

OFFICIAL STATEMENT

DATED: OCTOBER 17, 2019

RATINGS: Fitch
Moody's
S&P

"AA+"
"Aa2"
"AA-"

See "RATINGS" herein

NEW ISSUE –BOOK ENTRY-ONLY SYSTEM

In the opinion of Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C., Co-Bond Counsel, assuming continuing compliance by the City (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants described in the Ordinance (defined below) and subject to the matters described herein under "TAX MATTERS", interest on the Bonds under existing statutes, regulations, rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. See "TAX MATTERS" herein.



\$252,640,000
CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS
JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019

Dated: November 1, 2019 (Interest to accrue from the Closing Date)

Due: February 1, as shown herein

The \$252,640,000 City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2019 (the "Bonds") will be issued under and in conformity with the Constitution and general laws of the State of Texas, including Chapters 1207 and 1371, as amended, Texas Government Code (together, the "Act"), and pursuant to an ordinance ("Ordinance") adopted by the City Council ("City Council") of the City of San Antonio, Texas ("City") on April 11, 2019. As permitted by applicable provisions of the Act, the City Council has, in the Ordinance, delegated to certain City representatives the authority to execute an approval certificate (the "Approval Certificate") establishing final characteristics and terms of the sale of the Bonds. The Approval Certificate was executed on October 17, 2019, by an authorized City representative.

The Bonds are being issued to: (i) refund certain outstanding obligations of the City identified in Appendix E hereto ("Refunded Bonds") for debt service savings, and (ii) pay costs and expenses relating to the issuance of the Bonds.

The Bonds are issuable only as fully registered obligations in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the date of their initial delivery (the "Closing Date") to the initial purchasers thereof named below (collectively, the "Underwriters") (expected to occur on or about November 21, 2019) and will be payable on February 1 and August 1 of each year, commencing February 1, 2020. The Bonds will be issued in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") acting as securities depository ("Securities Depository"). The City reserves the right to discontinue the use of the Securities Depository, but so long as DTC or its nominee is the registered owner of the Bonds, purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. The principal of, premium, if any, and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, as Paying Agent / Registrar, to the Securities Depository, which will in turn remit such principal, premium, if any, and interest to the Beneficial Owners. See "THE BONDS – Book-Entry-Only System" herein.

In the Bond Ordinances (defined herein), the City has authorized the City Public Service Board of San Antonio ("CPS", "Board" or "CPS Energy") to manage, operate, and maintain the City's Electric and Gas Systems (the "Systems"). The Bonds are special obligations of the City, payable from and equally and ratably secured, together with the currently outstanding Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued by the City, by a junior lien on and pledge of the Net Revenues of the Systems, subject and subordinate to the liens thereon and pledges thereof securing the outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued, but senior and superior to the liens thereon and pledges thereof securing the currently outstanding Commercial Paper Obligations and any Inferior Lien Obligations, respectively, as fully set forth in the Ordinance (capitalized but undefined terms in this sentence are defined herein). The City has reserved the right to grant equal and ratable liens on and pledges of Net Revenues to secure payment of Additional Junior Lien Obligations hereafter issued in accordance with the Ordinance. See "THE BONDS – Authority and Security for the Bonds" herein.

The Ordinance does not create a mortgage or other security interest on the property of the Systems. The Bonds are special obligations of the City payable only from the Net Revenues of the Systems, at the level of priority described above, and the taxing power of none of the City, any other political subdivision of the State of Texas, or the State of Texas is pledged for the payment thereof.

SEE INSIDE COVER PAGE FOR MATURITIES, INTEREST RATES AND PRICING SCHEDULE

The Bonds are offered for initial delivery when, as, and if issued and received by the Underwriters and subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C., both of San Antonio, Texas, as Co-Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney, by Carolyn E. Shellman, Esq., General Counsel for the City Public Service Board, and for the Underwriters by their legal counsel, McCall, Parkhurst & Horton L.L.P., of San Antonio, Texas. The Bonds are expected to be available for initial delivery to the Underwriters and credited through DTC on or about November 21, 2019.

CITIGROUP

FROST BANK
RAMIREZ & CO., INC

PIPER JAFFRAY & CO.
UBS

MATURITIES, INTEREST RATES AND PRICING SCHEDULE

\$252,640,000
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS
JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019⁽¹⁾

Due February 1 in the years shown below

\$236,945,000 Serial Bonds

<u>Stated Maturity</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP No.⁽²⁾</u>
2033	3,390,000	5.000	1.970	79625GBK8
2034	53,790,000	5.000	2.030	79625GBL6
2035	53,330,000	5.000	2.080	79625GBM4
2036	6,040,000	3.000	2.580	79625GBN2
2036	49,400,000	5.000	2.120	79625GBP7
2037	17,470,000	5.000	2.160	79625GBQ5
2037	40,030,000	3.000	2.620	79625GBR3
2038	6,490,000	4.000	2.420	79625GBS1
2039	7,005,000	4.000	2.460	79625GBT9

\$15,695,000 Term Bonds

\$15,695,000 4.000% Term Bonds due February 1, 2041⁽¹⁾; priced to yield 2.530%⁽³⁾; CUSIP No. 79625GBU6⁽²⁾

(1) The Bonds are subject to redemption prior to stated maturity at the prices, in the amounts, and at the times described herein. The Term Bonds (defined herein) are also subject to mandatory sinking fund redemption. See "THE BONDS – Redemption of Bonds".

(2) CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. No assurance can be given that the CUSIP number for a particular maturity of the Bonds will remain the same after the date of delivery of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Board, the Co-Financial Advisors, or the Underwriters shall be responsible for the selection, changes to, errors, or correctness of the CUSIP numbers set forth herein.

(3) Yield calculated based on the assumption the Bonds denoted and sold at a premium will be redeemed on February 1, 2030, the first optional call date for the Bonds, at a redemption price of par, plus accrued interest to the redemption date.

CITY OF SAN ANTONIO, TEXAS

CITY COUNCIL

Ron Nirenberg, Mayor

Jada Andrews-Sullivan
Dr. Adriana Rocha Garcia
Ana Sandoval

Roberto Treviño
Shirley Gonzales
Manny Pelaez
Clayton Perry

Rebecca Viagran
Melissa Cabello Havrda
John Courage

KEY MANAGEMENT & PERSONNEL

Erik Walsh – City Manager
Ben Gorzell, Jr. – Chief Financial Officer
Leticia M. Vacek – City Clerk
Andrew Segovia – City Attorney

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

John T. Steen, Jr., Chair
Edward B. Kelley, Trustee

Janie Gonzalez, ⁽¹⁾ Trustee

Dr. Willis Mackey, Vice Chair
Ron Nirenberg, Mayor

Paula Y. Gold-Williams – President & Chief Executive Officer ("CEO")
Delores Lenzy-Jones⁽²⁾ – Chief Financial Officer ("CFO") & Treasurer
Carolyn E. Shellman, Esq. – Secretary, Chief Legal & Administrative Officer

(1) Confirmed by the City Council on January 31, 2019, and officially appointed to the Board on February 1, 2019.

(2) Began tenure with CPS Energy on February 18, 2019, after completion of a national search.

EXECUTIVE MANAGEMENT

Paula Y. Gold-Williams – President & Chief Executive Officer ("CEO")
Chris C. Eugster – Chief Operating Officer ("COO")
Carolyn E. Shellman, Esq. – Chief Legal Officer & General Counsel ("CLO&GC")
Fred Bonewell – Chief Security, Safety & Gas Solutions Officer ("CSSGO")
Felecia Etheridge – Chief Customer Engagement Officer ("CCEO")
Vivian Bouet – Chief Information Officer ("CIO")
Frank Almarez – Chief Administrative and Business Development Officer ("CABDO")
Delores Lenzy-Jones – Chief Financial Officer ("CFO") & Treasurer

CONSULTANTS

Norton Rose Fulbright US LLP
Kassahn & Ortiz, P.C.
Co-Bond Counsel

PFM Financial Advisors LLC
Estrada Hinojosa & Company, Inc.
Co-Financial Advisors

USE OF INFORMATION

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. *See "CONTINUING DISCLOSURE OF INFORMATION"* for a description of the undertaking of the City and the Board to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION FOR THE PURCHASE THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Co-Financial Advisors have provided the following sentence for inclusion in this Official Statement. The Co-Financial Advisors have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to the Board and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Co-Financial Advisors do not guarantee the accuracy or completeness of such information.

None of the City, the Board, the Co-Financial Advisors, or the Underwriters makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

The agreements of the City, the Board and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT

Relating To

\$252,640,000

CITY OF SAN ANTONIO, TEXAS

ELECTRIC AND GAS SYSTEMS

JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019

INTRODUCTORY STATEMENT

GENERAL

This Official Statement, including the cover page and the Appendices hereto, of the City of San Antonio, Texas ("City") is provided to furnish information with respect to the \$252,640,000 City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2019 (the "Bonds"). Certain terms not defined herein will have the meanings ascribed thereto in the Ordinance (hereinafter defined).

There follows in this Official Statement a description of the City, the City Public Service Board of San Antonio, Texas ("Board", "CPS", or "CPS Energy"), and the City's Electric and Gas Systems (the "Systems"); certain information relating to the City and the State of Texas ("State" or "Texas"); certain information relating to the sources of payment for the Bonds, together with summaries of certain provisions of the Ordinance and the Bonds; and a discussion of factors affecting the electric and gas industries generally. All references herein to agreements and documents are qualified in their entirety by reference to the definitive forms thereof, and all references to the Bonds are further qualified by reference to the information with respect thereto contained in the Ordinance. A copy of such document may be obtained from the City or the Co-Financial Advisors upon request by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date and the information contained herein is subject to change. A copy of this Official Statement relating to the Bonds will be available from the Municipal Securities Rulemaking Board ("MSRB"), through its Electronic Municipal Market Access ("EMMA") system. *See* "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the City's and the Board's undertaking to provide certain information on a continuing basis.

In close proximity to the sale and delivery of the Bonds, the City anticipates remarketing its Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015A and its Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015C, each currently outstanding in a term rate mode (collectively, the "Remarketing Transactions"). The City anticipates that these remarketings will price as early as November 5, 2019 and settle on December 2, 2019 (which is the first business day after the December 1, 2019 scheduled mandatory tender date). This Official Statement relates only to the sale of the Bonds and not the remarketings of these other City bonds. Investors interested in purchasing these other City bonds should refer to the offering document relating thereto and made available by the City in connection with the respective remarketing thereof.

GENERAL DESCRIPTION OF CPS ENERGY REVENUE DEBT AND PRIORITY OF LIENS

Pursuant to City ordinances from time to time adopted by its City Council (the "City Council"), the City authorizes the issuance of obligations payable from and secured by liens on and pledges of the Net Revenues (defined herein) of the Systems at varying levels of lien priority. These City obligations, and the related priority of lien on and pledge of Net Revenues securing their payment, are briefly and generally hereafter described.

Senior Lien Obligations. Under certain City ordinances (such ordinances, the "Bond Ordinances"), the City has issued and there are now outstanding long-term, fixed-rate City obligations that are secured by and payable from a first and prior lien on and pledge of the Net Revenues of the Systems (such obligations, the "Previously Issued Senior Lien Obligations"). Under the Bond Ordinances, and subject to satisfaction of certain conditions precedent prescribed therein, the City is authorized to issue additional obligations secured by a lien on and pledge of Net Revenues of the Systems that is on parity with the lien thereon and pledge thereof securing the payment of the Previously Issued Senior Lien Obligations (such additional obligations, the "Additional Senior Lien Obligations" and, together with the Previously Issued Senior Lien Obligations, the "Senior Lien Obligations") (*see* "THE BONDS – Additional Bonds" herein). The Bond Ordinances provide that no obligations of the City shall be issued that are payable from a lien on and pledge of the Net Revenues of the Systems that is senior and superior to the lien thereon and pledge thereof securing the payment of the Senior Lien Obligations.

After giving effect to the refunding of the Refunded Bonds (defined herein) that were issued as Senior Lien Obligations, the outstanding principal amount of Senior Lien Obligations will be \$3,638,410,000.

Junior Lien Obligations and the Bonds. In addition to the Senior Lien Obligations, the City has, under certain City ordinances (such ordinances, together with the hereafter-defined Ordinance, the "Junior Lien Ordinances"), issued and currently outstanding long-term, fixed and variable rate bonds ("Previously Issued Junior Lien Obligations") that are secured by a lien on and pledge of the Net Revenues of the Systems that is junior and inferior to the lien thereon and pledge thereof securing the payment of the Senior Lien Obligations. Under the Junior Lien Ordinances, and subject to satisfaction of certain conditions precedent prescribed therein, the City is authorized to issue additional obligations secured by a lien on and pledge of Net Revenues of the Systems that is on parity with the lien thereon and pledge thereof securing the payment of the Junior Lien Obligations, but junior and inferior to the lien on and pledge of Net Revenues that secures the payment of the Senior Lien Obligations (such additional obligations, the "Additional Junior Lien Obligations" and, collectively with the Bonds and the Previously Issued Junior Lien Obligations, the "Junior Lien Obligations") (see "THE BONDS – Additional Bonds" herein). The Junior Lien Ordinances provide that, other than the Senior Lien Obligations, no obligations of the City shall be issued that are payable from a lien on and pledge of the Net Revenues of the Systems that is senior and superior to the lien thereon and pledge thereof securing the payment of the Junior Lien Obligations.

The Bonds are issued as Additional Junior Lien Obligations pursuant to an ordinance (the "Ordinance") adopted by the City Council on April 11, 2019. At the time of such issuance, the City shall have demonstrated its compliance with the conditions precedent to the issuance of Additional Junior Lien Obligations prescribed in the Junior Lien Ordinances (see "THE BONDS – Additional Bonds"). After giving effect to the issuance of the Bonds and the refunding of the Refunded Bonds that were issued as Junior Lien Obligations, the outstanding principal amount of Junior Lien Obligations will be \$1,791,545,000.

See "JUNIOR LIEN OBLIGATIONS" herein.

Subordinate Lien Obligations (Commercial Paper Notes). The Bond Ordinances and the Junior Lien Ordinances also permit the City to issue obligations payable from a lien on and pledge of the Net Revenues of the Systems that is subordinate and inferior to the respective liens thereon and pledges thereof securing the payment of the Senior Lien Obligations and the Junior Lien Obligations. Pursuant to this authority, the City has adopted an ordinance (the "Commercial Paper Ordinance") establishing a commercial paper program ("Commercial Paper Program") under which the City is authorized to issue, from time to time, commercial paper notes in an aggregate principal amount at any one time outstanding not to exceed \$700,000,000 (obligations issued or incurred under the Commercial Paper Program are referred to herein as "Notes" or "Commercial Paper Obligations"). In connection therewith, the City has obtained liquidity support for such Notes in the aggregate amount of \$700,000,000 (equaling programmatic capacity) in the form of three revolving credit agreements (each, a "Credit Agreement") from three separate liquidity banks. The Notes and City obligations arising under any of the Credit Agreements are secured by and payable from a lien on and pledge of the Net Revenues of the Systems that is subordinate to the respective liens thereon and pledges thereof securing the payment of the Senior Lien Obligations and the Junior Lien Obligations. Though it is permitted to do so under the Commercial Paper Ordinance, the City has, in each Credit Agreement, covenanted to not issue obligations, other than Additional Senior Lien Obligations and Additional Junior Lien Obligations, whose payment is secured by a lien on and pledge of the Net Revenues of the Systems that is senior and superior to the lien thereon and pledge thereof securing the payment of the Notes and the obligations of the City arising under any Credit Agreement (such obligations, collectively, the "Commercial Paper Obligations"). As of the date hereof, the City has an aggregate principal amount of \$415,000,000 of Notes outstanding under the Commercial Paper Program.

See "COMMERCIAL PAPER PROGRAM" herein.

Inferior Lien Obligations. As authorized by the Bond Ordinances, the Junior Lien Ordinances, and the Commercial Paper Ordinance, the City may issue obligations payable from and secured by a lien on and pledge of Net Revenues of the Systems that is subordinate and inferior to the respective liens thereon and pledges thereof securing the payment of the Senior Lien Obligations, the Junior Lien Obligations, and the Commercial Paper Obligations. As of the date hereof, the City has no outstanding Inferior Lien Obligations. The City previously issued flexible rate revolving notes from time to time under its Flexible Rate Revolving Note Private Placement Program (the "FRRN"), but effective June 21, 2019, the City terminated the available liquidity under its FRRN. No future notes may be issued under this program until new liquidity support is procured. As the reduction in liquidity available to the City through the FRRN program has been replaced by a corresponding \$100,000,000 increase in the capacity of the Commercial Paper Program described above, CPS Energy does not anticipate obtaining any liquidity support for the FRRN in the immediate future.

THE BONDS

PURPOSE

The Bonds are being issued to: (i) refund certain outstanding obligations of the City identified in Appendix E hereto ("Refunded Bonds") for debt service savings and (ii) pay costs and expenses relating to the issuance of the Bonds.

THE REFUNDED BONDS

The Refunded Bonds, and interest due thereon, are to be paid on the scheduled redemption dates therefor (each a "Redemption Date") from funds to be deposited with The Bank of New York Mellon Trust Company, National Association, Dallas, Texas ("Escrow Agent") pursuant to an Escrow and Trust Agreement, dated as of the date of the approval of the Ordinance ("Escrow Agreement"), between the City and the Escrow Agent.

The Ordinance provides that the City will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the City (if any), with the Escrow Agent in the amount necessary and sufficient, without reinvestment, to accomplish the discharge and final payment of the Refunded Bonds at their scheduled Redemption Dates. Such funds shall be held uninvested by the Escrow Agent in an escrow fund (the "Escrow Fund") and / or used to purchase direct obligations of the United States of America or other permitted defeasance securities (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds. Amounts held in the Escrow Fund are not available to pay the Bonds or debt service thereon.

Prior to, or simultaneously with, the issuance of the Bonds, the City will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

Robert Thomas CPA, LLC, Overland Park, Kansas, a nationally recognized accounting firm (the "Verification Agent"), will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate that the amounts initially deposited to the Escrow Fund will be sufficient to pay, when due (by reason of maturity or prior redemption), the principal of and interest on the Refunded Bonds (*see* "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein).

By the deposit of cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all of the Refunded Bonds in accordance with the law. It is the opinion of Co-Bond Counsel (defined herein) that as a result of such defeasance and in reliance upon the report of the Verification Agent, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the amounts held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from Net Revenues nor for the purpose of applying any limitation on the issuance of debt.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

The Refunded Bonds were issued as direct pay subsidy "Build America Bonds" under the Code (defined herein). The City has covenanted in the Ordinance that upon delivery of the Bonds on November 21, 2019, the City will neither request nor accept direct pay subsidy payments from the United States Treasury, from such date of delivery, in support of the payment of debt service on such Refunded Bonds prior to their date of early redemption on February 1, 2020 (*see* "APPENDIX E – Table of Refunded Bonds"), including the discontinuance of all filings with the Internal Revenue Service (the "IRS") of Forms 8038-CP requesting such payments.

GENERAL

The Bonds will bear interest at the rates and are scheduled to mature on the dates and in the amounts set forth on page ii of this Official Statement. Interest on the Bonds will accrue from the Closing Date (expected to occur on or about November 21, 2019) and will be payable on February 1 and August 1 of each year, commencing February 1, 2020. Registered owners of the Bonds are those shown on the registration books kept by the Paying Agent / Registrar (identified below) at the close of business on the fifteenth day of the month next preceding each interest payment date ("Record Date"). The Bonds are issuable in fully registered form only, without coupons, in denominations of \$5,000 and integral multiples thereof. The Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. For such time as the Book-Entry-Only System is utilized, no physical delivery of the Bonds will be made to the purchasers thereof and the principal of and interest on the Bonds will be payable by the Paying Agent / Registrar to Cede & Co., which will

make distribution of the amounts so paid to the Beneficial Owners of the Bonds. For such time as the Bonds are issuable in Book-Entry-Only form, references herein and in the Bonds and the Ordinance to "registered owners" will include only Cede & Co., as the nominee of DTC, the sole registered owner of the Bonds. See "THE BONDS – Book-Entry-Only System" herein. The City reserves the right to discontinue the Book-Entry-Only System, whereupon interest on the Bonds will be payable (i) by check mailed by the Paying Agent / Registrar, initially The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, on the interest payment date to the registered owners thereof as shown on the records of the Paying Agent / Registrar, at the close of business on the Record Date, or (ii) by such other method, acceptable to the Paying Agent / Registrar, at the written request of and at the risk and expense of the registered owner.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds, along with CPS Energy's cash contribution, will be applied approximately as follows:

Sources of Funds

Principal Amount of the Bonds.....	\$252,640,000.00
Plus Reoffering Premium.....	\$ 52,849,180.15
CPS Energy's Cash Contribution.....	<u>\$ 4,696,000.00</u>
Total Sources of Funds.....	<u>\$310,185,180.15</u>

Uses of Funds

Escrow Fund Deposit.....	\$308,384,948.30
Underwriters' Discount.....	\$ 1,062,608.82
Costs of Issuance and Additional Proceeds.....	<u>\$ 737,623.03</u>
Total Uses of Funds.....	<u>\$310,185,180.15</u>

AUTHORITY AND SECURITY FOR THE BONDS

The Bonds are being issued under the provisions of the Constitution and general laws of the State, including Chapters 1207 and 1371, as amended, Texas Government Code (together, the "Act"), and the Ordinance. As permitted by the applicable provisions of the Act, the City has, in the Ordinance, delegated the authority to various City officials and CPS Energy staff, to execute an approval certificate ("Approval Certificate") evidencing the final terms of sale with respect to, and finalizing certain characteristics of the Bonds. The Approval Certificate was executed on October 17, 2019, by an authorized City representative.

