuit disputing the Nonattainment designation, stating EPA's decision would impose an unwarranted financial burden on the State's economy with minimal public health benefit. CPS Energy remains committed to improvement of the area's air quality by helping to develop constructive air quality improvement solutions and is working with the City and the Alamo Area Council of Governments in identifying community mitigation strategies to reduce ozone in the region. On October 17, 2018, a nationally recognized ozone expert presented his findings to City Council regarding the San Antonio Area, which noted rotating wind patterns, industrial chemical compounds, and the current placement of air quality monitors as contributors to the current air quality. On March 20, 2019, the City of San Antonio Metropolitan Health District (the "Metropolitan Health District") issued an Ozone Attainment Master Plan. The plan called for evaluation of targeted ozone reduction efforts as of December 31, 2020. The City sought feedback on the Ozone Attainment Master Plan to reduce ozone levels as the program's SASpeakUP Air Quality survey was made available in May 2019 and finalized in June 2019.

The SIP to reduce ground-level ozone may curtail new industrial, commercial and residential development in the City and adjacent areas. Examples of past efforts by the EPA and the TCEQ to provide for annual reductions in ozone concentrations in areas of Nonattainment under the former NAAQS include imposition of stringent limitations on emissions of volatile organic compounds ("VOCs") and NO_x from existing stationary sources of air emissions, as well as specification that any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.1 times the amount of pollutants proposed to be emitted by the new source. Studies have shown that standards significantly more stringent than those currently in place in the San Antonio Area and across the State are required to meaningfully impact an area's ground-level ozone reading, which will be necessary to achieve compliance with the 70 ppb ozone standard.

Depending on the severity of the violation, air pollution control programs could include the Nonattainment New Source Review permitting program and Federal General Conformity and Transportation Conformity programs. When an area is designated as Nonattainment, state plans first focus on reduction of emissions from major pollution sources, such as power plants and cement factories, and then focus on programs to further reduce emissions of pollutant precursors from sources such as cars, fuels, and consumer products. In the meantime, it must be demonstrated to the EPA that reasonable further progress toward improving the air quality is being made in the Nonattainment area. However, the former EPA Administrator Andrew Wheeler noted that analysis from Texas about the role of international emissions and the scheduled closure of a local coal-fired plant will ensure implementation measures to meet standards will have minimal burden on economic development.

Economic development would not be totally stopped by a Nonattainment designation, but there could be costly consequences due to the designation. Limitation on production and operation of industrial facilities could be imposed, or installation of pollution control equipment could be required, or otherwise industrial facilities may be asked to find reductions in emissions by "offsetting" in order to expand. New facilities wanting to locate in a Nonattainment area will most likely be required to install pollution controls or set stringent operational limits. There are also increased costs to businesses and consumers due to special requirements for vehicles and fuels sold in the area, and for commercial and consumer products.

Overall, these potential consequences to the requirements discussed above can be summarized as the following:

1. **Loss of industry and economic development in and around the area.**
   Companies interested in building a major manufacturing plant in a Nonattainment area could be impacted due to the increased costs, delays, and uncertainties associated with the restrictive permit requirements.
2. **Loss of federal highway and transit funding.**
   Federally supported highway and transit projects may be halted in a Nonattainment area if the state cannot demonstrate that the project will cause no increase in applicable emissions.

3. **New emissions in the area must be "offset", or the unit cannot be built.**
   Companies must offset the projected emissions of the proposed new plant or major modification by purchasing unused emission credits from others, or by reducing their own emissions. The ability to purchase emissions credits becomes increasingly difficult as the available emissions credits are used up over time. Similarly, the ability to reduce existing emissions at a plant that is proposing a major modification may be difficult or impossible for sources that already meet stringent standards and have installed emissions control equipment. Where no offset can be found, the project may not go forward. In marginal ozone Nonattainment areas, offsets typically must be greater than 1:1 ratio (e.g., a ton of offsets per ton of emissions) of NO_x and VOC.
4. **Compensation for foreign sources of emissions.**
   Certain states may also have to compensate for contributions to ambient concentrations in an area coming from foreign sources (such as Mexico) in order to reach Attainment with the NAAQS.
5. **Additional restrictive permitting requirements that are not applied in Attainment areas.**
   Companies that plan to build a new facility or construct a major modification to an existing facility in, or near, a Nonattainment area will be required to install the most effective emission reduction technology without consideration of cost. Less stringent controls may be installed in Attainment areas. The permitting process can be expected to last a year or longer as the company demonstrates that its proposal will meet all the applicable Nonattainment area requirements. These differences could discourage new business investments in Nonattainment areas compared with moving to an Attainment area.
6. **Greater EPA involvement and oversight in permit decisions.**
   The EPA may intervene and require permit revisions, even after the state and company seeking the permit have negotiated the terms of a final permit. This causes tremendous uncertainty, delays, and increased costs in the permitting process.
7. **Continuing oversight by the EPA even after the Nonattainment area meets the standard.**
   Before a Nonattainment area can be re-designated as an Attainment area, the EPA must determine that: 1) the area has met the standard (for ozone, this means it must be in Attainment for three full years); 2) the improvement in the area's air quality is due to permanent and enforceable emissions reductions; and 3) the area has an approved maintenance plan and an approved contingency plan that contain enforceable requirements to keep the area from lapsing into Nonattainment.
8. **Technical and formula changes for commercial and consumer products.**
   In order to meet the NAAQS standard, some SIPs may include regulations that would reduce the pollutant or its chemical "precursors" (e.g., for ozone, certain types of VOCs), by requiring changes to operating processes, to a product's technical design, or to the actual chemical formulation of commercial or consumer products, such as paint, which may result in increased costs to users or differences in performance.

Failure by an area to comply with the EPA's rules and regulations regarding ground level ozone by the requisite time could result, in the most serious of scenarios, in the EPA delivering a mandatory FIP to the region in a move beyond the State's authority, and imposing a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and the EPA seeking to compel the early adoption of additional emission reduction measures.

On December 6, 2018, the EPA issued final requirements that apply to state, local, and tribal air agencies for implementing the 2015 NAAQS for ground-level ozone. The EPA revised both the health-based and welfare-based standards for ozone on October 1, 2015 to 70 ppb. This final rule is largely an update to implementing regulations previously promulgated for the 2008 ozone NAAQS, and the EPA is retaining without significant revision most of those provisions to implement the 2015 ozone NAAQS. The EPA determined the interstate pollution transport obligations (under the 2008 NAAQS for the twenty affected states, including Texas) do not extend to the submission of SIPS establishing additional control requirements. The final rule includes attainment demonstrations, reasonable further progress and associated milestone demonstrations, reasonably available control technology ("RACT"), reasonably available control measures ("RACM"), major nonattainment new source review, emissions inventories, the timing of required SIP submissions and compliance with emissions control measures in the SIP. The EPA is not taking any final action on the EPA's proposed approach for revoking the prior ozone NAAQS and establishing anti-backsliding requirements. The EPA intends to address any revocation of the 2008 ozone NAAQS and any potential anti-backsliding requirements in a separate future rulemaking.

On August 1, 2019, the EPA stated in its court filing it does not intend to revise and modify the previously promulgated rules related to the 2015 ozone standard (ending speculation as to this anticipated change).

CPS Energy continues to work closely with the TCEQ, the Metropolitan Health District, and the Alamo Area Council of Governments on strategies for reducing ozone levels in the San Antonio Area and surrounding counties. The Metropolitan Health District has organized stakeholders to work with TCEQ regarding the Texas SIP as it pertains to the County. The City has developed an Ozone Attainment Master Plan to establish a strategic and technical review of current local ozone levels and provides recommendations for reducing emissions of ozone-forming compounds (NO_x and VOCs) into the atmosphere.

On June 10, 2020, the TCEQ adopted the 2015 Eight-Hour Ozone NAAQS Emissions Inventory ("EI") SIP Revision for the Houston-Galveston-Brazoria ("HGB"), Dallas-Fort Worth ("DFW"), and the County Nonattainment Areas ("Non-Rule Project No. 2019-111-SIP-NR"). The SIP revision satisfies Federal Clean Air Act, § 172(c)(3) and § 182(a)(1) EI reporting requirements for areas designated nonattainment for the 2015 eight-hour ozone NAAQS. The revision also includes certification statements to confirm that the emissions statement and nonattainment new source review requirements have been met for the HGB, DFW, and the County's 2015 eight-hour ozone nonattainment areas. On July 13, 2020, the EPA issued its proposed rule to retain the 70-ppb ozone NAAQS. The proposal responds to a Clean Air Act mandate to review NAAQS every five years. The EPA's staff has recommended keeping the primary, or health-based, ozone NAAQS unchanged at the level of 70 ppb over eight hours set in 2015. The EPA has also proposed retaining the secondary, or welfare-based, NAAQS at the same level of 70 ppb. Public hearings related to the foregoing were held on August 31 and September 1, 2020. The EPA on December 23, 2020, announced its decision to retain, without changes, the 2015 ozone NAAQS set by the Obama Administration. The rule was finalized on December 31, 2020.

On January 29, 2021, the D.C. Circuit Court vacated three of four challenged provisions of EPA's rule implementing the 2015 Ozone NAAQS. See Sierra Club v. EPA, No. 15-1465 (D.C. Circuit). One of the challenged provisions was the rule's inter-precursor trading program. The future use of NO_x emission reduction credits ("ERCs") to satisfy VOC offset requirements, and vice versa, is likely in question. TCEQ may continue to allow permit holders in the County, as a marginal nonattainment area, to buy ERCs generated in marginal, moderate, serious, severe, or extreme nonattainment areas that are contributing to the County's violation of the NAAQS to satisfy offset requirements. However, TCEQ could not allow permit holders in the County to sell ERCs for use as offsets in moderate, serious, severe, or extreme nonattainment areas that do not contribute to the County's violation of the ozone standard, such as Houston or Dallas.

The County's nonattainment compliance deadline was September 24, 2021. The County did not maintain a design value for ozone below 70 ppm. On April 13, 2022, the EPA proposed to change the County's status from "marginal" to "moderate nonattainment", which was followed by a 60-day comment period. On September 15, 2022, the EPA announced that the City and the County are designated as "moderate" and it was published on November 7, 2022 in the Federal Register. The proposed rules address additional requirements for inspection and vehicle maintenance. Attainment for the County would be required by the end of 2023 ozone season to meet a September 24, 2027 attainment date. On December 15, 2023, the TCEQ published proposed rules for nonattainment areas classified as moderate and above are required to meet the mandates of the Clean Air Act, which requires the SIP incorporate all reasonably available control measures ("RACM"), including reasonably available control technology ("RACT"), as expeditiously as practicable. The TCEQ is required to implement RACT requirement rules for all categories of stationary sources classified as major stationary sources of NO_x or volatile organic compounds. This proposed rulemaking would implement RACT requirements for major sources of NO_x in the County. This would include CPS Energy's generation facilities at Calaveras, Braunig, and Leon Creek. The rule would require a system wide NO_x 30-day rolling average on all of generation units located in the County. CPS Energy submitted comments on the proposed NO_x rules to the TCEQ on January 12, 2024. The TCEQ published the final rules on April 24, 2024, and CPS Energy is subject to a system wide NO_x 30-day rolling average for units located in the County starting on January 1, 2025. The TCEQ will allow retired units to stay in the cap. If the retired unit contributions stay in the cap, then CPS Energy does not expect any impact from this rule.

On October 12, 2023, the Texas Governor sent a letter to the EPA requesting to voluntarily designate the City, Dallas, and Houston areas as "Serious" for ozone nonattainment ahead of schedule. Following this letter, the EPA published the "Serious" designation for the County on January 26, 2024. Comments were due February 26, 2024. The attainment date for the County remains September 24, 2027. Failure to attain the NAAQS by that date, or effectively the end of the 2026 ozone season, will result in the County being bumped up to severe nonattainment. On June 20, 2024, EPA published that the County is designated "seriously effected" as of July 22, 2024. The County will have until the end of the summer ozone season of 2026 to meet the ozone attainment of 70 ppb. On July 9, 2025, the TCEQ proposed rules addressing the "Serious" ozone Nonattainment designation under Chapter 117 in the 30 TAC. There were no rules proposed that impact CPS Energy generation fleet as originally expected. The NOx system wide cap that went into effect on January 1, 2025 will remain unchanged.

The TCEQ added the County to the existing list of counties affected by the vehicle inspection and maintenance program codified in Title 30 Texas Administrative Code (30 TAC) Chapter 114. Beginning November 1, 2026, all gasoline vehicles registered in the County that are between two to 24 years old must be subjected to an on-board diagnostics ("OBD") inspection and a gas cap integrity inspection as part of the annual safety and emissions inspection. This is in addition to the anti-tampering checks performed as part of the annual safety and emissions inspection. All inspection stations will be required to offer the OBD test. Beginning November 1, 2026, motorists with vehicles registered in the County will not be eligible to renew their vehicle's annual registration if the vehicle has not passed its annual emissions inspection or complied with the vehicle emissions inspection program requirements.

The TCEQ proposed new rules in Chapters 115 and 117 of Title 30 Texas Administrative Code on June 20, 2025. This was in response to the County reaching the Serious level for ozone nonattainment. The Chapter 115 rules control the emissions of VOCs. Parts of the Chapter 115 rules that could have an impact on CPS Energy include solvents used in particular types of parts washers, gasoline dispensing equipment, and the training of employees how to properly dispense fuel. The Chapter 117 rules have minimal impact by only prohibiting the testing of emergency engines at certain times of the day with a few noted exceptions. There were no proposed changes to the current 30 day rolling average of pounds of NO_x emitted by the County power plant fleet. The rules were expected to be finalized in December 2025 with a March 1, 2026 date to have requirements met. TCEQ did not finalize the rules in December 2025, as expected and it is on hold. CPS Energy is still moving forward with replacing gasoline dispensing equipment such as hoses and nozzles on fuel pumps in anticipation of the rules at a future date. Some parts washers are being replaced, and the solvent in all parts washers are being replaced with a VOC compliant solvent.

PM2.5: The final rule for PM2.5 was finalized on December 14, 2012, with designations required to be made by December 2014 and a compliance deadline of December 2018. The San Antonio Area is well below this standard but general modeling for new permits will have more stringent requirements. Because SO_2 and NO_x contribute to PM2.5, a new CSAPR is expected based on this PM2.5 standard.

The final rule was published on December 7, 2020 in the federal register, stating that EPA will retain without revision the existing primary (health based) and secondary (welfare based) NAAQS for PM. The proposed rule for PM was published on April 30, 2020. The EPA is required to review the NAAQS every five years. Based on the EPA's review of the PM NAAQS, EPA is proposing to retain the current standard without changes to the NAAQS for PM including both fine particles (PM2.5) and course particles (PM10).

On December 2, 2021, the EPA's Clean Air Scientific Advisory Committee ("CASAC") met to strengthen the annual daily federal limits for fine particulate matter (PM2.5). Most members expressed the need for stricter standards to protect public health, which would go beyond EPA staff's recommendation to tighten only the annual limit. CASAC members expressed support for a standard set near the lower end of EPA staff's suggested range of 8 micrograms per cubic meter (ug/m3) to less than 12 ug/m3 for the annual "primary," or health-based standard. The existing limit is 12 ug/m3.

On March 6, 2024, the EPA finalized the new annual NAAQS for the fine particulate matter (PM2.5). EPA is strengthening the primary (health-based) annual PM2.5 standard to 9.0 micrograms per cubic meter (μg/m3), down from the current limit of 12 μg/m3 that was set in 2012. The effective date is May 6, 2024. The EPA is retaining the other existing PM2.5 NAAQS and NAAQS for coarse particulate matter ("PM10") standards without revision. The estimated annual PM2.5 for the County's design value for 2021-2023 is estimated to be 8.9 ppb. Webb County is estimated to be 9.7 ppb. The newly acquired Laredo plants are located in Webb County. While CPS Energy does not expect this to impact existing sources, it could make future permitting or major modification to plants more challenging and require air dispersion modeling.

On December 18, 2024, the TCEQ approved its recommended designations for which counties should become nonattainment counties for the new PM2.5 standard. These recommendations are sent to the EPA after the Texas Governor's approval. Although Webb County did have a PM2.5 reading greater than the standard, the TCEQ did not recommend that it be designated as nonattainment due to international emissions. Therefore, CPS Energy's Laredo plants will not be affected by a change in the attainment status for Webb County if the EPA agrees with the TCEQ recommendations. The County was not recommended for a status change since its PM2.5 emissions were just below the NAAQS.

On March 12, 2025, EPA Administrator Zeldin announced that the agency will reconsider the March 6, 2024 tightening of the PM2.5 standard as part of the 31 deregulatory actions to advance the President's executive orders. The final decision on the PM2.5 reconsideration has not occurred yet.

Cross-State Air Pollution Rule: As required by the Clean Air Act, the EPA establishes NAAQS to protect public health. The EPA periodically revises or creates additional standards to those currently in place and identifies locations ("Nonattainment Areas") that fail to meet the NAAQS. Within three years from the effective date of a new standard or modification, each state is required to propose and submit a SIP to the EPA evidencing prospective compliance with the updated NAAQS. If the EPA determines a SIP to be inadequate, the EPA must implement a FIP remedying these inadequacies within two years. On June 14, 2016, the D.C. Circuit Court ordered the EPA to create, under the Clean Air Act, a "good neighbor" FIP for the State to meet national standards on particulate matter.

Congress previously noted a persistent issue of Upwind States emitting toxins beyond their borders, contributing to pollution in neighboring states ("Downwind States"). Consequently, Congress mandated all SIPs adhere to the Clean Air Act's Good Neighbor Provision (the "Provision"), which prohibits Upwind States from emitting pollution in an amount that would interfere with another state's ability to maintain compliance with NAAQS. The EPA previously identified and attempted to regulate states contributing to other states' nonattainment status by enacting measures controlling nitrogen oxide and sulfur dioxide emissions, yet the issue persisted, and courts found these measures insufficient. The EPA's latest promulgation implementing the Provision, the CSAPR,

controlled states' hazardous emissions through a two-step process. The EPA analyzed the level of pollution emitted by Upwind States and identified those states exceeding a pre-determined pollution threshold. The EPA then evaluated the cost of reducing various emissions in 27 selected states and regulated their pollution according to the most efficient method (highest level of emission reduction at the lowest cost), while simultaneously issuing FIPs. The EPA rationalized the controlled states' SIPs failed to comply with the updated Provision, triggering the obligation to issue a FIP within the two-year limitation period. In an opinion dated September 13, 2019, the D.C. Circuit Court affirmed the constitutionality of the Provision. However, on May 19, 2020, the D.C. Circuit Court clarified the Provision by finding the EPA acted arbitrarily and capriciously by refusing to consider data from air quality monitors located outside of one state but within an attainment region the state shares with other states. The three-judge panel agreed that a state can use data from another state if that data shows nonattainment in a multi-state nonattainment area.

Challengers, comprised of state and local governments as well as industry leaders, filed suit to overturn the CSAPR and to allow states the ability to submit an amended SIP after the EPA's determination of inadequacy. On April 29, 2014, the U.S. Supreme Court rendered a decision in EPA v. EME Homer City Generation, L.P., 134 S. Ct. 1584 (2014). The U.S. Supreme Court found CSAPR to be a reasonable and appropriate implementation of the Provision. Under 42 U.S.C. § 7410(a)(2)(D)(i), the EPA is afforded deference in determining an acceptable manner to satisfy the Provision. Because the CSAPR analyzes the most cost-effective method of achieving the highest level of attainment in affected states, the CSAPR is a permissible interpretation of the Provision. On July 28, 2015, the D.C. Circuit Court, on remand, considered individual states' challenges to the EPA's determinations regarding emission budgets. The D.C. Circuit Court held the emissions budgets imposed by the EPA for SO_2 regarding four states and NO_x regarding 11 states were invalid, and the EPA overregulated emissions beyond the statute. Therefore, the D.C. Circuit Court remanded to the EPA for reconsideration of the invalid emissions budgets and subsequent compliance. The CSAPR remained valid. In response to this court decision, on November 16, 2015, the EPA issued a press release regarding proposed updates to CSAPR, which would reduce summertime emissions of NO_x from power plants that contribute to downwind ozone problems. Specifically, the proposed updates identify cuts in power plant NO_x emissions in 22 states in the eastern half of the country that contribute significantly to downwind ozone air quality problems. The EPA held a public hearing on this matter on December 17, 2015 and received public comments until February 1, 2016. To assist some Downwind States to meet their 2018 ozone attainment deadlines, the EPA updated the existing CSAPR ozone season program. In late November 2016, five states challenged the EPA's incorporation of the 2008 national ozone standards into CSAPR, which require Upwind States to reduce NO_x emissions from power plants.

In its 2014 opinion, the U.S. Supreme Court determined it unnecessary for states to be given the opportunity to submit an additional SIP after the EPA issued limitations to states' toxic emissions. The statute, 42 U.S.C. § 7410(c)(1), allows the EPA to issue FIPs upon a finding of inadequacy, regardless of whether CSAPR's additional regulations implementing the Provision were enacted subsequently to an Upwind State's initial submission of its SIP. The plain text of the statute does not necessitate the EPA to give a state the opportunity to cure its SIP in order to issue a FIP.

On September 7, 2016, the EPA released its final CSAPR update rule for the 2008 ozone NAAQS. The update adopts FIPs for all 22 states, updating the existing CSAPR NO_x ozone season emission budgets for each state's fleet of electricity generating units (to be implemented through the existing CSAPR NO_x ozone season allowance trading program). States could begin replacing the EPA's FIP in 2018 by submitting an approvable transport SIP. The final rule makes a few key changes, by establishing a one-time allowance conversion that transitions a limited number of banked 2015 and 2016 allowances for compliance use in CSAPR update states in 2017 and beyond. Starting in May 2017, the final CSAPR began reducing ozone season emissions of NO_x from power plants in 22 states in the eastern United States, providing both monetary benefits and reducing overall exposure. The EPA changed individual state emission budgets and the combined total increased slightly (by less than 5 percent) from the proposed rule. For CPS Energy, this resulted in a reduction of Ozone Season NO_x allowances from 4,650 to 3,698 tons, with only about a third of the banked allowances from 2015 and 2016 rolling over. On September 21, 2017, the EPA signed a rule finalizing withdrawal of the FIP provisions that require affected EGUs in Texas to participate in Phase 2 of the CSAPR trading programs for annual emissions of SO_2 and NO_x. Texas will stay in the most stringent NO_x Ozone Season Program. On October 27, 2017, the EPA issued a memo providing supplemental information to states regarding the development and review of SIPs addressing the Provision as it relates to the 2008 NAAQS, including future year ozone design values and contributions, modeling outputs based on updated data. On June 29, 2018, the EPA proposed to close-out the Provision based on data indicating the 2008 NAAQS were fully addressed. A public hearing was held August 1, 2018 and a final ruling that the CSAPR update addresses the requirements of the Provision was issued on February 19, 2019. See "Ozone" above. In an opinion dated October 1, 2019, the D.C. Circuit Court vacated the close-out Provision.

On March 15, 2021, the EPA finalized the CSAPR Update to fully address 21 states' outstanding interstate pollution transport obligations for the 2008 ozone NAAQS. Starting in the 2021 ozone season, the rule requires additional emissions reductions of NO_x from power plants in 12 states. The EPA is proposing that for 9 of the 21 states for which the CSAPR Update was found to be only a partial remedy (Alabama, Arkansas, Iowa, Kansas, Mississippi, Missouri, Oklahoma, Texas, and Wisconsin), their projected NO_x emissions in the 2021 ozone season and thereafter will not significantly contribute to a continuing downwind nonattainment and/or maintenance problem, and therefore the states' CSAPR Update FIPs (or the SIP) subsequently approved to replace certain states' CSAPR Update FIPs) fully address their interstate ozone transport obligations for the 2008 ozone NAAQS. Texas is not impacted by this rule.

On April 6, 2022, the EPA issued a pre-publication version of a proposed FIP to address the states' "Good Neighbor" obligations with regard to the 2015 8-hour Ozone Standard. The EPA is proposing to promulgate new or revised FIPs for 26 states, including Texas. For 25 of the states, including Texas, the FIP will include new NO_x ozone season emission budgets for EGUs and non-EGUs, with the implementation of these budgets beginning in the 2023 ozone season. All 25 of these states will be included in a revised Group 3 ozone season NO_x trading program. In identifying levels of uniform control stringency, the EPA assessed the same NO_x emissions controls the EPA analyzed in the CSAPR Update and the Revised CSAPR Update: (1) fully operating existing SCR, including both optimizing NO_x removal by existing operational SCRs and turning on and optimizing existing idled SCRs; (2) installing state-of-the-art NO_x combustion controls; (3) fully operating existing selective non-catalytic reduction ("SNCRs"), including both optimizing NO_x removal by existing operational SNCRs and turning on and optimizing existing idled SNCRs; (4) installing new SNCRs; (5) installing new SCRs; and (6) generation shifting (i.e., emission reductions anticipated to occur from generation shifting from higher to lower emitting units at each of these stringency levels).

The EPA has proposed a new FIP Addressing Regional Ozone Transport for the 2015 Ozone National Ambient Air Quality Standard that, if adopted as proposed, would create a NO_x trading program that would restrict operation of CPS Energy Spruce Unit 1 and gas- or oil-fired steam units, Sommers and VHB Units 1-3, during the May 1 to September 1 ozone season as follows:

a) On or after May 1, 2026, CPS Energy must hold sufficient allowances for the actual NO_x emissions from Spruce1 for the ozone season. Based on the EPA's illustrative budget, Spruce1 would receive an allocation of 304 tons in 2026;
b) On or after May 1, 2026, CPS Energy must hold sufficient allowances for the actual NO_x emissions from gas- or oil-fired steam units for the ozone season; and
c) On or after May 1, 2027, CPS Energy must hold sufficient allowances for actual NO_x emissions from Spruce1 above an emission rate of 0.14 lb NO_x/MMBtu on a daily basis.

The proposed emissions budgets are initially set at the level of reductions achievable through immediately available measures, including consistently operating emissions controls already installed at power plants, specifically SCR and SNCR. While the proposed emissions budgets are based on these measures, because the proposed FIP establishes a trading program and not direct control, these control measures are not necessarily required. Rather, EPA expects that facilities will utilize these controls to achieve required reductions.

- The EPA identified 0.08 lb/MMBtu as a reasonable level of performance for coal steam units with optimized SCR.
- The EPA identified 0.03 lb/MMBtu as a reasonable level of performance for gas- and oil-fired steam units and simple cycle units with optimized SCR.

Originally, starting in 2026, the budgets would be set at levels achieved by the installation of modern and cost-effective SCR controls on large coal-fired power plants (100 MW or more) and older natural gas and oil-fired steam generators in the covered states that do not currently have them. By 2026, EPA projects that the program would result in a 29 percent reduction in ozone-season NO_x emissions from power plants in the 25 states covered by the Group 3 ozone season NO_x trading program. Currently, the EPA has stayed this rule nationwide and, as of now, it will not go into effect in 2026.

In the proposed FIP, the EPA is adding additional restrictions, beyond those in the Revised CSAPR Update, to ensure consistent NO_x reductions are achieved. These measures include:

- A daily emissions rate limit for large coal-fired units (100 MW or more) set at 0.14 lb/MMBtu, which would take effect in 2024 for units with existing controls and in 2027 for units installing new controls, to ensure those controls are operated effectively and consistently at these plants throughout the ozone season. Units that exceed the daily rate would be subject to increased allowance surrender requirements;
- Limiting the size of the emissions allowance bank to maintain strong long-term incentives to reduce NO_x emissions; and
- Starting in 2025, annually updating budgets to account for new retirements, new units, and changing operations.

On May 12, 2022, the EPA extended the comment period on the proposed rule to June 21, 2022. CPS Energy submitted comments on June 17, 2022 to the EPA regarding the rule. CPS Energy was also a part of a Texas Interstate Group formed to comment on the modeling conducted by the EPA and the effect of grid reliability from the proposed rule. Several trade associations commented on the FIP saying it needed to include a safety value and exemptions to units that would be retired soon.

The EPA stated in the proposed FIP that the EPA will not finalize the proposed FIP with regard to individual covered states until the EPA either finalizes that state's SIP disapproval or the state withdraws the SIP. In the latter case, EPA will not finalize the FIP until the EPA makes a finding of failure to submit for that state. The EPA published their finding of SIP disapproval on January 31, 2023. On May 1, 2023, the Texas Attorney General, the TCEQ, and several other parties to the case, received a favorable judicial ruling challenging the CSAPR. Specifically, the court denied the EPA's motion to transfer the case from the 5th Circuit to the D.C. Circuit Court. Additionally, the 5th Circuit granted Texas' motion to stay the EPA's disapproval of Texas' SIP.

The FIP was issued on March 15, 2023 but it was not published until June 5, 2023. The effective date of the rule is August 4, 2023. One June 29, 2023, the EPA released a memorandum stating that Texas is not subject to the rule as long as the stay on EPA's denial of the State SIP is still in effect. The EPA filed its merits brief defending its disapproval of the SIP written by Texas on August 15, 2023. A reply brief was submitted on September 19, 2023 by industry legal representation. The reply brief focused on several key points that directly responded to points made by the EPA in their merits brief to the court filed on August 15, 2023. Some of the arguments made were that the EPA's disapproval of Texas' SIP exceeded its statutory authority, the EPA's merits brief applied the wrong standard of review, and that vacatur is the appropriate remedy. The Texas Attorney General's Office also submitted a reply brief, and their arguments complement those made by industry legal representation. In a separate legal action, a case against the EPA for the stay of the entire rule nationwide was brought forth in the U.S. Supreme Court's emergency docket by entities unrelated to the State of Texas merits case. The U.S. Supreme Court held oral arguments on the stay of the entire rule in February 2024. On June 27, 2024, the U.S. Supreme Court stayed the Good Neighbor Rule. No opinion has been issued yet in either the Texas merits case or the U.S. Supreme Court case. Should the foregoing rule apply to Texas, the impact to CPS Energy could be significant, as budgeting, modeling, allowances, retirements, and the weather would all factor into any potential rule compliance.

On August 5, 2024, the EPA released a policy memorandum discussing plans for compliance with the U.S. Supreme Court's order to stay the Good Neighbor Rule. On November 6, 2024, the EPA published an interim final rule to administratively stay the effectiveness of the Good Neighbor Plan's requirements for all sources in the states covered by that rule, where an administrative stay was not already in place. Therefore, CPS Energy's operations are currently not affected by the Good Neighbor Rule.

On December 3, 2024, the EPA issued a notice addressing a particular issue that the U.S. Supreme Court preliminarily found may not have been adequately explained when it granted applications to stay enforcement of the Good Neighbor Plan. In the notice, the EPA identified the information, methodology, and rationales in the original record of the final rule to more fully explain how the Good Neighbor Plan reasonably defines each covered state's emissions reduction obligations under the good neighbor provision of the Clean Air Act regardless of the status of the rule in other states.

On March 25, 2025, a three-judge panel of the Fifth Circuit issued a decision upholding the EPA's disapproval of Texas' and Louisiana's SIPs. In their briefs, the State and various industry petitioners ("Texas Petitioners") had claimed perceived flaws under the EPA's approach, modeling, and interpretation of the Clean Air Act. However, in evaluating Texas' SIP, the panel concluded that the EPA reasonably disapproved Texas' SIP "because it did not satisfy the Good Neighbor Provision even under Texas' own interpretation," with the panel pointing to the EPA's discussion of seven weight-of-evidence factors on which Texas relied in its SIP submission.

On May 9, 2025, the Texas Petitioners filed petitions seeking review by the full Fifth Circuit (or an en banc review) of the panel's decision upholding EPA's disapproval of Texas's SIP. The Texas Petitioners argued that the panel erroneously "side stepped" key issues under the Administrative Procedures Act ("APA") related to the EPA's reliance on updated modeling and change in guidance and that the panel's decision conflicts with Fifth Circuit precedent regarding the EPA's role in reviewing SIP submissions.

On July 1, 2025, EPA filed a response to the Texas Petitioners request for en banc review. In the response, the EPA argued that the central question at issue was the scope of EPA's authority to review SIP submissions, and the panel appropriately concluded that EPA must independently assess whether a SIP meets the requirements of the Clean Air Act, which is consistent with the text and structure of the Clean Air Act, Fifth Circuit precedent, and precedent from other circuits. The EPA emphasized that the panel's decision did not defer to EPA's interpretation of "significant contribution" under the Good Neighbor Provision, but instead evaluated Texas's SIP using Texas's preferred framework and reasonably found that Texas's analysis was technically adequate.

Best Available Retrofit Technology ("BART"): The BART program is administered by the EPA/TCEQ in response to regional haze. The pollutants addressed by BART are NO_x and SO_2, the same as by CSAPR. CPS Energy was not included in a BART regulation in 2010 that required some Texas coal units to install SO_2 scrubbers; however, BART is once again being looked at by EPA/TCEQ to control NO_x and SO_2.

On July 28, 2015, the D.C. Circuit Court remanded the CSAPR allowances budgets for Texas. As a result, Texas could no longer rely on CSAPR to comply with BART. As a result of the CSAPR action, the TCEQ was required to propose BART eligible units by December 9, 2016, under a consent decree. CPS Energy received and responded to an Information Collection Request ("ICR") from the EPA, in March 2016 for the Calaveras and Braunig sites. Based on the date of construction, the Sommers and Braunig steam boilers are all BART eligible. The Spruce units are newer and not under consideration.

On July 21, 2016, the EPA informed CPS Energy that due to revisions to the BART screening modeling with improved information, they determined that the Braunig facility screened out and thus does not have any units that are subject to BART. As a result, Braunig1, 2 and 3 are no longer eligible. CPS Energy has two potential BART eligible sources: Sommers1 and Sommers2. While the EPA has not completed the subject to BART modeling, CPS Energy believes Sommers1 and Sommers2 could potentially be included due to the ability to burn fuel oil.

In late February 2017, environmental groups submitted a brief to the D.C. Circuit Court challenging the emissions trading programs within CSAPR, or the "Transport Rule", to achieve more environmental progress at national parks and wilderness areas than BART. On March 22, 2017, the Fifth Circuit allowed the EPA to revise and change the State's regional haze FIP when the court granted the EPA's motion to remand the plan to the EPA for revision.

On November 16, 2017, the EPA finalized its determinations regarding BART for EGUs in Texas. For SO_2 requirements, the EPA promulgated a BART alternative consisting of an intrastate trading program addressing the SO_2 emissions from certain EGUs. To address BART requirements for NO_x, the EPA finalized its proposed determination that Texas' participation in CSAPR's trading program for ozone season NO_x qualifies as an alternative to BART. The EPA also approved Texas' determination that its EGUs are not subject to BART for particulate matter. In its final rule, the EPA disapproved of portions of several SIP revisions to satisfy the Clean Air Act requirements to address interstate visibility transport for several NAAQS, finding that the previously mentioned BART alternatives meet these NAAQS visibility transport requirements.

On October 3, 2017, the EPA proposed a FIP for BART units in Texas. This was expected as the TCEQ/ the Texas Governor's Office requested an extension for time to complete a SIP was refused. The FIP proposes to use CSAPR allowances and make a trading program for Texas rather than having to install scrubbers on effected units. The SIP would have requested the same, just with a longer timeframe.

The impact on CPS Energy is low, as Deely was shut down at the end of 2018. On January 17, 2018, the EPA announced it is reconsidering aspects of the BART Rule but has not issued any proposals modifying the BART Rule. On March 20, 2018, the D.C. Circuit Court upheld a challenge to the EPA's move to incorporate CSAPR into regional haze regulations. On August 20, 2019, the EPA issued new regional haze guidance for compliance with long-standing mandates to protect visibility.

In response to challenges to the rule implementing the Texas SO_2 Trading Program, the EPA requested additional public input on the program as it appears in the Federal Register dated August 27, 2018. The EPA noted that several units in Texas have recently or will soon be retired, including the deactivation of Deely units in 2018. Deely's emissions allowances are available for use for five years. The EPA "specifically solicit[ed] comment on how these shutdowns should impact the provision regarding allocation to retired units for a period of five years". Under the EPA's alternative approach, the number of allowances that may be allocated from the Supplemental Allowance Pool would reduce the number of annual allocations for the participating units that have been permanently retired as of January 1, 2019.

On August 12, 2020, the EPA published in the Federal Register a final rule approving a Texas regional haze plan allowing an emissions trading program for coal-fired electric generating units in the State. The first compliance period began on January 1, 2021. Deely1 and 2 and Sommers 1 and 2 are included in the rule. There is no impact to CPS Energy.

On May 4, 2023, the EPA published a proposed update to the rule that would remove Sommers 1 and 2 from the rule because of their minimal impact. This proposed rule has yet to be finalized.

On December 23, 2024, the EPA published a proposed rule that would extend the Third Implementation Period SIP deadline from July 31, 2028 to July 31, 2031. SIPs for the Fourth Implementation Period would remain due July 31, 2038.

Carbon Dioxide ("CO_2") and Greenhouse Gases ("GHG"): In 2007, the U.S. Supreme Court rendered its first major decision in the climate change arena. In Massachusetts v. EPA, 549 U.S. 497 (2007), the U.S. Supreme Court held that CO2 and other greenhouse gases from motor vehicles are "air pollutants" and are subject to regulation under the Clean Air Act. There have also been several bills introduced in Congress that propose to regulate GHG through a cap and trade and/or quasi-carbon tax program.

In a noteworthy Clean Air Act decision, in the wake of Massachusetts v. EPA, the Environmental Appeals Board ("EAB") avoided the key question of whether CO_2 is currently "subject to regulation" under the Clean Air Act. In re Deseret Power Electric Cooperative, E.A.D. App. No. PSD 07-03 (EAB 2008) it appears that the decision was carefully designed to leave open for the Obama Administration the question of whether CO_2 would be regulated under a key EPA permitting program. EAB sided with the EPA, agreeing that the EPA is not required to treat CO_2 as "subject to regulation" for purposes of the Prevention of Significant Deterioration ("PSD") permitting program. However, EAB found that the EPA could exercise its discretion to treat CO_2 as "subject to regulation", and thus require permit limits for CO_2 based on the best available control technology ("BACT"). At that time, the EPA made it clear that, for both legal and policy reasons, it did not want to treat CO_2 as "subject to regulation" under the Clean Air Act. This position was confirmed in a memorandum dated December 18, 2008, from Stephen L. Johnson, the Administrator of the EPA, establishing that CO_2 is not "subject to regulation" under the Clean Air Act. The EAB found, however, that the Deseret permitting record was not adequate to support this position. It then remanded the permit back to the EPA with instructions that made it difficult for the EPA to respond to the remand without further presidential directive. The EAB has created significant uncertainty for anyone planning to construct virtually any type of commercial building or industrial facility (such as a new power plant). In January 2015, environmental groups filed petitions with the EAB challenging Deseret Power Cooperative ("Deseret") and its ability to operate the Bonanza Power Plant in Utah. In a proposed settlement agreement, Deseret would apply for a minor New Source Review permit which would provide for installation of low NO_x burners with over-fire air controls, along with other operator-requested permit terms and conditions. Under the settlement agreement, the pending PSD permit application and a proposed PSD permit would also be withdrawn. The EPA signed the settlement agreement on October 5, 2015. As CPS Energy is not currently seeking a new PSD permit for any of its facilities, CPS Energy is not currently affected by this decision.

In April 2009, the EPA signed two distinct findings under Section 202(a) of the Clean Air Act ("Section 202(a)"). The first was an endangerment finding, in that concentrations of GHG in the atmosphere threaten the public health and welfare. The second was a cause or contributing finding, in that combined emissions of GHG from motor vehicles and engines contribute to GHG pollution, which threatens the public health and welfare. An endangerment finding under Section 202(a), or any other similar section, is the prerequisite to mandatory regulation. In most instances, once an endangerment finding is made, the Clean Air Act requires the EPA to regulate the subject pollutant. That mandatory duty to regulate, combined with the cascading effect of a single endangerment finding, means that the EPA may face a burden of needing a regulatory regime in place for all emission sources at the time it starts to regulate the first source. Accordingly, the creation of GHG emission standards for new motor vehicles could trigger a duty for the EPA to regulate GHG emissions from stationary sources under other Clean Air Act sections, such as the development of NAAQS, New Source Performance Standards ("NSPS"), the PSD program, Title V, and NESHAP. Senators John Kerry (D-MA) and Joseph Lieberman (I-CT), on May 12, 2010, released the comprehensive climate change and clean energy bill, titled the "American Power Act". The bill included similar targets to the American Clean Energy and Security Act of 2009 to reduce economy wide GHG emissions from 2005 levels, but this bill was never enacted.

On August 13, 2020, in response to President Trump's Executive Order on Promoting Energy Independence and Economic Growth, Administrator Wheeler announced two final rules for the oil and gas industry, providing direction for the EPA to review, and if appropriate revise, the 2016 Oil and Natural Gas NSPS to ensure that the rules do not burden the development or use of domestically produced oil and natural gas.

The first rule, referred to as the "policy package", determines that the EPA's previous addition of the transmission and storage segment was improper and removes it from the regulation while also rescinding emissions standards for that segment. In addition, the policy package establishes the EPA's position that the Clean Air Act requires the EPA to make a finding that a pollutant contributes significantly to air pollution before setting NSPS requirements. The second rule, referred to as the "technical package" includes changes to the NSPS that will directly benefit smaller oil and gas operators who rely on regulatory policy to run their businesses.

CPS Energy is monitoring and evaluating proposed legislation, and continues to document its climate change activities, particularly its GHG emissions. CPS Energy includes a potential carbon dioxide cost in its assumptions when it evaluates alternatives for meeting the growing demand for electricity in the CPS Energy service territory. In conjunction with the Alamo Area Council of Governments, the City coordinated the development of a regional GHG emission inventory and entity-specific emission inventories for SAWS, the County, CPS Energy, and itself. The baseline year chosen for the inventory is 2005. CPS Energy now tracks an annual GHG inventory and is working with the City and its Mission Verde Alliance to address a wide range of issues affecting the community.

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On September 22, 2009, the EPA finalized the nation's first GHG gas reporting system and monitoring regulations. On January 1, 2010, the EPA, for the first time, required large emitters of heat-trapping emissions to begin collecting GHG data, under a new reporting system. This new program covered approximately 85 percent of the nation's GHG emissions and applied to roughly 10,000 facilities. The EPA's new reporting system aimed to provide a better understanding of where GHGs are coming from and will guide the development of policies and programs to reduce emissions. Fossil fuel and industrial GHG suppliers, motor vehicle and engine manufacturers, and facilities that emit 25,000 metric tons or more of CO_2 equivalents per year will be required to report GHG emissions data to the EPA annually. The first annual reports for the largest emitting facilities, which include CPS Energy plants, were submitted to the EPA in 2011. On December 1, 2010, the EPA finalized a rule to include the reporting of GHG from large sources of fluorinated GHG, which includes SF6; annual reporting to the EPA began in 2012. On November 29, 2013, the EPA finalized amendments to the GHG reporting program, effective January 1, 2014. The amendments consist of three parts: technical amendments, amendments related to global warming potentials, and confidentiality determinations for new or revised data. The EPA released its *Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2018* on April 13, 2020, which presented a national-level overview of annual GHG emissions since 1990. The inventory shows GHGs in the United States have increased from 2017 to 2018 by 2.9% largely due to an increase in CO_2 emissions from fossil fuel combustion.

On September 30, 2009, using the power and authority of the Clean Air Act, the EPA proposed a rule requiring new or modified power plants and other large stationary CO_2 emitters to have the BACT installed. Such rule would have applied to industrial facilities that emit at least 25,000 tons of GHGs each year. The new rule conflicted with a Clean Air Act provision calling for regulation of facilities that emit over 250 tons per year. The GHGs covered include CO_2, methane, nitrous oxide, hydrofluorocarbons, fluorocarbons and sulfur hexafluoride. The EPA estimated 400 new sources and modifications would be subject to review each year for GHG emissions and, in total, 14,000 sites would have to get permits under the proposal. The administration has not done any calculations on how much emissions the law would cut or the costs to industry. BACT would be decided somewhat on a case-by-case basis, with the EPA staff doing technical work to see what the best options are. The most promising technology for fossil generation is carbon capture and storage, but that is at least a decade away from commercial viability. BACT would change over time. Permitting delays and increased Title V permit fees are projected. In January 2016, the U.S. Department of the Interior proposed updates to natural gas emissions regulations for oil and gas operations, including a requirement that producers adopt modern techniques and equipment to limit flaring, since venting and leaks during oil and gas operations are major sources of GHG emissions.

The EPA issued a final endangerment finding on December 7, 2009, that GHGs pose a danger to human health and the environment, clearing the way for a Clean Air Act regulation limiting CO_2 emissions from power plants, vehicles and other major sources. Power plants and other large stationary sources of CO_2 are now required to use BACT to reduce emissions when they modify or construct plants. The next time CPS Energy constructs or modifies a plant, its permits will have to include CO_2 limits, and it will have to meet those limits using the traditional BACT process. Acquisition of the Rio Nogales Plant, acquired with proceeds of certain Senior Lien Obligations on April 9, 2012, did not result in the application of these limitations to such facility. Currently, there is no commercially available technology to reduce CO_2 emissions. The EPA may push for BACT determinations for coal and gas fired generation (new and existing fleet) to meet 50-80% reduction in CO_2 through carbon capture and sequestration ("CCS"). As a potential alternative to reducing CO_2 emissions through removal technology, offsets could be purchased to meet the limits. On December 2009, the EPA denied the petitions to reconsider the Endangerment and Cause or Contribute Findings for Greenhouse Gases under Section 202(a) of the Clean Air Act.

In March 2012, the EPA proposed NSPS for coal units and natural gas combined cycle units, so any new units will have a CO_2 limit to meet. Based on the NSPS, the EPA is also in the process of creating limits for existing units. Standards of Performance for New Stationary Sources, 40 C.F.R. § 60 (2015) contains the existing standards, which are continually updated, and it remains unforeseen what compliance measures will need to be taken.

On June 24, 2013, President Obama announced his Climate Change Action Plan. In the plan, he called for a 17% reduction in GHG emissions by 2020 from 2005 levels. He asked the EPA to revise and re-propose the new unit standard by September 30, 2013. On September 20, 2013, the EPA re-proposed the standard, but it did not differ drastically from the previous March 2012 proposal. The EPA did separate coal and natural gas combined cycle into separate categories with the rates of 1,000 and 1,100 lb/MWh, respectively. An EGU can either meet a 1,100 CO2/MWh-gross standard over a 12-operating month period or meet a slightly tighter 1,000-1,050 CO_2 or a MWh-gross standard over an 84-operating month period, allowing the unit to phase in the use of partial CCS over 7 years as an option.

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On April 21, 2015, President Obama announced two executive actions to support energy infrastructure resilience. The first includes $72 million from the USDA to support rural electric infrastructure projects with major investments to drive solar energy, and the DOE announced the Partnership for Energy Sector Climate Resilience, which will improve U.S. energy infrastructure resilience against extreme weather and climate change impacts. Furthermore, on July 2, 2015, the EPA finalized its rule to reduce hydrofluorocarbon emissions (a GHG), which was revised in November 2016 to set forth policies and procedures for the acquisition of items that contain ozone-depleting substances and hydrofluorocarbons, and also addresses public disclosure of GHG emissions and reduction goals. Initial projections indicate this rule will reduce emissions by 54 to 64 million metric tons of carbon dioxide equivalent by 2025. On February 9, 2015, the U.S. Supreme Court ordered the Obama Administration not to take any steps to carry out its Clean Power Plan ("CPP"). The order spares the operators of coal-fired power plants from having to take action to begin planning for a shift to "cleaner" energy sources.

On June 2, 2014, the EPA proposed the much-awaited CPP that calls for a 30% reduction by 2030 in carbon emissions from power generation sources, when compared to 2005 levels. This proposal followed through on the steps laid out in President Obama's Climate Action Plan and the June 2013 Presidential Memorandum. The rule followed section 111(d) of the Clean Air Act in the fact that it proposed guidelines but allowed the flexibility for states to customize a plan that works for their state. On June 23, 2014, the U.S. Supreme Court issued a decision addressing the application of stationary source permitting requirements to GHG. In Utility Air Regulatory Group v. EPA, 124 S. Ct. 2427 (2014) (the "UARG Decision"), the U.S. Supreme Court said that the EPA may not treat GHG as an air pollutant for purposes of determining whether a source is a major source required to obtain a prevention of significant deterioration ("PSD", or "title V permit"). The U.S. Supreme Court also said that the EPA could continue to require PSD permits, otherwise required based on emissions of conventional pollutants, contain limitations on GHG emissions based on the application of BACT. The EPA subsequently issued memorandums outlining the next steps on the application of the Clean Air Act considering the UARG Decision, including revisions to the EPA's PSD regulations. In early 2016, the EPA began approving rescission requests for PSD permits. On August 3, 2015, the EPA released the final rule for the CPP.

Since the promulgation of the CPP, the EPA received 38 petitions requesting the EPA reconsider, withdraw, or re-propose various elements of the CPP; all but two issues were denied consideration. The EPA also received 22 petitions that the EPA issue an administrative stay until judicial resolution of the CPP or completion of the EPA's reconsideration process; all these requests were denied.

On March 28, 2017, President Trump signed an executive order directing the EPA Administrator to immediately review and begin steps to rescind the CPP, which included a request to delay the court proceedings. On April 28, 2017, the D.C. Circuit Court granted the EPA's request, holding the litigation in abeyance for 60 days and has since granted a succession of 60-day abeyances, the latest issued on April 5, 2019. On July 15, 2019, the petitioners in the CPP litigation filed a motion to dismiss the petitions in the matter because of the promulgation of the new rules replacing the CPP. The D.C. Circuit Court granted the motion to dismiss on September 17, 2019, citing the litigation as moot.

In April 2019, the EPA submitted its final rule, "Emission Guidelines for Greenhouse Gas Emissions from Existing Electric Utility Generating Units; Revisions to Emission Guideline Implementing Regulations; Revisions to New Source Review Program" to the White House OMB's Office of Information and Regulatory Affairs for interagency review. The EPA issued the final Affordable Clean Energy ("ACE") rule on June 19, 2019 and was effective on September 6, 2019. The final ACE rule included three actions: (1) the repeal of the CPP; (2) the promulgation of a new set of emission guidelines for regulations of GHG emissions under section 111(d) of the Clean Air Act; and (3) the promulgation of amended section 111(d) implementation regulations governing submission and review of state plans under these and future emission guidelines. The ACE rule grants authority to the states in setting performance standards on a case-by-case review of existing coal-fired power plants. The EPA provides states with a list of "candidate technologies" that can be used to establish standards of performance for CO_2 emission and incorporate into their state plans. The ACE rule defined the BSER for CO_2 emissions from an existing power plant is by heat-rate improvements ("HRIs"). CPS Energy has already implemented most of the HRI projects listed in the ACE rule. On February 25, 2020, TCEQ issued an Information Collection Request ("ICR") to owners of existing coal fired generators in Texas that are subject to the rule. The ICR was due October 30, 2020. CPS Energy formed an internal team to respond to the ICR. On January 19, 2021, the D.C. Circuit Court issued its opinion in American Lung Association et al. v. EPA (No. 19-1140) vacating and remanding to the EPA the ACE rule while also vacating the EPA's separate action extending compliance timelines for all rules issued under section 111(d) of the Clean Air Act. In 2017, during the Trump Administration, the EPA repealed the Obama Administration's CPP and promulgated the ACE rule as a replacement under section 111(d) of the Clean Air Act. Both the CPP and the ACE rule mark the EPA's attempts to regulate CO_2 emissions from existing fossil fuel-fired power plants. The vacatur includes all efforts conducted by the EPA under section 111(d), including both the CPP and the ACE rule. A lawsuit was filed in the D.C. Circuit Court that seeks repeal of the ACE rule. On January 19, 2021, the D.C. Circuit Court vacated the ACE rule governing emissions controls for power plants and its embedded repeal of the Obama-era CPP. On February 12, 2021, the EPA issued a memorandum that clarified that because the court vacated the ACE rule and did not expressly reinstate the CPP, the EPA understands the court's decision as leaving neither rule in effect. The Biden administration and the EPA stated that a revised CPP would be forthcoming but major elements of the plan were lost in negotiations over the 2021 federal budget. On October 29, 2021, the U.S. Supreme Court agreed to hear an appeal of the decision made by the D.C. Circuit Court in January 2021. The appeal was filed by

Republican-led states and coal companies seeking to limit the EPA's authority to regulate carbon emissions under the Clean Air Act. The case was argued on February 28, 2022, and a U.S. Supreme Court decision was issued on June 30, 2022, holding that Section 111(d) of the Clean Air Act did not give the EPA the authority to use "generation-shifting" measures to set CO_2 emission limits for power plants. In doing so, the U.S. Supreme Court reversed the D.C. Circuit Court's January 2021 decision.