The Bonds are special obligations of the City payable solely from and equally and ratably secured, together with the currently outstanding Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued by the City, by a junior lien on and pledge of the Net Revenues of the Systems, subject and subordinate to the lien thereon and pledge thereof securing the outstanding Senior Lien Obligations, and superior to the lien thereon and the pledge thereof securing the currently outstanding Commercial Paper Obligations and any Inferior Lien Obligations, all as fully set forth in the Bond Ordinances and the Junior Lien Ordinances. The City has reserved the right to grant equal and ratable liens on and pledges of Net Revenues to secure payment of Additional Junior Lien Obligations hereafter issued in accordance with the Bond Ordinances and the Junior Lien Ordinances. See "DEBT SERVICE REQUIREMENTS", "THE BONDS – Additional Bonds" herein, and "APPENDIX C – CERTAIN PROVISIONS OF THE ORDINANCE".

The Ordinance does not create a mortgage or other security interest on the property of the Systems. The taxing power of neither the City nor the State is pledged for the payment thereof.

PERFECTION OF SECURITY FOR THE BONDS

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the Junior Lien pledge of the Net Revenues as security therefor, and such pledge is therefore, valid, effective, and perfected. Should State law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the junior lien pledge of the Net Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City has agreed in the Ordinance to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in such pledge to occur.

FLOW OF FUNDS

The Ordinance provides that the gross revenues of the Systems are to be deposited in CPS Energy's General Account, and further provides that such revenues are pledged and appropriated, in the following priority: (i) to the payment of reasonable and proper Maintenance and Operating Expenses of the Systems; (ii) to the payment of the Senior Lien Obligations, including the establishment and maintenance of the reserve therefor; (iii) to the payment of the Junior Lien Obligations, including the establishment and maintenance of a reserve therefor (though no such reserve has been, nor is one at this time expected to be established), if any; (iv) to the payment and security of the Notes and any Credit Agreement; (v) to the payment and security of obligations hereinafter issued which are inferior in lien to the Senior Lien Obligations, the Junior Lien Obligations, and the Commercial Paper Obligations, which obligations are referred to in the Bond Ordinances and the Junior Lien Ordinances and herein defined as Inferior Lien Obligations and which includes notes and other obligations issued or incurred under the FRRN; (vi) to the payment of an annual amount equal to six percent (6%) of the gross revenues of the Systems to be deposited in the Repair and Replacement Account provided for in the Bond Ordinances and the Junior Lien Ordinances; (vii) to the payment of the annual amount due to the General Fund of the City, as provided in the Bond Ordinances and the Junior Lien Ordinances; and (viii) to the extent of any remaining Net Revenues of the Systems in the General Account, to the Repair and Replacement Account to the extent provided in the Bond Ordinances and the Junior Lien Ordinances. Any remaining Net Revenues after making or providing for the foregoing payments and deposits may be used for any other lawful purpose of the Board.

REDEMPTION OF BONDS

Optional Redemption. The City reserves the right to redeem, at its option, the Bonds on February 1, 2030, or on any date thereafter, at the price of par plus accrued (but unpaid) interest to such date of redemption.

Mandatory Sinking Fund Redemption.

The Bonds maturing on February 1, 2041 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to maturity, in part and by lot, at a price equal to the principal amount thereof plus accrued interest to the date of redemption, February 1 in the respective years and principal amounts indicated below:

Term Bonds Stated to Mature <u>on February 1, 2041</u>	
Year	Principal Amount (\$)
2040	7,555,000
2041	8,140,000*

*Payable at Stated Maturity

The principal amount of a Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the City, by the principal amount of any Bonds of such stated maturity which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the City and delivered to the Paying Agent / Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent / Registrar at the request of the City with money in the Bond Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth below and not theretofore credited against a mandatory redemption requirement.

Selection of Bonds Redeemed in Part. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent / Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, with such maturity to be redeemed. If a Bonds (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bonds (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent / Registrar on the redemption date.

NOTICE OF REDEMPTION FOR THE BONDS

At least thirty (30) days prior to the date any such Bonds are to be redeemed, a notice of redemption, authorized by appropriate resolution passed by the governing body of the City, shall be given in the manner set forth below. A written notice of such redemption shall be given to the registered owner of each Bonds or a portion thereof being called for redemption by depositing such notice in the United States mail, first-class postage prepaid, addressed to each such registered owner at his address shown on the registration books kept by the Paying Agent / Registrar. By the date fixed for any such redemption, due provision shall be made by the City with the Paying Agent / Registrar for the payment of the required redemption price for the Bonds or the portions thereof which are to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such written notice of redemption is given, and if due provision for such payment is made, all as provided above, the Bonds, or the portions thereof which are to be so redeemed, thereby automatically shall be redeemed prior to their scheduled maturities, shall not bear interest after the date fixed for their redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price plus accrued interest to the date fixed for redemption from the Paying Agent / Registrar out of the funds provided for such payment. The Paying Agent / Registrar shall record in the registration books all such redemptions of principal of the Bonds or any portion thereof. If a portion of any Bonds shall be redeemed, a substitute Bonds or Bonds having the same stated maturity date, bearing interest at the same interest rate, in any denomination or denominations in any integral multiple of \$5,000, at the written request of the registered owner, and in an aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the City, all as provided in the Ordinance.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified as well as the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent / Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Ordinance, Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable on the redemption date designated in such notice. Interest on said Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding.

The Paying Agent / Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent / Registrar. Neither the City nor the Paying Agent / Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants or Beneficial Owners of the selection of portions of the Bonds for redemption. *See* "THE BONDS - Book-Entry-Only System" herein.

DELIVERY OF NOTICES TO BONDHOLDERS THROUGH DEPOSITORY TRUST COMPANY ("DTC")

The Paying Agent / Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of proposed amendments to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, shall not affect the validity of the redemption of any action premised on any such notice. Neither the City nor the Paying Agent / Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants or Beneficial Owners of the Bonds. *See* "THE BONDS - Book-Entry-Only System" herein.

RATE COVENANT

The City has covenanted in the Ordinance that it will at all times maintain rates and charges for the sale of electric energy, gas, or other services furnished, provided and supplied by the Systems to the City and all other consumers which will be reasonable and nondiscriminatory and which will be reasonably expected to produce gross revenues sufficient to pay all expenses of maintenance and operation of the Systems, and to produce Net Revenues sufficient, together with other lawfully available funds, to pay debt

service requirements on all revenue debt of the Systems, including the Senior Lien Obligations, the Junior Lien Obligations, the Commercial Paper Obligations, and any Inferior Lien Obligations outstanding from time to time. The CPS Energy rate covenant is consistent with and supported by the relevant State statute concerning rate setting for municipally-owned utilities ("Municipal Utilities" or "MOUs") such as CPS Energy. Section 1502.057, Texas Government Code, as amended, provides that the charges for services provided by encumbered municipal systems, such as CPS Energy, must be "at least sufficient to pay all operating, maintenance, depreciation, replacement, improvement and interest charges in connection with the utility system; for an interest and sinking fund sufficient to pay any public securities issued or obligations incurred for any purpose relating to the utility system; and any outstanding debt against the system". This State statute could be amended or repealed by the Texas Legislature. See "APPENDIX C – CERTAIN PROVISIONS OF THE ORDINANCE". Also, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Retail Service Rates" and "– Transmission Access and Rate Regulation" regarding rate regulation herein.

ADDITIONAL BONDS

The City may issue Additional Senior Lien Obligations on a parity with the then-outstanding Senior Lien Obligations if, among other things, it has obtained a certificate from an independent certified public accountant to the effect that the Net Revenues of the Systems during the previous fiscal year, or any 12 consecutive months out of the 15 months immediately preceding the month in which the ordinance authorizing the Additional Senior Lien Obligations is passed, were at least 1.50 times the maximum annual debt service requirements in any future fiscal year on all outstanding Senior Lien Obligations (including the proposed Additional Senior Lien Obligations). The City may issue Additional Junior Lien Obligations if a Designated Financial Officer certifies that the Net Revenues of the Systems during the previous fiscal year, or any 12 consecutive months out of the 18 months immediately preceding the month in which the ordinance authorizing such obligations is passed, were at least 1.00 times the average annual debt service requirements for any future fiscal year for all outstanding Senior Lien Obligations, Junior Lien Obligations, and the proposed Additional Junior Lien Obligations, assuming that variable rate interest, if any and as applicable, accrues at *The Bond Buyer's* Revenue Bond Index and adding or subtracting net payments due on or receivable under interest rate hedge agreements, if any.

The Bonds are issued as Additional Junior Lien Obligations and, in connection with their issuance, the City will, in accordance with the provisions of the Bond Ordinances and the Junior Lien Obligations, demonstrate compliance with the applicable coverage test described above.

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 Code (defined herein) (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.

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 the President 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. See "DEBT SERVICE REQUIREMENTS" herein.

Under current law, Sequestration is scheduled to continue through 2029. Assuming Congress does not repeal the sequester, the percentage reduction applied to payments of issuers of direct-pay bonds for federal Fiscal Year 2020 is 5.9%, which began in October 2019. After the refunding of the Refunded Bonds (which each include a tax credit component), the City's exposure to any Sequestration risk is significantly reduced due to the City's limited remaining obligations issued as Build America Bonds.

AMENDMENTS

The City may, without the consent of or notice to any registered owners, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of registered owners holding a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the consent of all registered owners of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the rate

of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission.

DEFEASANCE

The Ordinance provides for the defeasance of the Bonds when payment of the principal of the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with an authorized escrow agent in trust (i) money in an amount sufficient to make such payment and / or (ii) Government Securities (defined below) that mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The sufficiency of deposits as hereinbefore described shall be certified by an independent certified accountant, the City's Co-Financial Advisors, the Paying Agent / Registrar, or some other qualified financial institution as specified in the Ordinance. The City has additionally reserved the right in the Ordinance, subject to satisfying the requirements above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the City money in excess of the amount required for such defeasance. The Ordinance provides that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (iv) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (i) through (iii) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for any purpose, including the application of any limitation on indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that, the City's right to redeem the Bonds defeased to stated maturity is not extinguished if the City has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

REGISTERED OWNERS' REMEDIES

If the City defaults in the payment of principal of and interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("*Tooke*") that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because CPS Energy was created to act on behalf of the City to manage the Systems and the City is the issuer of the Bonds, an analysis of relevant sovereign immunity

municipal case law is described below. *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of the municipality.

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson*"), the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between governmental and proprietary functions is not clear, the *Wasson* opinion held that the Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed *Wasson* for a second time and issued an opinion on October 5, 2018 clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship.

Notwithstanding the foregoing case law issued by the *Wasson* Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS – Authority and Security for the Bonds"), the City has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas Legislature has effectively waived the City's sovereign immunity from a suit for money damages outside of Chapter 1371, registered owners may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. As noted above, the Ordinance provides that bondholders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of money due under a contract).

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the junior lien pledge of Net Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without bankruptcy court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the bankruptcy court (which could require that the action be heard in bankruptcy court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a bankruptcy court in administering any proceeding brought before it. The opinion of Co-Bond Counsel relating to the Bonds, the form of which is attached hereto as APPENDIX D, shall note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

PAYING AGENT / REGISTRAR

The principal of the Bonds will be paid to the registered owners at stated maturity or prior redemption upon presentation of the Bonds to the Paying Agent / Registrar, which initially is The Bank of New York Mellon Trust Company, National Association, at its offices located in Dallas, Texas. Interest on the Bonds will be paid to registered owners shown on the records of the Paying Agent / Registrar on the close of business on the Record Date, and such interest will be paid by check and sent by mail to the address of

such registered owner appearing on the registration books of the Paying Agent / Registrar or by such other customary banking arrangements acceptable to the Paying Agent / Registrar requested by, and at the risk and expense of, the registered owner. *See* "THE BONDS – Record Date" herein.

SUCCESSOR PAYING AGENT / REGISTRAR

The City reserves the right to replace the Paying Agent / Registrar. If the City replaces the Paying Agent / Registrar, the new Paying Agent / Registrar shall accept the previous Paying Agent / Registrar's records and act in the same capacity as the previous Paying Agent / Registrar. Any successor Paying Agent / Registrar selected by the City shall be a bank, a trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent / Registrar for the Bonds. Upon a change in the Paying Agent / Registrar for the Bonds, the City shall promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid, which notice shall give the address of the new Paying Agent / Registrar.

RECORD DATE

The Record Date for determining the party to whom the interest on the Bonds is payable on any interest payment date is the close of business on the fifteenth day of the month next preceding such interest payment date.

SPECIAL RECORD DATE FOR INTEREST PAYMENT

In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment ("Special Record Date") will be established by the Paying Agent / Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be fifteen days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid to the address of each holder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

FUTURE REGISTRATION

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred, exchanged and assigned on the registration books of the Paying Agent / Registrar, only upon presentation and surrender thereof to the Paying Agent / Registrar and such transfer or exchange of the Bonds shall be without expense or service charge to the owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent / Registrar. A new Bond or Bonds will be delivered by the Paying Agent / Registrar in lieu of the Bonds being transferred or exchanged at the corporate trust office of the Paying Agent / Registrar, or sent by United States mail, first-class postage prepaid, to the new registered owner or his assignee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the contracting party or assignee of the owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the owner or his duly authorized agent, in form satisfactory to the Paying Agent / Registrar. The Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one maturity or any integral multiple thereof and for a like aggregate principal amount of the Bond or Bonds surrendered for exchange or transfer.

LIMITATION ON TRANSFER OF BONDS

Neither the City nor the Paying Agent / Registrar shall be required to issue, transfer, or exchange (i) with respect to any Bond, during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to stated maturity, within 45 days prior to its redemption date; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

REPLACEMENT BONDS

The City has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent / Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and Paying Agent / Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Board, the Co-Financial Advisors and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for the Bonds in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC provides custody and asset servicing for about 3.5 million issues of United States and non-United States equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both United States and non-United States securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both United States and non-United States securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings' rating of "AA+". The DTC Rules applicable to its participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as: redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative,

Beneficial Owners may wish to provide their names and addresses to the Paying Agent / Registrar and request that copies of notices are provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the City or the Paying Agent / Registrar on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent / Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

So long as Cede & Co. is the registered owner of the Bonds, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or to the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT

In reading this Official Statement, it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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DEBT SERVICE REQUIREMENTS

The following schedule calculated on an accrual (rather than cash) basis, reflects annual principal and interest debt service requirements on all outstanding Senior Lien Obligations and Junior Lien Obligations (including the Bonds and excluding the Refunded Bonds and the current Fiscal Year debt service payments made through (and including) August 1, 2019). Debt service on the Commercial Paper Obligations incurred under the Commercial Paper Program is excluded. See "COMMERCIAL PAPER PROGRAM" herein.

OUTSTANDING SENIOR LIEN OBLIGATIONS AND JUNIOR LIEN OBLIGATIONS

Year Ending January 31,	Total Senior Lien Obligations ⁽¹⁾	Junior Lien Obligations		Total Senior and Junior Lien Obligations ⁽⁴⁾
		Variable Rate Obligations ⁽²⁾	Fixed Rate Obligations ⁽³⁾	
2020	\$ 110,890,627	\$ 9,569,514	\$ 66,955,023	\$ 187,415,164
2021	323,412,005	28,112,899	51,854,106	403,379,010
2022	334,757,455	33,415,921	51,854,106	420,027,482
2023	354,045,205	39,704,910	51,854,106	445,604,221
2024	348,017,605	45,620,287	51,854,106	445,491,998
2025	318,220,318	45,635,102	51,854,106	415,709,526
2026	257,517,593	45,605,472	58,404,106	361,527,171
2027	277,586,793	45,605,472	58,401,606	381,593,871
2028	277,587,493	45,620,287	58,402,856	381,610,636
2029	211,760,511	93,465,102	58,401,856	363,627,469
2030	211,372,160	92,011,822	58,222,953	361,606,935
2031	211,509,371	88,261,822	58,045,050	357,816,243
2032	210,434,322	84,526,637	58,042,050	353,003,009
2033	211,467,131	80,791,452	61,433,300	353,691,883
2034	209,451,326	27,011,822	120,713,050	357,176,198
2035	217,959,113	27,011,822	117,562,300	362,533,235
2036	218,510,420	27,026,637	117,007,800	362,544,857
2037	219,101,177	27,041,452	116,414,350	362,556,979
2038	219,715,955	30,076,822	115,806,200	365,598,977
2039	202,447,126	46,038,898	115,157,564	363,643,588
2040	124,531,954	49,031,541	187,135,744	360,699,239
2041	125,262,785	47,828,766	186,411,744	359,503,295
2042	85,364,436	46,549,369	75,944,250	207,858,055
2043	41,217,750	63,642,985	75,944,250	180,804,985
2044	41,220,750	62,314,257	45,418,000	148,953,007
2045	41,221,100	60,949,731	28,874,000	131,044,831
2046	41,220,400	54,672,052	28,871,250	124,763,702
2047	41,220,100	29,172,000	28,874,250	99,266,350
2048	6,856,500	29,176,200	28,869,750	64,902,450
Totals	\$ 5,493,879,481	\$ 1,405,491,053	\$ 2,184,583,832	\$ 9,083,954,366

(1) Excludes regularly scheduled interest due on the Taxable New Series 2009C Bonds and the Taxable New Series 2010A Bonds anticipated to be off-set by the refundable tax credit to be received from the U.S. Department of the Treasury (the "Treasury") as a result of such obligations being designated as "build America bonds" and "qualified bonds" under the Code. Also, takes into account the effects of Sequestration assuming a 6.2% reduction in tax credits received through September 2019 and the 5.9% reduction in tax credits which began in October 2019 and continues through September 2029. See "THE BONDS - Refundable Tax Credit Bonds" and "THE BONDS - The Refunded Bonds" herein.

(2) Assumes periodic redemptions in accordance with mandatory sinking fund requirements. Each series of variable rate Junior Lien Obligations is currently in a "term" interest rate mode; accordingly, debt service calculated on such variable rate Junior Lien Obligations 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: 2015A Bonds - 2.25% term rate through November 30, 2019, and 8% "stepped" rate thereafter to February 1, 2033 Stated Maturity; 2015B Bonds - 2% term rate through November 30, 2021, and 7% "stepped" rate thereafter to February 1, 2033 Stated Maturity; 2015C Bonds - 3% term rate through November 30, 2019, and 8% "stepped" rate thereafter to December 1, 2045 Stated Maturity; 2015D Bonds - 3% term rate through November 30, 2020, and 8% "stepped" rate thereafter to December 1, 2045 Stated Maturity; and 2018 Bonds - 2.75% term rate through November 30, 2022, and 8% "stepped" rate thereafter to February 1, 2048 Stated Maturity.

(3) Excludes regularly scheduled interest due on the Taxable Junior Lien Series 2010A and the Taxable Junior Lien Series 2010B anticipated to be off-set 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. See footnote 5 to table appearing under "DEBT SERVICE REQUIREMENTS - Historical Net Revenues and Coverage" herein. Also, takes into account the effects of Sequestration assuming a 6.2% reduction in tax credits received through September 2019 and the 5.9% reduction in tax credits which began in October 2019 and continues through September 2029. See "THE BONDS - Refundable Tax Credit Bonds" and "THE BONDS - The Refunded Bonds" herein.

(4) 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 Notes. See "COMMERCIAL PAPER PROGRAM" herein.

HISTORICAL NET REVENUES AND COVERAGE⁽¹⁾

	Fiscal Years Ended January 31, (Dollars in thousands) ⁽¹⁾				
	2015	2016	2017	2018	2019
Gross Revenues ⁽²⁾	\$ 2,666,411	\$ 2,514,685	\$ 2,494,120	\$ 2,624,411	\$ 2,808,260
Maintenance & Operating Expenses	1,608,949	1,484,744	1,489,688	1,587,906	1,608,352
Available For Debt Service	<u>\$ 1,057,462</u>	<u>\$ 1,029,941</u>	<u>\$ 1,004,432</u>	<u>\$ 1,036,505</u>	<u>\$ 1,199,908</u>
Actual Principal and Interest Requirements:					
Senior Lien Obligations ^{(3),(4),(9)}	<u>\$ 335,440</u>	<u>\$ 280,520</u>	<u>\$ 290,264</u>	<u>\$ 270,080</u>	<u>\$ 259,726</u>
Junior Lien Obligations ⁽⁵⁾	<u>\$ 52,026</u>	<u>\$ 94,722</u>	<u>\$ 98,996</u>	<u>\$ 120,996</u>	<u>\$ 148,179</u>
ACTUAL COVERAGE - Senior Lien ⁽⁶⁾	3.15x	3.67x	3.46x	3.84x	4.62x
ACTUAL COVERAGE - Senior and Junior Liens	2.73x	2.74x	2.58x	2.65x	2.94x
PRO FORMA MADS COVERAGE					
Senior Lien ⁽⁷⁾	2.99x	2.91x	2.84x	2.93x	3.39x
Senior and Junior Liens ⁽⁸⁾	2.37x	2.31x	2.25x	2.32x	2.69x

(1) Some numbers may 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 of \$14.5 million, \$14.5 million, \$14.5 million, \$14.6 million and \$14.6 million for fiscal years 2015, 2016, 2017, 2018 and 2019, respectively, related to the direct subsidy for the Build America Bonds. See "The BONDS - Refundable Tax Credit Bonds" herein.

(5) Includes a reduction of \$9.8 million for fiscal years 2015 - 2019, related to the direct subsidy for the Build America Bonds. See "The BONDS - Refundable Tax Credit Bonds" herein.

(6) Calculation differs from "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" herein, by the inclusion of nonoperating expenses in the above schedule.

(7) Maximum annual debt service on Senior Lien Obligations and the Junior Lien Obligations.

(8) 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," on the previous page.

(9) Amount shown is gross debt service and does not include any cash contributions made.

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JUNIOR LIEN OBLIGATIONS

The City's debt obligations equally and ratably secured by and payable from a lien on and pledge of Net Revenues, which lien and pledge is directly junior and subordinate to the first and prior lien on and pledge of Net Revenues that secures the Senior Lien Obligations (but prior and superior to the lien on and pledge of the Net Revenues securing the payment of the Commercial Paper Obligations) (the "Junior Lien Pledged Revenues"), are referred to herein (and have heretofore been defined) as the "Junior Lien Obligations". The Junior Lien Ordinances permit the issuance of additional City obligations payable from and secured by a parity lien on and pledge of the Junior Lien Pledged Revenues (the "Additional 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 Net Revenues of the Systems 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 Net Revenues that secures the repayment 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 debt service reserve fund with respect to Junior Lien Obligations and an additional bonds test of one times average annual debt service of all then-outstanding Senior Lien Obligations and Junior Lien Obligations, plus any contemplated series of additional debt, as a condition to the issuance of Additional Junior Lien Obligations). The City has utilized this lien level to diversify its debt portfolio and has, historically, used such lien level exclusively to accomplish the issuance of its various series of 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.

The Bonds are issued as Additional Junior Lien Obligations pursuant to the Ordinance. At the time of such issuance, the City shall have demonstrated its compliance with the conditions precedent to the issuance of Additional Junior Lien Obligations prescribed in the Junior Lien Ordinances (*see* "THE BONDS – Additional Bonds"). After giving effect to the issuance of the Bonds and the refunding of those Refunded Bonds issued as Junior Lien Obligations, the City will have outstanding \$1,791,545,000 of Junior Lien Obligations. See table appearing under "DEBT SERVICE REQUIREMENTS – Outstanding Senior Lien Obligations and Junior Lien Obligations" for the City's Junior Lien Obligations' fixed rate and projected variable rate debt service requirements.

COMMERCIAL PAPER PROGRAM

Pursuant to authorization from the City, CPS Energy maintains a Commercial Paper Program to provide taxable and tax-exempt interim financing for various purposes. The Commercial Paper Program, which has been amended numerous times since its inception, and which was most recently amended and restated on April 11, 2019, currently is authorized to issue Commercial Paper Notes (the "Notes") in multiple series (identified as "Series A", "Series B", and "Series C") and in an aggregate principal amount not to exceed \$700,000,000 at any one time outstanding. Individual revolving credit agreements relating to each series of Notes, entered into with separate banks (together the "Credit Agreement"), provide liquidity support for the Notes in an aggregate amount of \$700,000,000 (comprised of \$400,000,000 in liquidity support for the Series A Notes, \$200,000,000 in liquidity support for the Series B Notes and \$100,000,000 in liquidity support for the Series C Notes). The Series A Credit Agreement is effective through June 21, 2023 (unless earlier terminated in accordance with its terms), with Bank of America, N.A., serving as liquidity provider thereunder. The Series B Credit Agreement is effective through June 21, 2022 (unless earlier terminated in accordance with its terms), with State Street Bank and Trust Company, serving as liquidity provider thereunder. The Series C Credit Agreement is effective through June 21, 2022 (unless earlier terminated in accordance with its terms), with Wells Fargo Bank, National Association, serving as liquidity provider thereunder.

The purpose of the Commercial Paper Program is to: (i) assist in the financing of capital improvements to the Systems; (ii) provide working capital and funds for fuel acquisition; (iii) pay interest on resold Notes; (iv) refund outstanding Notes on maturity; and (v) redeem other obligations of the Systems which are secured by and payable from a lien on and / or a pledge of Net Revenues of the Systems. Scheduled maturities of the Notes may not extend past April 11, 2049 (the maturity date specified in the current Commercial Paper Ordinance). *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Debt and Asset Management Program" and "– Capital Program" herein.

The borrowings under the Commercial Paper Program, represented by the Notes, are equally and ratably secured by and are payable from (i) the Net Revenues of the Systems, such pledge being subordinate and inferior to the pledge of Net Revenues securing the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued and the currently outstanding Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued; (ii) the proceeds from the sale of

additional bonds issued for that purpose or borrowings under the Commercial Paper Program; and (iii) borrowings under and pursuant to the Credit Agreement. The obligations of the City under the Credit Agreement are secured on a parity basis with the pledge of the Net Revenues that secures the Notes and along with the Notes, comprise the Commercial Paper Obligations.

As of the date hereof, the City has an aggregate principal amount of \$415,000,000 of Notes outstanding under the Commercial Paper Program.

SAN ANTONIO ELECTRIC AND GAS SYSTEMS

HISTORY AND MANAGEMENT

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 Bond Ordinances establish management requirements and provide that the complete management and control of the Systems is vested in the Board. 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:

<u>Name & Position</u>	<u>Profession</u>	<u>Originally Appointed to the Board</u>	<u>Present Term Expires*</u>
John T. Steen, Jr., Chair	Attorney, Law Office of John T. Steen, Jr.	February 1, 2016	January 31, 2021
Dr. Willis Mackey, Vice Chair	Superintendent, Retired Judson Independent School District	April 6, 2018	January 31, 2023
Edward B. Kelley, Trustee	President & CEO, Retired USAA Real Estate	May 19, 2011	January 31, 2022
Janie Gonzalez, Trustee	President & CEO, Webhead	February 1, 2019	January 31, 2024
Ron Nirenberg,** Ex-Officio Member	Mayor, City of San Antonio	June 21, 2017	May 31, 2021

* Edward Kelley is serving his second term. John Steen, Jr., Dr. Willis Mackey, and Janie Gonzalez are serving their first terms.

**Ron Nirenberg was re-elected as Mayor for a second term in 2019.

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 of Trustees, 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 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, 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 3,164 employees as of January 31, 2019, which included approximately 1,344 wage scale (hourly / field) employees. The average tenure of a CPS Energy employee is more than 15 years. The majority of all executive and supervisory personnel have experience in the utility industry, or other related experience required for their career field. CPS Energy provides employees 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 work force which, between February 1, 2018 and January 31, 2019, recorded a turnover rate of 6.3%.

CPS Energy continues to enhance its performance management process, which measures performance against targeted performance goals and an established set of behaviors (i.e., behavioral principles 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 salaried and executive employees participate in an Employee Incentive Plan ("EIP"), that rewards both individual and organizational performance for controlling expenses, promoting safety, managing reliability, maximizing cost effective energy production, environmental stewardship, and enhancing customer satisfaction. The EIP provides direct links between CPS Energy's competitiveness, performance and compensation. In addition to measuring performance on key metrics for CPS Energy, employees' individual performance is linked to their individual incentive payout. The EIP Plan is reviewed annually to ensure overall design, metrics and targets continue to align with CPS Energy's goals and drive employee performance towards organizational goals.

CPS Energy's principal executives and members of the Executive Leadership Team include: Paula Gold-Williams, President & CEO; Dr. Cris C. Eugster, Chief Operating Officer ("COO"); Carolyn E. Shellman, Board Secretary, Chief Legal Officer & General Counsel ("CLO&GC"); Fred Bonewell, Chief Security, Safety & Gas Solutions Officer ("CSSGO"); Felecia Etheridge, Chief Customer Engagement Officer ("CCEO"); Vivian Bouet, Chief Information Officer ("CIO"); Frank Almaraz, Chief Administrative & Business Development Officer ("CABDO"); and Delores Lenzy-Jones, Chief Financial Officer ("CFO") & Treasurer. In addition to the Executive Leadership Team, biographies of the members of the Senior Leadership Team, which encompasses other key members of CPS Energy's senior staff, are available at www.cpsenergy.com.

Ms. Paula Gold-Williams is the President & CEO. Ms. Gold-Williams joined CPS Energy in October 2004, after serving in several senior financial management positions at other companies. Ms. Gold-Williams is a Certified Public Accountant. She received a Bachelor's degree in Accounting from St. Mary's University and holds a Master of Business Administration degree with a concentration in finance and accounting from Regis University. Ms. Gold-Williams served as CPS Energy's Group Executive Vice President – Financial & Administrative Services, CFO & Treasurer prior to the Board's appointment to serve as interim CEO, effective November 1, 2015. Ms. Gold-Williams was selected as the President & CEO on July 25, 2016.

Dr. Cris C. Eugster is the COO. Dr. Eugster joined CPS Energy in May 2009 and was formerly a partner with McKinsey & Company. He is responsible for the overall performance, dispatch, and evolution of CPS Energy's generation capabilities, energy supply and market operations, overall corporate strategy, integrated resource planning, new product and services, research and development, and environmental oversight. Dr. Eugster has a Bachelor of Science degree in Electrical Engineering from Texas A&M University, and he received a Master's degree and Ph.D. in Electrical Engineering from the Massachusetts Institute of Technology.

Ms. Carolyn E. Shellman is the CLO&GC and Board Secretary. Ms. Shellman joined CPS Energy in July 2006, after serving as Vice President, General Counsel and Board Secretary for the Electric Reliability Council of Texas ("ERCOT"), and as a partner in the utility sections of two separate Texas law firms. Ms. Shellman has also served as the Director for the Hearings Division of the Public Utility Commission of Texas ("PUCT") and as a hearing officer with the PUCT. She provides oversight for Legal, Audit, and Governmental Affairs functions, and serves as Secretary to the Board. Ms. Shellman has a Bachelor's degree from Vassar College and a Juris Doctor from the University of Oklahoma. She is a current member of the State Bar of Texas and the State Bar of Oklahoma.

Mr. Fred Bonewell is the CSSGO. Mr. Bonewell oversees all of CPS Energy's Enterprise & Public Safety, Cyber & Physical Security, Fleet Operations, Business Continuity, Labor Relations, and Gas Solutions Operations. Mr. Bonewell has more than 30 years of

progressive leadership experience in employee health and safety, risk, workers' compensation, and labor relations. He has worked for Louisville Gas & Electric, Florida Power & Light, and others. Mr. Bonewell is a graduate of Indiana State University.

Ms. Felecia Etheridge is the CCEO and oversees customer experience and engagement initiatives at CPS Energy. She is also responsible for ensuring consistent and exceptional customer experiences across major customer channels and touchpoints. Prior to joining CPS Energy in August 2016, Ms. Etheridge had approximately 35 years of industry experience through her own consulting company, and her work at Pacific Gas & Electric Company, TXU, Assurance Energy and Global Customer Solutions. Ms. Etheridge has a Bachelor of Business Administration degree in International Marketing from Texas A&M University.

Ms. Vivian Bouet is the CIO and is responsible for overseeing the technology roadmap, enterprise architecture, business solutions development, digital experience, and innovation functions at CPS Energy, as well as providing leadership in corporate strategic planning. Prior to joining CPS Energy, Ms. Bouet served in executive leadership and management positions as well as worked as a senior principal consultant. Her two most recent leadership positions were with Walgreens Boots Alliance, Inc., a Fortune 19 company and Anthem Health Insurance Inc., a Fortune 29 company.

Mr. Frank Almaraz is the CABDO and oversees CPS Energy's Compliance & Ethics, People & Culture, Business & Economic Development, Supply Chain and Facilities functions. Previously, he held the positions of Senior Vice President of Commercial Operations, Interim Group Executive Vice President, Treasurer & Shared Services Lead and Vice President of Energy Supply and Market Operations. Mr. Almaraz led the execution of several key initiatives including the acquisition of an 800 MW natural gas combined cycle power plant, negotiation of a complex 25-year 400MW solar Power Purchase Agreement ("PPA") and an agreement to deploy advanced metering infrastructure to the CPS Energy gas and electric systems. Mr. Almaraz is also on the Boards of Directors of the American Gas Association, the San Antonio Hispanic Chamber of Commerce and the DoSeum, San Antonio's Museum for Kids. He joined CPS Energy in 2011 as Senior Director of Energy Strategy and Planning after serving in various executive roles at Energy Future Holdings in Dallas.

Ms. Delores Lenzy-Jones is the CFO & Treasurer and oversees CPS Energy's Accounting & Finance functions. In this position, she is responsible for Accounting & Financial Reporting, Corporate Financial Planning, Cost Management, as well as Treasury, Strategic Pricing & Cost Recovery, Enterprise Risk Management and Financial Information Systems Management. Prior to joining CPS Energy, Ms. Lenzy-Jones served as Vice President of Finance & Accounting at BGIS, a global data center and facilities management company. She is a Certified Public Accountant and Chartered Global Management Accountant. Ms. Lenzy-Jones is a talented global leader with extensive experience in executive leadership roles at Microsoft and Dell Technologies Inc. Ms. Lenzy-Jones also spent 10 years in the utility industry at the Lower Colorado River Authority ("LCRA") supporting the Transmission & Energy Services business. Ms. Lenzy-Jones has a Bachelor's and Master's of Business Administration degree in Finance from St. Mary's University and a Bachelor's of Business Administration in Accounting from the University of Texas at San Antonio. Ms. Lenzy-Jones is also a board member of the Carver Development Board, an organization that serves the Arts community of San Antonio.

Aligned with senior management's People First commitment to its customers, community and employees, over time CPS Energy has increased its internal focus on talent development. In particular, 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.

RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES

RETAIL SERVICE AREA

Electric

The CPS Energy electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Comal, Guadalupe, Atascosa, Medina, Bandera, Wilson and Kendall. Certification of this service area was granted by the 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 of 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 ERCOT. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – THE ELECTRIC UTILITY 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System - Interconnected System" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 UTILITY INDUSTRY GENERALLY" and "– ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein.

Gas

The CPS Energy gas system serves Bexar County and portions of the surrounding counties of Comal, Guadalupe and Medina. In the counties of Kendall, Karnes, Wilson and Atascosa, 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 (the "Licensee"), dated July 28, 2003, for a term through May 31, 2028. Pursuant to this License Agreement, the City permits the Licensee 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% of the gross revenues received by the Licensee 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 Utilities as a supplier of natural gas.

CPS Energy and the City of Castroville, a current wholesale power customer (See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES - Wholesale Power" herein), reached an agreement for CPS Energy to operate and maintain the Castroville gas system through November 17, 2019. Negotiations to extend this agreement are in progress. A similar multi-year agreement was reached with the City of Lytle to operate and maintain the Lytle gas system through April 23, 2020.

Franchise Agreements

CPS Energy maintains "Franchise Agreements" with 31 incorporated communities in the San Antonio area. These Franchise Agreements permit CPS Energy to operate its facilities in these cities' streets and public ways in exchange for a franchise fee of 4.5% on electric and natural gas revenues earned within their respective municipal boundaries. Three of the 31 cities have elected to increase franchise fees to 5.5%, two that went into effect February 1, 2015, and the third went into effect January 1, 2018. The additional 1% only applies to customers within those three jurisdictional city boundaries.

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Customer Base as of January 31, 2019

Electric ⁽¹⁾			Gas ⁽¹⁾		
	Number	Percent		Number	Percent
Residential	743,521	88%	Residential	332,153	94%
Commercial & Industrial	74,275	9%	Commercial	17,630	5%
All Night Security Lighting	13,182	2%	Industrial & Public		
Street Lighting, Public			Authorities	2,802	1%
& Other Utilities ⁽²⁾	9,772	1%			
Total	<u>840,750</u>	<u>100%</u>	Total	<u>352,585</u>	<u>100%</u>

(1) See "FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY" and "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" herein for information regarding consumption of energy and contribution of revenues to the Systems by the average customers for these categories as of January 31, 2019.

(2) Also includes off-system sales customers.

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 Market Operations, who report to the CPS Energy Vice President for Energy Supply and Market Operations, 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 the Energy Market Operations. 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.

CPS Energy sells wholesale electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. These three wholesale supply agreements have been renewed and have terms expiring in 2025, 2022, and 2022, respectively.

Long-term supply agreements have been entered with Central Texas Electric Cooperative, the City of Boerne, the City of Seguin, and the Kerrville Public Utility Board to provide supply for terms that began in June 2013 and extend through 2021 for Central Texas Electric Cooperative and through 2023 for the other three entities. The requirements under the existing wholesale agreements are firm energy obligations of CPS Energy. In addition, from time to time, CPS Energy provides 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 counterparts.

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 ("Municipal Utilities" or "MOUs"), such as CPS Energy, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 a Municipal Utility such as CPS Energy has exclusive jurisdiction to set rates applicable to all services provided by the Municipal Utility with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and Board choose to opt-in to 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 "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – 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. Municipal Utilities 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 Municipal Utility. A Municipal Utility 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 Municipal Utility and the buyer entity. If agreement to such a contract cannot be reached, a rate would 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, obligations arising under liquidity facilities relating to such Junior Lien Obligations, any Additional Junior Lien Obligations, the Notes (and related Liquidity Facilities) and 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% implemented on February 1, 2014 (the first such rate increase since a 7.5% electric base rate increase and an 8.5% gas base rate increase became effective on March 1, 2010). CPS Energy expects to continue to periodically seek electric and gas base rate increases that are intended to maintain debt 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. CPS Energy has not needed a rate increase in over five years for several reasons such as a continual focus on cost control and prudent implementation of technology, as well as the effective recovery of its energy efficiency, conservation and fuel costs, including its purchase power agreements. At the point CPS Energy's management team determines it is time for a new rate case, a formal and substantiated request will be made to its Board, at a public meeting in open session. When approved by the Board, the rate case will continue to be discussed publicly and the request will be presented to the City Council for consideration.

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 megawatts ("MW") or greater. The HLF rate requires eligible customers to maintain an annual 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. Since July 2012, under Rider E19, CPS Energy provides an optional service offering of 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 gathering information to refine the offering. The Commercial Electric Vehicle Pilot Rate was the first offering under the NSO tariff.

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* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 \$9 million a year is currently recovered through existing base rates, the additional costs for the STEP program will be recovered through a STEP surcharge applied to the electric fuel adjustment as stated above. Through Fiscal Year 2019, the accumulated cost for the STEP program was \$640.6 million. As of January 31, 2019, CPS Energy quantified a cumulative reduction of 714 MW. If energy use is reduced to levels predicted, the benefits of this program should exceed the implementation costs. CPS Energy is on track to achieve its target of saving 771 MW of capacity from energy efficiency ahead of schedule. CPS Energy expects to reduce its electric demand by more than 800 MW at a cost that is 15% less than originally forecasted. CPS Energy is currently reassessing the STEP program to determine if continuing the program beyond 2020 is a viable option based on projected annual reductions in energy consumption and demand going forward and the costs that would be incurred to achieve such reductions. For additional information on CPS Energy's STEP energy efficiency and conservation program, *see* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein. CPS Energy is seeking community input on FlexSTEP, its next generation of energy management program for its customers. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – STRATEGIC INITIATIVES – Flexible Path Strategy" herein.

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 per 100 cubic feet ("CCF"), approximately equivalent to \$2.136 per 1 million British Thermal Unit ("MMBtu"). A British Thermal Unit ("Btu") is a measure of energy content in fuel, and is used in the power steam generation, and heating and air conditioning industries. Natural gas is usually measured in Btus.

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 2019) adds \$0.00971 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, this charge increases bills by \$0.00074 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"), Municipal Utilities, 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Governmentally Imposed Fees, Taxes or Payments" and transition to the nodal market is discussed in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Interconnected System" herein.

TEN-YEAR ELECTRIC CUSTOMER STATISTICS ⁽¹⁾										
Fiscal Years Ended January 31,										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
RESIDENTIAL										
Average Monthly kWh/ Customer	1,233	1,177	1,281	1,187	1,170	1,182	1,149	1,119	1,117	1,122
Average Monthly Bill/ Customer	\$107.00	\$107.01	\$118.48	\$109.74	\$115.20	\$120.17	\$122.81	\$120.25	\$122.70	\$124.14
Average Monthly Revenue/kWh	\$0.0868	\$0.0909	\$0.0925	\$0.0924	\$0.0985	\$0.1017	\$0.1069	\$0.1075	\$0.1098	\$0.1106
COMMERCIAL AND INDUSTRIAL										
Average Monthly kWh/ Customer	10,685	10,880	11,230	11,059	10,967	10,848	10,888	11,049	10,967	10,874
Average Monthly Bill/ Customer	\$801.81	\$835.16	\$877.37	\$853.02	\$905.84	\$922.86	\$961.12	\$978.60	\$1,009.75	\$1,003.04
Average Monthly Revenue/kWh	\$0.0750	\$0.0768	\$0.0781	\$0.0771	\$0.0826	\$0.0851	\$0.0883	\$0.0886	\$0.0921	\$0.0922
ALL CUSTOMERS										
Average Monthly kWh/ Customer	2,427	2,400	2,536	2,421	2,389	2,381	2,342	2,326	2,299	2,284
Average Monthly Bill/ Customer	\$192.98	\$196.30	\$211.41	\$200.22	\$211.25	\$217.35	\$223.24	\$221.98	\$226.11	\$226.20
Average Monthly Revenue/kWh	\$0.0795	\$0.0818	\$0.0834	\$0.0827	\$0.0884	\$0.0913	\$0.0953	\$0.0954	\$0.0983	\$0.0990

(1) Excludes unbilled revenues and off-system sales.

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

(Dollars in thousands)

Fiscal Years Ended January 31,										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Payments To City ^{(1),(2)}	\$ 260,636	\$ 276,863	\$ 286,943	\$ 271,589	\$ 296,672	\$ 320,933	\$ 320,454	\$ 324,469	\$ 338,455	\$ 361,351

(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. See Appendix C.