On March 25, 2020, the EPA issued guidance addressing its interpretation of "begin actual construction" under the regulations implementing the NSR permitting program. An owner or operator of a major stationary source or major modification must obtain an NSR permit before "begin[ning] actual construction" on the facility. Currently, the EPA considers almost every physical on-site construction activity that is of a permanent nature to constitute the beginning of "actual construction", even where that activity does not involve construction "on an emissions unit". This interpretation tends to preclude source owners/operators from engaging in a wide range of preparatory activities they might otherwise desire to undertake before obtaining an NSR permit. In this draft guidance, the EPA adopted a revised interpretation that is more consistent with the regulatory text. Under this revised interpretation, a source owner or operator may, prior to obtaining an NSR permit, undertake physical on-site activities - including activities that may be costly, that may significantly alter the site, and/or are permanent in nature—provided that those activities do not constitute physical construction on an emissions unit. The EPA accepted comments on the draft guidance through May 11, 2020. On October 22, 2020, the EPA finalized a rule to clarify the process for evaluating whether the NSR permitting program would apply to a proposed modification of a source of air emissions. This final rule makes clear that both emission increases and decreases from a major modification are to be considered during Step 1 of the two-step NSR applicability test, a process known as project emissions accounting.

CPS Energy has been on an aggressive path to diversify and reduce the carbon intensity of its own generation fleet for several years now, through the increased use of natural gas, wind and solar energy. CPS Energy's longtime investment in carbon-free nuclear power also helps keep the fleet's carbon intensity down, while robust energy efficiency and demand response programs shrink demand, and in turn emissions. As a result of the rule, CPS Energy plans to diversify its generation fleet with renewable energy sources, low carbon generation, energy conservation and demand response.

The City has also established working groups within the community to provide feedback on potential climate mitigation and adaptation strategies. The two working groups are the CAAP Technical & Advisory Committee and Climate Equity Committee. The City Council adopted the City-led CAAP at its October 17, 2019 meeting. The Board adopted CAAP goals during its August 2019 meeting. Within the plan, the City aims to reduce its GHG emissions by 2050 and further states the City, in partnership with CPS Energy, will focus on a transition from fossil fuel energy sources to a less carbon intensive portfolio. Further information related to the CAAP can be found on the City's website at https://www.sanantonio.gov/sustainability/SAClimateReady. Such information is not incorporated into or made a part of this Quarterly Update. On July 27, 2020, the Board sought proposals for new zero emission technologies to transition aging power plants, in accordance and alignment with CAAP. In August 2021, two CAAP subcommittees were formed, the Benchmarking Energy Use Subcommittee and the Energy Subcommittee. The Benchmarking Energy Use subcommittee met on a regular basis for a year and drafted a potential ordinance that, after input from stakeholders, was not proposed to City Council. The Energy Subcommittee decided to get updates from the RAC members on the progress of CPS Energy's future power generation plans and designate a member from the Energy Subcommittee to share committee feedback with the RAC during the public comment portion of the RAC meetings. Two of the metrics for the power generation planning process are Environmental Sustainability and Climate Resiliency, which includes meeting CAAP goals. The power generation plans will be measured against the two milestone targets in the CAAP, a 41% reduction in carbon emissions by 2030 and a 71% reduction in carbon emissions compared to a baseline year of 2016. The Board chose a power generation portfolio on January 23, 2023, and that portfolio and its carbon intensity were communicated to the CAAP Committees. CPS Energy continues to participate in the process and monitor the CAAP's progress. The CAAP Committees (Technical & Advisory and Climate Equity) had their last meetings in April 2023, as the terms had ended. This action also dissolved the two subcommittees (Benchmarking Energy Use & Energy). The City accepted applications for potential community members to join the CAAP Technical & Advisory Committee and Climate Equity Committee in April 2024. In March 2025, the City appointed members to the new SA Climate Ready Advisory Committee, and CPS Energy has a seat on the committee. The first meeting occurred on April 17, 2025. The mission of the SA Climate Ready Advisory Committee includes advising City staff and City Council on the implementation of the CAAP, and long-term sustainability plans, such as the SA Tomorrow Sustainability Plan. The committee is designed to provide expertise, diverse perspectives, and input regarding implementation of the CAAP as the City works to achieve greenhouse gas reduction and adaptation goals. The City set up three subcommittees to work on revising the 2019 CAAP goal and strategies. CPS Energy has a seat on each committee, the Energy & Buildings Subcommittee, the Transportation & Mobility Subcommittee, and the Natural Systems & Biodiversity Subcommittee. The subcommittees will meet monthly through October 2026 and make recommendations to the SA Climate Ready Advisory Committee as to changes in goals, metrics or actions in the 2019 CAAP. The SA Climate Ready Advisory Committee will propose a revised CAAP to City Council in December 2026. This action may lead to CPS Energy being requested to change or add CAAP goals.

In addition to the CAAP, the City and AACOG have partnered together to take advantage of the Climate Pollution Reduction Grant. The City and AACOG were awarded $1 million in grant funding to create a regional climate plan that will cover not just the City but the 13 county region that AACOG serves. This regional climate plan, known as the Alamo Area Climate Plan, is anticipated to open the door to more grant funding for historically underserved areas of the community. In June 2024, AACOG kicked off the regional GHG Inventory work. CPS Energy provided electric and gas use and other data points to AACOG for completion of the inventory. The completed regional inventory will be communicated to stakeholders at an AACOG meeting in December 2025. Reaching milestones such as completion and submission of the regional GHG Inventory would have made the area eligible for federal funding opportunities. However, the federal administration change in January 2025 did limit those opportunities. In parallel with the work to create a regional plan, the City is also using a partial amount of the Climate Pollution Reduction Grant funding to review the City's CAAP targets and re-prioritize strategies. This work will continue through 2025, and CPS Energy is part of the stakeholder group.

On August 16, 2022, President Biden signed the Inflation Reduction Act (the "IRA"), which adds a section to the Clean Air Act called "Methane Emissions and Waste Reduction Incentive Program for Petroleum and Natural Gas". It is meant to assist companies, organizations, and individuals reduce their methane emissions through grants, rebates, contracts, and loans. The legislation also introduced a new methane tax, but natural gas distribution is excluded from the methane tax. CPS Energy is therefore not affected by the new methane tax, as the activities performed by CPS Energy fall under the distribution industry segment. Additionally, the IRA grants a number of tax credits that CPS Energy may be eligible for if the requirements are met. Those include: a hydrogen production tax credit, a biogas and energy storage credit, enhancements to the credit for carbon capture, and credits for energy efficiency of residential and commercial properties.

The IRA also introduces a large amount of funding and grants for governmental and nonprofit organizations. The most significant of which are $7 billion in grants for "Zero-Emission Technologies" and other GHG reduction activities as determined by the EPA. Other funding is allocated to the EPA directly to enhance air monitoring programs and the GHG reporting program. Lastly, the IRA adds millions in grants for community-led air and other pollution monitoring, climate resiliency, climate adaptation, reducing indoor toxics and indoor air pollution.

The IRA invests $369 million in energy security and climate change, aiming to strengthen domestic production and manufacturing and reduce carbon emissions by 40% in 2030. Additionally, public power utilities and other tax-exempt entities will be given access to refundable direct payment tax credits. The IRA also expands and extends PTC and ITC for renewable energy sources. As of October 2022, the Treasury Department and the IRS issued six notices requesting public input on key climate and clean energy tax incentives founds within the IRA, including energy generation incentives, credit enhancements, incentives for homes/buildings, consumer vehicle credits, manufacturing credits, and credit monetization.

On May 23, 2023, the EPA issued its long-awaited proposed rules to regulate CO_2 emissions from the power sector. The EPA is proposing to update and establish more stringent NSPS for GHG emissions from new and reconstructed fossil fuel-fired stationary combustion turbine EGUs that are based on highly efficient generation, hydrogen co-firing, and CCS. The EPA is also proposing to establish new emission guidelines for existing fossil fuel-fired steam-generating EGUs that reflect the application of CCS and the availability of natural gas co-firing. Simultaneously, the EPA proposes repealing the ACE Rule because the emissions guidelines established in ACE Rule do not reflect the BSER system for steam generating EGUs and are inconsistent with further aspects of section 111 of the Clean Air Act. To address GHG emissions from existing fossil fuel-fired stationary combustion turbines, the EPA is proposing emissions guidelines for large and frequently used existing stationary combustion turbines. Furthermore, the EPA is soliciting comments on how the agency should approach its legal obligation to establish emissions guidelines for the remaining existing fossil fuel-fired combustion turbines not covered by this proposal, including smaller, frequently used, and less frequently used, combustion turbines. CPS Energy is actively participating with the American Public Power Association ("APPA") and the Large Public Power Council ("LPPC") in reviewing the guidelines. Comments are due 60 days from the proposed rule with an additional 15-day extension which was August 8, 2023. CPS Energy submitted comments on August 1, 2023. In March 2024, the EPA announced that it would not finalize standards for the existing natural gas combustion turbine units. On March 27, 2024, the EPA released a nonregulatory docket seeking to collect information to assist the agency in developing greenhouse gas regulations for existing gas CTs under Clean Air Act section 111(d). The docket contains seven technical questions on how CO_2 emissions could be controlled or mitigated. The EPA indicated it does not plan to respond directly to comments submitted as part of the nonregulatory docket, but several trade associations submitted comments. CPS Energy submitted comments stating they supported the APPA comments.

The EPA finalized the Carbon Rule on April 25, 2024, ensuring that all coal-fired plants plan to run in the long-term and all new baseload gas-fired plants control 90 percent of their carbon emissions. The rule includes new gas-fired combustion turbines and existing coal and gas-fired steam generating units. The final rule does not include existing natural gas combustion turbines which had been included in the proposed rule last year. The EPA will be developing rules for existing NG combustion turbines in a separate rule making. The final Carbon Rule still does not include reciprocating engines. The requirements for hydrogen blending as a BSER were removed, but carbon sequestration is still considered a viable option to control carbon emissions.

The rule will require states to develop a plan for existing sources within 24 months of the published rule. While the state plans must achieve overall reductions equivalent to those specified by the emission guideline, the states have some discretion in setting standards. The EPA has developed several reliability assurance mechanisms that states can adopt and implement in order to address both short-term acute reliability problems as well as long-term resource adequacy difficulties.

Because the rule does not address existing natural gas combustion turbines, there is no impact to Rio Nogales, AvR Plant, MBLE, MBLW, and CPS Energy's newly acquired units Barney Davis, Nueces Bay, and Laredo, except for Barney Davis #1. For coal and gas steam boilers, the compliance deadline is between 2030 and 2032 depending on the unit. Therefore, there are no impacts on the following units because CPS Energy has plans to have these units retired before either of these dates: Spruce 1, OWS1, OWS2, VHB1, VHB2, VHB3, and Barney Davis #1.

The conversion of Spruce 2 does not meet the threshold to be considered a "new" or "modified" unit, therefore the unit will be considered an existing natural gas unit. Due to the low projected Capacity Factor (17%), Spruce 2 would need to maintain good routine operation and maintenance practices along with a Carbon Intensity of 1600 lbs/mwh-gross based on a 12-month operating hour rolling total. The natural gas conversion has a projected rate of 1200 lbs/mwh.

On June 17, 2025, the EPA published a proposal to repeal and/or revise the GHG emission standards for fossil fuel fired power plants (which includes the Carbon Rule), promulgated under Clean Air Act Section 111 in both 2015 and 2024, codified at 40 C.F.R. Part 60, Subparts TTTT, TTTTa, and UUUUb ("Proposed Rule"). The Proposed Rule contains two options, either a full repeal of those standards or a partial repeal and modification of the requirements for fossil fuel fired power plants. Comments on the Proposed Rule are due to the EPA by August 7, 2025. CPS Energy did not submit comments on this Proposed Rule but are in support of trade organizations such as APPA and LPPC comments on the Proposed Rule.

On July 29, 2025, the EPA released a pre-publication of the proposal to rescind the EPA's 2009 final rule, "Endangerment and Cause or Contribute Findings for Greenhouse Gases Under Section 202(a) of the Clean Air Act," 74 Fed. Reg. 66,496 (Dec. 15, 2009) ("Endangerment Finding"). The proposed rule would repeal all GHG emission standards for vehicles and engines. However, in a broader sense, this proposed action sets up the repeal of other previous rulemakings as the 2009 Endangerment Finding is the foundation for many other subsequent rulings regarding GHGs for a variety of industries. CPS Energy did not submit comments on this proposed rulemaking.

On September 16, 2025, the EPA published a proposal to amend the Greenhouse Gas Reporting Program ("GHGRP") in 40 C.F.R. Part 98 to remove obligations for most source categories that currently report GHG emissions data to the EPA under the GHGRP. Specifically, in accordance with Executive Order 14192, *Unleashing Prosperity Through Deregulation* (Jan. 31, 2025), 90 Fed. Reg. 9,065 (Feb. 6, 2025), the EPA has reviewed the GHGRP process to find that there is no statutory requirement under the CAA to collect GHG emissions information for sectors other than the petroleum and natural gas source category segments under Subpart W subject to the Waste Emissions Charge ("WEC"). As a result, the EPA is proposing to permanently remove program obligations for facilities in all industry categories other than for certain Subpart W facilities. For the removed industry categories, no reports would be required after reporting year 2024. CPS Energy is subject to GHG reporting under the natural gas distribution industry segment of the Subpart W regulations. If the proposed rule is finalized as written, CPS Energy would no longer need to report its GHG emissions to the EPA. CPS Energy did not submit comments to the EPA regarding this proposed rule.

FEDERAL CLEAN WATER ACT

The National Pollutant Discharge Elimination System ("NPDES") program is administered by the EPA under the federal Clean Water Act ("CWA"). The NPDES program provides the framework for monitoring and regulating the discharge of pollutants to surface waters of the United States. In 1998, the EPA delegated NPDES authority to the State through the TCEQ and the RRCT. With the exemption of discharges resulting from exploration, development, and production of oil and gas over which the RRCT has authority, the TCEQ administers the Texas Pollutant Discharge Elimination System ("TPDES") in Texas to control discharges of pollutants to state water or "waters of the United States". CPS Energy has historically operated all its generating facilities with no significant compliance issues. Discharges resulting from hydrostatic testing of gas pipelines meet RRCT requirements. On January 15, 2021, the responsibility for regulating discharges of produced water from hydrostatic testing as well as oil and gas activities was delegated to the TCEQ per TCEQ's application request to the EPA.

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CPS Energy currently has individual TPDES permits for the discharge of industrial wastewater for Calaveras Power Station, Braunig Power Station, Leon Creek Power Station, Rio Nogales Power Station, Barney Davis Energy Center, Nueces Bay Energy Center and Laredo Energy Center. The focus of these permits is to reduce discharge of industrial waste and other constituents that could impair water quality in the San Antonio River basin, Nueces Bay, Oso Bay and the Rio Grande River basin and meet the current effluent standards that apply to steam electric plant operations under the Steam Electric Power Generating Point Source Category (40 C.F.R. Part 423). Additionally, the TCEQ has broad powers under the Texas Water Code to adopt rules and procedures equally or more stringent than federal standards, and to issue permits to control the quality of discharges into or adjacent to waters in the State. These standards and requirements are incorporated in each individual permit as permit conditions that must be met or satisfied by the permittee.

On February 19, 2019, the U.S. Supreme Court granted a petition for writ of certiorari in County of Maui v. Hawaii Wildlife Fund ("Maui") to determine whether the federal CWA requires a permit when pollutants originate from a point source but are conveyed to navigable waters by a nonpoint source, such as groundwater. On April 15, 2019, the EPA issued an interpretive statement clarifying the application of the CWA permitting requirements to groundwater. The EPA concluded the release of pollutants to groundwater are categorically excluded from the CWA's permitting requirements because Congress explicitly left regulation of discharges to groundwater to the states and to the EPA under other statutory authorities.

Court rulings resulted in a split among the U.S. Court of Appeals with regards to nonpoint discharges into groundwater as a discharge requiring an NPDES permit. On November 6, 2019, the U.S. Supreme Court heard oral arguments on the issue, and issued its opinion on April 23, 2020, holding that the CWA, which forbids "any addition" of any pollutant from "any point source" to "navigable waters" without the appropriate EPA permit, requires a permit when there is a direct discharge from a point source into navigable waters or when there is the functional equivalent of a direct discharge. On January 14, 2021, the EPA issued a memorandum on the application of the Maui decision for guidance to the regulated community and permitting authorities, including the EPA, on applying the decision on a case-by-case basis, in the CWA NPDES. On May 25, 2023, the U.S. Supreme Court issued a decision limiting the scope of the CWA, finding the EPA's position—that adjacent wetlands are jurisdictional when there is a significant nexus to traditional navigable waters and that WOTUS applies to "adjacent" or "neighboring" wetlands—lacks merit. The U.S. Supreme Court held that the definition of WOTUS includes only those wetlands that have a continuous surface connection to other jurisdictional waters. On August 29, 2023, a final rule was issued limiting the scope of the CWA by eliminating the significant nexus standard and excluding adjacent and interstate wetlands from the definition of jurisdictional waters.

Wildfire Mitigation Plan: CPS Energy continues to mitigate wildfire risk through the identification of transmission and distribution lines and structures located in high-risk wildfire areas through combined CPS Energy and Texas A&M Forest Service asset data. With this information, CPS Energy (i) initiated visual inspections, drone analysis, and vegetation management programs for assets in high- and medium risk wildfire areas, including ground line inspection/testing of wood poles and visual inspection of wood pole tops; (ii) designed a work system to enable safety settings during a Red Flag Warning for the County, with safety settings that disable automatic reclosing on circuits and reclosers in high-risk wildfire areas to minimize the potential of an electric arc; (iii) will activate the Incident Management Team during a Red Flag Warning issued by National Weather Service for the County to ensure timely response, minimize impact, collaboration amongst teams, and allocate resources; (iv) initiated a joint tabletop exercise with the San Antonio Office of Emergency Management and Bexar County Office of Emergency Management to ensure interagency cooperation, resource sharing, community resilience, and unified response planning, with any identified gaps to be incorporated into the Enterprise Wildfire Plan; and (v) continues to enhance customer, stakeholder, and employee communications strategy for public education and awareness of CPS Energy's wildfire mitigation strategy and will revise, as necessary, CPS Energy's risk register to incorporate mitigation actions.

In 2026, CPS Energy completed and submitted a new Wildfire Mitigation Plan, in accordance with PUCT requirements, alongside an annual review and update to the existing Enterprise Wildfire Plan. These activities ensure that CPS Energy not only meets basic regulatory requirements, but also meets or exceeds industry best practice.

According to the Texas Wildfire Risk Assessment Portal maintained by the Texas A&M Forest Service, only the service territory in the far northwest side of the County is currently at a heightened risk for wildfires. The terrain of the majority of CPS Energy's service territory is less susceptible to wildfires than other parts of Texas and the United States. CPS Energy participates in an interagency approach, which includes the City, the County, the State, the Texas Forest Service, Texas Division of Emergency Management and other community partners, for wildfire preparedness, notification, and communication.

New Effluent Standards: Effluent standards for the steam electric category were last revised in 1982. The EPA completed a multi-year study of the electric power industry and concluded that power plant discharges have changed significantly over time and that regulations have not kept up with the changes in industry, in particular, wastewater discharges resulting from air pollution controls installed at coal-fired power plants. The EPA conducted an Information Collection Request ("ICR") from over 750 power plant owners to provide information regarding power plant effluent, available treatment technologies, and the impact on industry of changes in water quality standards. CPS Energy participated in this ICR by completing questionnaires for the Calaveras Power Station units.

On November 3, 2015, the EPA finalized the Effluent Limits Guidelines ("ELG") rule, which became effective on January 4, 2016. The final rule sets the first federal limits on the amount of toxic metals and other harmful pollutants that steam electric power plants are allowed to discharge in several of their largest sources of wastewater, based on technology improvements in the steam electric power industry over the last three decades. Rule compliance will be phased in based on the facility permitting cycle. In the new rule, effective September 28, 2020, the EPA set forth the deadlines, ranging from April 11, 2021 to October 17, 2028 for cease of receipt of waste and completion of closure, as applicable. CPS Energy requested an applicability of the rule extension from the TCEQ to allow discharges from the Deely bottom ash ponds for pond closure and dewatering through December 31, 2023. Studies were performed to evaluate the best technology to treat flue-gas desulfurization ("FGD") discharges from the J.K. Spruce coal units to meet the new standards that would be applied in the 2019 wastewater permitting cycle. The TCEQ had indicated they are amenable to an extension of the compliance date if adequate justification is provided. In April 2017, the EPA announced it was preparing a proposed rule and sought input from industry groups to discuss options that were included in a new proposed rule.

On June 6, 2017, the EPA proposed a rule to officially postpone the compliance deadlines for the wastewater ELG rule in response to President Trump's February 28, 2017 executive order. The comment period ended July 6, 2017. The D.C. Circuit Court denied EPA's motion to dismiss the challenge to the EPA's stay of the rule. On September 18, 2017, the EPA issued the final rule postponing the earliest compliance date for FGD wastewater and bottom ash transport water to November 20, 2020 until it completes new rulemaking on appropriate technology bases and associated limits applicable to both FGD and bottom ash transport water. CPS Energy is in the process of evaluating possible treatment technologies for its SO_2 scrubber wastewater. The preliminary cost is estimated at $55-60 million. On July 13, 2018, eight environmental groups filed a brief with the Fifth Circuit challenging the delay in ELG rule compliance and the proper venue in which to hear these claims. On September 19, 2018, the EPA asked the Fifth Circuit to uphold its decision to postpone parts of the ELG rule that sets limits on how much toxic metal can be discharged with power plants' wastewater. In an opinion dated April 12, 2019, the court held the portions of the ELG rule regulating legacy wastewater and combustion residual leachate are unlawful, thereby vacating those portions of the rule and remanding to the EPA for reconsideration. During the 2018 renewal of the Calaveras TPDES permit, CPS Energy requested extension of the applicability date to 2023 for the ash transport water from the Deely bottom ash pond and FGD discharges from the J.K. Spruce coal units. CPS Energy is currently evaluating the best technology to treat the FGD discharges to meet the new standards that are applied in the 2019 wastewater permitting cycle. The TCEQ has indicated they are amenable to an extension of the compliance date if adequate justification is provided. CPS Energy is currently in compliance with the foregoing.

On October 13, 2020, the EPA finalized the ELG Steam Electric Reconsideration Rule (the "ELG Steam Rule") revising the requirements for FGD, which provides additional compliance options for FGD wastewater. The EPA proposed to extend the final compliance deadlines to December 31, 2025 or to December 31, 2028 if a Voluntary Incentive Program ("VIP") treatment is chosen for compliance. CPS Energy is planning to install Zero Liquid Discharge ("ZLD") evaporation ponds ("EP") for its scrubber FGD wastewater if Spruce1 and Spruce2 continue to burn coal. The ZLD option for FGD waste is considered one of the VIP treatment options. On July 26, 2021 the EPA announced their intent to strengthen permit limits on wastewater discharges from coal power plants; specifically, FGD discharges; however, there will not be a discharge of FGD water from the Spruce units so this potential rulemaking is not expected to have an impact. The final rule was proposed on March 29, 2023. The rulemaking was limited in scope and does not impact CPS Energy in its current form (as FGD discharges will be eliminated for CPS Energy's 2021 Notice of Planned Participation in the VIP declaration to the TCEQ).

On May 9, 2024, the EPA further strengthened discharge limits under the ELG Steam Rule. The EPA included additional limitations on landfill leachate water. CPS Energy has determined that additional treatment will not be required, and no additional costs are expected.

On March 12, 2025, the EPA announced that it will reconsider the costly wastewater regulations for coal burning power plants issued in 2024. Revisions have not been introduced; however, the EPA plans to have any changes in place by the end of 2025. The current rule requires a declaration to cease the use of coal by December 31, 2025. CPS Energy opted into the Voluntary Incentive Program ("VIP") which extends the deadline to comply with the cessation of discharge of flue gas desulfurization wastewater, bottom ash transport water, combustion residual leachate, and legacy wastewater by December 31, 2028. Changes in the compliance deadlines could impact CPS Energy generation plans and require the alteration of the Calaveras Industrial Wastewater permit.

On December 30, 2025, CPS Energy formally submitted a Notice of Plan Participation to cease using coal at JKS 1 and JKS 2 units located at the Calaveras Power Station by December 31, 2028. The EPA is still in the process of reconsidering additional parts of the regulation and changes could result in changes to the Calaveras Industrial Wastewater permit and would require a permit amendment.