(2) Excludes additional payments to the City. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS-FINANCIAL MANAGEMENT OF THE SYSTEMS-Capital Program" herein.

FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY

Fiscal Years Ended January 31,					
	2015	2016	2017	2018	2019
ELECTRIC SYSTEM					
SALES IN kWh⁽¹⁾					
Residential	9,543,648,227	9,469,946,381	9,442,880,084	9,634,693,060	9,913,513,494
Commercial & industrial	8,992,773,827	9,126,055,853	9,389,924,617	9,416,835,850	9,584,259,393
Street lighting	75,504,815	74,213,309	74,236,222	71,894,810	69,500,510
Public authorities	2,709,140,253	2,710,033,507	2,832,860,627	2,813,558,496	2,792,584,406
Other utilities ⁽²⁾	10,636,100,491	6,443,248,042	5,404,120,814	5,957,173,759	8,997,699,166
ANSL ⁽³⁾	21,539,020	21,713,403	21,569,842	21,313,293	20,959,056
Total sales in kWh	31,978,706,633	27,845,210,495	27,165,592,206	27,915,469,268	31,378,516,025
AVERAGE NUMBER OF CUSTOMERS					
Residential	672,931	686,672	703,397	718,703	736,281
Commercial & industrial	69,081	69,850	70,821	71,554	73,447
Street lighting	2,336	2,381	2,472	2,503	2,552
Public authorities	7,057	6,824	7,027	7,040	7,146
Other utilities ⁽²⁾	19	18	16	17	16
ANSL ⁽³⁾	12,244	12,350	12,545	12,785	13,080
Total customers	763,668	778,095	796,278	812,602	832,522
kWh SALES PER CUSTOMER					
Residential	14,182	13,791	13,425	13,406	13,464
Commercial & industrial	130,177	130,652	132,587	131,605	130,492
GAS SYSTEM					
SALES IN MCF⁽¹⁾					
Residential	11,673,061	10,307,616	8,532,993	9,125,564	10,487,800
Commercial	10,687,180	10,335,964	10,403,729	10,300,019	11,235,038
Industrial	846,841	688,496	714,741	1,014,176	982,251
Public authorities	2,754,976	2,553,464	2,390,299	3,049,253	2,885,133
Total sales in MCF	25,962,058	23,885,540	22,041,762	23,489,012	25,590,222
AVERAGE NUMBER OF CUSTOMERS					
Residential	314,278	317,001	321,023	324,456	329,928
Commercial	17,689	17,632	17,612	17,408	17,613
Industrial	45	45	44	42	38
Public authorities	2,871	2,722	2,718	2,744	2,759
Total customers	334,883	337,400	341,397	344,650	350,338
MCF SALES PER CUSTOMER					
Residential	37	33	27	28	32
Commercial	604	586	591	592	638
Industrial	18,819	15,300	16,244	24,147	25,849

(1) Excludes unbilled revenues.

(2) Includes Off-Systems Sales.

(3) All Night Security Lighting.

FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE⁽¹⁾

	Fiscal Years Ended January 31,				
	2015	2016	2017	2018	2019
ELECTRIC SYSTEM					
BILLED REVENUES					
Residential	\$970,412,539	\$1,012,380,845	\$1,015,038,320	\$1,058,223,884	\$1,096,861,931
Commercial & Industrial	765,026,514	805,608,732	831,661,495	867,020,589	884,042,765
Street lighting	15,160,028	15,510,427	15,740,447	16,308,397	16,528,500
Public authorities	204,232,938	213,045,600	220,861,372	229,644,538	229,522,828
Other utilities ⁽²⁾	441,844,051	256,036,895	199,261,371	226,938,193	353,349,317
ANSI ⁽³⁾	5,110,608	5,251,978	5,359,993	5,569,333	5,653,745
Other	11,668,304	13,616,484	17,750,895	16,794,130	16,653,465
Total revenues	2,413,454,982	2,321,450,961	2,305,673,893	2,420,499,064	2,602,612,551
OPERATION & MAINTENANCE EXPENSE					
Production ⁽⁴⁾	1,024,665,992	962,516,339	906,097,678	982,142,687	1,015,016,433
Transmission ⁽⁴⁾	19,535,805	17,733,327	19,376,671	20,502,981	20,434,054
Distribution	82,638,727	94,473,807	100,054,517	106,083,499	105,647,643
Regulatory assessments	79,333,909	66,964,644	74,965,322	84,082,545	86,202,067
Energy efficiency ⁽⁴⁾	53,543,493	56,374,842	62,392,909	88,544,058	89,036,212
Customer accounts & information	23,148,791	25,627,083	27,601,956	28,068,874	25,329,711
Administrative & general ⁽⁴⁾	158,779,893	137,185,660	169,906,729	135,585,175	143,630,674
Payroll taxes ⁽⁵⁾	6,581,293	6,078,062	6,516,970	6,518,951	6,864,209
STP decommissioning expense	3,119,000	1,800,000	900,000	-	-
Total expenses	1,451,346,903	1,368,753,764	1,367,812,752	1,451,528,770	1,492,161,003
Operating income - electric	962,108,079	952,697,197	937,861,141	968,970,294	1,110,451,548
GAS SYSTEM					
BILLED REVENUES					
Residential	125,797,998	95,957,894	87,877,114	92,882,226	93,397,594
Commercial & Industrial	87,311,242	63,530,526	65,788,279	68,726,158	61,288,254
Public authorities	19,836,095	13,273,493	13,009,567	16,661,794	14,518,732
Other	1,600,951	1,678,390	1,840,830	1,531,804	1,533,592
Total revenues	234,546,286	174,440,303	168,515,790	179,801,982	170,738,172
OPERATION & MAINTENANCE EXPENSE					
Gas purchased	118,872,367	75,542,105	72,749,732	82,997,836	63,797,135
Distribution	16,961,944	17,688,066	21,449,708	27,769,265	27,882,646
Customer accounts & information	11,249,817	12,315,617	13,265,003	13,360,533	12,008,808
Administrative & general ⁽⁴⁾	11,441,138	10,360,657	13,048,835	9,696,966	10,684,768
Payroll taxes ⁽⁵⁾	337,073	310,246	326,119	320,354	348,486
Total expenses	158,862,339	116,216,691	120,839,397	134,144,954	114,721,843
Operating income - gas	75,683,947	58,223,612	47,676,393	45,657,028	56,016,329
Combined operating income - Electric and gas	1,037,792,026	1,010,920,809	985,537,534	1,014,627,322	1,166,467,877
Nonoperating income ⁽⁶⁾	18,409,237	18,793,828	19,930,413	24,109,514	34,909,386
Net revenues, per ordinances	\$1,056,201,263	\$1,029,714,637	\$1,005,467,947	\$1,038,736,836	\$1,201,377,263
DEBT SERVICE					
Senior lien obligations ⁽⁷⁾ -					
Principal and interest	\$335,440,064	\$280,520,356	\$290,264,115	\$270,079,605	\$259,725,621
Junior lien obligations -					
Principal and interest	52,026,229	94,723,593	98,996,034	120,996,491	148,178,685
Other interest & debt-related costs	4,518,504	4,145,376	5,443,039	6,074,018	11,113,767
Total debt service	\$391,984,797	\$379,389,325	\$394,703,188	\$397,150,114	\$419,018,073
DEBT SERVICE COVERAGE					
Senior & junior lien obligations, commercial paper, FRRN ⁽⁸⁾	2.69x	2.71x	2.55x	2.62x	2.87x
Senior lien obligations	3.15x	3.67x	3.46x	3.85x	4.63x

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

(2) The lower wholesale sales revenues and related sales volume for FY 2016 and FY 2017 were a result of plant outages and the expiration of long-term contracts in FY 2017. The higher wholesale sales revenues and related volumes for FY 2018 and FY 2019 were primarily a result of increased market opportunities.

(3) All Night Security Lighting.

(4) In October 2016, CPS Energy reclassified a portion of the FY 2015 Electric System Production expense and FY 2015 Electric System Transmission expense to Electric and Gas System Administrative & general expense. Costs associated with the STEP for FY 2015-2016 were reclassified from Electric System Administrative & general expense and are now reported as Energy efficiency expense. And finally, certain other components of FY 2015-2016 Administrative & general expense were reclassified from Gas to Electric. Combined operating income, Net Revenues and Debt Service Coverage were not impacted by these expense reclassifications.

(5) Payroll taxes are allocated separately to Production, Transmission and Distribution.

(6) Excludes fair value adjustments and gain/loss from ineffective hedging transactions.

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

(8) On January 22, 2019, the FRRN private placement program's balance of \$25.2 million was paid off. At January 31, 2019, there was no outstanding balance under the FRRN program. See "INTRODUCTORY STATEMENT - General Description of CPS Energy Revenue Debt and Priority of Liens - Inferior Lien Obligations" for a description of the City's ability to issue Inferior Lien Obligations prospectively.

FINANCIAL MANAGEMENT OF THE SYSTEMS

MANAGEMENT DISCUSSION

CPS Energy's Basic Financial Statements for the fiscal years ended January 31, 2019 and 2018, and the Independent Auditors' Report thereon are included in APPENDIX B. CPS Energy follows Governmental Accounting Standards Board ("GASB") Statement No. 34, which requires the preparation of Basic Financial Statements to 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. Reference is hereby made to APPENDIX B for the MD&A, Financial Statements & Related Notes and RSI pertaining to the CPS Energy fiscal year ended January 31, 2019. The Basic Financial Statements for each of the three most recently completed fiscal years and certain interim audited and unaudited financial reports are made available by CPS Energy to the general 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 to GASB Statement No. 34 standards and provided in whole or in part within APPENDIX B.

Certain historical financial information presented in this Official Statement in table format was derived from CPS Energy's annual audited financial reports, though the presentation format itself was not separately audited.

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" 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 its fiscal year 2019 financial reporting, *see* CPS Energy's fiscal year 2019 Basic Financial Statements and Independent Auditors' Report included in APPENDIX B.

Other than the changes resulting from GASB pronouncements and guidance that are described in CPS Energy's fiscal year 2019 Basic Financial Statements and Independent Auditors' Report, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ended January 31, 2019. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2019. These accounting changes and the effects on the financial statements are described in greater detail in the MD&A and in the Notes to CPS Energy's fiscal year 2019 Basic Financial Statements and Independent Auditors' Report included in APPENDIX B hereto.

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 debt restructuring 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 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, 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 exposure cannot exceed 25% of total outstanding debt. Gross variable rate debt as of the date hereof, is estimated to comprise approximately 16.9% of CPS Energy's debt portfolio.

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.

FINANCIAL RESPONSIBILITY AND DEBT DISCLOSURE / OFFERING DOCUMENT PREPARATION PROCESS

At least annually, and at other times as needed to support CPS Energy's financial and external reporting activities (including annual audits and applicable official statements), CPS Energy publishes financial information that is distributed to external stakeholders, including current and potential investors. As part of the requirements for financial reporting and participation in the financial markets, the President & CEO, the CFO & Treasurer, or a delegate thereof, formally affirm, on behalf of the entire management staff, the integrity of the information presented. To support this requirement, CPS Energy has established a Management Financial Responsibility & Disclosure Certification Process.

Under this process, all members of CPS Energy management (Senior Manager level and above) except for the Vice President of Audit Services, the CFO & Treasurer and the President & CEO are required to submit a Management Financial Responsibility & Disclosure Certification Form ("Disclosure Certification"). Each Disclosure Certification submitted describes any conditions of which they are aware that could affect the presentation of financial information or results of operations, including the status of key systems, internal controls or regulatory compliance, and the potential future effects of currently known risks, uncertainties, events, conditions or trends. All Disclosure Certifications submitted are reviewed by a Disclosure Committee, which currently includes the CLO & GC, CFO & Treasurer, Vice President of Corporate Services, Interim Vice President of Strategic Pricing & Enterprise Risk Management, Senior Director Controller, Senior Director of Treasury, and the Director of Enterprise Risk Management & Solutions. The outcomes of this process are used to validate the public disclosures to be included in CPS Energy's financial information and offering documentation used in connection with CPS Energy's public offering of its debt.

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 35-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 maintain CPS Energy's competitive position.

While short-term energy demand projections have been impacted by recent economic developments and 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. The current energy sales and peak demand forecast predicts annual increases in sales over the next 25 years between 1-2% and 0.5-1.5% in electric and gas sales, respectively, and an average peak demand growth rate between 1-2% per year over the next 25 years. CPS Energy has continued to expand its electric customer extensions, with ongoing construction growth in this area. The capital projects in fiscal year 2020 are planned to be funded with transfers from internally generated funds, debt proceeds, and other sources.

A capital improvement plan is made for planning purposes and may identify projects that may be deferred or omitted entirely in future years. 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 plan with estimates of expenditures necessary to meet proposed and probable new environmental regulations and regulatory standards. CPS Energy's current \$3.296 billion, five-year capital improvement plan is forecasted from February 1, 2019 to January 31, 2024, and does not include expenditures for further development of CPS Energy's existing 7.625% interest in STP3 (defined herein) and STP4 (defined herein). See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Additional Generation Opportunities – Nuclear" herein.

Construction projects include electric transmission, electric generation, electric distribution, general properties, and gas facilities. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System" herein. The capital program is primarily driven by the electrical and transmission functions and includes expenditures for various infrastructure and modernization projects as well as customer growth projects. The remainder of the capital budget is for power generation, gas distribution, and shared services including the deployment of a grid optimization program and various other demand side management technology initiatives.

Over the five-year period covered by the current capital plan, construction funding from debt proceeds averages approximately \$309.6 million per year, with other significant sources of funding for the plan consisting of internally generated funds.

In the current year, CPS Energy plans on using interim financing for the capital plan through the issuance of Commercial Paper Notes of approximately \$320 million. CPS Energy anticipates this interim financing will be refunded by up to \$345 million of long-term debt toward the end of the fiscal year. CPS Energy also intends to remarket the Remarketing Transactions as further described herein.

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 \$3.5 billion of replacement value for property and boiler, machinery loss coverage including comprehensive automobile coverage, 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 \$100.0 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, 2019, totaled \$22.1 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 & Solutions ("ERMS") Division is under the direction of the Interim Vice President of Strategic Pricing & Enterprise Risk Management and is responsible for enterprise risk assessments, insurance service, internal controls program and commodity related middle office activities. As part of these responsibilities, ERMS continuously monitors all counterparties and credit related exposure on a daily basis.

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 Congress' May 2018 legislation. CPS Energy continues to monitor the status of the Dodd-Frank Act, and any possible revisions and the effect thereof (including the most recent draft provisions related to swap requirements), 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 efforts of its trade organizations within CFTC rule-making processes to shape rules which will allow commercial end-users and municipal utilities 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 December 28, 2018 and effective as of January 31, 2019, 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(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 270 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 at January 31, 2019, was 1.8 years for CPS Energy's funds. CPS Energy's funds, as of January 31, 2019, 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, commercial paper, high quality municipal bonds, certificate of deposit pools and Investment Act-compliant money market deposit funds. The market value of the investments held as of January 31, 2019 totaled approximately \$1.228 billion. Based on market value, 30% of the portfolio was invested in United States Government Agency obligations, 45% in money market mutual funds / investment pools, 11% in collateralized mortgage obligations and other pass through securities whose principal and interest are backed by Federal Agencies, 2% in U.S. Treasury securities, 11% in high-quality municipal bonds and less than 1% in authorized CDs. 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – Wholesale Power", "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Enterprise Risk Management and Solutions" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 consistent 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."

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) 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 assure 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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, 2018, 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 held as of December 31, 2018, totaled approximately \$413 million and was comprised of fixed income securities totaling approximately \$254 million, equity securities (domestic and international) having a market value of approximately

\$109 million, US REITs in the amount of approximately \$37 million, and the remaining \$13 million being invested in cash and cash equivalents. Based upon market values, 53% of fixed income securities were invested in United States Government and Government Agency obligations, 42% were invested in corporate bonds and municipal bonds, 4% were invested in foreign bonds and other, and 1% was invested in cash and cash equivalents, such as money market funds.

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-" or "BBB-" by 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, 2018, 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, 2018, totaled approximately \$152 million and was comprised of fixed income securities totaling approximately \$96 million, equity securities having a market value of approximately \$37 million, US REITs in the amount of approximately \$13 million and the remaining \$6 million being invested in cash and cash equivalents. Based upon market values, 53% of fixed income securities were invested in United States Government and Government Agency obligations and 45% were invested in corporate and municipal bonds, 2% were invested in foreign bonds and other, and less than 1% was invested in cash and cash equivalents.

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.

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, CPS Energy discloses relevant information about them in its financial statements, related Notes and RSI. See "Basic Financial Statements – Note 9 – Employee Pension Plan and Note 10 – Other Postemployment Benefits" in CPS Energy's Basic Financial Statements attached hereto as APPENDIX B ("Notes 9, 10 and RSI").

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 and CEO, the Chief Financial Officer and the Audit 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), 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 OPEB Plans.

Use of Assumptions and Estimates

As set forth herein and in Notes 9 and 10 and RSI of APPENDIX B, 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 9 and 10 and RSI of APPENDIX B, 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.

An experience study, covering Pension and OPEB Plans' experience during calendar years 2012 to 2016, was completed by CPS Energy's actuary, and the results communicated to the Administrative Committee in June 2017. CPS Energy engaged a third party to evaluate the experience studies in 2010, 2014, and 2017, the results of which were communicated to CPS Energy in August 2017. Changes to both demographic and economic assumptions were recommended for consideration based on the study results. The most impactful were (1) a reduction to the expected rate of return on assets from 7.50% to 7.25% and (2) the use of the RP-2016 combined health, with no collar adjustment, male and female mortality tables with the MP-2016 mortality improvement scale. Both changes resulted in an increase in the liability, recommended contributions and expense. The Administrative Committee authorized the actuary to use the recommended assumptions to prepare the January 1, 2017, actuarial reports that were used to determine liability, contributions, and expense for CPS Energy's fiscal year 2019 financial statements, and formally approved the assumptions during a meeting held in August 2017. The impact of the changed assumptions is reflected in the information provided in CPS Energy's Basic Financial Statements attached hereto as APPENDIX B ("Notes 9, 10 and RSI").

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.

CPS Energy offered a voluntary retirement incentive program to employees who were eligible to retire, as of August 1, 2014, based on their age and / or years of participation in its pension plan. Over 25% of CPS Energy's workforce was eligible to retire; 30.8% of those eligible accepted the offer and retired during fiscal year 2015.

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.

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. This Statement did not have a significant impact on CPS Energy's financial reporting.

Refer to complete disclosures at Note 9 and RSI at APPENDIX B 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 APPENDIX B hereto.

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:

Pension Plan

(Dollars in thousands)

Fiscal Year Ended ⁽¹⁾	Ending Total Pension Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net Pension Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total Pension Liability (b / a)
January 31, 2019	\$ 1,940,317	\$ 1,684,448	\$ 255,869	86.8%
January 31, 2018	\$ 1,784,838	\$ 1,472,376	\$ 312,462	82.5%
January 31, 2017	\$ 1,734,177	\$ 1,299,766	\$ 434,411	74.9%
January 31, 2016	\$ 1,652,796	\$ 1,386,440	\$ 266,355	83.9%
January 31, 2015	\$ 1,584,060	\$ 1,317,300	\$ 266,760	83.2%

⁽¹⁾ CPS Energy's impact of Pension investment gains or losses in any given year, are reflected in the following year's financial statements. CPS Energy staff, based on actuarial modeling, currently projects a January 31, 2020 Plan Fiduciary Net Position as a Percentage of Total Pension Liability of 80.9%.

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.

Similar to recently 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 similar to recently 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 have been 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 is effective for periods after June 15, 2017.

Refer to complete disclosures at Note 10 and RSI in APPENDIX B regarding CPS Energy's Net OPEB (Asset) Liability 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

(Dollars in thousands)

Fiscal Year Ended	Ending Total OPEB Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net OPEB (Asset) Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b / a)
January 31, 2019	\$ 253,241	\$ 289,822	\$ (36,581)	114.4%
January 31, 2018	\$ 234,808	\$ 260,648	\$ (25,840)	111.0%
January 31, 2017	\$ 245,908	\$ 227,889	\$ 18,019	92.7%
January 31, 2016	\$ 237,744	\$ 242,084	\$ (4,340)	101.8%

Life Plan

(Dollars in thousands)

Fiscal Year Ended	Ending Total OPEB Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net OPEB (Asset) Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b / a)
January 31, 2019	\$ 46,800	\$ 54,921	\$ (8,121)	117.4%
January 31, 2018	\$ 47,289	\$ 49,698	\$ (2,409)	105.1%
January 31, 2017	\$ 44,788	\$ 45,286	\$ (498)	101.1%
January 31, 2016	\$ 44,577	\$ 49,837	\$ (5,260)	111.8%

Disability Plan

(Dollars in thousands)

Fiscal Year Ended	Ending Total OPEB Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net OPEB (Asset) Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b / a)
January 31, 2019	\$ 6,366	\$ 5,396	\$ 970	84.8%
January 31, 2018	\$ 6,295	\$ 4,234	\$ 2,061	67.3%
January 31, 2017	\$ 6,032	\$ 3,762	\$ 2,270	62.4%
January 31, 2016	\$ 5,850	\$ 4,286	\$ 1,564	73.3%

Total OPEB Plans

(Dollars in thousands)

Fiscal Year Ended	Ending Total OPEB Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net OPEB (Asset) Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b / a)
January 31, 2019	\$ 306,407	\$ 350,139	\$ (43,732)	114.3%
January 31, 2018	\$ 288,392	\$ 314,580	\$ (26,188)	109.1%
January 31, 2017	\$ 296,728	\$ 276,937	\$ 19,791	93.3%
January 31, 2016	\$ 288,171	\$ 296,207	\$ (8,036)	102.8%

As of future actuarial valuation dates, CPS Energy expects variances in the Health Plan liability resulting from various factors. The first is the impact of adopting a new actuarial cost method, as required by GASB Statement No. 75, implemented by CPS Energy in fiscal year 2018. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – PENSION AND OTHER POSTEMPLOYMENT BENEFITS - OPEB Plans" herein for further detail. Additionally, an Actuarial Standard of Practice ("ASOP 6") relating to the measurement of OPEB liabilities requires actuaries to select the best estimate assumptions with neither a conservative nor an aggressive bias, which will require the liability to now reflect the benefit of certain pharmaceutical manufacturer rebates not

previously considered. ASOP 6 became effective with the January 1, 2016, actuarial valuation, which began impacting CPS Energy in fiscal year 2018.