Waters of the U.S. ("WOTUS"): On November 22, 2017, the EPA and the U.S. Department of the Army (the "Army") published a proposed rule in the Federal Register to postpone the effective date of the 2015 rule defining WOTUS for two years, to allow the agencies for new rulemaking. The rule proposed to repeal the 2015 Clean Water Rule: Definition of Waters of the U.S. and recodify the regulatory text defining WOTUS that was in place prior to the 2015 rule. On July 12, 2018, the EPA and the United States Army Corps of Engineers published a supplemental proposed rule to repeal the June 29, 2015 final WOTUS rule in its entirety, which aimed to clarify the scope of the definition of "WOTUS" subject to the CWA and proposes to reinstate the definition that existed prior to the 2015 rule. The agencies found that the 2015 rule exceeds the agencies' authority under the CWA. On August 16, 2018, a court ruling impacting WOTUS modified its nationwide application. However, on September 12, 2018, a Texas federal district court issued a preliminary injunction preventing the 2015 WOTUS rule taking effect in Texas, Mississippi, and Louisiana. See "COMPLIANCE AND REGULATION – Environmental Matters – Proper Venue for Clean Water Act Challenges" herein. On March 9, 2019, the federal government withdrew its notice of appeal in the Fourth and Ninth Circuits regarding these lower court decisions. The capital cost for compliance is estimated at $61 million (this also includes cost for related coal combustion residuals compliance). On November 26, 2018, a federal judge in the State of Washington reinstated the Obama Administration's definition of WOTUS, ruling the EPA and the Army Corps of Engineers committed procedural violations by implementing pre-2015 WOTUS. On May 28, 2019, a Texas federal district court ruled that the 2015 rule violated the notice-and-comment requirements of the Administrative Procedure Act and granted summary judgment in favor of the plaintiffs on that ground and remanded the 2015 rule to the EPA and the Army to provide notice and a comment period on the 2015 rule. The court further ordered that the preliminary injunction issued by the court on September 12, 2018 will remain in place pending the proceedings on remand. On February 14, 2019, the EPA, Department of Defense ("DOD") and U.S. Army Corps of Engineers published a proposed revision to the definition of WOTUS to narrow the scope of waterbodies subject to regulations under the CWA. In response to the comments to the 2015 rule, the rule proposal clarified federal authority under the CWA. Under this new proposal, WOTUS included traditional navigable waters, tributaries to those waters, impoundments of jurisdictional waters, wetland adjacent to jurisdictional waters, and certain ditches. The proposal also identified which bodies of water would be excluded from the rule such as groundwater and certain ditches. The public comment period for this proposed rule closed on April 15, 2019. In late August 2019, a Georgia federal court ruled WOTUS is unlawful under the CWA due to its vast expansion of jurisdiction over water and lands that typically fall within a state's regulatory authority. The case was remanded back to the EPA and Army for further consideration. CPS Energy continues to monitor the status of this proposed rule to determine the impact on future electric transmission and gas construction projects.

The EPA issued the final WOTUS rule on September 12, 2019. The rule repealed the 2015 Clean Water Rule – Definition of "Waters of the U.S." that was adopted previously by the EPA and restores the regulatory text that existed prior to the 2015 rule. The final rule repeal was published in the Federal Register on October 22, 2019 which took effect on December 23, 2019. On April 21, 2020, the EPA published the Navigable Waters Protection Rule to define WOTUS in the Federal Register. The EPA streamlined the definition so that it includes four categories of jurisdictional waters, provides clear exclusions for many water features that traditionally have not been regulated, and defines terms in the regulatory text that have not previously been defined. Congress, in the CWA, explicitly directed certain agencies to protect "navigable waters". The Navigable Waters Protection Rule regulates traditional navigable waters and the core tributary systems that provide perennial or intermittent flow into them. The final rule fulfills Executive Order 13788 and reflects legal precedent set by key U.S. Supreme Court cases as well as robust public outreach and engagement, including pre-proposal input and comments received on the proposed rule. The rule was finalized on June 22, 2020 and replaces the rule published on October 22, 2019. Multiple parties have sued the EPA over the WOTUS rule rollback, including the State of Colorado, which resulted in a lift of the current nationwide stay of the Navigable Waters Protection Rule and effected its applicability for the same as of March 2, 2021. On August 30, 2021, the U.S. District Court of Arizona vacated the Navigable Water Protection Rule and remanded to the EPA and the Army for reconsideration. Considering this order, the Army and the EPA have halted the implementation of the Navigable Water Protection Rule and are interpreting WOTUS consistent with the pre-2015 regulatory regime until further notice.

On January 13, 2021, the U.S. Army Corp of Engineers revised their Nationwide Permitting ("NWP") program in a final rulemaking which added clarity to regulations, decreasing the compliance risk for obtaining authorization for construction projects with minimal environmental impact. The effective date of the change was March 15, 2021. The Biden Administration called for a review of the 2021 NWPs and the rule is being challenged legally.

On December 7, 2021, a proposed rule was published in the Federal Register to revise the definition of WOTUS by replacing the Navigable Waters Protection Rule ("NWPR") with a revised version of the 1986 WOTUS regulations. The proposed rule would assert a broader geographic scope of WOTUS jurisdiction than either the NWPR or the 1986 regulations. On January 18, 2023, the rule was published in the Federal Register; the rule was effective on March 20, 2023. The agencies' final rule establishes a clear and reasonable definition of "waters of the United States" and reduces the uncertainty from constantly changing regulatory definitions. The impact of the final rule was not significant to CPS Energy; however, Texas filed an injunction barring the rule from going into effect in the State and additional states are filing legal challenges to the rule. On May 25, 2023, the U.S. Supreme Court issued a decision limiting the scope of the CWA, finding the EPA's position—that adjacent wetlands are jurisdictional when there is a significant nexus to traditional navigable waters and that WOTUS applies to "adjacent" or "neighboring" wetlands—lacks merit. The U.S. Supreme Court held that the definition of WOTUS includes only those wetlands that have a continuous surface connection to other jurisdictional waters. In light of this decision, various stakeholders are interpreting the phrase consistent with the U.S. Supreme Court's decision. On

August 29, 2023, a final rule was issued limiting the scope of the CWA by eliminating the significant nexus standard and excluding adjacent and interstate wetlands from the definition of jurisdictional waters. On September 29, 2023, the EPA proposed a rule to modernize Section 401 rules that clarify the certification process and make it more transparent.

On March 12, 2025, the EPA and the U.S. Army Corps of Engineers issued a memo to the field offices providing guidance on the appropriate implementation of the definition of WOTUS. The guidance incorporates the U.S. Supreme Court's decision in Sackett v. EPA, as it pertains to determining jurisdictional wetlands. The guidance narrows the definition of continuous surface connection. The memo is effective immediately and applies to all states. The EPA also announced a plan to host a minimum of six listening sessions, for obtaining input regarding the scope of "relatively permanent waters", continuous surface connection and which features are applicable, as well as the scope of jurisdictional ditches. Overall, the memo appeared to benefit stakeholders by providing clarity to the definition of WOTUS, which is a critical path in the permitting process.

On March 24, 2025, the EPA and the U.S. Army Corps of Engineers published a notice in the Federal Register formally announcing public listening sessions and soliciting stakeholder perspective and recommendations on the appropriate implementation of a definition of waters of the United States, that is consistent with the U.S. Supreme Court's decision in Sackett v. EPA. The notice included specific requests for feedback regarding the scope of "relatively permanent", "continuous surface connection", and "jurisdictional ditches". The agencies' objective is to utilize stakeholders input to develop a clear and durable definition and implementation of WOTUS that is aligned with the U.S. Supreme Court's decision in Sackett v. EPA.

CPS Energy is a member of the APPA, which submitted comments that sufficiently addressed the interests of the industry. APPA's comments encouraged the agencies to prioritize durability to support stakeholder planning efforts and provided recommendations that would provide for a WOTUS definition that aligns with the Sackett decision, and the intent of the CWA, while also supporting electric utility operations. The recommendations including retaining the wastewater treatment system ("WTS") exclusion, revising the definition of "adjacent" to clarify that wetlands are jurisdictional only when they are indistinguishable from another WOTUS and excluding most ditches from the WOTUS definition.

No significant impacts to CPS Energy are expected.

The latest iteration is the updated definition of WOTUS was proposed by the EPA and the U.S. Army Corps of Engineers on November 20, 2025. The agencies' objectives for the proposed rule are to ensure alignment with the U.S. Supreme Court's decision in Sackett and to lessen the implementation burden. The provisions of the proposed rule, that are relevant to CPS Energy operations are set forth below:

Additional Definitions:

Relatively permanent: "standing or continuously flowing bodies of surface water that are standing or continuously flowing year-round or at least during the wet season." Consistent with the Sackett decision, ephemeral waters (i.e., those with surface water flowing or standing only in direct response to precipitation (e.g., rain or snow fall)) are not jurisdictional because they are not relatively permanent.

Continuous surface connection: "having surface water at least during the wet season and abutting (i.e., touching) a jurisdictional water." The result is a "two-prong test" (1) abutment of a jurisdictional water; and (2) having surface water at least during the wet season.

Exclusions:

Revisions to Ditch Definition and Exclusion: "ditches (including roadside ditches) that are constructed or excavated entirely in dry land are not waters of the United States. The agencies also propose to refine the definition of "ditch" to mean, "a constructed or excavated channel used to convey water", The implications are a regulation that is more closely aligned with the statutory text of the Clean Water Act and that incorporates the agencies' interpretation that "certain ditches are not waters of the United States.

The proposed rule provides a more clear and narrow definition of WOTUS in comparison to both the 2023 Rule and the pre-2015 regulatory regime and brings the definition into alignment with the U.S. Supreme Court's Sackett decision, which are expected to result in fewer jurisdictional determinations. There is a 45-day comment period which began on the day that the rule was published and ended on January 5, 2026. The agencies will also host two in-person public meetings, with a virtual option (details via the EPA's website are pending).

Considering the favorable revisions to the definition and CPS Energy's very seldom impacts to WOTUS, CPS Energy supports the rule as proposed. APPA plans to submit comments, which will be representative of the industry's overall interest. CPS Energy will review their comments when they are circulated and provide feedback as necessary.

Clean Water Act Section 316(b): The power plants at Braunig and Calaveras Lakes use the lakes as the source for once-through cooling water. Section 316(b) of the CWA requires that adverse environmental impacts by cooling water intake structures on aquatic species be minimized, a requirement that was recently upheld by the United States Court of Appeals for the Second Circuit. Numerous lawsuits from both environmental and industry groups have resulted in the previously issued regulations being suspended and remanded; after contentious litigations and consent decree agreements with environmental groups, the EPA issued the final rule for existing facilities on August 1, 2014, effective 60 days later. Both Braunig and Calaveras plants are affected by the rule. The final rule allows some flexibility for permitting authorities to determine best technology available for protecting fish and shellfish from impingement and entrainment and based on site–specific conditions, cost-benefit analysis, and best professional judgment. The final rule provided waivers of some requirements for surface impoundments that were originally built for cooling, are managed fisheries, and with minimized water use, which apply to both Braunig and Calaveras lakes. Since most Texas reservoirs are man-made and meet the waiver criteria provided under the final rule, CPS Energy requested 316(b) waivers for both Braunig and Calaveras during the 2014 TPDES permit renewal applications submitted to the TCEQ. TCEQ granted exemptions and waivers for both Braunig and Calaveras in the TPDES permits issued in 2016. However, the TCEQ included conditions related to the operation, maintenance, and monitoring of the cooling water intake structure in both permits to ensure compliance with Best Technology Available for minimizing Adverse Environmental Impact. The referenced conditions were removed with the 2020 issuance of both permits. To date, the only remaining requirement is to provide written notification to the TCEQ if the method utilized for obtaining cooling water changes. Pending review of such notification, the TCEQ may reopen and update the permit with additional terms and conditions.

Discharge of Hazardous Substances ("HS"): The EPA did not establish new requirements for hazardous substances under CWA section 311 but directed the President to establish procedures, methods, and equipment and other requirements for equipment to prevent discharges of oil and HS from vessels and from onshore facilities and offshore facilities, and to contain such discharges. The EPA has been delegated and/or redelegated authority for certain facilities as identified below. On July 21, 2015, a lawsuit was filed against the EPA for failing to comply with the alleged duty to issue regulations to prevent and contain CWA hazardous substance discharges under CWA section 311. On February 16, 2016, the United States District Court for the Southern District of New York entered a Consent Decree between the EPA and the litigants that required a notice of proposed rulemaking pertaining to the issuance of hazardous substance regulations, and a final action after notice and comment. After seeking public comment and based on an analysis of the frequency and impacts of reported CWA HS discharges, as well as the existing framework of the EPA regulatory requirements, the EPA decided not to take action to add new discharge prevention and containment regulatory requirements under CWA section 311. This final action was effective on October 3, 2019. On March 28, 2022, the EPA proposed a hazardous substance Facility Response Plan ("FRP") regulation for handling worst case discharges of hazardous substances. The final rule was issued on March 28, 2024. All CPS Energy power stations have been evaluated to determine applicability of the CWA hazardous substance FRP and none of the facilities are subject to the rule. The reports and memos provided by the consultants will be maintained on file for reference. Process development is in-progress. A vendor has been engaged to develop a chemical inventory report which will be run annually for tracking proximity to thresholds. Additionally a task for running the report will be added to CPS Energy's internal compliance system. The vendor completed the report in December 2025. There was an error in the initial report. However, the vendor corrected the error and the CPS Energy team was notified accordingly.

Water Resources Planning

CPS Energy recognized the importance of preserving the Edwards Aquifer water resource and began planning to reduce consumption of Edwards Aquifer water for power plant cooling shortly after the drought of record in the 1950s. CPS Energy built Braunig and Calaveras Lakes to utilize treated sewage effluent and runoff waters to maintain operating levels at these man-made cooling lakes. CPS Energy has conserved billions of gallons of Edwards Aquifer water. For these water conservation efforts, the Association of Environmental Professionals selected CPS Energy as one of eight 2001 recipients of the National Environmental Excellence Award. As part of CPS Energy's sustainability efforts, on March 30, 2009, the Board approved a resolution supporting a mutually beneficial cooperative relationship between CPS Energy and SAWS that promotes conservation of both energy and water. To address future water requirements, CPS Energy shifted its generation capacity to less water intensive technologies and added renewables to its energy mix. By using this strategy, CPS Energy has saved millions of gallons of water. Additionally, recognizing energy saved is water saved, CPS Energy implemented demand reduction and conservation programs for its customers to derive energy savings. The foregoing also translated to water consumption savings. Additional information on CPS Energy's sustainability programs can be found in "COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein.

While the State currently maintains adequate water supplies, long term drought conditions and/or water shortages are possible throughout most of Texas. CPS Energy carefully monitors the resources on which it relies for generation. With CPS Energy's New Generation Plan and planned retirements of older units, the water intensity for generation is anticipated to decrease as newer generation technologies typically require less water.

Proper Venue For Clean Water Act Challenges

On January 13, 2017, the U.S. Supreme Court granted a request filed by the National Association of Manufacturers, which asked the court to determine whether the U.S. Court of Appeals for the Sixth Circuit erred when it claimed exclusive jurisdiction to decide petitions to review the Obama Administration's CWA rules. Considering the Water Executive Order, the federal government asked the U.S. Supreme Court to hold a briefing schedule on this issue in abeyance pending a new draft of the rule.

On February 28, 2017, President Trump executed an executive order mandating the EPA to formally reconsider the Clean Water Rule, as well as the definition of WOTUS. On June 27, 2017, the EPA initiated the repeal of the WOTUS by proposing to reinstate prior Clean Water Rule policies, including jurisdictional provisions provided for in prior codifications. The proposed re-codification of the re-existing rules was published in the Federal Register on July 27, 2017. WOTUS repeal could affect CPS Energy's electric and gas projects in the future.

On January 22, 2018, the U.S. Supreme Court ruled that challenges to the CWA belong at the district, rather than the appellate court level. Now that the U.S. Supreme Court established proper jurisdiction for CWA challenges, several district court cases previously put on hold could be restarted. On August 16, 2018, a federal district judge in South Carolina issued a nationwide injunction on the Trump Administration's delay regarding WOTUS and effectively reinstated the rule in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas granted the State of Texas' motion for a preliminary injunction preventing the 2015 WOTUS rule taking effect in Texas, Mississippi, and Louisiana until the case is resolved. Similarly, on November 26, 2018, the court in the Western District of Washington ruled the implementation of the pre-2015 WOTUS rule resulted in procedural violations.

In February 2019, the EPA and the U.S. Army Corps of Engineers published a proposed revision to the definition of WOTUS to clarify federal authority under the CWA, which limits WOTUS under the CWA to those that are physically and meaningfully connected to traditional navigable waters. The EPA issued the final WOTUS on September 12, 2019, repealing the definition set forth therein and is implementing the text as it existed prior to the 2015 rule. The final rule repeal took effect on December 23, 2019. Lawsuits have been filed in several jurisdictions challenging the repeal of the rule. Other lawsuits have been threatened against the substantive provisions of the rule.

On April 21, 2020, the EPA and the Army published the Navigable Waters Protection Rule to define "Waters of the United States" in the Federal Register. The Navigable Waters Protection Rule regulates traditional navigable waters and the core tributary systems that provide perennial or intermittent flow into them. Under the final "Step 2" rule, four clear categories of waters are federally regulated: (a) the territorial seas and traditional navigable waters, (b) perennial and intermittent tributaries to those waters, (c) certain lakes, ponds, and impoundments, and (d) wetlands adjacent to jurisdictional waters. The final rule also details 12 categories of exclusions, features that are not WOTUS, such as features that only contain water in direct response to rainfall (e.g., ephemeral features); groundwater; many ditches; prior converted cropland; and waste treatment systems.

The final rule clarifies key elements related to the scope of federal CWA jurisdiction, including providing clarity and consistency by removing the proposed separate categories for jurisdictional ditches and impoundments, refining the proposed definition of "typical year", which provides important regional and temporal flexibility and ensures jurisdiction is being accurately determined in times that are not too wet and not too dry, and defining "adjacent wetlands" as wetlands that are meaningfully connected to other jurisdictional waters, for example, by directly abutting or having regular surface water communication with jurisdictional waters.

The Navigable Waters Protection Rule is the second step in a two-step process to review and revise the definition of WOTUS consistent with the February 2017 Presidential Executive Order entitled "Restoring the Rule of Law, Federalism, and Economic Growth by Reviewing the "Waters of the United States" Rule. This final rule became effective on June 22, 2020 and replaced the "Step One Rule" published in October 2019.

On November 18, 2021, the EPA and Army Corps of Engineers (together, the "Agencies") announced a proposed rule to re-establish the pre-2015 definition of WOTUS which had been in place for decades, updated to reflect consideration of the U.S. Supreme Court's decisions. The proposed rule was described by the Agencies upon its release as establishing a durable definition of WOTUS that protects public health, the environment, and downstream communities while supporting economic opportunity, agriculture, and other industries that depend on clean water. The Agencies will continue to consult with states, tribes, local governments, and stakeholders in both the implementation of WOTUS and future regulatory actions. The proposed rule was published in the Federal Register on December 7, 2021. The proposed rule had a 60-day comment period that ended on February 7, 2022. Regional roundtables engaging stakeholders were held through Summer 2022. On October 4, 2022, the U.S. Supreme Court heard oral arguments in Sackett v. EPA to determine whether the United States Court of Appeals for the Ninth Circuit utilized the proper test for determining whether wetlands are WOTUS under the CWA. On December 30, 2022, the agencies announced the final "Revised Definition of 'Waters of the United States'" rule. On January 18, 2023, the rule was published in the Federal Register; the rule was effective on March 20, 2023. The

agencies' final rule establishes a clear and reasonable definition of "waters of the United States" and reduces the uncertainty from constantly changing regulatory definitions. The impact of the final rule was not significant to CPS Energy; however, Texas filed an injunction barring the rule from going into effect in the State and additional states are filing legal challenges to the rule. On August 29, 2023, a final rule was issued limiting the scope of the CWA by eliminating the significant nexus standard and excluding adjacent and interstate wetlands from the definition of jurisdictional waters. On September 29, 2023, the EPA proposed a rule to modernize Section 401 rules that clarify the certification process and make it more transparent.

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CPS Energy is a member of the APPA, which submitted comments that sufficiently addressed the interests of the industry. APPA's comments encouraged the agencies to prioritize durability to support stakeholder planning efforts and provided recommendations that would provide for a WOTUS definition that aligns with the Sackett decision, and the intent of the CWA, while also supporting electric utility operations. The recommendations including retaining the WTS exclusion, revising the definition of "adjacent" to clarify that wetlands are jurisdictional only when they are indistinguishable from another WOTUS and excluding most ditches from the WOTUS definition.

No significant impacts to CPS Energy are expected.

Litigation related to the CWA's provisions, will likely continue, as the definition of WOTUS which specifies the waters entitled to federal protection remains under constant review.

Other Environmental Issues

Polychlorinated Biphenyls: By the early 1990s, CPS Energy completed a program aimed at removing from its system all electrical equipment accessible to the public that was known to contain polychlorinated biphenyls ("PCBs") in concentrations of 500 ppm or greater, as required by the Federal Toxic Substances Control Act. In addition, all oil-filled equipment is tested at the time of servicing as part of an ongoing program at CPS Energy for voluntarily eliminating electrical equipment containing mineral oil with any level of PCBs. Since 1996, in connection with capital improvements being made to many of its substation sites, CPS Energy has identified and remediated areas found to be contaminated by pollutants, such as PCBs. The EPA allows a provisional disposal option at a local landfill of soil and debris contaminated with 1-49 ppm of PCBs from electrical equipment spills from unknown sources, in lieu of distant disposal sites, resulting in considerable cost savings. The EPA issued a proposed rule expanding the available options for extraction and determinative methods used to characterize and verify the clean-up of PCBs. Additional amendments to the PCB regulations, such as the amendment of performance-based disposal option for PCB remediation waste; the removal of the provision allowing PCB bulk product waste to be disposed as roadbed material; the addition of flexible provisions for cleanup and disposal of waste generated by spills that occur during emergency situations (e.g., hurricanes or floods), and the harmonization of the general disposal requirements for PCB remediation waste are also included in the proposed changes. A proposed amendment to the Texas Risk Reduction Program (30 TAC Chapter 350) Rule §350.76 to lower the critical human health protective concentration levels for PCBs was published in the Texas Register on August 30, 2024. On January 16, 2025, the TCEQ adopted this amendment to Rule §350.76. The amendment became effective on February 6, 2025.

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Coal Combustion Residuals: The EPA considered a proposal to regulate coal ash generated during the combustion of coal to produce electricity (referred to as coal combustion residuals or "CCRs") and classify it as a hazardous waste. The rule was finalized on December 19, 2014, published in the Federal Register on April 17, 2015, and became effective on October 4, 2016. The rule did not list CCRs as hazardous waste. CPS Energy's CCRs have been analyzed and have tested non-hazardous for the following constituents: mercury, selenium, chromium, cadmium, silver, arsenic, barium and lead. For the past several years, CPS Energy has recycled nearly all its CCRs and will continue to do so. CPS Energy is currently in full compliance with the CCR self-implementing rule requirements. On December 16, 2016, the President signed into law water infrastructure legislation that contained coal ash provisions that enable states to implement and enforce the requirements of the final CCR rule through state permitting programs. The coal ash legislation is necessary because the EPA and states lack the statutory authority to implement and enforce the current requirements of the federal CCR rule through permit programs. This legislation fills a major regulatory gap and will provide greater regulatory certainty and flexibility while ensuring the protection of the environment.

The EPA filed a motion for voluntary remand of five CCR Rule provisions challenged in litigation (Utility Solid Waste Activities Group v. EPA) (No. 15-1219). The EPA's motion explains it has identified specific provisions of the CCR Rule it intends to reconsider as a result of the reconsideration petitions filed by the Utility Solid Waste Activities Group and AES Puerto Rico L.P., a provider of electricity for Puerto Rico, and requests that the court remand these provisions without vacatur (remanded provisions would remain in place until the EPA completes a new rulemaking repealing or revising those provisions). The provisions sought to be remanded include: (1) the regulation of inactive CCR surface impoundments; (2) the regulation of CCR that is stored in piles on-site and destined for beneficial use; (3) the 12,400 ton threshold in the fourth beneficial use condition; (4) the default to background as the groundwater protection standard for Appendix IV constituents (listing the various elements as constituents for assessment monitoring) without maximum contaminate levels; and (5) the EPA's failure to regulate inactive impoundments at closed power plants (legacy ponds).

Part One of the CCRs Phase One rule became effective on August 29, 2018. The final rule adopts two alternative performance standards, revises groundwater protection standards ("GWPS") for four constituents, and extends the deadline by which facilities must cease the placement of waste in CCR units closing for cause in two situations: (1) where the facility has detected a statistically significant increase above a GWPS from an unlined surface impoundment; and (2) where the unit is unable to comply with the aquifer location restriction. The deadline was extended until October 31, 2020.

On March 1, 2018, the EPA Administrator signed the first of two rules that propose to amend the April 2015 final rule. The proposal: (1) addresses provisions of the final rule that were remanded back to the EPA on June 14, 2016 by the D.C. Circuit Court; (2) provides states with approved CCR permit programs (or the EPA where it is the permitting authority) the ability to set certain alternative performance standards; and (3) addresses one additional issue that has arisen since the April 2015 publication of the final rule. The EPA is proposing six provisions that would allow states or the EPA the ability to incorporate flexibilities into their coal ash permit programs. These flexibilities would also be available to facilities with U.S. EPA-issued CCR permits.

On August 23, 2018, a federal appeals court ruled the EPA's rule setting requirements for coal ponds and impoundments is too lenient. The EPA has since finalized a rule related to these requirements, as well as applicable guidelines related thereto. Closure of CPS Energy's bottom ash ponds is estimated at $3 million.

On September 18, 2018, the United States Court of Appeals for the Fourth Circuit issued an opinion that coal ash settling ponds are not considered a "point source" of pollution under the CWA, thereby limiting environmentalists from bringing similar suits to control pollution. The court held that such coal ponds are not subject to the CWA because they do not convey a measurable amount of pollutant.