STRATEGIC INITIATIVES

In 2008, CPS Energy implemented Vision 2020, outlining CPS Energy's long-term view and focusing on four key objectives: increasing its energy efficiency and conservation efforts; expanding renewable-energy resources; providing cost-competitive electricity; and maintaining its strong commitment to the environment. To ensure achievement of Vision 2020, the following key strategic business drivers were established, along with targets for each: customer relationships, employee relationships, external relationships, operational excellence, renewable / carbon constraints / environment, technology and innovation, and financial integrity. As part of the Vision 2020 Generation Strategy, CPS Energy projects, by 2020, its generation mix to be approximately 25.0% of coal, 25.0% of nuclear, 30.0% of natural gas, 10.0% of wind power, 4.0% of solar power, 5.7% of purchased power and 0.3% of landfill gas. CPS Energy also plans to include 4.0% as part of its generation projection to be met through the STEP program. As strategies and / or market conditions change, these projections may be modified in the future.

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 a two-year 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.

The CPS Energy Integrated Planning Process is derived through a deliberately orchestrated cross-functional effort, and aligned with current strategic drivers, risk management and financial planning. Complementary to the CPS Energy Business Plan are business unit plans designed to reinforce CPS Energy's objectives by way of major initiatives, milestones, metrics, targets and goal alignment. Supporting lowered-tiered metrics, targets and goals are appropriately cascaded throughout the organization, ensuring a traceable path from enterprise level objectives, to business unit goals and to individual performance accountabilities.

CPS Energy's success is measured through operational excellence processes, including reporting, monitoring and assessing metric trends throughout the year, ultimately managing and leading towards goal attainment.

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 meets monthly with the primary goal of providing recommendations on utility-related projects and programs to offer a customer perspective on community issues, assist in identifying strengths and offer suggestions for improvement to the organization. Representing the various sectors of CPS Energy's service area, the CAC encompasses a broad range of representation in order to identify concerns and understand community issues. The City Council members nominate ten of the 15 members, one representing each City Council district. The other five members are at-large candidates who can reside anywhere within the service territory. The CPS Energy Board approves all members of the CAC and each member can serve up to three two-year terms.

With respect to State and national legislative action regarding competition, CPS Energy continues to participate actively in the legislative process to voice the interests of Municipal Utilities and play an integral part in shaping the environment in which it will operate. CPS Energy continues to evaluate the price components of the energy services it provides, recognizing that the price for electricity will be a paramount factor for succeeding in a deregulated environment. Cost containment initiatives coupled with additional phases of debt management strategies will continue in the years ahead.

Flexible Path Strategy

In March 2018, CPS Energy announced its Flexible Path. The Flexible Path is a fresh strategic approach on how CPS Energy will prudently plan for, develop and / or install new energy sources to serve its community. CPS Energy continually evaluates its generation portfolio, and will leverage its existing community-owned generation assets to bridge to a future that enables more non-emitting resources such as wind, solar, energy storage and new technology. CPS Energy has conducted two public input sessions with the Board as well as over 50 partner meetings to educate local stakeholders on the future of its generation mix. As a part of the Flexible Path, CPS Energy partnered with Go Smart Solar to operate and maintain 5 MWs of community-owned solar. Through this partnership, solar-paneled covered parking spaces will be constructed throughout the City, a project known as "Big Sun Community Solar".

Recently, CPS Energy announced the Flex Power Bundle. The Flex Power Bundle is a blended energy approach through which CPS Energy will consider adding more incremental capacity of solar, energy storage and natural gas. The Flex Power Bundle is a

diversified solution set that recognizes today's renewables alone cannot support all of the community's customers consistently and reliably, 24 / 7 / 365. It is a generation package that will ensure the community can move forward, while maximizing the existing community-owned generation assets, which are powered by gas, coal, solar, wind and nuclear sources. Both the Flexible Path and the Flex Power Bundle will help the community move closer to a practical and cleaner energy footprint.

CPS Energy anticipates implementation of many more programs and strategic partnerships under the Flexible Path.

BUSINESS AND ECONOMIC DEVELOPMENT

CPS Energy works independently, as well as with the San Antonio Economic Development Foundation ("SAEDF") and other local economic development agencies, to recruit, retain and encourage the expansion of targeted businesses throughout CPS Energy's service territory. Strategic initiatives include the pro-active recruitment of the following industries which have the most potential advantage to CPS Energy: clean energy technology, manufacturing, aviation, aerospace, automotive, life sciences / bio-medical, cyber-security / information technology, logistics / distribution, corporate business services and large-scale retail developments.

Since January 2018, CPS Energy, through its partnership with SAEDF, helped recruit new company locations / expansions into the CPS Energy service territory. These companies represent diverse industries including business service operations, manufacturing, distribution, new energy, healthcare and bioscience, finance, and information technology. Some of the new and expanding companies include: Toyota and its major supplier Aisin AW, OKIN BPS, Ernst & Young, Cuisine Solutions, AMERIVET, The Hut Group, JPSECURE, and Grunt Style. All of these companies represent new megawatt growth for CPS Energy, as these companies alone provide over 2,800 jobs and more than \$160 million in local capital expenditures. Additional potential collaborative efforts with private corporations and governmental entities may have additional positive impacts on CPS Energy's business.

CPS Energy is also at the forefront within the San Antonio community by leading the way into the New Energy Economy ("NEE"). The NEE is built on partnerships with companies who share CPS Energy's belief in clean energy, innovation, and energy efficiency. Since 2011, CPS Energy has worked with a number of partners to turn those principles into economic development while protecting the environment and helping its customers use energy more efficiently. Furthermore, these partner companies, which have relocated their headquarters / offices to the San Antonio area, have fully supported CPS Energy's Vision 2020 and now turn their attention in support of CPS Energy's Flexible Path strategy.

To date, CPS Energy's NEE partners have contributed to San Antonio's economic development as follows:

- An NEE average, since its 2011 inception, of more than 600 new jobs annually along with a cumulative economic impact to San Antonio that has exceeded \$5 billion;
- Capital expenditures in excess of \$200 million, exceeding a commitment of \$124 million by 2020; and
- Over \$9 million donated toward education with commitments of over \$24 million.

OCI Solar Power: Developer, owner, and operator of solar power plants. OCI is currently engaged in the development of 500 MW of solar power through the combined use of multiple solar farms in San Antonio and throughout Texas, with all 500 MW becoming operational in December 2018. OCI has exercised its option to sell five of its solar farms to third parties approved by CPS Energy. All of OCI's obligations are assumed by the buyer. OCI has complied with all contract requirements resulting from its failure to attain the requisite number of qualifying jobs; and both OCI and CPS Energy continue to monitor the actual number of qualifying jobs for purposes of potential future OCI obligations related to maintaining the requisite number of qualifying jobs.

Mission Solar Energy: Producer of solar panels at its state-of-the-art solar module manufacturing facility located in San Antonio. This facility, which produces up to 200 megawatts of manufactured solar modules, is currently the only one of its kind in Texas.

Sun Action Trackers: A full line manufacturer of solar tracking and racking systems. These components / trackers allow solar panels to collect the maximum amount of light for conversion to solar energy.

KACO New Energy: Manufacturer of solar inverters which transform the output of solar panels into an electrical current that can be fed into a standard electrical grid.

Mortenson: Engineering, procurement and construction firm for solar farms. Mortenson provides a complete range of construction services including planning, general contracting, construction management and design-build.

ITRON: Developer of networking systems for Smart Grid and Smart City technologies. ITRON, formerly Silver Spring Networks, provides communication infrastructure for CPS Energy's current Smart Grid Initiative.

GreenStar Products, Inc.: Manufacturer of a highly developed, eco-friendly, and cost-saving LED lighting systems for commercial interests. GreenStar builds and assembles its lighting systems at its facility in San Antonio.

Landis + Gyr: Manufacturer of the smart meters that are part of CPS Energy's upgrades and grid modernization project. Landis + Gyr's smart meters help customers improve energy efficiency, reduce energy costs, and contribute to a sustainable use of resources. It also manages the home energy management system that allows customers to monitor energy consumption using a computer or smart device.

PowerFin: A renewable energy investment advisor and manager of solar project assets. CPS Energy has partnered with PowerFin for a citywide solar rooftop program, SolarHost SA, which allows residents and businesses to install solar panels on rooftops at no cost and, in return, receive credits on their respective energy bills.

Franklin Energy Services LLC: Franklin Energy is an industry expert in program administration and implementation for utility clients across the nation. They pinpoint value-driven solutions and deliver goal-focused results for a wide array of program markets, from business to residential to everything in between. CPS Energy utilizes Franklin Energy's services to implement weatherization and residential energy efficiency programs within the CPS Energy service territory.

CLEAResult: CLEAResult is composed of energy experts that specialize in designing and maintaining energy optimization services for utility companies. They focus on solutions that lower load requirements for utilities, reduce energy bills for end users and minimize environmental burdens on communities. CPS Energy utilizes CLEAResult's services to provide commercial energy efficiency programs in the CPS Energy service territory.

Go Smart Solar: CPS Energy has partnered with Go Smart Solar to create the Big Sun Community Solar program. Big Sun Community Solar plans to provide 5 MW of community solar capacity for 500 – 600 CPS Energy customers and will install an expected fifteen (15) solar carports around the City of San Antonio.

All of the New Energy Economy partners are fully committed to reaching their respective economic milestones. Nevertheless, some partners have experienced economic setbacks related to international price competition. As a result, these partners are restructuring their business models which is temporarily preventing them from attaining some of their economic commitments.

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, Lackland Training Annex and Randolph Air Force Base (the "JBSA Sites"). On December 14, 2017, an announcement was made that CPS Energy won a \$248 million contract (the "JBSA Contract") to own, operate and maintain the gas and electric power systems at Joint Base San Antonio. As a part of a "transition period" under the JBSA Contract, CPS Energy is required to review the infrastructure and develop options for addressing / remedying deficiencies found, serving present loads and potential growth, before assuming infrastructure ownership. In January 2019, CPS Energy solicited and received responses to a request for qualifications related to updating the natural gas infrastructure at the JBSA Sites. As set forth under the fifty-year JBSA Contract, CPS Energy will own, operate, and maintain electric and gas distribution at a fixed price with economic adjustments.

This project was initially planned for Fiscal Year 2019, but was delayed to Fiscal Year 2020. CPS Energy budgeted \$85 million in Fiscal Year 2020 for the cost of the natural gas and electric utility systems. JBSA will provide immediate cost recovery for the purchase in Fiscal Year 2020, and as a result, there will be 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.

DESCRIPTION OF FACILITIES

ELECTRIC SYSTEM

Power Generation Sources

CPS Energy currently operates 17 non-nuclear electric generating units, two of which are coal-fired and 15 of which are gas-fired. Some of the gas-fired generating units may also burn fuel oil (diesel), which provides fuel flexibility and greater reliability. CPS Energy also owns a 40% interest in the STP's two existing nuclear generating Units 1 and 2. These nuclear units supplied 34.5% of the electric system's native load for the twelve months ending January 31, 2019. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Capability" herein.

Generating Capability⁽¹⁾

<u>Plant</u>	<u>Unit</u>	<u>Fuel</u>	<u>Year Installed</u>	<u>Summer Net Max Capability MW⁽²⁾</u>	<u>Total Summer Capability MW</u>	
STP (40% interest) ⁽³⁾	Unit 1	Nuclear	1988	518.0	1,036.0	Nuclear
	Unit 2	Nuclear	1989	518.0		
Spruce Plant	Unit 1	Coal	1992	560.0	1,345.0	Coal ⁽⁵⁾
	Unit 2	Coal	2010	785.0 ⁽⁴⁾		
Arthur Von Rosenberg (NGCC 2x1)	Unit 1	Gas	2000	492.0		
Sommers Plant	Unit 1	Gas / Oil	1972	420.0		
	Unit 2	Gas / Oil	1974	410.0		
Braunig Plant	Unit 1	Gas / Oil	1966	217.0		
	Unit 2	Gas / Oil	1968	230.0		
	Unit 3	Gas / Oil	1970	412.0		
Milton B. Lee West Plant	MBLCT 1 ⁽⁶⁾	Gas	2004	46.0		
	MBLCT 2 ⁽⁶⁾	Gas	2004	46.0		
	MBLCT 3 ⁽⁶⁾	Gas	2004	44.0		
	MBLCT 4 ⁽⁶⁾	Gas	2004	46.0		
Milton B. Lee East Plant	MBLCT 5 ⁽⁶⁾	Gas / Oil	2010	48.0		
	MBLCT 6 ⁽⁶⁾	Gas / Oil	2010	48.0		
	MBLCT 7 ⁽⁶⁾	Gas / Oil	2010	48.0		
	MBLCT 8 ⁽⁶⁾	Gas / Oil	2010	47.0		
Rio Nogales Plant ⁽⁷⁾ (NGCC 3x1)	Unit 1	Gas	2012	<u>785.0</u>	<u>3,339.0</u>	Gas / Oil
Total Capability Owned by CPS Energy					<u>5,720.0</u>	
Renewable Purchased Power Nameplate Capability:						
Desert Sky Wind Farm ⁽⁹⁾		Wind	2002	168.0		
Cottonwood Creek Wind Farm		Wind	2005	100.5		
Sweetwater 4		Wind	2007	240.8		
Penascal		Wind	2009	76.8		
Papalote Creek		Wind	2009	130.4		
Cedro Hill		Wind	2010	150.0		
Los Vientos		Wind	2012	200.1	1,066.6	Wind
Covel Gardens		Landfill Gas	2005	9.6	13.8	Landfill Gas
Nelson Gardens		Landfill Gas	2014	4.2		
Blue Wing		Solar PV ⁽⁸⁾	2010	13.9		
Sinkin 1		Solar PV ⁽⁸⁾	2012	9.9		
Sinkin 2		Solar PV ⁽⁸⁾	2012	9.9		
Somerset		Solar PV ⁽⁸⁾	2012	10.6		
Alamo 1		Solar PV ⁽⁸⁾	2013	40.7		
St. Hedwig (Alamo 2)		Solar PV ⁽⁸⁾	2014	4.4		
Eclipse (Alamo 4)		Solar PV ⁽⁸⁾	2014	39.6		
Walzem (Alamo 3)		Solar PV ⁽⁸⁾	2015	5.5		
Helios (Alamo 5)		Solar PV ⁽⁸⁾	2015	95.0		
Solara (Alamo 7)		Solar PV ⁽⁸⁾	2016	106.4		
CEC Beck (Community Solar) ⁽¹⁰⁾		Solar PV ⁽⁸⁾	2016	1.0		
Sirius 1 (Alamo 6)		Solar PV ⁽⁸⁾	2017	110.2		
Sirius 2 (Pearl)		Solar PV ⁽⁸⁾	2017	50.0		
Lamesa II (Ivory)		Solar PV ⁽⁸⁾	2018	50.0	<u>547.1</u>	Solar PV
Total Renewable Purchased Power Nameplate Capability					<u>1,627.5</u>	
Total Capability including Renewable Purchased Power					<u>7,347.5</u>	

(1) Data as of January 31, 2019.

(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 & 2. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources - Nuclear" herein.

(4) Spruce2 generator was replaced in January 2019. The generator has a reactive power limitation that is not expected to impact full load capability during summer 2019 operation, and repairs are planned for the first quarter of 2020.

(5) Deely Plant (840 MW capability) was deactivated (mothballed) at the end of calendar year 2018.

(6) "CT" stands for "Combustion Turbine". Plants renamed MBL (Milton B. Lee) CT as of March 6, 2014.

(7) The Rio Nogales Plant was commissioned in 2002 and purchased by CPS Energy on April 9, 2012. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources - Gas / Fuel Oil Plants" herein.

(8) Solar PV capacity is reported on an alternating current (AC) nameplate basis.

(9) Desert Sky Wind Farm capacity updated to better reflect contracted nameplate capacity after turbine uprate.

(10) Community Solar pilot project "CEC Beck" added to CPS Energy renewable portfolio table to align with other corporate reporting.

Nuclear

Nuclear is CPS Energy's other base energy option, providing about 25.4% of CPS Energy's total net annual generation for the twelve months ending January 31, 2019. The South Texas Project ("STP") is a two-unit nuclear power plant with Unit 1 and Unit 2 (or "STP1" and "STP2") having a nominal output of approximately 1,318 MW each. STP is located on a 12,220 acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles from San Antonio. CPS Energy currently owns 40% of these units. Participant Ownership ("Participants") in STP1 and STP2 and their shares therein are as follows:

Ownership Effective February 2, 2006 ⁽¹⁾		
<u>Participants</u>	<u>%</u>	<u>Nameplate MW (approximate)</u>
NRG Energy, Inc. ("NRG")	44.0	1,160
CPS Energy	40.0	1,054
City of Austin-Austin Energy	<u>16.0</u>	<u>422</u>
	<u>100.0</u>	<u>2,636</u>

(1) In 2006, Texas Genco, holder of a 44% interest in STP, was acquired by NRG. NRG holds its interest in STP1 and STP2 in NRG South Texas LP, a wholly-owned subsidiary of NRG.

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"). The STPNOC Board of Directors selected Tim Powell as the Interim CEO and President on January 11, 2018. On August 20, 2018, STPNOC announced that Mr. Powell, assumed the role permanently. All costs and output continue to be shared in proportion to ownership interests.

On February 9, 2017, STPNOC received a final significance determination notice from the NRC concerning a previously identified security-related finding. The NRC concluded the finding was Greater than Green and of low to moderate security significance. The finding was identified during an NRC inspection conducted from October 19 through December 1, 2016. STP took prompt actions to address the finding. Because the finding was characterized as Greater than Green, the NRC determined that STP would be in the Regulatory Response Column of the Reactor Oversight Process Action Matrix. STP successfully completed an NRC follow-up inspection in August 2017. Subsequently, the NRC returned STP to the Licensee Response Column of the Reactor Oversight Process Action Matrix effective October 2017.

NRC, which retains jurisdiction to conduct cybersecurity-related inspections at nuclear facilities, completed a cyber security inspection of STP in October 2017. STP successfully completed this inspection and was the first nuclear facility in the country that received such an inspection.

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 twelve-months ended December 31, 2018, STP1 and STP2 operated at approximately 94.1% and 95.2% of net capacities, respectively.

Five-Year South Texas Project Capacity Factor⁽¹⁾

Calendar Years Ended December 31,

	<u>2014⁽²⁾</u>	<u>2015</u>	<u>2016⁽²⁾</u>	<u>2017⁽²⁾</u>	<u>2018</u>
Unit 1	82.8%	85.2%	102.8%	92.3%	94.1%
Unit 2	106.2%	92.7%	95.2%	105.0%	95.2%
Total	94.5%	89.0%	99.0%	98.7%	94.7%

(1) Capacity Factor based on nameplate rating of 1250.6 MW per unit.

(2) Greater than 100% due to plant upgrades.

In February 2016, NRC commissioners issued an order approving the expansion of the South Texas Project in Bay City, Texas, with the issuance of licenses to build and operate reactors to follow. Environmental interest groups filed lawsuits with the U.S. Court of Appeals in the District of Columbia Circuit seeking to have the court review the NRC's decision to issue licenses for STP Units 3 and 4. The groups contended that the NRC's action in issuing the licenses: (1) violated the prohibition against foreign control or domination of a nuclear power plant project in violation of the Atomic Energy Act ("AEA"), as a foreign minority owner, Toshiba America Nuclear Energy Corporation has effectively taken control of the project through financing arrangements with the license applicant; and (2) violated the National Environmental Policy Act ("NEPA") by relying on the Continued Storage Rule and the supporting Generic Environmental Impact Statement ("GEIS") for its NEPA analysis of the STP Units 3 and 4 licensing decision. The environmental groups agreed that the matter related to the Continued Storage Rule be held in abeyance pending the outcome of the appeal of the State of New York versus NRC. On June 3, 2016, the U.S. Court of Appeals for the D.C. Circuit upheld the NRC's justification for allowing spent nuclear fuel to be stored on-site at active facilities and on August 8, 2016, denied an *en banc* motion to reconsider its findings. In light of this court action, the environmental groups agreed not to raise any challenges regarding the Continued Storage Rule in the STP Units 3 and 4. On April 18, 2017, this case was voluntarily dismissed in light of the *New York v. NRC* finding that NRC did not act arbitrarily or capriciously in promulgating the Continued Storage Rule under NEPA.