On October 22, 2018, several environmental groups filed a petition for review in the D.C. Circuit Court regarding the EPA's final actions to the CCR rule. Rather than litigate, the EPA requested a voluntary remand for it to reconsider the CCR rule, and such request was granted on March 19, 2019.

On August 14, 2019, the EPA published a proposed rule to amend the regulations governing the disposal of CCRs, also known as the CCR Phase Two Rule. Specifically, the following changes are being proposed: replacing the 12,400-ton usage threshold; temporary placement of CCR on land; revising the annual groundwater monitoring and corrective action report requirements; establishing an alternative groundwater protection standard for boron if it is added to the list of constituents for assessment monitoring; and revising the CCR website requirements.

On December 2, 2019, the EPA released proposed rule changes for "unlined" surface impoundments containing coal ash and impoundments located near aquifers. The rules are in response to the March 2019 D.C. Circuit Court ruling. A closure date of August 31, 2020 was proposed as the new date to stop placing CCR into the impoundments and initiate closure, but facilities can apply for a 90-day extension (November 30, 2020). The rule also allows site-specific alternate closure dates due to lack of impoundment capacity, allowing up to a 3-year extension (no later than October 15, 2023), with the approval of the EPA or EPA-approved State program.

CPS Energy has completed construction of a new CCR impoundment, the Plants Drains Pond, to meet the proposed rule requirements. The Deely Bottom Ash Ponds, Old Evaporation Pond, and Sludge Recycle Holding impoundments are planned for closure during the next four years. CPS Energy is monitoring the proposed rule changes and has proposed closure dates to meet compliance deadlines.

On August 28, 2020, the EPA published a new final coal ash rule revising the final version of the rule proposed in December 2019. The rule was effective on September 28, 2020. The revised rule changed the compliance dates, as the date to stop placing CCR into the impoundments and initiate closure was moved from August 31, 2020 to April 11, 2021. In November 2020, CPS Energy submitted applications to the EPA requesting additional time to operate the Evaporation ("EP") and Sludge Recycling Holding ("SRH") impoundments. These formal requests were known as Alternative Closure Infeasibility Demonstrations ("ACID"). The Plants Drain Pond was successfully completed in compliance with the CCR rule requirements. The Plants Drain Pond became operational in August 2024.

On June 1, 2021, the EPA approved the Texas partial CCR permit program, and it became effective on July 28, 2021. TCEQ will now enforce regulations related to location restrictions, operating criteria, groundwater monitoring and corrective action, closure and post closure, record keeping, and Internet postings. The EPA retains the more complex and decision-making portions of the rule, including those related to inactive, unlined, retrofitting and alternative closure requirements. The Texas program will operate in lieu of the federal CCR program, which essentially contains the same requirements. In accordance with the new Texas program, registration application was required to be submitted by January 24, 2022.

On January 11, 2022, the EPA announced it would be: (1) proposing decisions on requests for extensions to the current deadline for initiating closure of unlined CCR surface impoundments; (2) putting several facilities on notice regarding their obligations to comply with CCR regulations; and (3) laying out plans for future regulatory actions to ensure coal ash impoundments meet strong environmental and safety standards.

On January 11, 2022, the EPA notified CPS Energy that the two extension request applications submitted in November 2020 were deemed "complete" and were considered for approval. A decision timeline was not provided by EPA.

On July 12, 2022, the EPA proposed to conditionally approve CPS Energy's extension request to continue operating the SRH CCR pond that supports the Spruce plants until September 1, 2023. The extension date requested for both the EP and SRH units passed prior to the EPA rendering a final decision. These units are no longer receiving waste and therefore the final decision is no longer needed.

In July 2022, CPS Energy completed construction and put into service a new EP. The new EP is not a CCR impoundment because it is not used to dispose of any coal ash. In August 2023, the Plants Drains Pond was completed and put into service. The PDP meets the CCR rule requirements. The Deely Bottom Ash Ponds, Old Evaporation Pond, and SRH impoundments are planned for closure during the next four years.

On May 18, 2023, the EPA proposed to amend the 2015 "Disposal of Coal Combustion Residuals from Electric Utilities Rule" to include legacy impoundments. The EPA published the final rule on May 8, 2024. The final rule places requirements on previously closed CCR impoundments and landfills and impacts four previously closed CCR landfills located at Calaveras Lake. A Facility Evaluation Report ("FER") will take place in 2025 and 2026 to determine if these landfills will be identified as Coal Combustion Residuals Management Units (the "CCRMUs"). If identified, the four landfills will be added to CPS Energy's existing groundwater monitoring network. Sampling for these landfills will take place in 2027-2028 and will be reported for the first time in 2029. In addition, the rule could require these now closed units to be "re-closed" to meet the current CCR closure requirements, for which an Initial Closure and Post Closure Plan will have to be created by the end of 2028. If needed, "Initiation of Closure" for the four landfills is required by May 8, 2029, and closure must be completed by May 7, 2034. Since the four landfills have yet to be officially designated as CCRMUs, the funds for the potential re-closure have not been estimated, planned, or budgeted by CPS Energy; however, CPS Energy's CCR consultant currently estimates that it could cost approximately $7 million to complete the re-closure of the four landfills that may be impacted. The final rule is not anticipated to affect the operation of Spruce 1 and Spruce 2.

CPS Energy completed construction of a new CCR impoundment, the Plants Drains Pond, to meet the requirements. Deely Bottom Ash and Old Evaporation Ponds are currently being closed, with completion planned by end of summer 2026. The Sludge Recycle Holding is planned for closure by the end of 2028. CPS Energy is continuing to work with its consultants to evaluate and determine what is needed to remain in compliance with the final rule changes while continuing to meet all previous and any new compliance deadlines.

Material Management: CPS Energy also operates its own Class 1 non-hazardous waste landfill, which is registered with the TCEQ, and initiative that reduces disposal costs and CPS Energy's reliance upon off-site disposal facilities. Since 1990, CPS Energy has significantly reduced the amount of hazardous waste generated by its operations. CPS Energy also has an extensive recycling program which includes non-PCB electrical equipment, electronics, paper, cardboard, metals, plastic bottles, aluminum cans, used oil, oil filters, tires, lamps, batteries, coal combustion by-products, concrete and asphalt.

Power Plant Decommissioning: In 2013, CPS Energy completed the decommissioning and remediation of the Mission Road Power Plant which began in 2009. In 2011, CPS Energy retired Tuttle Power Plant located at 9911 Perrin Beitel Road in northeast San Antonio. This plant consisted of four gas-fired steam electric generation plants which began commercial operation in the 1950s.

Decommissioning and initial environmental remediation of the Tuttle Power Plant commenced in 2013 and was completed in early 2017. This included the demolition of the cooling towers, powerhouse building and the four boilers, filling in the cooling tower basins, and leveling and reseeding the property's grounds. Assessment and remediation of the soil, cooling tower vaults and solid waste management units have been completed. Additional assessment and remediation of the remaining powerhouse slab, including the slab solvent wash pilot testing, was completed in July 2024. The results of the various options were evaluated and the testing results were provided to the EPA. In December 2024, the EPA provided approval for full scale remedial use. The remediation of the slab is planned for completion by the end of 2026.

Chemetco Superfund Site: CPS Energy received a January 21, 2014, Special Notice Letter ("SNL") from the EPA naming CPS Energy as one of 115 Potentially Responsible Parties ("PRP") for the Chemetco Superfund Site ("Chemetco") in Chouteau Township, Illinois. The EPA is directing remediation efforts under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") to address metals contamination at the site which operated as a secondary copper smelter that produced copper cathodes and anodes. Copper wire and lead covered cable that CPS Energy sold in 2000 and 2001 on a material bid were ultimately sent to the Chemetco site.

On March 19, 2014, CPS Energy joined the PRP group. The PRP group developed a Remedial Investigation and Feasibility Study ("RI/FS") of the off-site property. On February 3, 2015, parties signed the RI/FS Study, Order, and Statement of Work detailing the necessary work, which the EPA approved. The RI/FS field work began in January. CPS Energy was offered a settlement in June 2018, which it accepted. It is not expected that additional CPS Energy involvement will be necessary.

Compliance: On August 31, 2020, CPS Energy received written notification from the EPA for a Notice of Violation for the Braunig Power Station for: 1) exceeding the monthly waste volume threshold of 220 lb/month as a Small Quantity Generator ("SQG") in April 2016, and 2) for not making advanced notification of the change in generator status, for a drum of unused chemical product that was left behind by a contractor. CPS Energy manifested and properly disposed of the unused chemical product; therefore, there was no harm to the environment. The EPA conducted a 5-year waste management records review for the Braunig Plant. CPS Energy operated in compliance during the remaining 5-year time period. Under the EPA's Enforcement Response Policy, CPS Energy is considered a Secondary Violator SV, in which violators pose no actual threat or a low potential threat of exposure to hazardous waste or constituents. CPS Energy has no history of recalcitrant or non-compliant conduct and promptly returned to compliance with all applicable rules and regulations. No penalty was assessed.

During the spring of 2020, a logic error in the CISCO Continuous Emission Monitoring System ("CEMS") was identified during start-ups at the Rio Nogales Power Station. The data acquisition and handling system, which sends values from the analyzer to the CEMS, was only reporting the low range from the NO_x analyzer. The logic error dates as far back as the original commissioning of the units in 2002. The issue was corrected during the spring 2020 outage, and the analyzers are now recording correctly. Because of the error, three emission deviations during startup were reported to the TCEQ. CPS Energy has since revised its state standard air permit to increase the NO_x Maintenance Startup and Shutdown emission limits to account for the higher recorded emission readings from the analyzers. After an October 9, 2020 TCEQ air inspection, the inspector noted the alleged violations for the three deviations on the inspection exit form. The final notice of violation was not issued. This is considered a closed event.

In December 2021, CPS Energy replaced an emergency diesel generator. CPS Energy did not submit an application for a minor permit revision until July 28, 2022. The application was approved on November 30, 2022. On March 20, 2023, CPS Energy received a notice of violation for not submitting the authorization for the generator prior to the removal and replacement of the engine. CPS Energy conducted an after-action review to identify process improvements for notification of changes to equipment in the future.

As a public municipal utility, many CPS Energy activities are subject to review at the State and municipal level if they have the potential to affect known or unknown archaeological and historic sites. CPS Energy projects require review by the Texas Historical Commission ("THC") under the Texas Antiquities Code (the "Antiquities Code") and the City's Unified Development Code ("UDC"). In 2018, CPS Energy hired a staff archaeologist qualified as a professional archaeologist under the Secretary of the Interior's Standards and Guidelines. The CPS Energy staff archaeologist reviews company projects for compliance with the Antiquities Code and the UDC in accordance with a memorandum of understanding executed on October 29, 2020 by the THC. CPS Energy conducts and coordinates archaeological and archival investigations on many projects where applicable.

ENERGY CONSERVATION AND PUBLIC SAFETY PROGRAMS

Energy Conservation

CPS Energy programs and activities to assist customers in understanding energy and ways to reduce electric and gas usage include:

- comprehensive suite of energy efficiency programs offering rebates and incentives for residential, commercial and industrial customers;
- maintaining a phone number where customers can obtain conservation and other energy-related information;
- providing a comprehensive weatherization program for low-income customers at or below 200% of the federal poverty level or customers with calculated Energy Burden of 10% or greater based on their annual income and annual energy bill valuations;
- providing a comprehensive weatherization program for tenants that live in multifamily housing that is owned and operated by a 501(c)(3) nonprofit corporation or have at least 25% distinct units occupied by tenants using housing assistance vouchers as a form of payment or receive some type of federal, state, or local income-qualifying assistance;
- providing minor home repair to enable weatherization program participation through CPS Energy's Residential Energy Assistance Partnership ("REAP");
- providing load curtailment programs for commercial and industrial customers;
- providing multiple residential thermostat offerings under My Thermostat Rewards umbrella, that help residential and small commercial customers to save energy and reduce demand at peak times;
- scheduling consumer information exhibits at high-traffic locations such as community resource fairs, community pop-ups, special events and trade shows;
- conducting utility-related presentations for schools, community service organizations, business and professional groups, and homeowner associations;
- providing conservation message and education through direct preference based communication (text, email, and/or telephone), media, billboards, and educational literature;
- offering free virtual or in-home home energy assessments; maintaining a secure website, Manage My Account at https://www.cpsenergy.com/mma. Using an Internet connection to log in, CPS Energy customers can: access My Energy Portal; view their current bill; view current balance due; view past bills; pay by check or credit card; start/stop/transfer service; sign up for a payment plan; view payment history; view energy usage; update mailing address; update phone number; authorize contacts; set up alert preferences; and manage their profile; and
- maintaining a secure website, named My Energy Portal, at https://www.cpsenergy.com/myenergyportal. The portal is available through Manage My Account. With a smart meter and the My Energy Portal, customers can see energy usage (both gas and electric) as recently as the day before. Customers are able to: see their monthly bill amount, as far back as a year; compare energy efficiency to similar "neighbors"; access over 150 energy efficiency tips; set up their own customized energy savings plan; and compare month-to-month energy usage billing and see reasons for a decrease or increase. Additionally customers can view the energy they buy at any time during the month, get a detailed breakdown of the energy they use - day-by-day, hour-by-hour, or even in 15-minute increments on our secure portal, and can see how changes in the weather impact their energy use. These additional insights will eventually be available to all customers. CPS Energy has installed approximately 1,455,483 smart meters as of January 31, 2026.

On January 20, 2009, the Board approved a new Sustainable Energy Policy Statement. Centralized power plants, including utility scale solar, and the traditional electric utility business model are needed now to bridge the gap to the future. However, in the future, more electricity will come from distributed renewable resources and stored energy and will be distributed on a "smart grid", to customers empowered with the information to better control their own energy cost and consumption. Through the STEP Programs, CPS Energy has developed a portfolio of solar offerings to help support the adoption of solar in the community. These offerings include rebates for customer-owned solar, community solar and a hosted solar program. As of January 31, 2026, 48,930 customers have installed rooftop solar, totaling 555 MW DC of solar capacity. Customers who install solar receive the benefit of being placed on net metering, in which the credit value of the energy their system produces is equivalent to the retail value of the energy delivered by the utility. The current net metering program does not include recovery of CPS Energy's costs for maintaining and upgrading its systems. In October 2014,

CPS Energy issued the first of two one-megawatt (AC) solar RFP. Responses to these pilot program RFPs were evaluated and two vendors were selected. CPS Energy selected PowerFin Partners ("PowerFin"), a solar development firm based in Austin and San Antonio, to launch SolarHostSA, a groundbreaking pilot program that allows participants to host solar PV systems on their rooftops in exchange for credits on their energy bill. Working under a 20-year PPA with CPS Energy, PowerFin installed and operates 5 MW (AC) of rooftop solar on homes and businesses throughout the CPS Energy service territory and provides participating customers a monthly credit for hosting the systems on their roof. The program makes solar accessible to more customers by eliminating the significant upfront cost of traditional rooftop solar. In addition, CPS Energy selected Clean Energy Collective ("CEC"), to bring the first "Roofless" community solar pilot project to the City. CEC developed a 1 MW (AC) solar farm in the CPS Energy service territory and sold 107.5-Watt panels in the array to customers who wanted to enjoy the benefits of solar power without having to install their own system. The Roofless Solar program went live on August 26, 2016 and is fully subscribed. During fiscal year 2021, CPS Energy opted to purchase the solar farm from CEC and assumed maintenance and operational responsibility of the solar farm. On December 17, 2018, CPS Energy entered into a 25-year PPA with Big Sun SA1 ("Big Sun") to expand the Roofless Solar program by 5 MW. Big Sun successfully installed community solar panels on carports at commercial businesses across San Antonio. The panels were sold to customers who receive bill credits from CPS Energy for their share of the solar production. On August 24, 2023, CPS Energy launched a RFP for up to 50 MWs of community solar. The RFP encourages innovative and creative proposals, along with thoughtful approaches to serving the community's low-to-moderate income customers. The RFP was closed on September 24, 2025, and a new solicitation for community solar will be launched in early 2026. On January 31, 2026, CPS Energy launched a RFP for up to 50 MWs of community solar. The RFP is aimed at expanding CPS Energy's existing community solar program, offering installers or developers a direct path to bid projects for PPA consideration, and invites innovative approaches and new technologies.

In connection with CPS Energy's development of a Strategic Energy Plan that includes energy efficiency and conservation as well as generation, CPS Energy committed to the STEP program in 2009. The goal of the STEP program was to save 771 MW of demand between 2009 and 2020, which was successfully achieved. The 771 MW is equivalent to the amount of energy produced by a large-sized power plant on an annual basis. To put this into perspective, the CPS Energy Spruce1 power plant generates 555 MW and the newest Spruce2 generates 785 MW of electricity. Cumulatively, the STEP program has, since its implementation, saved approximately 1,282 MW through fiscal year 2025. As the STEP goal was achieved a year early, in January 2020, the Board and City Council voted to extend over one year the existing STEP program by $70 million, an amount that would allow an additional reduction of 75 MW. Considering the Pandemic and delays in achieving the STEP Bridge goals, CPS Energy sought and received City Council approval to extend the STEP Bridge program. In January 2021, the City Council authorized CPS Energy to expend up to an additional $70 million on energy efficiency and conservation programs to be completed by July 2022. On August 30, 2021, the Board requested staff to conduct an analysis on whether to continue the STEP program beyond the end date of July 2022. The analysis was prepared by the Brattle Group and presented to the Board at its February 2022 meeting. On June 16, 2022, the City Council approved a plan for a new program to be funded over the next five years. The new STEP program went into effect August 1, 2022, with the goal of saving 410 MW of demand energy. Through its third year, the program has achieved 280 MW of demand reduction.

On May 23, 2016, CPS Energy approved three-year agreements to outsource the delivery of its energy efficiency programs. CPS Energy selected CLEAResult, the nation's largest implementer of energy efficiency programs, to deliver its commercial efficiency programs. CPS Energy selected Franklin Energy Services, a leading implementer of energy efficiency programs for utility, state and municipal clients nationwide and in Canada, to deliver its residential efficiency and weatherization programs. The agreements expanded the portfolio of program offerings available to customers and increased adoption toward achievement of the STEP goal. On May 29, 2019, CPS Energy approved an extension of the CLEAResult and Franklin Energy contracts for delivery of services. On June 29, 2020, the Board approved an additional expenditure of up to $31 million from the authorized $70 million STEP Bridge budget for the continued delivery of services. On August 30, 2021, the Board awarded a new contract for the delivery of residential and commercial energy efficiency programs to CLEAResult and extended the weatherization contract with Franklin Energy through July 31, 2022. On July 25, 2022, the Board awarded a three-year contract to CLEAResult to continue delivering residential and commercial energy efficiency programs. On September 6, 2022, the Board awarded a one-year contract to Franklin Energy to continue delivering weatherization services. On June 26, 2023, the Board approved four-year contracts for weatherization services, creating new opportunities for local and small businesses to work directly with CPS Energy. The Board awarded contracts to seven new vendors: AG3 Group, LLC; M&M Weatherization; GGA Construction and Design LLC; Roadrunner Remodeling, Inc; Cool Component HTG & A/C, Inc; Ram's Weatherization and Construction, LLC; and Lone Star Energy Efficiency, LLC. On August 10, 2023, the City Council approved up to $1,000,000 over two years ($500,000 per year) for small-scale repairs to make homes ready to qualify for the Casa Verde Weatherization Program. On March 8, 2024, CPS Energy was awarded a $1,000,000 grant secured by U.S. Representative Joaquin Castro to help grow the weatherization program and support needed minor home repairs. See "CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein. On October 28, 2025, CPS Energy launched a new iteration of the Casa Verde Weatherization Program. The new model works to expand contractor participation, gives customers more choices in how they receive services, and expands measures to support beneficial cooling. On November 6, 2025, the City Council approved up to $1,500,000 over two years ($750,000 per year) for small-scale repairs to make homes ready to qualify for the Casa Verde Weatherization Program.

Public Safety Programs

CPS Energy's Public Safety Awareness ("PSA") program provides natural gas safety messaging, in accordance with the API's RP 1162 guidance (which requires pipeline operators to develop and implement public awareness programs that follow the guidance provided by the American Petroleum Institute) to public officials, emergency officials, excavators, and the general public within the County and portions of surrounding counties. In addition to natural gas safety messaging, electric safety messaging is encompassed in all PSA formal presentations to the stakeholder audiences through face-to-face contact with first responders, contractors, school-aged children, excavators and the general public in the area to disseminate messaging regarding Texas' 811 Call Before You Dig and CPS Energy's Look Up and Live programs.

In addition, the PSA program has taken steps above and beyond RP 1162 to make sure all stakeholders working and/or living around natural gas pipelines get the safety messages through additional direct mailings, media, billboards, educational literature, excavator events, tree trimmer/landscaper events, community safety events and at public gatherings like community resource fairs, homeowner association meetings, etc.

Additionally, CPS Energy publishes and maintains a webpage at http://www.cpsenergy.com/safety that provides up to date safety tips and training resources/kits for contractors, first responders, educators, students, and families.

PSA information is also available in Spanish.

LITIGATION AND REGULATORY COMPLIANCE

Litigation Related To The 2021 Winter Weather Event

On March 12, 2021, CPS Energy filed suit against ERCOT in the Bexar County District Court alleging breach of contract, claiming damages in the amount of $15 million in short payments, and seeking a declaratory judgment to prevent ERCOT from wrongfully declaring a default by CPS Energy based on a force majeure event and due to ERCOT's prior material breach for short payments to CPS Energy. The requested judgment also sought to prevent ERCOT from requiring CPS Energy and its customers to pay for other market participants' default (i.e., Uplift) based on excessive prices and to prevent ERCOT from charging CPS Energy for any amounts associated with the pricing errors identified in the Potomac report issued by the Independent Market Monitor. In December 2021, the Fourth Court of Appeals (the "Fourth Court") dismissed CPS Energy's petition on procedural grounds, and without addressing the merits of the case, stating that the PUCT has exclusive original jurisdiction over CPS Energy's claims. On January 27, 2022, CPS Energy filed its petition for review with the Texas Supreme Court. On February 15, 2022, the Texas Supreme Court requested that ERCOT file a response, which it did on April 18, 2022. On September 2, 2022, the Texas Supreme Court granted CPS Energy's Petition for Review, and the matter was consolidated with two other matters, *In re ERCOT* and *William L. Magness*. Oral arguments were held on January 9, 2023. On June 23, 2023, the Texas Supreme Court affirmed the Fourth Court's dismissal of CPS Energy's petition on procedural grounds and held that ERCOT is entitled to sovereign immunity. CPS Energy successfully recovered most of its $15 million short-payment claim primarily through implementation of securitization financing by market participants that defaulted on their financial obligations to ERCOT in the aftermath of the 2021 Winter Weather Event, including Rayburn and Brazos electric cooperatives. The proceeds of these securitized transactions by these market participants resulted in repayment of their outstanding short-payments to ERCOT, which have been used to reimburse short-pay claimants such as CPS Energy.

CPS Energy purchases natural gas from its suppliers pursuant to market standard contracts promulgated by the North American Energy Standards Board. Pursuant to these market standard contracts, CPS Energy, in the event of a dispute concerning the payment, is permitted to pay the undisputed portion of amounts invoiced for natural gas delivered and withhold the balance pending resolution of the payment dispute (the "Disputed Payment Provision"). CPS Energy was charged exorbitant amounts for natural gas deliveries throughout the gubernatorially-declared disaster that was the 2021 Winter Weather Event, with some suppliers charging more than $500/MMBtu. CPS Energy believes that these charges, in some cases representing a 15,000% price increase compared to the pre-storm price of the same commodity, are unconscionable and reflect unlawful pricing for items essential to its customers during a declared disaster, such as the 2021 Winter Weather Event. CPS Energy challenged certain prices under the Disputed Payment Provision.

CPS Energy is currently engaged in litigation against three of its natural gas suppliers, in which CPS Energy is disputing (under the Disputed Payment Provision) over $350 million in natural gas prices charged by those suppliers for natural gas in the 2021 Winter Weather Event as being unconscionable. The pending gas supplier cases were consolidated into the Multidistrict Litigation ("MDL") Panel and were assigned to a judge in the County for pre-trial proceedings. A trial, involving two of the three pending gas supplier disputes, will begin on March 30, 2026, in the 166th District Court of the County. CPS Energy makes no guarantees or predictions regarding the success or failure of its efforts to dispute purported natural gas charges under the Disputed Payment Provision or the reactions of its natural gas suppliers in response to CPS Energy's invoking the Disputed Payment Provision.

After the 2021 Winter Weather Event, the City, acting by and through CPS Energy, was named as a defendant in various lawsuits alleging wrongful death and property damage because of the 2021 Winter Weather Event. CPS Energy is currently analyzing its potential exposure, as well as its defense in these matters. All these lawsuits were transferred to the Texas state-wide MDL Panel and assigned to a judge in Harris County. This court is handling all pretrial matters with each case to be transferred back to its county of origin for trial if not disposed of at the pre-trial stage. The majority of the plaintiffs in the MDL have amended their pleadings to include all generators across the state, including CPS Energy. These actions significantly increased the number of cases in which CPS Energy is directly named. The court selected representative cases that will serve as test cases on several points of law including dispositive motions. However, due (in part) to an influx of filings by plaintiffs near the two-year anniversary of the 2021 Winter Weather Event, this MDL remains in the early stages of the litigation process even though several key issues have been taken up through the appellate courts. CPS Energy makes no guarantees or predictions regarding success or failure in connection with this litigation.