Recent operational highlights for STP include the following: In September 2016, STPNOC was recognized by *EHS Today's*, a national publication for environment, health and safety leaders, as one of 10 companies selected to the 2016 list of America's Safest Companies. This is the second time STP has received this national honor, also receiving the award in 2010. In 2014 total generation, STP2 ranked #1 of 100 reactors in the United States and #2 of 424 reactors worldwide; STP1 ranked #33 in the United States and #55 in the world. In 2017, STP's annual Total Generation Cost (\$ / MWh) ranked in the top decile nationally compared to the other United States nuclear generation stations and in 2017 and 2018, STP's three-year Total Generation Cost (\$ / MWh) ranked in the top decile nationally as well. STP produced more energy than any other two-unit nuclear plant in the country for the period 2004 through 2011 and 2014.

Coal Plants

Coal, with its relatively stable low cost, provided 34.9% of CPS Energy's total net annual generation in Fiscal Year 2019 and 2,185 MW of reliable capacity in the ERCOT market. Coal units also provided 40.0% of the Fiscal Year 2019 electric system native load.

The Deely and Spruce Plants are located at the Calaveras Power Station southeast of the City and share Calaveras Lake's cooling capacity. The Deely Plant and the Spruce Plant each are equipped with substantial environmental controls. CPS Energy obtains its low sulfur content coal from the Powder River Basin area of Wyoming.

The Deely Plant consists of two large well maintained units. Deely1 and Deely2 were installed in 1977 and 1978, respectively and are 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Additional Generation Opportunities".

The Spruce Plant also consists of two large well maintained units. Spruce1 and Spruce2 were installed in 1992 and 2010, respectively. Spruce1 is capable of providing 560 net MW of capacity to the BES. Spruce2 is capable of providing 785 net MW of capacity to the BES. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Station Events" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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. To support ozone reduction, CPS Energy is evaluating the installation of selective catalytic reduction ("SCR") technology on the Spruce1 unit. CPS Energy has an SCR on the Spruce2 unit. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 is considering the installation of water discharge treatment technology on the Spruce1 and Spruce2 units. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Water Act - New Effluent Standards" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Other Environmental Issues – Coal Combustion Residuals" herein.

Gas / Fuel Oil Plants

The Sommers Plant, located at the Calaveras Power Station, comprises two large steam units capable of operating on either natural gas or fuel oil, providing flexibility in a fuel constrained situation. Sommers1 and Sommers2 were installed in 1972 and 1974 respectively. Sommers1 is capable of providing 420 net MW of intermediate / peaking capacity to the BES. Sommers2 is capable of providing 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 the market economics and load demand dictates. The units are typically cycled daily 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.

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 that can operate on either natural gas or fuel oil. Braunig1, Braunig2 and Braunig3 were installed in 1966, 1968, and 1970 respectively. Braunig1, Braunig2, and Braunig3 are capable of providing 217, 230 and 412 net MW, respectively, of capacity to the BES. All three units are typically cycled daily during peak load months in the summer and winter. During the shoulder months of fall and spring the units typically do not run as often and are in standby mode available to take advantage of ERCOT market opportunities.

The Braunig Plant 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 on line in an outage situation. The Milton B. Lee East Plant was installed in 2010. Three of the four units are capable of providing 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 (GE) LM6000 Combustion Turbine aero derivative. These combustion turbine units may be fueled with either gas or diesel making them very flexible and able to take advantage of constrained energy situations in the ERCOT market. The units are operated as cycling 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 other gas generation technologies and provides a competitive low heat rate asset for CPS Energy. The AVR Plant recently completed a capacity / efficiency improvement project and the three generators now combine to provide 492 net MW (previously 478 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 Milton B. Lee West Power Station located in southwest Bexar County has four additional quick-start natural gas simple cycle combustion turbines that include Black Start capability to ensure CPS Energy's generation assets can expeditiously come on line in an outage situation and providing 182 net MW of flexible capacity for CPS Energy. The Milton B. Lee West Plant was installed in 2004. Three of the four units are capable of providing approximately 46 net MW of capacity to the BES. MBLCT3 can only provide 44 MW. Each unit consists of a generator driven by a GE LM6000 Combustion Turbine aero derivative. These combustion turbine units operate on natural gas. The units are operated as cycling units and are utilized to cover energy in periods of high demand and ancillary service obligations of CPS Energy. Two older gas steam units at this location, Leon Creek Plant Gas Steam Units 3 and 4, had been in a "mothballed" status since March 1, 2011. They were retired on June 4, 2013, and are not included in the "Generating Capability" table. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Capability" herein.

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, Texas. The low heat rate 785 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 Pipe Line joint venture pipeline. Water sources for the plant consist of treated sewage effluent from the City of 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 of the Rio Nogales Plant's water is supplied through an agreement with the City of 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Coal Plants" herein.

Renewable Resources

As of January 31, 2019, CPS Energy's renewable energy capacity totals 1,628.8 MW. CPS Energy has one of the strongest and most diverse renewable energy programs in Texas with a renewable capacity under contract totaling 1,628.8 MW, including local solar, West 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. CPS Energy has 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 recently 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 will improve, 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 also added approximately 10 MW of nameplate capacity. CPS Energy also has a 20-year contract for 100.5 MW from the Cottonwood Creek Wind Farm; a 20-year contract for 240.8 MW from the Sweetwater Wind Farm; a 15-year contract for 76.8 MW from the Penascal Wind Farm; a 15-year contract for 130.4 MW from the Papalote Creek Wind Farm; a 20-year contract for 150 MW from the Cedro Hill Wind Farm; and a 25-year contract for 200.1 MW from the Los Vientos Wind Farm. Recent transmission congestion in South Texas during various seasons has impacted the Cedro Hill and Los Vientos wind farms, resulting in agreed-upon curtailment of these units during periods of negative pricing (a standard procedure).

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

CPS Energy is growing its solar energy portfolio with a 30-year contract for the 13.9 MW Blue Wing solar energy project which entered into commercial operation in November 2010; two 25-year contracts for Sinkin 1 and 2, each 9.9 MW which became operational in May 2012 and a 25-year contract for 10.6 MW from the Somerset Solar project, 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – STRATEGIC INITIATIVES – Business and Economic Development" herein.

In August 2018, renewable energy infrastructure developer Renewable Energy Systems was selected by CPS Energy to construct an innovative solar and energy storage project to be located at Southwest Research Institute and will be the first co-located solar and storage project interconnected at the distribution level within ERCOT. This project broke ground on October 9, 2018 and is expected to be online by the fall of 2019. This project has 17,752 solar panels that produce about 5 MW of solar expected to power approximately 1,000 homes.

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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – STRATEGIC INITIATIVES – Business and Economic Development" herein. Each individual facility comprising OCI Solar's 401.8 MW has an existing PPA. OCI's Alamo 1 project facility of 40.7 MW achieved commercial operation in December 2013; St. Hedwig (Alamo 2) for 4.4 MW achieved commercial operation in March 2014; Eclipse (Alamo 4) facility at 39.6 MW, achieved commercial operation in August 2014; Walzem (Alamo 3) project at 5.5 MW achieved commercial operation in January 2015. The Uvalde (Helios – Alamo 5) facility at 95 MW became operational at the end of December 2015. The Haskell (Solara – Alamo 7) facility at 106.4 MW became operational in September 2016. The Sirius 1 (Alamo 6), at 110.2 MW in Pecos County, Texas, began producing test energy in late 2016 and became operational in March 2017. At this time, Alamo 6 is one of the largest solar PV plants in Texas. In addition to the PPAs executed under the Master Agreement with OCI, CPS Energy has also executed two separate 25-year PPAs for Project Pearl (50 MW located adjacent to Alamo 6) and for Project Ivory (50 MW located near Lamesa). Project Pearl became operational on October 16, 2017, and Project Ivory, which recently sold to D.E. Shaw Renewable Investments, 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.

CPS Energy receives energy from 1,066.6 MW of wind, 546.1 MW of solar and 13.8 MW of landfill gas generated energy for a total renewable energy capacity in operation of 1,628.8 MW, thereby exceeding CPS Energy's goal of 1,500 MW of renewable capacity by 2020.

An estimate of 1.0 MW of solar electricity will be produced by the utility'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 participant has a 20-year contract with CPS Energy. In addition, the pilot "Simply Solar" programs discussed in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein, currently constitute approximately 6 MW of solar capacity. When including these pilot programs, CPS Energy's renewable portfolio capacity increases to 1,635.8 MW. Only CEC Beck, and not these other new programs, are included in the "Generating Capability" table.

Peak Demand and Native Load

In the CPS Energy service territory, a previous record system peak demand of 5,080 MW was set on July 23, 2018, on hour ending 7 p.m. At the time of the 2018 peak, CPS Energy was receiving 586 MW of renewable capacity helping to meet the peak demand. Along with the 4,943 MW of fossil fuel and nuclear capacity, a total of 5,529 MW was available to meet CPS Energy's native load summer peaking needs. The peak demand for the summer of 2017 was 4,866 MW due to more moderate weather. The peak demand for the summer of 2018 was driven by native load growth and a 105° peak temperature, surpassing the record of 5,017 MW set on August 12, 2016. In the summer of 2019, a new all-time high system peak was reached on August 12, 2019, of 5,113 MW, slightly surpassing the previous 2018 record. CPS Energy's 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. In addition, greater than expected performance by CPS Energy-contracted Texas wind farms helped on the supply side. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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. As a result, there was no material adverse effect on the finances of CPS Energy from replacement power purchases.

Assets Supporting Generation

Braunig and Calaveras Lakes are CPS Energy-owned man-made lakes that provide cooling for the majority of CPS Energy's generating units. 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. Braunig Lake has additional cooling capability for future generating units.

CPS Energy has contracted with the San Antonio Water System ("SAWS"), the City's municipally-owned water and sewer system, 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. CPS Energy previously leased 1,000 acre-feet of this water to the Edwards Aquifer Authority (the "EAA") on a short term basis as described in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Water Resources Planning" herein. A lease of 1,000 acre-feet additional Edwards Aquifer water rights to SAWS was executed in May 2014. The two 1,000 acre-feet water leases to SAWS and EAA expired by their terms, and a new 2,000 acre-feet contract providing leases to SAWS was executed in 2019. 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters" herein.

For description of other assets of the Systems that support generation, please see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Fuel Supply" herein.

Smart Grid Modernization Program

Starting in 2013, CPS Energy began building a converged Advanced Metering Infrastructure ("AMI") and distribution automation ("DA") network. The rollout of new electric meters and gas interface management units ("IMUs") using this network began in 2014 and was completed within 48 months. CPS Energy believes this new program will 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 combined cost

of the network, electric and gas upgrades is estimated at \$290 million. Operational savings, accurate reads, and distribution automation are all factored in the program. Savings are expected to cover the cost in approximately 13 years. As of January 31, 2019, approximately 1.1 million smart grid devices have been installed pursuant to this program. In addition, CPS Energy has added a smart meter requirement to its rooftop solar rebate program. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs – Energy Conservation" herein.

Smart Streetlights

CPS Energy and the City are in the process of soliciting bids from solution providers for smart streetlight controls and smart city use cases. Smart streetlight controls will allow for centralized monitoring and control of streetlights which will improve maintenance planning and increase operational efficiency. The solution will allow for adaptive lighting schedules, provide defective operation notifications, provide GPS locations of streetlights, and provide streetlight failure and status reports.

The smart streetlight platform will be leveraged by the smart city use cases. The City has identified several smart city use cases to pilot which include the following: temperature and air quality monitoring, flood detection, noise detection, and smart parking.

CPS Energy and the City will select the top 3 solution providers to pilot control within the City's 3 Innovation Zones (Downtown, Medical Center, and Brooks City Base) over a 6-month period beginning early December 2019. Pilots will be evaluated for best value for CPS Energy and the City and a deployment strategy will be developed in 2020.

Qualified Scheduling Entity

CPS Energy operates as an ERCOT Level 4 Qualified Scheduling Entity ("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 a 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 and 345 kilovolt ("kV") lines with autotransformers to provide the necessary flexibility in the movement of bulk power.

Distribution System

The distribution system is supplied by 107 substations strategically located on the high voltage 138 kV transmission system stepping down to distribution system voltages of 34.5 kV and 13.2 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 8,096 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 692 miles of three-phase equivalent distribution lines, 86 miles of three-phase downtown network distribution lines, and 5,184 miles of single-phase underground residential distribution lines.

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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 twelve utilities below are the major transmission entities in ERCOT:

American Electric Power Service Corporation	Austin Energy
Brazos Electric Power Co-op	CenterPoint Energy
Electric Transmission Texas	LCRA Transmission Services Corp.
South Texas Electric Co-op / Medina Electric Co-op	Sharyland Utilities
ONCOR Electric Delivery	Cross Texas Transmission
Lone Star Transmission	Wind Energy Transmission Texas

The transmission facilities of CPS Energy, the twelve 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 March 8, 2018, the PUCT approved the petition of Lubbock Power & Light (the municipal electric utility owned by Lubbock, Texas) to join ERCOT. Lubbock Power & Light will transfer 430 MW of its load from the Southwest Power Pool to ERCOT. The move is expected to result in an investment of approximately \$364 million in infrastructure to construct new transmission lines to interconnect with the ERCOT grid. Lubbock Power & Light announced it will pay ERCOT \$110 million for infrastructure needed to connect Lubbock to the State's grid and is expected to join ERCOT by June 1, 2021. Experts say such a move would lead to increased efficiency for the ERCOT grid in Texas.

On August 12, 2019, ERCOT set peak records of 74,531 MW from the grid's previous all-time high demand of 73,473 MW on July 19, 2018. Increased power usage in response to weather conditions may impact the grid's ability to prospectively operate effectively and efficiently, although ERCOT has over 78,000 MW of generating capacity to meet summer demand.

Pursuant to the PUCT's open access transmission rule, discussed under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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, in 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. In order 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 on a daily basis. 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 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 review by the PUCT.

CPS Energy is also complying with the reliability standards of the North American Electric Reliability Corporation ("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.

External Events Impacting Nuclear Power Generation Industry and STP1 and STP2, and CPS Energy's Response

On March 11, 2011, a magnitude-9.0 earthquake struck off of the north-eastern coast of Japan. This earthquake triggered a tsunami that devastated portions of Japan. The Fukushima Daiichi nuclear power plant site was one of the areas struck by the earthquake and tsunami. This event resulted in core damage to Units 1, 2, and 3 at that plant. The nuclear industry responded to the events at Fukushima. The NRC formulated a Near-Term Task Force to conduct a review of the NRC's processes and regulations in light of the events at Fukushima. The Near-Term Task Force's 90-day report confirmed the safety of United States nuclear power plants and included twelve recommendations to the NRC commissioners. In October 2011, the NRC commissioners directed NRC staff to implement seven of the recommendations that were identified as those that should be implemented without unnecessary delay. In addition, the NRC commissioners directed the staff to identify the schedule and resource needs associated with those Near-Term Task Force recommendations that were identified as long-term actions and / or that require additional staff study to inform potential regulatory changes. On March 12, 2012, the NRC issued three orders (the "NRC Orders") and one Request for Information letter. These actions represented the first regulatory activity initiated as a result of the lessons learned from the events at Fukushima. The NRC Orders outline actions that must be taken and also provide a compliance deadline. License holders must have completed the actions within two refueling outages or by December 31, 2016 (whichever came first). The Request for Information letter requires specific responses from license holders. Additionally, NRC developed the diverse and flexible mitigation capability ("FLEX"), an additional layer of backup power after an extreme event at nuclear energy sites, which will maintain cooling water at the reactors in the event backup systems fail. Most recently, NRC staff reviewed the International Atomic Energy Agency's report, "The Fukushima Daiichi Accident" and determined the observations concluded therein do not introduce issues not previously considered by NRC, the U.S. Government, or the U.S. nuclear industry, either as a part of a pre-existing program or Fukushima enhancements. As of July 21, 2016, STPNOC has submitted the requested information and complied with the NRC Orders in a timely manner to comply with all deadlines that have come due. NRC released its site evaluation report on June 8, 2017. The CPS Energy budget for STP includes both operating and maintenance and capital for costs associated to comply with regulatory changes that are being implemented from the Fukushima task force recommendations. As part of CPS Energy's on-going oversight of STP, CPS Energy continues to work with STPNOC to identify cost estimates for any additional exposures related to the industry response to Fukushima that may result from future actions taken by the NRC.

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.

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 includes representations by each Participant that it 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 14 to CPS Energy's Basic Financial Statements in APPENDIX B. 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 2018. As of December 31, 2018 and 2017, CPS Energy had accumulated approximately \$413 million and \$432 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, 2018, the 28% Trust funds available for decommissioning costs totaled \$264 million, which exceeded the estimated NRC requirement of \$111 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 2018 cost study, funds are projected to be adequate to meet expected costs and approval has been obtained from the PUCT to discontinue the collection of fees from the AEP TCC retail customers beginning mid-2019. 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 Texas Genco. As of December 31, 2018 and 2017, 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 \$152 million and \$157 million, respectively. Based on the most recent annual calculation of financial assurance, as of December 31, 2018, the TCC Funded Trust funds available for decommissioning costs for CPS Energy's 12% interest in STP totaled \$106 million, which exceeded the estimated NRC requirement of \$48 million. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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. ("NWSA"), 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 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 NWSA 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 NWSA 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. Subsequent to 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 into 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 of 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. Additionally, *In re Aiken County*, 725 F.3d 255 (D.C. Cir. 2013), the court ordered the NRC to comply with the NWSA 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". Legislation introduced for FY 2019 and FY 2020 did not provide any funds for licensing the Yucca Mountains as a nuclear waste repository.

Until the DOE is able to fulfill 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. 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 for allowable costs. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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.

A June 2012 decision by the United States Court of Appeals for the District of Columbia 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 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 intervenor'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 a 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 U.S. Court of Appeals for the D.C. Circuit. 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 U.S. Court of Appeals for the D.C. Circuit 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.

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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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, and expanding its efforts towards community-wide energy efficiency and conservation. These mitigation efforts are also referred to as the "5th Fuel" and are very important to CPS Energy's strategic energy plans and specifically to its new generation needs. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein.

CPS Energy annually conducts an assessment of 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 the pursuit of additional stakeholder input; expanded community education about the long-term energy and conservation needs of the San Antonio 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.

Nuclear

In mid-2006, CPS Energy management directed that staff conduct an initial investigation, study and analysis of additional nuclear capacity as one type of possible generation infrastructure. In 2007, CPS Energy received Board approval to participate in the early development phase of two additional nuclear projects that involved third-party co-owners. The first possible nuclear project was development of two additional reactors at the STP site, also known as STP3 and STP4. The second possible nuclear project was a proposed new two-unit facility tentatively located in Victoria County, which is also located in south Texas.

In June 2009, CPS Energy management provided the Board its formal assessment and recommendations concerning these options compared to other possible new generation types including the first public estimate of the cost of the first possible project at \$13 billion, inclusive of financing costs. Reports of higher cost estimates, however, resulted in reconsideration of the advisability of participating in the STP3 and STP4 Project and, ultimately, in CPS Energy's decision to limit participation in further development of STP3 and STP4. In a settlement negotiated with NRG and the other participants in the development of STP3 and STP4, CPS Energy received a 7.625% ownership interest in the combined STP3 and STP4. CPS Energy is not liable for any STP3 and STP4 Project development costs incurred after January 31, 2010. CPS Energy also received two \$40 million installment payments upon award of a DOE loan guarantee to Nuclear Innovation North America LLC ("NINA"), a NRG / Toshiba joint venture. NINA also agreed and has made, a contribution of \$10.0 million over a four-year period to the Residential Energy Assistance Partnership, which provides emergency bill payment assistance to low-income customers in the City and Bexar County. In August 2015, Toshiba announced that it planned to write down its semiconductor, home appliance, and nuclear business units following an investigation into accounting issues that have resulted in the need for Toshiba to restate their past financial results. On April 25, 2016, media reports indicated the preliminary operating loss after it wrote down the value of Westinghouse nuclear power subsidiary was \$6.2 billion. Previously in 2011, NRG announced it had written off its investment in STP3 and STP4. On October 1, 2015, the NRC issued a press release indicating that NRC staff had completed its Final Safety Evaluation Report (report) for the Combined Licenses ("COL") for the proposed STP3 and STP4. The NRC staff provided the report along with the Final Environmental Impact Statement on the application to the NRC for the mandatory hearing phase of the licensing process. The mandatory hearings took place on November 19, 2015, when the NRC staff provided the Final Safety Evaluation Report and Final Environmental Impact Statement on the application to the NRC. On February 9, 2016, the NRC commissioners authorized issuance of the COL for STP3 and STP4 and the licenses were issued on February 12, 2016. Prior to the write off, CPS Energy performed a thorough re-evaluation of its investment in the STP3 and STP4 to reassess the ongoing viability of the project and the appropriateness of continuing to report the cost of the project on its Statements of Net Position. Despite the project having secured the NRC's authorization for issuance of the COL, in January 2016, CPS Energy concluded that, as a result of sustained changes in a number of environmental and economic factors directly affecting the projected economic feasibility of completing construction of STP3 and STP4, the project experienced a permanent impairment. CPS Energy determined it appropriate to write off the entire \$391.4 million investment in STP3 and STP4 and has not performed a re-evaluation since. The impairment loss was reported as an extraordinary item on CPS Energy's Statements of Revenues, Expenses, and Changes in Net Position for the period ending January 31, 2016. This noncash transaction did not impact CPS Energy's debt service coverage ratio; however, there was a resulting increase from 61.1% to 63.7% in the debt to debt and net position ratio at January 31, 2016. Going forward, CPS Energy continued to retain a legal interest in STP3 and STP4.