Regulatory Compliance

By the nature of its business and through its ownership of nuclear assets, CPS Energy is required to comply with a variety of state and federal regulations involving environmental, gas, system reliability, nuclear plant safety, physical security, cybersecurity, employee and operational safety, and other business issues. Periodically, state and federal agencies and regulators may and do perform scheduled and unscheduled inspections and/or audits as part of their normal course of business. Responsibility for ensuring compliance lies within the responsible business units and, at an enterprise level, with the Vice President of Compliance & Ethics. The STPNOC also has a strong compliance program which CPS Energy monitors closely. On occasion, violations are found either through internal review processes or during a regulatory agency compliance audit. In these instances, CPS Energy is fully cooperative with regulators in ensuring that steps are taken to identify the cause of the compliance gap and to implement a mitigation plan to prevent a recurrence. The violations that do occur are typically minor and do not reflect serious lapses in business processes or attention to regulatory requirements. Violations involving significant monetary penalties, sanctions, fines, enforcement actions, or business risks would be disclosed individually, if they occur.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

THE ELECTRIC UTILITY INDUSTRY GENERALLY

The electric utility industry in general has been, and in the future may be, affected by several factors which could impact the business affairs, financial condition and competitiveness of an electric utility, and the level of utilization of generating facilities, such as those of the Systems. Historically, these factors has been the effort on national, state, and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on wholesale and retail level. For a description of the competition in the electric utility industry in Texas and the response of CPS Energy thereto, see "CERTAIN FACTORS AFFECTING THE ELECTRIC INDUSTRY – ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein. Following Winter Storm Uri, the focus has primarily been on increasing electric generation capacity and ensuring the resiliency of generation resources, and transmission and distribution infrastructure.

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Such factors include, among others, (i) effects of compliance with rapidly changing cyber, environmental, safety, licensing, regulatory, and legislative requirements; (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy; (iii) changes that might result from a national energy policy; (iv) increased competition from independent power producers; (v) "self-generation" by certain industrial and commercial customers; (vi) issues relating to the ability to issue tax-exempt obligations; (vii) severe restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations; (viii) changes from previously projected future electricity requirements; (ix) increases in costs; (x) shifts in the availability, intermittency and relative costs of different fuels; (xi) management and integration of renewable generation and storage systems into the supply portfolio; and (xii) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could influence the financial condition of any given electric utility and likely will affect individual utilities in different ways. CPS Energy cannot predict what future effects these factors may or will have on its business operations and financial condition, but the effects could be significant. The following is a brief discussion of several factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change after the date of this Quarterly Update.

Federal Energy Policy

Since taking office in January, 2025, President Trump has issued executive orders and announced policy changes that favor thermal electricity over renewable energy. As CPS Energy has pursued an "all of the above" approach to electricity generation, this shift has not had a big affect on CPS Energy's generation plans. These changes would likely make future renewable energy projects more expensive, however. President Trump has also issued an executive order aiming to jump start the American nuclear industry and CPS Energy is monitoring that issue for any opportunities in nuclear energy

In February 2024, U.S. Congressman Greg Casar introduced and later re-introduced the "Connect the Grid Act" along with U.S. Senator Sherrod Brown. The legislation sought to require Texas to connect to the other large power grids in the United States to improve reliability and allow renewable energy to be distributed throughout the United States. The legislation did not advance, but the issue could be considered at some point in the future, including after the 2026 mid-term elections.

CPS Energy has identified several concerns with the possibility of connecting Texas to the national grid, including cybersecurity. CPS Energy will continue to monitor and evaluate this development and other Federal Energy Regulatory Commission ("FERC") developments with a potential to impact the Systems.

In 2022, the Biden Administration announced new rules that would require nearly all transformers to use amorphous steel core. On April 4, 2024, the DOE announced its final rule for efficiency standards for distribution transformers. The final rule can be met with just 25 percent of new transformers using energy-efficient amorphous steel cores; the remaining 75 percent of transformers can continue to use traditional, grain-oriented electrical steel. The final rule also extends compliance timelines from three years to five years. Initial industry response to the final rule appears positive.

Industry associations across the board opposed the standards due to the impact they would have had on current supply chain constraints. CPS Energy worked through its national trade associations to engage in the rulemaking, as well as working in support of legislation by U.S. Senators Ted Cruz and Sherrod Brown to propose less stringent standards and delay the rule's implementation.

On January 20, 2021, President Joe Biden began rolling out some of his energy initiatives through a series of executive orders. President Biden laid out initiatives to "roll back President Trump's environmental actions in order to protect public health and the environment and restore science". His executive orders directed all executive departments and agencies to immediately review and take appropriate action to address federal regulations and other executive actions taken during the Trump Administration that were "harmful to public health, damaging to the environment, unsupported by the best available science, or otherwise not in the national interest".

On January 19, 2021, the D.C. Circuit Court vacated the ACE rule and remanded it to the EPA. The court determined the EPA did not act lawfully in adopting the 2019 ACE rule as a means of regulating power plants' emissions of greenhouse gases. The Trump EPA had drafted the ACE rule to limit the EPA's ability to regulate emissions of greenhouse gases under the Clean Air Act (particularly compared to the CPP). This decision will allow the Biden EPA to draft a new rule. The EPA had proposed the ACE rule on August 21, 2018, which sought to establish emission guidelines for states to develop plans to address GHG emissions from existing coal-fired power plants. The final rule was issued on June 19, 2019 and became effective on September 6, 2019.

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On December 16, 2016, former President Obama signed into law the Water Infrastructure Improvements for the Nation Act ("WIIN Act"), which included industry-supported coal ash legislation and funding for water improvements. The WIIN Act was the product of bipartisan negotiations, and it includes the Water Resources Development Act ("WRDA") of 2016. Under the WIIN Act, the Resource Conservation and Recovery Act ("RCRA") was amended to allow states to design a coal ash permit program that will then be approved by the EPA. If states do not design a coal ash permit program, the federal coal ash rule remains in effect. The EPA is proposing a federal permitting program for the disposal of CCR in surface impoundments and landfills, which will also include electronic permitting. This proposal includes requirements for federal CCR permit applications, content and modification, as well as procedural requirements. The EPA would implement this permit program directly in certain jurisdictions, as it does other RCRA programs, and at CCR units located in states that have not submitted their own CCR permit program for approval. The final approval of the Texas partial CCR permit program was received on June 28, 2021 and became effective July 28, 2021.

The previously discussed IRA amends PURPA to add two "must consider" provisions, relating to (1) demand response practices; and (2) electric vehicle charging programs. The IRA requires states and nonregulated electric utilities to commence consideration of these standards no later than November 15, 2022, and this consideration must be concluded and a determination as to whether to adopt each standard made by November 15, 2023. CPS Energy adopted the standards for both of these programs by the required dates.

The Infrastructure Investment and Jobs Act of 2021 ("IIJA") amended the PURPA to add two utility standards that must be considered by CPS Energy, relating to (1) demand response practices; and (2) electric vehicle charging programs. The IIJA requires states and nonregulated electric utilities, such as CPS Energy, to commence consideration of these standards within a certain time frame. CPS Energy adopted a demand response standard similar to what is required by PURPA as part of the STEP in its original scope and STEP II in its more recent reconfiguration as approved by the City Council of the City. CPS Energy has not implemented an electric vehicle charging standard as provided in PURPA because the responsibility falls on the state. In 2023, the Texas Legislature passed SB 505, which promotes electric vehicle charging requirements similar to those enacted by PURPA, except that the bill did not require electric utilities, electric cooperatives, or MOUs in Texas to deliver electricity to EV charging stations at marginal cost. CPS Energy will comply with the statutory requirements of SB 505 and applicable implementing regulations.

Cybersecurity

In January 2008, the FERC approved the NERC Critical Infrastructure Protection ("CIP") standards. The NERC CIP standards function as a mandatory cybersecurity framework designed to safeguard the North American Bulk Electric System ("BES") from both digital and physical threats. There are 13 CIP standards that enforce a defense-in-depth approach, incorporating asset categorization, strict personnel controls, technical security perimeters, supply chain risk management, and rapid incident recovery, with compliance enforced through rigorous audits and substantial potential penalties for failures. CPS Energy is compliant with all 13 CIP standards.

During 2013-2017, President Obama issued multiple Executive Orders and Presidential Policy Directives aimed at Improving Critical Infrastructure Cybersecurity. A part of that mission was to develop a voluntary risk-based cybersecurity framework. The National Institute of Standards and Technology ("NIST") framework (the "Framework") was finalized and released in mid-February 2014. The Framework is designed to be a living document and continual updates occur concerning its development. The Framework covers 16 sectors and the portion pertaining to the energy sector will be implemented by the DOE. Compliance is voluntary. The DOE continues to explore methods to encourage compliance, such as possibly issuing grants. In an update provided July 1, 2015, NIST has engaged in education and outreach efforts, as well as a campaign to clarify and highlight guides consistent with the Framework. On December 11, 2015, NIST issued an additional request for information on its "Views on the Framework for Improving Critical Infrastructure Cybersecurity", to receive feedback. NIST released an analysis of the responses received to this request on March 24, 2016, and circulated an updated draft version refining, clarifying, and enhancing the Framework on January 10, 2017. NIST released a second draft of the updated Framework in late 2017, and public comments were due January 19, 2018. NIST released the new Framework on April 16, 2018. Pursuant to an executive order issued by President Trump on May 11, 2017, entitled "Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure", all federal agencies are required to use the Framework to manage cybersecurity risks.

On August 13, 2018, the John S. McCain National Defense Authorization Act was signed into law and mandated the creation of the Cyberspace Solarium Commission. The commission was to establish policy and strategic direction needed to prevent and prepare the U.S. against cyber space attacks. One of the key objectives coming from the commission was Promoting National Resilience to help mitigate risk across all elements of critical infrastructure.

In July 2019, NIST published its "Smart Grid Profile", which applies risk management strategies from the Framework to the smart grid. On June 18, 2020, the FERC issued its Cybersecurity Incentives Policy White Paper Docket No. AD20-19-000 discussing a potential new framework for providing transmission incentives to utilities for cybersecurity investments. Congress continues to make cybersecurity and grid security a priority regarding preparedness of the electric utility sector for cybersecurity threats.

On February 14, 2020, U.S. Secretary of Energy Rick Perry established a new Office of Cybersecurity, Energy Security, and Emergency Response ("CESER"). CESER's area of focus will be to strengthen and improve the security of the U.S. energy infrastructure against all hazards, including cybersecurity. CESER supports various cybersecurity efforts such as Cybersecurity Risk Information Sharing Program, Cybersecurity for the Operational Technology Environment, and the Energy Sector Software Bill of Materials proof of concept.

On May 1, 2020, President Trump declared a "national emergency with respect to the threat to the U.S. bulk-power system" and issued an Executive Order ("EO") regarding transactions involving "bulk-power system electric equipment" developed, manufactured, or supplied by a "foreign adversary". Specifically, the EO empowers the Secretary of Energy, in consultation with the heads of other agencies assembled into a task force, to prohibit certain transactions if they raise significant national security concerns, including posing a risk to the health and safety of the United States. As of June 2020, the DOE has taken initial steps, along with FERC and NERC, to begin work on implementing the EO. However, at this time, a formal rulemaking has not been initiated. On January 21, 2021, President Biden temporarily suspended Donald Trump's EO and created a new EO 14028 titled "Improving the Nation's Cybersecurity". This EO charges multiple agencies with enhancing cybersecurity through a variety of initiatives related to the security and integrity of the software supply chain.

On July 26, 2021, the Transportation Security Administration ("TSA") issued Security Directive Pipeline 2021-02 (the "Security Directives") as an effort to improve the cybersecurity of the nation's critical natural gas pipelines or liquefied natural gas facilities. In this effort the TSA has mandated that all identified pipeline owners and operators must implement specific critically important mitigation measures aimed at reducing the risk of compromise from a cyberattack. All owners/operators were required to adhere to the directive and implement the controls by January 24, 2022. Several revisions of the Security Directives have been issued, with the most recent being Security Directive Pipeline-2021-02F ("SD-02F"). SD-02F was released on May 3, 2025, and supersedes all previous revisions of the directive. The Security Directives requires gas pipeline owner/operators to establish and implement a Cybersecurity Implementation Plan, an Incident Response Plan, and an Assessment Plan that will allow the owner/operators to test the effectiveness of the measures outlined in the Security Directive. CPS Energy provides periodic reporting to the TSA related to mitigation and implementation of ongoing controls.

In February 2022, U.S. geopolitical tensions increased due to the Russian invasion of Ukraine. During this time period the Department of Homeland Security through the Cybersecurity and Infrastructure Security Agency ("CISA") started a campaign known as "Shields Up" to help combat these tensions. Furthermore, the energy sector was placed on high alert due to the destructive capabilities the Russian government previously demonstrated on industrial control system in Ukraine.

In March 2022, President Biden signed into law the Cyber Incident Reporting for Critical Infrastructure Act of 2022. This act requires the CISA to develop and implement regulations requiring covered entities to report to CISA cyber incidents and cyber extortion.

In March 2023, President Biden released the National Cybersecurity Strategy. This strategy identified five pillars:

1. Defend Critical Infrastructure,
2. Disrupt and Dismantle Threat Actors,
3. Shape Market Force to Drive Security and Resilience,
4. Invest in a Resilient Future, and
5. Forge International Partnerships to Pursue Shared Goals.

The first pillar is aimed at further enhancing cybersecurity measures for Critical Infrastructure including developing new authorities to help set regulation, improving Public-Private Collaboration, integrating Federal Cybersecurity Centers, updating incident response plans, and modernizing Federal Defenses.

In June 2025, President Trump issued EO 14306: Sustaining Select Efforts to Strengthen the Nation's Cybersecurity. EO 14306 shifts the federal cybersecurity strategy toward an industry-led, voluntary approach by removing strict compliance mandates for software contractors and refocusing agency efforts on high-level foreign threats from nations like China and Russia. The order eliminates requirements for formal security attestations, halts federal digital identity initiatives to prevent fraud, and prioritizes artificial intelligence ("AI") development for vulnerability management rather than content monitoring. Additionally, it accelerates the transition to post-quantum cryptography and explicitly restricts the use of cyber-related sanctions to foreign persons, ensuring these powers are used strictly for national security rather than domestic oversight.

On June 2, 2025, Governor Greg Abbott signed House Bill 150 ("HB 150") into law. HB 150 establishes the Texas Cyber Command ("TCC") to defend against and respond to cyber threats targeting government entities and critical infrastructure. The new entity, housed at the University of Texas at San Antonio, mandates 48-hour incident reporting for state agencies and prohibits non-U.S. citizens from working within the TCC.

CPS Energy aligns with industry standards such as the NIST Cybersecurity Framework and applies cybersecurity controls that are robust enough to stay ahead of the latest threats facing the energy sector. CPS Energy has implemented a 5-year strategic vision that ensures core cybersecurity capabilities (identification, detection, and protection) are met and advances those capabilities with the utilization of intelligence, advanced analytics, and machine learning algorithms.

CPS Energy participates in a variety of cyber initiatives and continues to analyze vulnerabilities and update its security, monitoring, and alerting technology to prevent cybersecurity incidents. CPS Energy withstands hundreds of attempted cyberattacks a day and previously brought in specialists from the National Security Agency and Secret Service to assist in preventing attacks and identifying vulnerabilities. Officials with the Department of Homeland Security regularly test and review CPS Energy's computer and security systems.

In addition, CPS Energy uses multiple security measures to protect its physical assets. In-house and third-party physical security audits and analysis are routinely performed. Access control/card reader systems are located throughout CPS Energy facilities, including substation fences and control houses. Other technologies, such as cameras and lighting, are also employed to deter security threats.

CPS Energy also engages with community and federal partners to ensure cybersecurity remains a focal point. CPS Energy has an established Cooperative Research & Development Agreement ("CRADA") with the DOD units at Joint Base San Antonio. This CRADA allows CPS Energy to work side by side with DOD partners and perform tactical and strategic exercises to further secure the City. CPS Energy has also established a working relationship with the Texas Air National Guard cyber protection unit that allows for expedited incident response measures during emergency situations.

Part of the funding associated with CPS Energy's January 2024 rate case is being used for technology upgrades to ensure cybersecurity protections remain in place.

Tax Credits, Reporting, And Other Matters

CPS Energy continues to pursue grants to benefit our customers. CPS Energy is working with U.S. Congressman Joaquin Castro's office on an earmark for the 2027 federal funding cycle.

In July 2025, President Trump signed the One Big Beautiful Bill Act into law, phasing out many federal energy tax credits. For the Production Tax Credit ("PTC") and Investment Tax Credit ("ITC"), construction on solar and wind projects would need to commence by July 4, 2026, and placed in service by December 31, 2027. For battery storage, geothermal, and hydropower, construction must begin by 2033 to receive the full credit. After that, the credits phase out every year until a full sunset in 2036. Following an Executive Order on July 8th titled "Ending Market Distorting Subsidies for Unreliable, Foreign Controlled Energy Sources," the Department of the Treasury will issue new guidance defining what the beginning of construction entails by August 18, 2025. For new advanced nuclear projects, the One Big Beautiful Bill Act now allows access to the PTC and ITC if projects begin construction by 2029. The bill retains tax credits for existing nuclear facilities through 2032.

CPS Energy received a $2.45 million grant in April 2024 from the federal Pipeline and Hazardous Materials Safety Administration to replace more than five miles of steel gas pipeline in the western portion of the City. The grant under the Infrastructure and Investments Jobs Act will help upgrade the infrastructure for CPS Energy's gas customers.

In March 2024, U.S. Congressman Joaquin Castro announced that his office has secured $1 million for CPS Energy's Casa Verde Weatherization Program through the federal appropriations process. The additional funding will expand the reach and impact of Casa Verde, the utility's energy efficiency program that provides energy-saving upgrades for limited-income residents in San Antonio. This new funding is part of the Community Development Block Grant and will provide home repairs for 500 homes which will make them eligible for weatherization.

In 2023, the federal DOE announced a federal grant to CPS Energy of $30 million to grow its power supply as part of $3.5 billion for 58 total projects awarded by the Biden administration to strengthen grid resilience nationwide. The grant is under the Grid Resilience and Innovation Partnership Program. CPS will also put up $30 million of its own funds to support growing energy resources that enable renewable energy sources to be better integrated into the grid.

In August 2022, President Joe Biden signed into law the IRA that included, among other things, roughly two dozen energy tax provisions intended to help facilitate and support the transition to clean energy. Of particular significance to CPS Energy was the IRA's inclusion of a direct pay provision, which allows tax-exempt entities to receive direct cash payments from the federal government in lieu of comparable tax credits that CPS Energy would otherwise not be able to utilize.

In November 2021, President Joe Biden signed into law the IIJA. As it relates to utilities, the IIJA included new federal spending relative to utilities in the following categories:

- $65.0 billion for broadband infrastructure,
- $65.0 billion for electric and grid infrastructure,
- $47.2 billion for resiliency, including cybersecurity,
- $7.5 billion for zero- and low-emission school buses and ferries, and
- $7.5 billion in federal spending for electric and alternative fuel vehicle infrastructure

The funding is largely being distributed through grant programs established (or in the process of being established) by various federal agencies. CPS Energy is actively engaged in assessing and applying for IIJA grant opportunities that can support and align with the utility's initiatives.

Beginning with the 112th U.S. Congress, lawmakers extended various tax credits, including approval of a $205 billion package on tax credit extenders that includes extensions and changes to a number of energy-related tax credits. The package expired on December 31, 2013, including the tax credit for electricity produced by wind and other renewable resources. Congress in 2014 failed to pass legislation extending these tax credits. At the end of 2015, the 114th Congress passed a five-year extension, modification and phase-out of the ITC for solar power and the PTC for wind and other renewables. The bill extended the PTC as-is for two years (including one retroactive year because the credit expired at the end of 2014), and phases out the credit to 80% in 2017, 60% in 2018, and 40% in 2019. The 30% temporary ITC was extended for three additional years (from its original December 31, 2016 expiration) and was phased out with a 26% credit in 2020, a 22% credit in 2021, and a 10% credit in 2022.

On September 22, 2009, the EPA finalized the nation's first greenhouse gas reporting system/monitoring regulations that will require large emitters of heat-trapping emissions to collect GHG data. While Congressional action on environmental policy has been limited, the focus has been at the administrative level at the EPA. Additional information can be found in the "COMPLIANCE AND REGULATION – Environmental Matters" section herein. On August 3, 2015, the EPA released its CPP that proposed to reduce carbon dioxide emissions from power plants by 32% (relative to 2005 levels) by 2030. See "COMPLIANCE AND REGULATION – Environmental Matters – Carbon Dioxide and Greenhouse Gases" herein. In February 2016, the Supreme Court granted an emergency stay of the CPP that put implementation of the rule on hold while the courts hear legal challenges to it. In September 2016, the D.C. Circuit Court heard oral arguments. In early 2017, President Trump directed the Justice Department to ask the court to postpone or forego consideration of the CPP. On October 16, 2017, the EPA proposed to repeal the CPP, citing the plan's inconsistency with the Clean Air Act. A decision by the D.C. Circuit Court vacated the ACE rule, likely requiring a new framework prospectively for regulating GHG.

The Energy Policy Act of 2005 ("2005 Energy Act") extended limited FERC jurisdiction, known as "FERC-Lite", over public power entities within ERCOT, such as CPS Energy that own transmission lines, and gave FERC authority to delegate certain transmission reliability standard-setting responsibilities to the Energy Reliability Organization ("ERO") and to establish mandatory reliability standards for operation of the nation's transmission system. CPS Energy has operated its electric system under compatible ERCOT reliability standards for many years, so CPS Energy does not anticipate any problems with FERC's reliability standards. CPS Energy's Transmission Owner ("TO"), Transmission Operator ("TOP"), Distribution Owner ("DO"), Generator Owner ("GO"), and Generator Operator ("GOP") functions have all undergone periodic audits. Any findings discovered during the audits were quickly mitigated. Additional information on FERC's authority over CPS Energy can be found in "FERC Authority" below.

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The 2005 Energy Act included several provisions that affected CPS Energy's business, including:

- repeal of existing Public Utility Holding Company Act of 1935 requirements;
- conditional termination of the mandatory federal purchase and sale requirements for co-generation and small power production;
- expansion of FERC's merger review authority;
- re-authorization of renewable energy production incentives for solar, wind, geothermal, and biomass, and authorization of new incentives for landfill gas;
- incentives for development of new commercial nuclear power plants and other non-or low-carbon emitting technologies;
- establishment of a 7.5% goal for increased renewable energy use by the federal government by 2013, and a 20% required reduction in energy use by federal buildings by 2015; and
- increased funding for the weatherization of low-income homes and state energy efficiency programs.

The 2005 Energy Act also included provisions affecting existing nuclear generating units, including:

- extension of the Price-Anderson Act to 2025 and increases in the retrospective premiums for which licensees are liable for claims resulting from a nuclear incident;
- expansion of the NRC authority to regulate decommissioning trust funds (primarily affecting funds held by former plant licensees);
- direction of the DOE to take responsibility for safe disposal of high-level radioactive waste;
- procedural protections for individuals filing claims under federal whistleblower provisions;
- enhanced provisions relating to NRC oversight of the security of licensed facilities; and
- various decommissioning tax-related adjustments beneficial to federal tax-paying licensees.

Furthermore, the 2005 Energy Act amended the Public Utility Regulatory Policies Act of 1978 ("PURPA") by adding five new standards that MOUs must consider and determine whether to implement. These new standards address net metering, diversity of fuel sources, efficiency of fossil-fuel-fired generation, time-based or "smart" metering, and the interconnection of distributed generation. CPS Energy considered the new standards and developed five modified standards that more accurately reflect local conditions and priorities. These new standards were approved by the Board on June 25, 2007. In October 2019, FERC proposed to modernize its regulations governing small power producers under PURPA to better address consumer concerns and market changes.

In December 2007, the President signed the Energy Independence and Security Act ("EISA") requiring utilities to consider, for adoption, rejection, or modification by December 19, 2009, the implementation of (1) integrated resource planning; (2) rate design modifications to promote energy efficiency investments; (3) smart grid investments; and (4) smart grid information. CPS Energy studied technologies that would allow implementation of the standards, as modified to fit its needs, and has completed the regulatory assessment as required under the EISA. MOUs, such as CPS Energy, are designated as "non-regulated" under EISA, as well as the 2005 Energy Act, because those utilities are not regulated by state utility commissions.

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FERC Authority

In 1992, pursuant to the Energy Policy Act of 1992 ("1992 Energy Act"), the FERC required utilities under its jurisdiction to provide access to their electric transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. MOUs are subject to FERC orders requiring provision of wholesale transmission service to other utilities, qualifying cogeneration facilities, and independent power producers. Under FERC rules promulgated after the 1992 Energy Act, FERC further expanded open access wholesale transmission by requiring public utilities operating in interstate commerce to file open access non-discriminatory transmission tariffs. Because the interconnected ERCOT grid operates outside interstate commerce and because PURA95 and SB 7, State laws discussed below, provide comparable wholesale transmission authority to the PUCT for utilities in ERCOT pursuant to which the PUCT has required open access of transmission facilities in ERCOT, the exercise of FERC authority relating to open access transmission has not been a major factor in the operation of the wholesale market in ERCOT. The 2005 Energy Act authorizes FERC to encourage and approve the voluntary formation of regional transmission organizations to promote fair and open access to electric transmission service and facilitate wholesale competition. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – The Electric Utility Industry Generally– Federal Energy Policy" herein. The ERCOT open access system is administered by an ISO conducting many of the functions that would be administered by a Regional Transmission Organization. Section 1211 of the 2005 Energy Act amended the Federal Power Act to include a new section, designated as Section 215, which directed FERC to certify an ERO and develop procedures for establishing, approving, and enforcing electric reliability standards. As discussed herein under "DESCRIPTION OF FACILITIES – Electric System – Interconnected System", FERC designated NERC to serve as the ERO and to set and monitor through Regional Entities ("RE") implementation of electric reliability standards. A separate group within the ERCOT region, the Texas Reliability Entity, was selected to serve as the RE for the ERCOT service area, and CPS Energy has developed a comprehensive framework to ensure compliance with the electric reliability standards.