On May 31, 2018, Toshiba issued a release that provided their notice to withdraw from a project to build two additional advanced boiling water reactors at the South Texas Project. On June 14, 2018, NINA issued a letter to NRC that provided their notification of Intent to Terminate this project (STP3 and STP4) because the project was no longer financially viable. On June 22, 2018, NINA issued a letter requesting NRC approval to withdraw the COL for STP3 and STP4. On July 12, 2018, the NRC issued a letter that approved the termination of the STP3 and STP4 COL. Construction was not initiated for STP3 and STP4, and nuclear materials were never procured or possessed under these licenses. Consequently, STP3 and STP4 are approved for unrestricted use.

STP cancelled all contracts related to NINA, which was established for the purpose of building additional units. On August 13, 2018, NINA provided a draft document to the STP owners, a proposed STP3 and STP4 Assignment and Assumption Agreement and Mutual Release. This agreement essentially returns the site ownership to NRG, CPS Energy, and Austin Energy and restores site ownership and future expansion rights to the original pre-STP3 and STP4 conditions when executed. NINA executed this agreement on October 1, 2018.

Generating Station Events

In addition to routine planned generation maintenance and repairs conducted from time to time, there were several unforeseen events at the power generation facilities that occurred during past years. Those 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.

Braunig

On December 16, 2017, Braunig2 entered an unplanned outage to repair a damaged extraction steam valve that was discovered during routine unit inspections. The damage was repaired and the unit was released for dispatch on January 20, 2018.

On March 24, 2016, Braunig1 was forced offline due to high turbine bearing vibrations. The turbine bearings were repaired, and the unit was released for dispatch on April 27, 2016.

On June 23, 2015, Braunig3 was made unavailable due to the failure of a second boiler circulating water pump. The repairs to one of the two failed pumps were completed by the Original Equipment Manufacturer ("OEM"). The unit was returned to full capacity on August 1, 2015.

On October 6, 2014, Braunig2 was placed in a maintenance outage until December 31, 2014. A request was also submitted to ERCOT on October 7, 2014 to mothball the unit beginning January 4, 2015 for five to 17 months. In late October 2014, ERCOT granted permission to CPS Energy's mothball request. The mothball remained in effect until February 10, 2015. An inspection of the turbine was completed in January of 2015. A crack in the turbine rotor was found and repaired. The unit was made available for dispatch on March 3, 2015.

Deely

Deely1 and Deely2 were deactivated and removed from service on December 31, 2018. CPS Energy prepared for Deely's deactivation by purchasing the Rio Nogales NGCC Power Plant, expanding its efficiency programs, and adding solar farms with approximately 550 megawatts of capacity.

With the deactivation of the Deely units and a projected remaining book value of \$186M at January 31, 2019, CPS Energy recorded \$182.7M to recognize a noncash impairment loss in its Fiscal Year 2019 financial statements. The impairment loss was classified as a special item reported below net income on CPS Energy's Statement of Revenues, Expenses and Changes in Net Position.

Rio Nogales

On February 22, 2019, Rio Nogales CT101 was made unavailable due to a ground fault on the generator breaker. The three phases of the generator breaker were shipped out for repair by GE Grid Solutions. The generator breakers were received back on site on April 25, 2019. The Rio Nogales CT101 generator was released to full load operation by May 11, 2019.

Milton B. Lee

On August 10, 2017, MBLCT8 was derated to 46 MWs net due to fouled chiller compressors. The chillers were cleaned during the unit's planned outage, and the derate was released on October 20, 2017.

On April 7, 2017, MBLCT6 was forced offline due to a damaged combustion can. The damage was found during a routine inspection. The combustion can was replaced, and the unit was returned to service on May 9, 2017.

Sommers

On August 6, 2016, Sommers2 was derated to 355 MWs net due to condensate flow issues. Plant personnel investigated the issue, and determined that the derate was due to reduced performance from one of the unit's condensate pumps. The unit was returned to full load capacity following the replacement of the condensate pump, which occurred during the unit's previously planned overhaul that began on January 13, 2017 and ended on February 17, 2017.

Spruce2

Spruce2 is currently operating with a restriction on voltage support that can generate output of 640 MW net during late fall and winter 2019. Corrective maintenance will be performed in the first quarter of 2020.

On July 2, 2017, Spruce2 was derated to 670 MWs net as a result of 2A boiler feed pump being taken out of service due to problems with the pump's mechanical seals. Plant personnel worked with the mechanical seal OEM to identify the cause of the failure. New seals were installed, and the derate was released during an outage that took place in December 2017 and ended on February 13, 2018.

On April 8, 2017, Spruce2 was derated to 645 MWs net due to baghouse damper issues. Baghouse bypass dampers would inadvertently open which could cause an environmental opacity exceedance. As a result, the particular bypass dampers had to be pinned in the closed position. The derate was to protect the baghouse by allowing enough relieving capacity of the remaining bypass dampers if the unit experienced a full bypass situation. On May 29, 2017, modifications were made to allow the unit to be released back to full load capacity.

Since its commercial operation in May 2010, Spruce2 realized boiler tube failures that had an adverse effect on unit reliability. CPS Energy worked with the OEM to identify the root cause of the failures and to provide permanent solutions to all failures. There were two outages, one in April 2013 and the other in October 2013 that addressed the boiler tube issues. Large sections of the boiler tubes were replaced to address the failures. Spruce2 was brought on line December 2013. On June 2014, Spruce2 experienced failures in the finishing superheat section of the steam generator. The superheat section was replaced in the spring of 2016 to address the tube failures.

On November 21, 2014, Spruce2 was brought offline due to a fault in the internal section of the generator. The generator was disassembled and inspected to determine the extent of damage. Stator core hot spots were discovered in the flux shunt. The generator stator defects were repaired by Toshiba including a partial restack of the generator stator core and complete generator stator rewind. The unit was released under restrictions for dispatch on May 4, 2015. At that time, the capacity limit was reduced to 600 MW Net. The reactive power limits were also reduced to 50 MegaVAR in the lagging direction and 0 MegaVAR in the leading direction. These restrictions were re-evaluated with the OEM and plant personnel in June of 2016. As a result of this evaluation, the capacity limit was removed, releasing the unit back to the original designed capacity of 785 MWs net. The reactive power limits were also changed to 220 MegaVAR in the lagging direction, but remained 0 MegaVAR in the leading direction. CPS Energy replaced the generator in January 2019 with a new generator supplied by MD&A / MHPS. The new generator had two core thermocouples, out of a total of 40 thermocouples reading abnormal high temperatures during start-up and commissioning. The high temperature measurements from the two generator core thermocouples are managed by adjusting reactive power to remain below the OEM recommended temperature values. As a result, the Spruce2 generator is operating with reactive capability restrictions, but the unit can produce full MW capacity during the summer run season. MD&A has submitted a repair plan for CPS Energy to consider for implementation in the first quarter of 2020.

STP1

On March 17, 2017, STP1 reactor was manually shutdown due to a piping leak on the open cooling loop system. On January 15, 2017, STP identified a small piping leak in the system that they were closely monitoring and managing. STP planned to correct the leak during the spring 2017 planned refueling outage. The cause of the increased leakage rate that led to the manual shutdown was investigated and subsequent repairs were made to the pipe. STP1 was scheduled to commence a planned refueling outage on Saturday, March 18, 2017. STP1 returned to service on April 29, 2017, following the planned refueling outage.

On May 1, 2016, STP1 reactor automatically tripped due to a main generator lockout. Subsequent investigation into the event identified that a small strip of hard rubber booting from the cooling duct that directs air flow into the bushing area of the "Bravo" iso-phase had degraded and intermittently came in contact with the "Bravo" phase causing a path to ground. The other rubber boots for the "Alpha" and "Charlie" phase were inspected and replaced. The cause was identified and corrected and STP1 was returned to service on May 6, 2016.

On January 26, 2016, STP1 reactor was manually tripped due to lowering water level in the 1C steam generator. The main feed water regulating valve was observed to go closed and attempts to open the valve in automatic and manual were not successful. An investigation into the event determined the cause was due to failure of a feed water level control circuit card. The cause was identified and corrected and STP1 was returned to service and resumed full power operation on January 30, 2016.

On December 21, 2015, while STP1 was operating at 48% reactor power, the "Main Turbine" governor valve #2 began to oscillate causing large load swings. As a result, the Main Turbine was manually tripped and following the manual trip of the Main Turbine, a set of steam dump valves did not operate as expected. With the steam dump valves not performing as expected the resulting steam demand changes required a manual trip of the reactor. The issues that caused this event were identified and corrected prior to returning STP1 to service. STP1 was returned and resumed full power operation on December 30, 2015.

On November 13, 2015, STP1 declared an Unusual Event (a "UE") due to unidentified leakage from the reactor coolant system ("RCS") being greater than 10 gallons per minute. Shortly after declaring the UE, the source of the leakage was identified and stopped. Subsequently, after further review of the UE, STPNOC formally withdrew the Notice of Unusual Event because the source of the leakage was not from the RCS.

On October 17, 2015, STP1 commenced a scheduled refueling and maintenance outage. On November 18, 2015, as the outage was nearing completion, STP1 Shutdown Bank Control Rod D6 was determined to be inoperable. Following extensive analyses, on December 3, 2015, STPNOC submitted an Emergency License Amendment Request to the NRC seeking authorization to operate

Unit 1 during the next 18-month operating cycle with 56 full-length control rods instead of 57. The NRC approved the license amendment on December 11, 2015. The approved license amendment supports STP1 operation with Control Rod D6 and the associated control rod drive shaft removed. STP1 was returned to service on December 20, 2015, completing a scheduled refueling that was extended due to the issue associated with Control Rod D6. The outage duration was 30 days longer than planned. On April 7, 2016, STPNOC submitted to the NRC a permanent license amendment request to allow for the continued operation of STP1 in this configuration. On December 21, 2016, STP received notification from the NRC that its Unit 1 Control Rod D6 License Amendment Request ("LAR") had been approved. The LAR allows permanent operation of Unit 1 with 56 full-length control rods. The approved LAR permanently changes the Unit 1 Technical Specifications to reflect future operations without Shutdown Bank Control Rod D6. The approved changes were implemented during the spring 2017 Unit 1 refueling outage.

The ultrasonic feed water flow ("UTF") system and venturi flow system were replaced with the new feed water flow measurement system in STP1 during the fall calendar year 2015 refueling outage. Following the outage, electric output in STP1, like STP2, was lower than expected. STPNOC worked with an independent consultant and the vendor to analyze and validate the electric output. STPNOC has made several minor adjustments; however, these changes have not and are not expected to restore the lost generation in STP1 or STP2.

STP2

On October 4, 2019, STP2 commenced a scheduled refueling outage and is expected to be returned to service later in fall 2019.

On March 28, 2015, STP2 commenced a scheduled outage to refuel the reactor and complete several major maintenance projects. The outage duration was 12 days longer than planned and STP2 was returned to service on May 9, 2015.

On November 16, 2013, STP2 commenced a scheduled refueling outage. STP2 was returned to service on December 22, 2013, and reached 99.6% reactor power on December 25, 2013. In early December 2013, during the STP2 refueling outage an issue was identified with the UTF measurement system (an extent of condition investigation identified a similar issue in STP1). The STP2 UTF system was recalibrated in January 2014 and reactor power was increased to 100%. However, the generator electric output of STP2 decreased by approximately 18 MWe per hour (of which CPS Energy's share is approximately 7 MWe per hour) compared to net electric output prior to the derate to 99.6% reactor power. STPNOC identified a repair option (replacement of the UTF systems in both Units) that would restore the approximate 40 MWe per hour at the station level (approximately 16 MWe per hour of which is CPS Energy's share) by late 2015. STPNOC identified a repair option (as stated above, replacement of the UTF systems in both Units with a system more commonly used in the nuclear industry) and submitted a LAR to replace the existing UTF and venturi flow systems which was approved by the NRC in March 2015. The new feedwater flow measurement system and venturi system were replaced in STP2 during the spring 2015 refueling outage. Following the outage, STP2 electric output was lower than expected. STPNOC worked with an independent consultant and the vendor to analyze and validate the electric output. STPNOC has made several minor adjustments; however, these changes have not and are not expected to restore the lost generation in STP2.

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 includes coal, natural gas, nuclear, and fuel oil. 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's coal units are designed to use Powder River Basin ("PRB") coal from Wyoming. Coal is secured through contracts providing both fixed and variable prices that reflect current market conditions. Delivery of PRB coal to CPS Energy occurs on the Union Pacific ("UP") railroad 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. CPS Energy amended its rail contract with UP effective September 1, 2017 to provide significantly lower rates and increased delivery flexibility. The amended contract extends through December 31, 2021.

CPS Energy owns 1,204 and leases 228 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 80 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 to meet local gas distribution and generation requirements 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 northern Bexar County, Texas. Natural gas can be supplied to the pipeline through Energy Transfer's 36-inch Oasis Pipeline and 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. 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, assuring reliable operation. CPS Energy utilizes its diverse natural gas supply portfolio and interconnects with these pipelines to meet its power plant and distribution system natural gas requirements.

Periods of prolonged cold weather, during which natural gas supply may 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 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 has not experienced a regulatory curtailment since 1983. Nevertheless, 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 Sommers, Braunig and in the Milton B. Lee East Plant. At these plants, CPS Energy maintains fuel oil inventory and fuel oil receipt capability by truck. Inventory and receipt capability at these plants supports continued 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. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – Wholesale Power" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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. 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 official statement 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. At January 31, 2019, no collateral balances were posted.

The PFC bonds are currently rated by Fitch, Moody's and S&P at "A", "A3", and "BBB+", respectively. 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 if and 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.

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 fee has been identified; however, some sources indicate there is a possibility of the fee being reinstated sometime in 2019. 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 of several years duration, covering STP's current operating license term. Enrichment requirements are contracted with Urenco USA through STP's current operating license term. Fabrication requirements are contracted with Westinghouse through STP's current operating license term. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 89 miles of steel mains that range in size from 8 to 30 inches. Over 62 miles of the gas transmission was placed into service since 2000 and approximately 73% is less than 25 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. A Supervisory Control and Data Acquisition ("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 has completed the required baseline assessments of the gas transmission system, in accordance with State and federal transmission integrity rules, using the most recently available 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.

RRCT Annual Audit Results

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 April 15-18, 2019. The alleged violation involved procedures outlining protection of pipelines located in close proximity to electric transmission tower footings, ground cables or counterpoise, or other areas where fault currents or unusual risk of lightning may be anticipated. The final response to the RRCT was sent July 15, 2019 confirming the O&M Manual procedure was edited to address the alleged violation.

The results of the 2019 RRCT Annual Distribution Audit resulted in eight alleged violations being addressed with a mitigation plan and corrections. The final response to the eight alleged violations were sent to the RRCT on July 2, 2019. The first of these alleged violations involved CPS Energy's O&M Manual not containing specific procedures for the operations and maintenance of cast iron pipelines. CPS Energy currently has 110' of above ground cast iron piping located at a bridge crossing in the distribution system. A replacement project to replace the cast iron pipe with steel pipe has been designed and approved with completion scheduled by November 30, 2019. The second alleged violation involved 54 cathodic protection read points inspected during the audit that measured below the minimum protection criteria. These deficiencies will be addressed by the standard remediation actions outlined by CPS Energy's O&M procedures and are expected to be completed by March 31, 2020. The third and eighth alleged violations involved pipelines and meter piping exposed to the atmosphere that were identified as not cleaned and coated as required. All meter piping locations have been recoated and corrected as of June 28, 2019. Of the remaining locations identified, work orders have been created and will be completed within one year of their creation dates. The fourth alleged violation involved 347 cathodic protection read points where prompt remedial action was not taken to address cathodic protection deficiencies. All cathodic deficiencies identified will be addressed during calendar year 2019 scheduled cathodic protection monitoring activities and deficiencies addressed per the O&M cathodic protection remediation procedures going forward. The fifth alleged violation involved the acceptance of a school pipe test result report not completed in accordance with 16 TAC 8.230(c). A request was made to the identified school district to conduct another test per the required test criteria. Their submitted test completion record was accepted May 21, 2019. The sixth alleged violation involved four locations where failure to conduct post-leak repair inspections within 30 days of the date the leak was repaired having a gas concentration greater than 0% at the time of repair was identified. CPS Energy management discussed this alleged violation with leak repair personnel and confirmed that they understand and are following the O&M Manual procedures and documentation and are requesting post-leak repair inspections as required. This action was completed on June 28, 2019. The

seventh alleged violation involved a repaired leak where a positive gas concentration was discovered, and no post-leak inspection was conducted. A second Leak Survey Order ("LSO") was created, effective repairs were made and completed on May 23, 2019.

The results of the 2018 RRCT Annual Transmission Audit resulted in one alleged violation. The final response to the alleged violation was sent to the RRCT on November 1, 2018. The alleged violation involved nineteen critical valves that were identified as "not checked" or "serviced" for calendar year 2015 at intervals not exceeding 15 months, but examined at least once each calendar year. All critical valves identified were inspected and partially operated by CPS Energy on March 3, 2016, and have since been inspected in all subsequent calendar years to-date, as required by CPS Energy's programs, which were validated by the auditor. CPS Energy implemented additional controls to track and monitor compliance dates relating to the required inspection and maintenance of these types of valves.

Distribution System

The gas distribution system consists of 297 pressure regulating stations and a network of approximately 5,577 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 Program ("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.

OTHER ELECTRIC AND GAS SYSTEMS STATISTICS⁽¹⁾

	Electric System			Gas System	
	Transmission System	Overhead Distribution System	Underground Distr. System & Network	Gas Transmission Pipeline	Gas Distribution System
Substations	16 ⁽²⁾	94			
Miles of Lines	1,536	8,035	5,789 ⁽³⁾		
Miles of Lines			86 ⁽⁴⁾		
Kilovolts	138 / 345	13.2 / 34.5	13.2 / 34.5		
Miles of Main				89	5,577
Main Sizes (inches)				8 - 30	1 1/4 - 30
Main Pressures (psig)				135 – 1,100	9 – 485 ⁽⁵⁾

(1) As of January 31, 2019.

(2) Includes switchyards.

(3) Underground single phase, includes 605 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 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 in order to best ensure security of CPS Energy and customer information. Continuous monitoring and risk mitigation

will continue to be necessary as CPS Energy implements more customer-facing portals 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, which supports its gas, electric transmission and distribution system activities. This system is used to maintain information on locations of 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 updating of the mapping information system.

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"), comprising the Main Office Building and Navarro Office Building, makes up CPS Energy's General Offices, and is located at the intersection of Navarro and Villita Streets in downtown San Antonio. Executive, administrative, financial, information technology and engineering functions are located at the Complex. The Main Office Building includes eleven floors of office space with attached structured parking and adjacent surface level parking. The Navarro Office Building provides five floors for office space, is connected to the Complex by an enclosed elevated walkway, and includes a seven floor parking garage. The current Complex is not sufficient to accommodate all of CPS Energy's office and parking needs, and CPS Energy is in the process of selling the Complex. On September 24, 2018, the Board declared the property as a surplus. The headquarters, along with other surplus properties, are currently listed for sale.

Following extensive analysis of diverse options, CPS Energy has selected a campus location at 500 McCullough Avenue in San Antonio, Texas, as the new headquarters site. Construction is estimated for completion in mid-2020 and ready for occupancy in late 2020. The building will have 494,000 square feet of space, and consists of 11-story and 14-story towers joined by a 3-story section. This building will permit consolidation of all headquarters' functions in a single campus to improve operational efficiency. An adjacent garage will be constructed to accommodate employee and company vehicle parking, as well as housing amenities available to employees and the community in the area. Architects Corgan Associates Inc. disseminated preliminary designs of the new headquarters in October 2016, and the City's Historic Design and Review Commission approved the final design in March 2017. On June 26, 2017, the Board approved the selection of Sundt Construction as the construction manager at risk via a competitive process. Construction of the new headquarters is underway and scheduled to be complete in 2020. CPS Energy is expected to move into the new headquarters in the fall of 2020.

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 serves as a walk-in center, customer call center, and additional general office space for personnel. The Northside Customer Service Center was declared surplus by the Board on September 18, 2018 and is currently listed for sale, with the customer call center being centralized to the new McCullough Headquarters in 2020.

Construction Centers and Service Centers

CPS Energy owns five construction centers, accommodating electric and gas construction, repair and maintenance services, support personnel for administration, planning, training, warehousing functions and garage facilities. The Salado Street Central Garage Service Center serves as the primary central garage for heavy equipment and vehicle repair and maintenance functions, with separate buildings housing a central printing shop, billing operations, remittance processing, and warehousing. Land has been acquired to relocate the primary central garage to another site in the service territory. CPS Energy's Management Center controls the electric grid for the service territory, and also provides training and conference facilities. Additional training facilities are located at the former Tuttle power plant facility.

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. CPS Energy's Nacogdoches facility currently supports the transmission and substation portions of the electric grid. The Malone Avenue campus serves as the site for underground construction staff and equipment.

Villita Assembly Building

The Villita Assembly Building is located in downtown San Antonio at 401 Villita Street near the CPS Energy Main Office Complex. The main floor of the building has a capacity to accommodate 1,800 people in an auditorium type seating, or 900 for a dinner function. The building is leased out to individuals and to corporate, civic, community, and non-profit organizations for weddings, quinceañeras, banquets, meetings and social events. The Villita Assembly Building is also used for large CPS Energy internal meetings and events. This facility is currently listed for sale.