On November 16, 2016, FERC proposed to amend its regulations under the Federal Power Act to remove barriers to the participation of electric storage resources and distributed energy resource aggregations in the capacity, energy, and ancillary service markets operated by regional ISOs. Specifically, FERC proposed to require each ISO to revise its tariff to (1) establish a participation model consisting of market rules that, recognizing the physical and operational characteristics of electric storage resources, accommodates their participation in the organized wholesale electric markets, and (2) define distributed energy resource aggregators as a type of market participant that can participate in the organized wholesale electric markets under the participation model that best accommodates the physical and operational characteristics of its distributed energy resource aggregation. In a per curiam opinion issued by the D.C. Circuit Court on June 20, 2017, the court denied Advanced Energy Management Alliance's petition to vacate FERC's approval as to capacity performance program changes.

On February 22, 2021, FERC announced it would investigate whether any natural gas or electricity market violations occurred during the 2021 Winter Weather Event. FERC's announcement follows its earlier decision, in partnership with NERC, to investigate the mass outages across ERCOT. On November 16, 2021, FERC and NERC issued a final report examining the 2021 Winter Weather Event. The final report includes additional details regarding the need to strengthen rules for cold weather preparedness and coordination to prevent a reoccurrence of blackouts. Many of the recommendations were included in Senate Bill 3 as approved by the Texas Legislature earlier in 2021.

Proposals in the Congress to increase FERC's authority over the ERCOT grid since 2024 have not been advanced beyond the introductory stages. CPS Energy continues to monitor developments relating to FERC in the Congress through federal consultants and trade associations.

THE PUBLIC UTILITY COMMISSION TEXAS

The PUCT exercises regulatory authority over the retail and wholesale markets of Texas. During the 87th Texas Legislature in 2021, Senate Bill No. 2154 passed relating to the membership of the PUCT. Now the PUCT is comprised of four commissioners plus a chair appointed by the Texas Governor. The PUCT writes rules that determine the workings of the ERCOT market and has enforcement authority relating to violations of its rules and the ERCOT protocols. As of 2021, as a result of legislation passed by the 84th Texas Legislature in 2015, the PUCT requires MOUs to file a CCN to build transmission within the MOU's certificates service territory that lies outside its city limits. The PUCT adopted new rules, effective July 5, 2016, revising the process to obtain CCNs in accordance with the new legislation. Effective May 28, 2017, the PUCT issued a new rule allowing the PUCT, after notice and hearing, to revoke or amend any CCN if the PUCT finds that certain adverse conditions exist. Pursuant to legislation passed during the 88th Texas Legislature in 2023, the PUCT now also has an expedited timeline under which they must approve or deny CCN applications.

The PUCT does not directly regulate retail rate cases of municipally owned electric utilities but it does have limited appeal jurisdiction related to ratepayers outside of municipal jurisdiction.

On March 26, 2020, PUCT Commissioners approved a relief order establishing the COVID-19 Electricity Relief Program, which created a fund to enable a temporary exemption from disconnections for non-payment for eligible residential customers in competitive retail areas in ERCOT. The intention of this relief order was to protect affected residential customers and reduce the exposure of the competitive market from excessive COVID-19-related bad debt that could lead to industry upheaval and bankruptcies. On June 16, 2020, PUCT Commissioners directed PUCT Staff to make final modifications to the COVID-19 Electricity Relief Program as the PUCT ended self-enrollment in the program on August 31, 2020. Due to the 2021 Winter Weather Event, the PUCT halted power disconnections due to non-payments and restricted electric companies from sending "skyrocketing" invoices. The PUCT stated it is investigating the factors that, combined with the 2021 Winter Weather Event, disrupted the flow of power to millions of Texas homes. On June 18, 2021, the PUCT lifted a moratorium on electricity disconnections allowing private electricity companies to shut off power to customers at the end of June 2021. CPS Energy resumed disconnects in September 2021 and has continued except when prohibited by holidays, maintenance schedules, and extreme weather conditions as outlined in CPS Energy's terms and conditions. See "CUSTOMERS AND RATES - Past Due Accounts" herein.

The funding mechanism created within the program was used for one month and was later revisited by the PUCT. The fund was established by a $0.33 per MWh rider implemented by Transmission and Distribution Utilities ("TDUs") in competitive territories of the State, after an initial loan of $15 million by ERCOT from its project funds. The rider was applied to all customer classes and implemented within ten days of the order being approved. Residential customers unable to pay bills due to unemployment were referred by their Retail Electric Provider to the relief program and were relieved from disconnection. Retail Electric Providers ("REPs") were compensated from the fund at $0.04 per kWh for service to those customers. Also, for those customers, TDUs were compensated directly from the fund instead of compensated through the REPs collections. Commissioners acknowledged and commended the efforts taken by MOUs, Electric Cooperatives, and other vertically integrated utilities to provide these protections to their customers.

Texas Reliability Entity, Inc.

Headquartered in Austin, Texas, Texas Reliability Entity, Inc. ("Texas RE") performs the regional entity functions described in the 2005 Energy Act, which created Section 215 of the Federal Power Act, for the ERCOT region, as mandated by the delegation agreement with the NERC. The delegation agreement was approved by FERC. Texas RE is authorized by NERC to develop, monitor, assess, and enforce compliance with NERC Reliability Standards within the geographic boundaries of the ERCOT region, as well as to assess and periodically report on the reliability and adequacy of the bulk power system. Texas RE is independent of all users, owners, and operators of the bulk power system. The regional entity functions and protocol compliance were previously performed by Texas Regional Entity, a functionally independent division of ERCOT. Texas RE took over all responsibilities of Texas Regional Entity on July 1, 2010. Effective November 16, 2020, Texas RE ceased to monitor protocol compliance. Currently, the ERCOT Reliability Monitor is the entity responsible for evaluating compliance with its protocols.

ERCOT

ERCOT is one of six Regional Reliability Councils in NERC. The ERCOT bulk electric system is located entirely within the State and serves more than 27 million customers, representing approximately 90% of the State's electrical load. The ERCOT service region covers 75%, or 200,000 square miles, of the State and contains over 54,100 miles of transmission lines, including more than 9,000 miles at 345-kV.

In response to legislative directive, ERCOT amended its articles of incorporation to establish an Independent System Operator ("ISO") in 1996. Under ERCOT's organizational structure, the ISO reports to the ERCOT Board, but the PUCT has complete authority to oversee and investigate ERCOT's finances, budget, and operations as necessary to ensure that ERCOT is accountable. ISO responsibilities include security operations of the bulk system, facilitation and efficient use of the transmission system by all market participants, and coordination of regional transmission planning among transmission owning utilities and providers.

ERCOT's statutory functions include establishing and enforcing procedures relating to the reliability of the regional electrical network and accounting for the production and delivery of electricity among generators and all other market participants. The procedures are subject to PUCT oversight and review, and the PUCT has two seats on the board. The PUCT chair and a designee of the PUCT chair serve as ex-officio members of the ERCOT Board. The PUCT may authorize ERCOT to charge a reasonable and competitively neutral rate to wholesale buyers and sellers to cover the independent organization's costs. Individual electric utilities own sections or components of the ERCOT transmission grid and are responsible for operating and maintaining their own transmission lines and equipment. The ISO coordinates the operation of the transmission grid to ensure its reliability, and ERCOT coordinates with the various transmission-owning electric utilities to make sure the transmission system will meet the needs of the electric market. The 1999-enacted SB 7 (described in greater detail below under "ELECTRIC UTILITY RESTRUCTURING IN TEXAS") provides that a retail electric provider, municipally owned utility, electric cooperative, power marketer, transmission and distribution utility, or Power Generation Company ("PGC") shall observe all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines, and procedures established by the ISO.

Under the PUCT's transmission open access rules, each transmission service provider in ERCOT is required to provide transmission service to transmission customers in ERCOT. As compensation for this service, each TSP recovers, through ERCOT-wide transmission charges, its Transmission Cost of Service ("TCOS"), which is set by the PUCT. The PUCT approved changes to Substantive Rule 25.247 that establish a filing schedule for non-investor-owned TSPs operating within ERCOT effective November 28, 2018. A non-investor-owned TSP that has not had a commission-approved change to its transmission service rate since January 1, 2017, must submit a comprehensive or interim transmission cost of service within two years of the effective date of the rule. In compliance with the scheduling rule, CPS Energy submitted an interim TCOS filing on November 23, 2020. The PUCT approved CPS Energy's requested transmission access fee of approximately $3.08 per kW on January 15, 2021. The rule also requires periodic interim or comprehensive filings every 48 months for entities, including CPS Energy, with a wholesale transmission cost of service greater than one percent of the total ERCOT wholesale transmission costs. Therefore, CPS Energy submitted a new interim filing, which was approved on March 29, 2023, and authorized an access fee of approximately $3.18 per kW. In fiscal year ending 2027, CPS Energy plans to submit an application to the PUCT for a full review of CPS Energy's TCOS rate. The impact of an adjustment to CPS Energy's TCOS rate on future wholesale transmission rates and revenue is uncertain. Smaller non-investor owned TSPs with revenue requirements less than one percent of the total ERCOT wholesale transmission charges must file every 96 months. See "CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein.

ERCOT publishes two reports, the Monthly Outlook for Resource Adequacy ("MORA") and the Report on the Capacity, Demand, and Reserves ("CDR"), which provide insights of short term and long term expectations of supply and demand in the ERCOT market. The MORA report is a monthly analysis of the resource adequacy and serves as an early indicator of the hour-by-hour risk that ERCOT may need to issue an Energy Emergency Alert or call for controlled outages to maintain grid reliability for the reporting month. The MORA report uses probability-based modeling to determine the likelihood that ERCOT will have insufficient operating reserves during each monthly peak electric demand period. The report also includes scenarios to show demand and resource availability for selected hours based on expected grid conditions. Neither report incorporates a dynamic capacity expansion model that reflects the endogenous investment response expected under ERCOT's market design, wherein declining reserve margins drive scarcity pricing that incentivizes new generation investment over time. Accordingly, these reports are illustrative and should not be interpreted as predictive of long-run market equilibrium.

On November 7, 2025, ERCOT published the MORA report for January 2026. The MORA report indicated a low risk of ERCOT having to declare an energy emergency alert during the month of January 2026, with the highest risk occurring during the morning hours as well as the early evening hours. The report indicated that there should be sufficient generating capacity available, under typical grid conditions, with a 1.4% probability of ERCOT having to declare an Energy Emergency Alert during the highest risk hour of 8:00 a.m. The MORA report attributes the morning and evening risk periods as corresponding "to hours with the highest loads and low or no solar production." The total system load forecast for the highest risk hour in January 2026 was 77,387 MW. The January 2026 MORA report assumes a total planned and unplanned thermal outage amount of 7,674 MW during normal grid conditions. Since the December 2025 MORA report was prepared, an additional 1,623 MW of battery energy storage, 793 MW of solar capacity, and 443 MW of natural gas capacity capacity are expected to be available to serve the January 2026 load.

On December 19, 2025, the CDR Report in the ERCOT Region for 2026-2030 was updated. The CDR Report, which has been revised to provide a 5-year forecasted planning reserve margin for each of the four seasons including summer and winter peak load seasons in ERCOT, highlights a forecasted peak demand for summer 2026 of 88,639 MW, a decrease from the last reported value of 89,667 MW. The decrease was caused primarily by a revised ERCOT methodology to discount the impacts of Large Customer Load, based on trends from current large load interconnection rates. The winter 2026-2027 peak demand forecast is 78,124 MW, a decrease from the last reported value of 78,676 MW, again driven by the revised ERCOT methodology. The planning reserve margin expected for summer 2026 is forecasted to be 18.3%. This is 1.1% points higher than the 17.2% margin for summer 2026 reported in the previous update of the CDR Report. This increase is mainly due to the revised Large Customer Load methodology. Additional methodology changes in the CDR Report focus on reflecting the impacts of expected regulatory changes associated with large customer loads including assumptions on load reductions during peak hours. These changes are applied to years 2027 through years 2030 and are subject to change as regulatory rules are finalized by the PUCT. CPS Energy proactively monitors the ERCOT market closely to ensure it is mitigating the risk of exposure to high and volatile prices.

On November 3, 2022, the PUCT issued an order directing ERCOT to assume the duties and responsibilities of the Reliability Monitor for the Texas power grid. ERCOT, acting as the Reliability Monitor, gathers and analyzes information and data to meet its monitoring obligations as required by 16 TAC § 25.503(k), under the direction of PUCT.

ELECTRIC UTILITY RESTRUCTURING IN TEXAS

During the 1999 Legislative Session, the Texas Legislature enacted SB 7, providing for retail electric open competition. The enactment of SB 7 modified the PURA and required that retail and wholesale competition begin on January 1, 2002. SB 7 continues Texas electric transmission wholesale open access, which came into effect in 1997 and requires all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. SB 7 modifications to PURA also fundamentally redefined and restructured the Texas electric industry. The following discussion of SB 7 applies primarily to ERCOT.

SB 7 includes provisions that apply directly to MOUs, such as CPS Energy, as well as other provisions that govern investor-owned utilities ("IOUs") and electric cooperatives ("Electric Co-ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy suppliers. SB 7 also allows retail customers of those MOUs and Electric Co-ops that elect to opt-in, on or after that date, to choose their electric energy suppliers. Provisions of SB 7 that apply to the CPS Energy electric system, as well as provisions that apply only to MOUs and Electric Co-ops, are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which CPS Energy and the City could choose to directly participate in the future.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000, and to unbundle their generation, transmission/distribution and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies and possibly operating divisions. If so, these new entities may be owned by a common holding company, but each must operate largely independent of the others. The services offered by such separate entities must be available to other parties on non-discriminatory basis. MOUs and Electric Co-ops which open their service territories ("opt-in") to retail electric competition are not required to, but may, unbundle their electric system components. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND GAS SALES – Retail Service Area" herein.

Entities That Have Opted-in To Competition

The following discussion relates to entities that are currently in electric competition in Texas and do not apply to CPS Energy but could apply if CPS Energy and the City opt-in to electric competition. Generation assets of IOUs are owned by PGCs, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell electricity at market prices. IOU owners of Transmission and Distribution Utilities ("TDUs") are fully regulated by the PUCT. REPs which are the only entities authorized to sell electricity to retail customers (other than MOUs and Electric Co-ops within their service areas, or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from PGCs, power marketers, and/or other parties and may resell that electricity to retail customers at any location in ERCOT (other than within service areas of MOUs and Electric Co-ops that have not opened their service areas to retail competition). TDUs, MOUs, and Electric Co-ops that have chosen to participate in competition are obligated to deliver electricity to retail customers and are also required to transport electricity to wholesale buyers.

The PUCT is required to approve the construction of TDUs' new transmission facilities and may order the construction of new facilities in Texas in order to relieve transmission congestion. TDUs are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Retail rates for the use of distribution systems of MOUs and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than that of the PUCT.

SB 7 also provides a number of consumer protection provisions. Each service area within the State that participates in retail competition has a designated Provider of Last Resort; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. CPS Energy has the option to be designated as a Provider of Last Resort for its service area if it chooses to opt-in. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each MOU and Electric Co-op that opts-in to retail competition may designate itself or another qualified entity as the Provider of Last Resort for its service territory. In such cases, the respective MOU or Electric Co-op, not the PUCT, will set the electric rates for such respective Provider of Last Resort.

Under SB 7, IOUs may recover a portion of their "stranded costs" (the net book value of certain "non-economic" assets less market value and certain "above market" purchased-power costs) and "regulatory assets", which is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market-based rates in the open competition market. SB 7 establishes the procedure to determine the amount of IOU stranded costs and regulatory assets. The PUCT has determined the stranded costs, which have been and will be collected through a non-bypassable competitive transition charge collected from the end retail electric users within the IOU's service territory as it existed on May 1, 1999. The charge is collected primarily as an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing, and refinancing such bonds is secured by a qualified rate order of the PUCT that creates the "competitive transition charge". Neither the State nor the PUCT may amend the qualified rate order in any manner that would impair the rights of the "securitized" bondholders.

The Texas Legislature continues to look at the impacts of SB 7. On May 1, 2018, the Senate Business & Commerce Committee took invited testimony on an interim charge to: examine the competitive nature of the Texas retail electric system and what government competitive intrusions in the free energy markets may have in distorting those markets; review the impact of competitive versus noncompetitive retail electricity markets across the State in terms of price and reliability; and consider the projected impact of establishing competitive electric retail markets statewide. Former CPS Energy President & CEO Paula Gold-Williams provided invited testimony on a panel of MOUs. The MOU panelists addressed the competitive nature of the retail electric market and the contributions offered by MOUs in the ERCOT market. No senators overtly advocated that MOUs and Electric Co-ops be forced to opt-in to retail competition, but a general preference for competitive markets was evident through all phases of the hearing. The 86th Texas Legislature did not consider legislation adversely impacting the MOU business model.

In February 2022, the City Council of the City of Lubbock, Texas voted to deregulate and enter into retail competition. In August 2022, Lubbock Power & Light ("LP&L") officially notified ERCOT of its intention to join the retail competitive electric market, which is now complete. LP&L became the first major Texas city electric provider to integrate into the ERCOT market in nearly 25 years when the process was completed in March 2024.

Additional Impacts Of Senate Bill 7 Deregulation

MOUs and Electric Co-ops are largely exempt from the requirements of SB 7 that apply to IOUs. While IOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of MOUs and Electric Co-ops have the sole discretion to determine whether and when to opt-in to retail competition. However, if a MOU or Electric Co-op has not voted to opt-in, it will not be able to compete for retail energy customers at unregulated rates outside its traditional electric service area or territory.

SB 7 preserves the PUCT's regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for an independent transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 (as amended by the Texas Legislature after 1999) directs the PUCT to determine electric wholesale transmission open access rates on a 100% "postage stamp" pricing methodology.

The greatest potential impact on CPS Energy's electric system from SB 7 could result from a decision by the Board and the City Council to participate in a fully competitive market, particularly in light of the fact that CPS Energy is among the lowest cost producers of electric energy in Texas. On April 26, 2001, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002. However, CPS Energy currently believes that it is taking all steps necessary to prepare for possible competition in the unregulated energy market, should the Board and the City Council make a decision to opt-in, or if future legislation forces MOUs and Electric Co-ops into retail competition.

Any future decision of the Board and the City Council to participate in full retail competition would permit CPS Energy to offer electric energy service to customers located in areas participating in retail choice that are not presently within the certificated service area of CPS Energy. The Board and the City Council could likewise choose to open the CPS Energy service area to competition from other suppliers while choosing not to have CPS Energy compete for retail customers outside its certified service area.

As discussed above, MOUs and Electric Co-ops will also determine the rates for retail use of their distribution systems after they open their territories to retail competition, although the PUCT has established by rule the terms and conditions applicable to have access to those systems. SB 7 also permits MOUs and Electric Co-ops to recover their stranded costs through collection of a non-bypassable transition charge from their customers if so, determined by such entities through procedures that have the effect of procedures available to IOUs under SB 7. Unlike IOUs, the governing body of an MOU determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. MOUs and Electric Co-ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by CPS Energy as to the magnitude of its stranded costs, if any, would be made in conjunction with the decision as to whether or not to participate in retail competition.

An MOU that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate relationships and anti-competitive practices. The PUCT has established by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the distribution facilities of MOUs electing to compete in the retail market.

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants that may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities. The bill also improves the competitive position of MOUs by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of MOUs are made exempt from disclosure under the open meetings and open records acts and the right of MOUs to enter into risk management and hedging contracts for fuel and energy is clarified. See “DESCRIPTION OF FACILITIES – Electric System – Fuel Supply”, “RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – WHOLESALE POWER”, and “FINANCIAL MANAGEMENT OF THE SYSTEMS – Enterprise Risk Management and Solutions” herein for discussion of the Energy Price Risk Management Program in use at CPS Energy.

TEXAS LEGISLATIVE IMPACT ON THE ELECTRIC INDUSTRY

89th Texas Legislature

The 89th Legislature has begun its annual interim hearing process to help develop legislative proposals for the 90th Legislature, which begins in January 2027. Issues like large loads and data centers, grid security, supply chain, pole integrity and maintenance, battery storage safety and disaster preparation are expected to be studied by various committees in the Texas House and Senate. CPS Energy’s robust legislative program and staff remain heavily involved in legislative efforts as these issues are discussed and legislation is developed.

Leadership in both the Texas House and Senate in early 2024 included electric market issues in the interim charges for issues to be studied before the 89th Legislature, which convened in regular session on January 10, 2025, and ended on June 2, 2025. Thereafter, the Texas Governor called a first special session that began July 21, 2025 and ended on August 15, 2025. The Governor called a second special session on August 15, 2025 which ended on September 4, 2025. CPS Energy is still in the process of reviewing legislation during the 89th Legislative Session. At this time, CPS Energy cannot make any representations as to the full impact of such legislation.

During the regular session of the 89th Legislature, legislation was passed of impact to the utility, our employees, and industry at-large. Some of the most notable bills are as follows: integration of large loads into ERCOT (Senate Bill 6); transmission and distribution pole standards, inspections, and mitigation plans (Senate Bill 1789 / House Bill 144); utility wildfire mitigation plans (House Bill 145); increased penalties for assault or harassment of a utility worker (Senate Bill 482); creation of advanced nuclear office and reimbursement grant program (House Bill 14); creation of the Texas Grid Security Commission (Senate Bill 75). The Legislature also passed bills to protect customers seeking to install solar panels, assist customers seeking to install backup energy systems, and update the Texas Energy Fund. All of the bills mentioned here will require regulatory rulemakings to implement. CPS Energy will remain an active stakeholder throughout each proceeding. Rulemaking processes have begun, and CPS Energy is an active participant.

Neither CPS Energy nor the City make any representation regarding any actions the Texas Legislature has taken or may take, but CPS Energy continually analyzes and monitors proposed and passed legislation for any developments applicable thereto.

Prior Legislative Sessions

The 88th Texas Legislature convened in regular session on January 10, 2023 and ended on May 29, 2023. The Texas Governor subsequently called four special sessions throughout the remainder of 2023.

During the regular session of the 88th Texas Legislature, legislation was approved that impacted the administrative functions of PUCT and ERCOT, Senate Bill 3 from the 87th Legislature, the design of the ERCOT market, the treatment of demand-side energy resources, and initiatives to incentivize the building of additional dispatchable generation sources in ERCOT. The most significant pieces of legislation passed were House Bill 1500 (the sunset bill related to the PUCT, ERCOT, and the Office of Public Utility Counsel, as well as market design concepts) and Senate Bill 2627/State Journal of Rules 93, the Powering Texas Forward Act, to create a $10 billion Texas Energy Fund to incentivize the building and modernization of dispatchable generation sources. SJR 93 was approved by voters as Proposition 7 in the November 2023 constitutional amendment election. The PUCT has approved rules for the Texas Energy Fund loan program and, the application window opened on June 1, 2024. The PUCT has also adopted rules for the Completion Bonus Grant Program and creating the backup power package program; both of these programs will tap funds from the Texas Energy Fund. Legislation was also adopted related to the development and operation of electric vehicle charging stations. No legislation altering the MOU business model was passed in the 88th Texas Legislature. CPS Energy personnel are actively engaged in the various PUCT workstreams.

The 87th Texas Legislature convened its regular session January 12, 2021 through May 31, 2021. The Texas Governor previously called three subsequent special sessions beginning on July 8, August 7, and September 20, 2021. Following the 2021 Winter Weather Event, the Texas Legislature began its most comprehensive policy discussion in more than 20 years on addressing the State's power grid and its oversight.

From January 8, 2019 to May 27, 2019, the 86th Texas Legislature convened its regular session. The most notable proposal on which CPS Energy worked was House Bill 61 ("HB 61") which adds its electric and gas utility vehicles to the protections of the Texas Move Over/Slow Down Law. The new law took effect on September 1, 2019.

An additional bill of direct operational impact on CPS Energy was House Bill 4150 ("HB 4150"), which adds comprehensive reporting regarding transmission line inspections and safety incidents for all electric utilities. All utilities (MOUs, IOUs, and Electric Co-ops) are now required to report what percentage of transmission infrastructure, defined as over 60 KV, was inspected during the preceding five-year period, and what percentage is expected to be inspected in the upcoming five-year period. The bill also contains annual reporting requirements on safety education and training taking place or changed/appended, any known noncompliant maintenance issues and incidents, fatalities, and injuries with a corrective action plan. Lastly, the bill requires utilities to inspect lines over public recreational lakes in their service territory for compliance with National Electric Safety Code height requirements.

Other bills of impact to CPS Energy included House Bill 864 ("HB 864") and House Bill 866 ("HB 866"), which pertain to gas infrastructure safety and reporting. The RRCT initiated a comprehensive rulemaking in July 2019 to implement these bills, as well as make other updates to Chapter 8 and Chapter 3.70 of Title 16 of the Texas Administrative Code, as amended, to bring the RRCT rules, definitions, and procedures in line with federal Pipeline and Hazardous Materials Safety Administration ("PHMSA") requirements and sections of State law that relate to the provisions. The RRCT adopted final amendments to its Pipeline Safety & Permit Renewal Rules on December 17, 2019. The amendments to Chapter 8 pertain to pipeline safety, maintenance, incident reporting and changes to the annual risk-based programs that operators like CPS Energy file annually to the RRCT. The proposed amendments to §3.70 pertain to required pipeline permits. The rulemaking also made changes to the annual schedule by which CPS Energy pays its permit fees.

Two additional bills of note are Senate Bill 1012 ("SB 1012") and Senate Bill 1938 ("SB 1938"). SB 1012, filed at the request of the PUCT, clarifies and reaffirms the current ability of MOUs and Electric Co-ops to own battery storage without having to register as PGCs. SB 1938 codifies within State law certain ERCOT protocols as they pertain to transmission owners' ability to construct off existing transmission endpoints.

Regarding cyber and grid security, three bills passed relevant to the electric utility industry. All these bills were implemented on May 14, 2020 by the PUCT with further action pending at ERCOT. Senate Bill 64 ("SB 64") establishes a program for the PUCT to coordinate and share with utilities best practices on several cyber-related items, including guidance for cybersecurity controls for supply chain risk management. The bill also directs ERCOT to conduct an internal cybersecurity risk assessment and submit an annual confidential report to the PUCT. Senate Bill 475 ("SB 475") creates the "Texas Electric Grid Security Council", an advisory body that will coordinate the sharing of information and implementation of best security practices in the electric industry. This council is comprised of representatives from the PUCT, ERCOT and the Texas Governor's office, and coordinate with industry and specific State and federal entities. Lastly, Senate Bill 936 ("SB 936") requires the PUCT and ERCOT to contract with an entity to act as PUCT's cybersecurity monitor. This bill was also filed at the request of the PUCT.

Environmental Restrictions Of Senate Bill 7 And Other Related Regulations

SB 7, enacted in 1999, contains specified emissions reduction requirements for certain older electric generating units, which would otherwise be exempt from the TCEQ permitting program by "grandfathered" status. Under SB 7, annual emissions of NO_x from such units were reduced by 50% from 1997 levels, beginning May 1, 2003. These emissions have been reported on a yearly basis, and CPS Energy has met the requirements of its NO_x cap for the applicable units for the past compliance years. CPS Energy has final Electric Generating Facility ("EGF") state permits from the TCEQ for its remaining seven older electric generating gas-fired units. CPS Energy may require future additional expenditures for emission control technology. See "COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Air Act" and "FINANCIAL MANAGEMENT OF THE SYSTEMS – Capital Program" herein for discussion of the cumulative economic effect of these requirements together with requirements under Federal Clean Air Act permits.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation, Chapter 117, is directed at all units in the State, including CPS Energy's coal plants. These regulations required a 50% reduction in NO_x emissions statewide beginning May 1, 2005, and system-wide on an annual basis. CPS Energy has met the Chapter 117 cap for each compliance period. Because of the Spruce2 air permitting process, CPS Energy committed to tighter NO_x emission limitations than what is required under Chapter 117 at the Calaveras Power Station upon the Spruce2 unit coming online.

Changes to environmental emission controls may have the greatest effect on coal plants. See "COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Air Act" herein. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. Such changes could have a material impact on the cost of power generated at affected electric generating units.

SB 7 established the State's goal for renewable energy in 1999 but made no special provisions for transmission to interconnect renewable resources. The rapid development of wind power in west Texas since 2001 has shown that wind farms can be built more quickly than traditional transmission facilities. This timing difference poses a dilemma for planning, as it is difficult to know whether a new line will be needed if the generation facilities do not yet exist. A wind farm is difficult to finance if there is no certainty that sufficient transmission will be available to deliver generated electricity. Senate Bill 20 ("SB 20"), enacted by the Texas Legislature in 2005, authorized the PUCT to regulate in this area, and specifically authorized the PUCT to identify areas with sufficient renewable energy potential, known as competitive renewable energy zones ("CREZs") and pre-designate the need for transmission facilities serving the area even if no specific renewable generation projects exist or are under construction. The designation of CREZs in regions with developable renewable resources would be partially based on financial commitments of wind project developers desirous of building in the CREZ. In July 2008, the PUCT voted to create five CREZs in west Texas and the Panhandle. In August 2008, the PUCT further decided that an additional 18,456 MW of wind energy from the five CREZs would be delivered into ERCOT via transmission lines estimated to cost ERCOT rate payers a minimum of $4.93 billion. The PUCT awarded the construction of those transmission lines to transmission service providers ("TSPs") in whose service areas the lines will be located and new entrants seeking to become TSPs. The PUCT's decision was appealed by the City of Garland, and a State District Court has determined that the PUCT should have given municipally owned utilities consideration in the CREZ award process. The PUCT reconsidered and awarded a CREZ line for the City of Garland to construct. CPS Energy does not plan to renew its request for authority to construct any part of the CREZ lines. Under the statewide transmission costs allocation process, CPS Energy will pay approximately 7% of these construction costs. Payments will not start until the lines are constructed and placed into service. In the PUCT's January 2017 "Report to the 85th Texas Legislature – Scope of Competition in Electric Markets in Texas", the PUCT determined that the CREZ project established in 2008 was complete following the installation of a second circuit on a Sharyland line.

The Texas Legislature increased the State's renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUCT established a target of 10,000 MW. The legislation includes a target of 500 MW from renewable resources other than wind power. In addition, on April 2, 2008, ERCOT filed a report with the PUCT concerning wind power and the transmission facilities that may be necessary to transfer the electric power across the State. In 2023, House Bill 1500 included a provision to repeal the State's renewable energy goal from statute.

According to the ERCOT Demand and Energy Report, 23.53% of the electricity generated in Texas from January 1, 2025 through December 31, 2025 came from wind energy resources, down from 24.21% for 2024. The total capacity of renewable facilities in Texas as of December 2025, was approximately 78,162 MW. On March 3, 2025, wind generation in ERCOT produced a new record of 28,550 MW. ERCOT's wind penetration record was set on April 10, 2022, at 69.15% of load. On September 9, 2025, solar generation in ERCOT produced a new record of 29,877 MW. ERCOT's solar penetration record was set on March 20, 2025, at 56.60% of load. The total installed energy storage capacity in ERCOT is 15,485 MW as of October 2025.

Looking to the future, CPS Energy plans to continue to focus on providing low-cost power from a variety of generation sources including sustainable and lower carbon emitting sources. CPS Energy will continue to focus on high levels of reliability to the communities it serves, while working on customer retention and loyalty.

Wholesale Market Design Developments

In May 2017, Calpine and NRG filed an informational report in PUCT Docket 40000 recommending changes to the energy markets with a goal of improving price formation. The report, "Priorities for the Evolution of an Energy-Only Market Design in ERCOT", which was written by Susan Pope and William Hogan of FTI Consulting and Harvard University respectively, critiques the performance of ERCOT's energy-only market and makes numerous suggestions for how the market might perform more efficiently. The PUCT responded by opening Docket 47199 in order to explore market changes including adjusting of the ORDC (defined below) parameters, implementation of Real Time Co-Optimization ("RTC"), and implementation of Marginal Line Losses. At the June 28, 2021, Technical Advisory Committee ("TAC") meeting, ERCOT announced an RTC implementation initiative, and has since provided regular status updates to the ERCOT Board.

To improve scarcity price signals, the PUCT instructed ERCOT to implement an Operating Reserve Demand Curve ("ORDC") in June 2014. In June 2018, because of arguments in PUCT Docket 47199 coupled with shrinking reserve margins, the PUCT instructed ERCOT to modify the ORDC to remove out-of-market capacity from the capacity used to calculate reserves. This was a minor adjustment prior to summer 2018. In early 2019, the PUCT endorsed the RTC proposal as well as a two phase ORDC modification that would result in an increase in the reserve adder pricing. Both phases of the ORDC modification were successfully implemented. The first was implemented in the spring of 2019, with the second phase in the spring of 2020. The ORDC is currently operational as an energy price enhancement mechanism that adds to the energy price based on system conditions. ERCOT calculates the adder based on the probability of a loss of load and the cost of a loss of load. Therefore, as system reserves drop, the adder calculated by ERCOT increases and the price of energy increases.

In April 2019, ERCOT formed the Real-Time Co-Optimization Task Force ("RTCTF"), reporting to the ERCOT TAC, to formulate and vet the policies needed to implement the RTO market change. In February 2020, the ERCOT Board voted to approve a list of Key Principles. These Key Principles were developed by the RTCTF and were the basis for the protocol changes adopted by the ERCOT Board in December 2020 with an estimated implementation in late 2025. At the October 2021 ERCOT TAC meeting, the RTCTF presented completion of its charter deliverables. As a result, the ERCOT group dissolved the task force.

In August 2023, ERCOT stakeholders reestablished the RTCTF, again reporting to the ERCOT TAC, and added batteries (energy storage) to the scope of the group. Energy storage investment and growth in the ERCOT market revealed the need to fully integrate energy storage technology into the ERCOT market. The Real-Time Co-Optimization plus Batteries Task Force ("RTCBTF") was tasked to finalize the technical requirements for the RTC project and include energy storage topics including State of Charge management and operational duration requirements as part of its charter; the RTCTF met regularly to consider these issues and tracked progress to meet the expected delivery date of this project. The RTC enhancements to the ERCOT real-time market allow for a more complete and optimized utilization of energy storage capacity. Additional market efficiency analysis shared in Task Force meetings has indicated a reduction in market revenues and a corresponding reduction in costs to consumers totaling over $2 billion per year. This spurred proposals to consider updating price formation policies to increase market pricing outcomes during periods of low available generating capacity. The PUCT has indicated their support for exploration of market pricing policy proposals but will defer any change proposals that could delay the project until after the project implementation is complete.

ERCOT met its target implementation date for the Real-Time Co-Optimization project by successfully deploying the market change on December 5, 2025. As ERCOT and stakeholders close out the project, follow up topics remain active within the stakeholder process, with topics being assigned to the ERCOT Wholesale Market Subcommittee and its subordinate working groups. Advances in energy storage capabilities and increases in energy storage capacity have created a need to revisit the energy storage characteristics in the market as part of the Real-Time Co-Optimization implementation and ongoing operations. Stakeholders are expected to deliberate on various topics and work to propose updates to market rules through the established stakeholder process facilitated by ERCOT.

In August 2019, the ERCOT market experienced two scarcity events primarily attributed to high demand and low-capacity reserves. On August 13, 2019 and August 15, 2019, ERCOT declared Level 1 Energy Emergency Alerts ("EEA1") when capacity reserves reached the trigger levels as described in the ERCOT Nodal Protocols. The EEA1 events resulted in deployment of contracted demand response also known as ERCOT Emergency Response Service ("ERS") and market clearing prices were administratively set to the System Wide Offer Cap ("SWOC") of $9,000 per MWh, as required by ERCOT protocols.

During the 2021 Winter Weather Event, Texas experienced record-setting low temperatures for a sustained period. It is estimated that approximately 4 million customers lost electricity for days. ERCOT directed controlled outages to stabilize the grid. On February 13, 2021, ERCOT issued an Emergency Notice for the extreme cold weather event impacting the ERCOT region. On February 15, 2021, ERCOT declared Levels 1, 2, and 3 Energy Emergency Alerts ("EEA1, EEA2, EEA3") and implemented rotating outages at 1:20 AM. On February 17, 2021, at 11:55 PM ERCOT concluded rotating outages but remained in EEA3 due to the large number of customers who had yet to be reconnected. During the event, the PUCT convened an emergency meeting to address price inconsistencies observed in the market. PUCT Commissioners approved an order in Project 51617 that resulted in market clearing prices being set to the SWOC of $9,000/MWh during load shed events. The basis for their decision was to reinforce the market design principle that anytime load is shed, prices should reflect the value of the load.

Several lawsuits were filed against ERCOT and wholesale market design changes were implemented as a result of legislation enacted in the aftermath of the 2021 Winter Weather Event.

On June 24, 2021, the PUCT modified the value of the Low System Wide Offer Cap ("LCAP") by eliminating a provision that ties its value to the natural gas price index and replaces it with a provision that ensures resource entities are able to recover their actual marginal costs when the LCAP is in effect. On December 2, 2021 the PUCT modified the value of the High System Wide Offer Cap ("HCAP") by lowering it from the current $9,000 to $5,000/MWh.

The PUCT opened a Project (No. 52373) where several wholesale market design developments were considered. In December 2021, the PUCT issued a two-phase blueprint for the ERCOT market redesign. Proposed phase-one concepts include reform to the ORDC, increase in demand response, reform to emergency response services ("ERS"), implementation of ERCOT contingency reserve services as a ramping ancillary service, implementation of fast frequency response, development of a voltage support ancillary service product, and development of firm fuel supply service ("FFSS").

In December of 2021, in response to a PUCT Order, ERCOT implemented changes to the formulation of the ORDC which offset the financial impacts of the new lower HCAP by allowing scarcity price adders to materialize during times of lower scarcity. In August 2022, in response to a PUCT Order, ERCOT also increased the procurement of ERS by increasing the overall program budget to $75,000,000, an increase of $25,000,000. The PUCT also authorized ERCOT to procure an additional $25,000,000 in ERS capacity if the program is exhausted in an emergency event. In March 2022, in response to Senate Bill 3, 87(R), ERCOT established the rules to implement the new FFSS. In July 2022, ERCOT issued a RFP for the new service and announced in October 2022 that it had procured 2,940MW of capacity with an on-site backup fuel source to be used during fuel supply emergencies. The remaining phase-one changes are pending ERCOT protocol changes and system implementation.

Phase-two concepts focused on incorporating long-term market design reforms to promote the supply of dispatchable generation and develop a backstop reliability service. In February 2022, the PUCT issued a RFP to assist it in evaluating the various phase-two proposals, and in May 2022, the consulting firm Energy and Environmental Economics ("E3") was awarded the consulting contract. E3, PUCT staff, and ERCOT staff completed the analysis, and a report was published in November 2022 and filed in PUCT Project No 54335. E3 studied the five original proposals including the Load Serving Entity Obligation, Forward Reliability Market, Backstop Reliability Service, Dispatchable Energy Credits, and a hybrid that combined the Dispatchable Energy Credit and Backstop Reliability Service designs. During the evaluation process, PUCT staff and E3 developed a new proposal called the Performance Credit Mechanism ("PCM"). E3 formally recommended the Forward Reliability Market option and noted that their model results indicated a net increase in wholesale revenues in the range of $360 million to $920 million across all studied options. The PUCT considered these results, solicited stakeholder comments on the new option and in January 2023 commissioners formally adopted the PCM and declared their intention to pause on implementation of the PCM pending legislative consideration of wholesale market design policy. During the 88th Regular Session of the Texas Legislature, lawmakers considered various changes to the ERCOT wholesale market and ultimately adopted a series of laws to establish its desired framework for the PCM in House Bill 1500.

In May of 2023, the PUCT opened a Project (No. 55000) to further develop the PCM. In February of 2024, ERCOT filed a PCM update report focused on framework and design parameters, and policy decision points that the PUCT is expected to consider as the program is further developed. ERCOT further developed the framework and design of the PCM throughout 2024 by facilitating workshops with stakeholders and PUCT staff. PUCT staff issued a memo with PCM design recommendations for commissioners to consider at their August 28, 2024 meeting. At that meeting, commissioners directed ERCOT and the Independent Market Monitor ("IMM") to perform a cost/benefit analysis of the PCM. At their December 12, 2024 meeting, ERCOT and IMM analysis revealed marginal economic benefits of the PCM given the constraints imposed by the $1 billion pricing cap. The Commissioners did not believe the PCM would be effective in supporting resource adequacy without further legislative changes to the statutory limitations of the program and agreed to halt additional development and implementation of the PCM.

Included in provisions adopted in House Bill 1500 is the requirement for ERCOT to develop and implement a new reliability service known as the Dispatchable Reserve Reliability Service ("DRRS") by December 1, 2024. The DRRS is intended to address market uncertainty caused by variations in generation availability by establishing a market-based product to provide additional dispatchable generation capacity. ERCOT identified implementation path options and at its open meeting held on June 29, 2023, the PUCT directed ERCOT to continue engaging with stakeholders on the implementation plan that would meet the statutory timeline. In July of 2023, ERCOT held a public workshop to identify and evaluate additional implementation details. In September of 2023, ERCOT filed a proposal to modify its protocols to implement DRRS in a limited way that would allow ERCOT to meet the statutory timeline. After PUCT deliberation and direction from key legislators, PUCT commissioners instructed ERCOT to fully implement the new service on a delayed timeline. ERCOT continues to work on the development of a service that will meet the legislative intent and has held several design workshops with stakeholders to develop a framework for the service and draft the necessary changes to ERCOT's protocols. At their December 19, 2024 open meeting, PUCT commissioners discussed the potential for DRRS to be designed to support resource adequacy and laid out their expectation that the DRRS design be primarily focused on a reliability tool with the secondary focus being on using DRRS as a resource adequacy tool. Stakeholders and ERCOT staff continue to refine the proposal that ultimately meets the needs outlined in the statute. ERCOT staff are expected to submit an updated proposal at the end of 2025.

In April 2023, after a series of ERCOT stakeholder meetings and public workshops, the ERCOT Board of Directors approved a resolution recommending interim enhancement to the Operating Reserve Demand Curve ("ORDC") as a means to create a bridge between the current market structure and the fully implemented Phase-two market design. The resolution was in response to a request from commissioners that the ERCOT Board develop a recommendation that focuses on retaining existing resources, incentivizes new dispatchable generators, and reduces the need for out of market actions including Reliability Unit Commitments. ERCOT and its Technical Advisory Committee developed bridging options for the ERCOT Board to consider. In August 2023, the PUCT directed ERCOT to implement the ORDC enhancements as recommended by the ERCOT Board of Directors and provide metrics in their biennial performance report. On November 1, 2023, ERCOT implemented the ORDC enhancements by creating two minimum price floors to be effective prior to a capacity shortage.

In late September 2022, the PUCT voted in favor of expanding weather preparation rules governing weatherization of electric generation equipment and transmission equipment. The rule expansion heightens the seasonal standards, first deployed by PUCT in November 2021 for winter weather, and now includes equipment requirements for summer weather conditions. The winter weather preparation requirements took effect in December 2022, and summer weather preparation requirements began in June 2023.

In March of 2023, the PUCT opened a Project (No 54584) to establish a reliability standard for the ERCOT wholesale market. The PUCT recognized the need to create a metric to measure and maximize the desired level of reliability in the ERCOT system while balancing market costs. The creation of this standard will also determine the level of capacity needed for recently approved wholesale market design changes like the PCM, the new DRRS, or any other proposals that may be considered by regulators. The PUCT directed ERCOT to develop a methodology to formulate the standard based on three loss of load metrics including frequency, magnitude, and duration. ERCOT developed a model which evaluates the three reliability-based metrics and has been working to create a set of study results that illustrates the reliability needs of the ERCOT system using varying installed reserve margin values under varying input assumptions. ERCOT's process uses a Monte Carlo simulation to predict reliability outcomes under many different capacity mix scenarios and creates a statistical representation of the risks associated with varying installed reserve margins on the ERCOT system. Initial results have shown that as the installed capacity increases, the reliability risk decreases. At its August 29, 2024 open meeting, the PUCT adopted the Reliability Standard based on the three loss of load metrics, magnitude, duration, and frequency, with the first assessment being initiated by January 1, 2026 and reassessment performed at least once every three years. The first assessment is set to be completed and filed by ERCOT in August 2026. On October 7, 2025, ERCOT began preparing for the assessment by publishing its long-term load forecast. Additionally ERCOT issued a Request for Information to each Transmission Operator to determine specific technical operational capabilities. ERCOT will use this information to inform its Reliability Standard assessment assumptions. If the Reliability Standard is not met, ERCOT is required to include recommendations for market design changes to address the deficiency which would be decided on at the end of calendar year 2026.

House Bill 1500 established a generation reliability requirement, also called a "Firming" requirement. In June of 2025, the PUCT opened a Rulemaking Project (No 58198) to implement firming reliability requirements for electric generating facilities in the ERCOT region. The legislation imposes a requirement on owners of generation assets with interconnection agreements signed after 2027 to operate their generation portfolios at or above the seasonal average generation capability during the times of highest reliability risk. The requirement is expected to create incentives for new variable renewable generation portfolios to contract with battery storage or peaking capacity to meet the requirements. In July 2025, the PUCT staff held a workshop and issued a request for comments on the Firming requirement to evaluate the technical and policy considerations of this rulemaking. In September 2025, PUCT staff issued its proposal for the Firming rule and asked for stakeholder comments. PUCT staff is expected to review and consider the stakeholder comments received and issue a final rule proposal in December 2025 for consideration and approval at a future open meeting.

During the 2025 Regular Session, the Texas Legislature passed Senate Bill 6 ("SB 6") to establish a regulatory framework addressing the rapid growth of large electricity consumers, defined as loads of 75 megawatts or greater. The legislation was signed by Governor Abbott on June 20, 2025, and took effect immediately. SB 6 introduces a range of new obligations, processes, and standards that affect large load customers across the full lifecycle of service, including interconnection requirements, forecasting expectations, cost allocation, and participation in emergency operations.

Implementation of SB 6 requires coordinated action between the PUCT, which is responsible for developing and adopting its rules, and the ERCOT to update its protocols and guides. Interconnecting utilities are also part of the implementation process, once the rules are approved as utilities will modify their processes to meet regulatory requirements. To carry out the statute, the PUCT has initiated multiple rulemakings and related projects that collectively form the agency's implementation roadmap. These efforts include establishing criteria for large load forecasting to improve system planning visibility, developing new interconnection standards that may include financial security and performance requirements, and defining curtailment protocols to ensure large loads can be managed during grid emergencies.

In addition, the PUCT is addressing how large loads interact with on-site generation through net metering-related considerations, as well as evaluating whether the current methodology for allocating transmission costs remains appropriate given the scale and impact of these customers. This includes consideration of alternative cost allocation and cost recovery approaches that more closely align with cost causation principles. Collectively, these actions represent a significant shift toward more structured and proactive management of large load growth in Texas, with direct implications for system reliability, infrastructure investment, and financial planning.

CPS Energy currently has twenty-one data centers in its service area that generate approximately $110 million in non-fuel revenue. There are approximately 59 potential data center projects within the service area (each in various stages of planning), with an estimated present need of 26,000 MW. The lead time for the construction and implementation of these projects can be extensive, and therefore CPS Energy is exploring new technologies and process improvements to enable the foregoing developments, including evaluation of on-site power generation and new customer offerings. CPS Energy proactively engages in measures to ensure cost recovery from large load customers, such as collecting fees for initial engineering assessments, requiring surety bonds for long-lead items in pre-construction phases, requiring upfront payments for non-standard facilities, and establishing contractual performance targets during ramp up periods. CPS Energy also periodically updates its cost of service studies to ensure electric and natural gas rates achieve full and fair cost recovery from all customer classes. Utilities such as CPS Energy utilize artificial intelligence and data analytics to enable proactive preparation for storms, prioritization of asset management, and enhancing grid monitoring to improve outage detection and forecasting. CPS Energy continues to evolve and adjust to the ever-changing landscape for the benefit of all its customers.

Texas 2021 Winter Weather Event

From February 12, 2021 through February 19, 2021, the continental United States experienced a severe winter storm, the 2021 Winter Weather Event, resulting from the southern migration of a polar vortex that meteorologists characterize as the most significant in terms of scope and duration since monitoring of these weather phenomena began in the 1950s. As a result of the 2021 Winter Weather Event, record breaking cold weather invaded the entire State, during which time the City experienced three consecutive days of record low temperatures, over 100 consecutive hours below freezing, and wind chills of -6 degrees Fahrenheit.

On February 12, 2021, the Texas Governor declared a state of disaster for all 254 counties within the State, certifying in that declaration that severe winter weather posed an imminent threat of widespread and severe property damage, injury, and loss of life due to the prolonged freezing temperatures, heavy snow, and freezing rain statewide. In response to that declaration, and on the same date, the RRCT issued an Emergency Order approving a utilities curtailment program relating to and specifying an essential prioritization of the transportation, delivery, and/or sale of natural gas in the State.

As the 2021 Winter Weather Event covered the entire State, ERCOT implemented what were initially expected to be rotating outages to conserve electricity and address energy needs across the entirety of the State; however, due to the severity of the 2021 Winter Weather Event and the corresponding increase in demand on the Texas electric grid, combined with limited availability of generation, widespread and prolonged power outages began at 1:00 a.m., Central Time, on Monday, February 15, 2021, and continued throughout the week.

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Ultimately, approximately 4,000,000 Texas residents were without power for significant stretches of the week. By the middle of the 2021 Winter Weather Event, ERCOT announced that it had lost 46,000 MW of generation, comprised of 28,000 MW of natural gas and coal generation and 18,000 MW of wind and solar. For additional information on the details and impact of the 2021 Winter Weather Event, see "CUSTOMERS AND RATES – Retail Service Rates" and "- Fuel and Gas Cost Adjustment" and "DESCRIPTION OF FACILITIES – Generating Station Events" and "LITIGATION AND REGULATORY COMPLIANCE – Litigation Related to the 2021 Winter Weather Event" and "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – FERC Authority" and "ELECTRIC UTILITY RESTRUCTURING IN TEXAS – Texas Legislative Impact on the Electric Industry" and "– Environmental Restrictions of Senate Bill and Other Related Regulations" and "– Wholesale Market Design Developments" herein.

INDEPENDENT AUDITORS

This Quarterly Update includes the Basic Financial Statements, which have been incorporated by reference and which have been audited by the independent auditors, as stated in their report thereon.

MISCELLANEOUS

The financial data and other information contained herein have been obtained from CPS Energy's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and orders contained in this Quarterly Update are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FORWARD-LOOKING STATEMENTS AND INFORMATION AVAILABLE FROM ONLINE SOURCES

This Quarterly Update, including the information incorporated by reference herein as described herein, contains forward-looking statements within the meaning of the federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the power utility industry and general economic conditions. Such words as "expects", "intends", "plans", "believes", "estimates", "anticipates", or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not a guarantee of future performance. Actual results may vary materially from what is contained in a forward-looking statement. Factors which may cause a result different from those expected or anticipated include, among other things, new legislation, increases in suppliers' prices, particularly prices for fuel in connection with the operation of CPS Energy, changes in environmental compliance requirements, acquisitions, changes in customer power use patterns, natural disasters and the impact of weather on operating results.

Although CPS Energy believes in making any such forward-looking statement, and its expectations are based on assumptions considered reasonable by CPS Energy, any such forward-looking statement involves uncertainties and is qualified in its entirety by reference to factors both identified within this Quarterly Update and from publicly available resources about the electric and gas businesses, regulation and regulatory authorities for that business, and the City that could cause the actual results of CPS Energy to differ materially from those contemplated in such forward-looking statements.

Any forward-looking statement speaks only as of the date on which such statement is made, and CPS Energy undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for CPS Energy to predict all of such factors, nor can it assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Quarterly Update.