Vehicles and Work Equipment

CPS Energy operates and maintains a diversified vehicle and equipment fleet, ranging from light to heavy duty vehicles, alternative fueled and construction equipment. A total of eight shops, seven district shops and one central shop, are staffed with Automotive Service Excellence ("ASE") and manufacturer certified trained technicians. CPS Energy technicians use manufacturers' diagnostics software to perform in-house, proactive maintenance and repairs. CPS Energy's mission is to be an industry leader in operational performance in fleet and vehicle maintenance. This area provides solutions from acquisition to decommissioning, which drives efficient, effective and expedient service to CPS Energy's customers. In 2016, CPS Energy purchased a property on Gembler Road for future construction of a new fleet service garage.

Real Estate Holdings

CPS Energy owns various properties throughout the service territory and a collection of buildings, totaling 2.6 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 is divesting itself of its Jones Avenue Service Campus. One-half of the property will be conveyed to the adjacent San Antonio Museum of Art in the public interest. The other half of the property will be sold via competitive offering.

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

CPS Energy owns approximately eight (8) acres of land and a newly-constructed shell building in northwest San Antonio. This property has been declared surplus and is currently listed for sale.

COMPLIANCE AND REGULATION

GENERAL REGULATORY CLIMATE

The election of President Trump in November 2016 resulted in a host of new administrators to top government agencies, especially those positions affecting the environment. Since inauguration and throughout the Trump administration, officials continue to engage in efforts to roll back previous regulations promulgated by the Environmental Protection Agency ("EPA") under previous presidential administrations.

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 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.

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 in Bexar County 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. 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 citizen and environmental groups disagreed with the EPA's decision and brought suit 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. 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 United States Court of Appeals for the District of Columbia Circuit 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, in an effort 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.

Sulfur Dioxide ("SO₂"): One objective of the Clean Air Act Amendments is to reduce emissions of SO₂, 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 SO₂ emission allowance system. All new units also have to comply with the program even though no new allowances are provided for them. An allowance is an authorization to emit one ton of SO₂ 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 SO₂ 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 on line because of a commitment made in the Spruce2 air permitting process which required Spruce1 to reduce SO₂ 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 SO₂ by reducing the value of the Acid Rain program allowances. On July 11, 2008, the District of Columbia Court of Appeals (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 SO₂ starting January 2012. CPS Energy planned to meet the reductions by utilizing ultra-low sulfur coal and by reduced dispatch of the Deely units. In January 2013, the courts denied an EPA petition to keep CSAPR in place.

On April 29, 2014, the United States Supreme Court (the "Supreme Court") reversed a D.C. Circuit Court decision that vacated CSAPR in its entirety. The 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 SO₂ 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 also 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 in regard to the first round of new unit set-aside allowance allocations for the 2015 year. On July 28, 2015, the D.C. Circuit Court issued an opinion that upheld EPA's CSAPR but remanded without vacating EPA's 2014 SO₂ and ozone season NO_x budgets for several states, including Texas. The court did not vacate any emissions' budgets, but instead declared them "invalid" and instructed 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 is able to meet the SO₂ targets for CSAPR. On September 21, 2017, the EPA signed a rule finalizing withdrawal of the federal implementation plan ("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 SO₂ and NO_x. Texas will stay in the most stringent NO_x Ozone Season Program.

The EPA issued the final primary SO₂ National Ambient Air Quality Standards ("NAAQS") on June 2, 2010. The EPA is determining designations for potential non-attainment areas in different rounds. On August 10, 2015, the EPA signed a final standard that requires state agencies, like TCEQ to submit additional information. Specifically, the TCEQ has to 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 Bexar 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 SO₂ NAAQS designations to be published in the Federal Register. For sources to be monitored, the SO₂ 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 SO₂ by July 14, 2017. The EPA announced completion of its Round 3 SO₂ 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 are required to certify their 2019 monitoring data for Round 4 designations by March 1, 2020, and the EPA must notify states of intended modifications no later than September 2, 2020. Designations for Round 4 must be promulgated by December 31, 2020. 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 SO₂ 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 SO₂ allowance allocation and allocation amounts.

The emission reductions expected from the EPA's Mercury and Air Toxics Standards ("MATS") are not included in the estimated emission reductions from CSAPR; once those standards are implemented, emissions from the power sector are likely to be reduced even further. On March 17, 2016, the EPA finalized a number of clarifying changes and corrections to the final MATS, including action to remove the rule provision establishing an affirmative defense for malfunction. In 2017, the EPA finalized a rule permitting e-reporting of power plants for MATS purposes of which the EPA extended reporting deadlines until July 1, 2020. On December 28, 2018, the EPA issued a proposed rule finding that MATS is not appropriate and necessary to regulate hazardous air pollutants, but stated it planned to leave the underlying MATS rule in place. CPS Energy is in compliance with all MATS requirements and plans to continue to monitor amendments to MATS to ensure future compliance. In December of 2018, the EPA proposed to revise the cost-benefit analysis justifying the mercury restrictions in MATS. The public hearing was held on March 18, 2019, and the comment period closed April 17, 2019. The utility sector has asked for the rule to be left as is, since companies have already spent money to bring their units into compliance. A final rule is expected in November 2019.

Nitrogen Oxides ("NO_x"): 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 particular emission limit, only that they have adequate NO_x allowances for the amount they actually emit. CPS Energy made further reductions in NO_x by installing selective catalytic reduction ("SCR") technology on Deely2 in 2011.

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 - 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 SO₂ 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 also 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. With the use of the Spruce2 SCR, CPS Energy will be able to meet the NO_x targets. 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, SO₂ Group 1, or SO₂ 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 SO₂, or Group 2 SO₂ 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 SO₂ Group 1 or SO₂ 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 Annual and NO_x Ozone Season allowance allocation and allocation amounts.

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 SO₂ emissions' budgets, the EPA proposed to remove the State from the CSAPR SO₂ 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 SO₂ and NO_x. Texas will stay in the most stringent NO_x Ozone Season Program.

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 megawatt hour) from 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 in 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 Hazardous Air Pollutants ("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 allows three years for compliance from the final rule date. The rule was finalized on December 16, 2011. The rule also included limits for hazardous air pollutants 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 is in compliance. On April 21, 2015, the EPA completed review of requests to reconsider certain aspects of MATS, denying all such requests. The 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 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 Supreme Court to stay the Clean Air Mercury Rule, which the court rejected in March 2016. On June 13, 2016, the 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 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 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 Deely 1 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 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 recently amended its power plant electronic reporting requirements as it relates to MATS. 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. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Sulfur Dioxide" herein.

Ozone ("O₃"): 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 attainment, nonattainment, or unclassifiable. In 2009 former Texas Governor Rick Perry submitted a list of 27 counties in Texas, including Bexar County, that 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. Some final designations were issued in 2017. 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 Bexar County and submitted that recommendation to Texas Governor Greg Abbott for consideration. Texas Governor Greg Abbott'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. The EPA did not make the 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 is 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 State Implementation Plans ("SIPs") outlining how they will reduce pollution to meet the new standards. See "Cross-State Air Pollution Rule Upheld" 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 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 plans to issue a final rule establishing air quality designation 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 Bexar 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 Bexar County as Nonattainment but that it would work with local stakeholders to address the Nonattainment designation. Because San Antonio 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 Governor Greg Abbott 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 includes strategies for targeted ozone reduction efforts through the end of 2020. The City sought feedback on the Ozone Attainment Master Plan to reduce ozone levels as the program's SASPEAKSUP 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 new 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 will 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, 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 take stringent operational limits. There are also increased costs to businesses and consumers due to special requirements for vehicles, fuels sold in the area, and for commercial and consumer products.

Overall, these potential consequences 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 of 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 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 parts per billion ("ppb"). This final rule is largely an update to the 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 ("RFP") 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 a 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 Bexar 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. The City has also established working groups within the business community to provide feedback on mitigation strategies. The City Council adopted the City-led Climate Action and Adaptation Plan ("CAAP") at its October 17, 2019 meeting. The Board adopted CAAP during its August 2019 meeting. Within the plan, the City aims to reduce its GHGs and carbon 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>. Neither the information on this website nor any links from that website is a part of this Official Statement.

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 certain states ("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.

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 Supreme Court rendered a decision in *Environmental Protection Agency v. EME Homer City Generation, L.P.*, 134 S. Ct. 1584 (2014). The 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 SO₂ in regard to four states and NO_x in regard to 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 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 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 SO₂ 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.

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 SO₂, the same as by CSAPR. CPS Energy was not included in a BART regulation in 2010 that required some Texas coal units to install SO₂ Scrubbers; however, BART is once again being looked at by EPA/TCEQ as a way to control NO_x and SO₂.

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 as a way 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 EPA has not completed the subject to BART modeling, CPS Energy believes Sommers1 and Sommers2 could potentially be included due to 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 SO₂ requirements, the EPA promulgated a BART alternative consisting of an intrastate trading program addressing the SO₂ 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 / Governor's Office's request for 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 to 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 SO₂ 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 recent deactivation of Deely units. 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.

Carbon Dioxide ("CO₂") and Greenhouse Gases ("GHG"): In 2007, the Supreme Court rendered its first major decision in the climate change arena. In *Massachusetts v. EPA*, 549 U.S. 497 (2007), the 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 CO₂ 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 CO₂ would be regulated under a key EPA permitting program. EAB sided with the EPA, agreeing that EPA is not required to treat CO₂ as "subject to regulation" for purposes of the Prevention of Significant Deterioration ("PSD") permitting program. However, EAB found that EPA could exercise its discretion to treat CO₂ as "subject to regulation," and thus require permit limits for CO₂ based on the best available control technology ("BACT"). At that time, EPA made it clear that, for both legal and policy reasons, it did not want to treat CO₂ 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 CO₂ 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 submit an application 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 necessary 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 National Emission Standards for Hazardous Air Pollutants ("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.

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, Bexar 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.

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 CO₂ 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: 1990-2017* on April 11, 2019, which presented a national-level overview of annual GHG emissions since 1990. The inventory shows GHGs in the United States have decreased from 2016 to 2017 by 0.5%.

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 CO₂ 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 CO₂, methane, nitrous oxide, hydro-fluorocarbons, 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 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 CO₂ emissions from power plants, vehicles and other major sources. Power plants and other large stationary sources of CO₂ 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 CO₂ 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 CO₂ emissions. The EPA may push for BACT determinations for coal and gas fired generation (new and existing fleet) to meet 50-80% reduction in CO₂ through carbon capture and sequestration ("CCS"). Possibly as an alternative to reducing CO₂ emissions through a 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 CO₂ 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. They did separate coal and natural gas combined cycle into separate categories with the rates of 1,000 and 1,100 lbs / 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 CO₂ / 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. In November 2014, President Obama announced a plan to reduce by 2025 the GHG emissions by 26 to 28% below the 2005 levels. On March 31, 2015, the United States submitted these goals in a formal statement, known as an Intended Nationally Determined Contribution, to the United Nations Framework Convention on Climate Change. 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 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 Supreme Court issued a decision addressing the application of stationary source permitting requirements to GHG. In *Utility Air Regulatory Group v. Environmental Protection Agency*, 124 S. Ct. 2427 (2014) (the "UARG Decision"), the 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 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 in light of 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 of 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 CO₂ emission and incorporate into their state plans. The ACE rule defined the best system of emission reductions ("BSER") for CO₂ 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 August 1, 2019, the EPA proposed a rule to revise certain New Source Review ("NSR") applicability regulations to clarify the requirements that apply to sources proposing to undertake a physical or operational change under the NSR preconstruction permitting program. The proposed rule codifies a 2018 guidance memo from then EPA Administrator Scott Pruitt which explained that at the beginning of the process to determine NSR applicability, emission decreases projected to result from a proposed project could be taken into account along with any projected emissions increases. Under the proposed rule, emissions increases and decreases are to be considered during Step 1 of the NSR applicability test. The new name for this process is "project emissions accounting" in place of the former name of "project netting". Once the proposed rule is published in the Federal Register, there will be a 60-day comment period.

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 will continue to diversify its generation fleet with renewable energy sources, low carbon generation, energy conservation and demand response.

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 of its generating facilities with no significant compliance issues. Discharges resulting from hydrostatic testing of gas pipelines meet RRCT requirements.

CPS Energy currently has individual TPDES permits for the discharge of industrial waste water to Braunig and Calaveras Lakes and into Leon Creek for the Leon Creek Power station. 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 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 United States 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. Recent 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. The case is set for argument on November 6, 2019.

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. On August 1, 2019, the EPA's water chief announced the EPA will await a decision in the Maui case before issuing its own rule interpreting whether the CWA covers pollution that crosses through groundwater before hitting regulated waters.

New Effluent Standards: Effluent standards for the steam electric category were last revised in 1982. 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, waste water discharges resulting from air pollution controls installed at coal-fired power plants. 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. The current ELG rule allows discharge from the Deely bottom ash ponds until October 31, 2020, unless there are challenges by the court overturning this rule. 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 after the Deely units deactivation. Studies are being 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 will be applied in the 2019 wastewater permitting cycle. The TCEQ has indicated they are amenable to an extension of the compliance date as long as adequate justification is provided. In April 2017, the EPA announced it is preparing a proposed rule and is actively seeking input from industry groups to discuss options that will be included in a proposed rule to revise the 2015 final 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 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 SO₂ 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 as long as the adequate justification is provided. CPS Energy anticipates compliance with the rule by 2023.

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 is still under a regulatory stay. The rule proposes 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 aims 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 exceed the agencies' authority under the CWA. Comments were due August 13, 2018. 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 remain in place pending the proceedings on remand.

On February 14, 2019, the EPA, Department of Defense 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 clarifies federal authority under the CWA. Under this new proposal, WOTUS includes traditional navigable waters, tributaries to those waters, impoundments of jurisdictional waters, wetland adjacent to jurisdictional waters, and certain ditches. The proposal also identifies 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 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.

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. 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.

Discharge of Hazardous Substances ("HS"): On June 25, 2018, the EPA issued a proposed rule which would impose no new requirements to comply with the CWA's modification, citing relevant regulations currently governing frequently-discharged hazardous substances (including PCBs) as the rationale behind not implementing additions. Based on an analysis of the frequency and impacts of reported CWA HS discharges and the existing framework of the EPA regulatory requirements, the EPA is not proposing additional regulatory requirements at this time. This proposed action is intended to comply with the consent decree and to provide an opportunity for public notice and comment on the EPA's proposed approach to satisfy the CWA requirements. Comments were due August 24, 2018. Additional comments were allowed until March 5, 2019, on an EPA Notice of Data Availability to ensure the public, stakeholders and litigants, had an opportunity to review and comment on data the EPA received, in response to a voluntary survey. No additional action has occurred to date.

Proper Venue for Clean Water Act Challenges

On January 13, 2017, the 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. In light of the Water Executive Order, the federal government asked the 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 pre-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 Supreme Court ruled that challenges to the CWA belong at the district, rather than the appellate court level. Now that the 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, Judge John Coughenour of the Western District of Washington ruled the implementation of the pre-2015 WOTUS rule resulted in procedural violations.

On 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.

Water Resources Planning

The Texas Legislature Senate Bill 3 ("SB3"), which was adopted in 2007, required the TCEQ to adopt by rule appropriate environmental flow standards for each river basin and bay system in the State, to manage the State's water resources and availability of water supply. CPS Energy participated in this environmental flow process for the Guadalupe and San Antonio ("GSA") River basins, bays and estuaries. The process culminated in environmental flow recommendations to the TCEQ for adoption and implementation. CPS Energy owns surface water rights from the San Antonio River for Braunig and Calaveras Lakes. The TCEQ finalized the new environmental flow regulations for the GSA river basins in 2012. Although the current flow requirements will not affect existing permit holders per SB3 mandate, future legislative actions may change the current protection for existing surface water permits. CPS Energy participated in the Edwards Aquifer Recovery Implementation Program ("EARIP") which was another stakeholder process tasked to develop a plan to protect federally protected species at Comal and San Marcos Springs while managing pumping from the Edwards Aquifer, the primary source of drinking water in the San Antonio metropolitan area and surrounding counties. The EARIP participants developed a Habitat Conservation Plan ("HCP") which was approved by the United States Fish and Wildlife Department, to manage the aquifer and protect the endangered species at Comal and San Marcos Springs. Successful implementation of the HCP will ensure a stable water supply for the San Antonio region, protect the endangered species, and minimize the risk of federal intervention (court litigation) regarding use of the aquifer. The cost of the program is \$10 million in start-up costs and \$20 million annually. The majority of this cost is borne by the municipal and industrial pumpers of the aquifer with an increase in their aquifer management fees. As an Edwards Aquifer groundwater user, CPS Energy's current aquifer management fee is \$84 acre-foot. CPS Energy owns 3,064 acre-feet of Edwards Aquifer pumping rights. In addition, as a "downstream beneficiary" of this plan, CPS Energy also contributes \$100,000 annually to the program. To offset some of its costs, CPS Energy previously leased 1,000 acre-feet of unused Edwards Aquifer water rights to the Edwards Aquifer Authority through 2018 to support the HCP. CPS Energy leased an additional of 1,000 acre-feet of unused Edwards Aquifer water to SAWS through 2018. Both the EAA and SAWS leases expired by their terms in 2018, and in 2019, CPS Energy leased all 2,000 acre-feet of its Edwards Aquifer water to SAWS for a 5-year term.

CPS Energy has a Strategic Water Resources Plan and a Drought Contingency Plan. In 2011, as part of its strategic planning, CPS Energy renewed until 2060 its waste water contract with SAWS for an additional 10,000 acre-feet of treated effluent for re-use at Braunig and Calaveras Lake for a total contract volume of 50,000 acre-feet. CPS Energy coordinates closely with SAWS to optimize pumping to match discharge from Dos Rios in order to minimize the effects of drought on cooling lake levels.

CPS Energy carefully monitors the flow in the San Antonio River and the Calaveras and Braunig Lake levels. CPS Energy, working with the United States Geological Survey, installed a flow meter upstream of CPS Energy's river pumps at IH37 / Loop 410 to improve river pumping operations and lake management operations. In the fall of 2017, CPS Energy began installation of a variable flow drive to its San Antonio River pumps to optimize diversion from the river; the project is complete.

Water Conservation

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. Approximately 1,500 MW of generating capacity will be from renewables by 2020. 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 a 771 MW energy savings by year 2020 which also translates to water consumption savings. Additional information on CPS Energy's sustainability programs can be found in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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. No CPS Energy surface water resources were impacted by the 2013 State and local drought, and no impact on electrical generation occurred. CPS Energy carefully monitors the resources on which it relies upon for generation.

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.

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 a 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 of 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 is extended until October 31, 2020.

On March 1, 2018, the EPA Administrator signed the first of two rules that proposes 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 U.S. Court of Appeals for the D.C. Circuit; (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 issued a proposed rule related to these requirements. While the earlier October 31, 2020 date has not been changed, the ruling could cause the EPA to move the extension date forward. 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, of which such request was granted on March 19, 2019.

On July 29, 2019, the EPA issued 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. Once the proposed rule is published in the Federal Register, there will be a 60-day comment period.

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 electronics, wood, paper, cardboard, metals, plastic bottles, aluminum cans, used oil, 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. Environmental remediation and decommissioning of the plants commenced in 2013 and was completed in early 2017. Property around Tuttle Power Plant is not fully remediated and remediation will take several years to complete. A general contractor has been retained to transform the Mission Road Power Plant into a "think tank" for renewal energy companies. See "DESCRIPTION OF FACILITIES – General Properties – Real Estate Holdings" herein for further information regarding this project.

OSHA Hazard Communication Standard: In March 2012, OSHA adopted the new Globally Harmonized System-Hazard Communication Standard. Although, the proposal required all labels and Safety Data Sheets ("SDSs") for chemicals and products to be in compliance with the new standardized requirements within three years after publication (or by August 2014) the final rule required manufacturers and importers to modify labels and SDSs by June 1, 2015, and gives distributors an additional six months, until December 1, 2015, to ship and sell stock labeled 269 under the current standard. In addition, employers were given another six months, until June 1, 2016, to update their training and their hazard communication program with any new hazard information received because of the final rule. Private employers had until December 1, 2013, to complete employee training. CPS Energy acquired new SDSs so they are available to all employees and CPS Energy continues to work with all applicable business units on the new hazard communication program requirements. Applicable CPS Energy employees were trained on how to read and understand the new labels and SDSs elements.

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 October 2, 2015, CPS Energy notified the TCEQ of its plans to conduct an Environmental, Health and Safety compliance audit under the Texas Audit Privilege Act at the Calaveras, Braunig, Leon Creek and Rio Nogales Power Stations. The audit commenced on October 12, 2015. The scope of the audit was a review of the sites' compliance with state and federal water quality and waste requirements, including but not limited to sampling and analysis processes and procedures, applicable monitoring, and reporting requirements. Any issues disclosed to the TCEQ are protected from enforcement as long as CPS Energy corrects them in a timely manner as required by the Texas Audit Privilege Act. CPS Energy completed the identified audit action items and notified the TCEQ of their completion. CPS Energy is waiting on the finalization of its TPDES wastewater permit for the Calaveras Power Station, which will allow CPS Energy to close out the audit.

CPS Energy received a proposed agreed enforcement order from the TCEQ on June 30, 2017 for failing to investigate a suspected release of a regulated substance within 30 days of discovery and for failing to report a suspected release to the TCEQ within 24 hours of discovery for the underground petroleum storage tank system located at the northwest service district facility. Monthly inventory control records for March and April 2016 indicated a suspected release that was not investigated or reported. A penalty of \$10,500 was proposed. CPS Energy submitted all documentation for the completed investigation on March 28, 2017 and again on June 22, 2017, including the tank system tightness test which indicated no release occurred. Malfunctioning pulsars on the fuel dispensers were replaced. Additional training, procedures and internal controls were implemented. The final TCEQ Agreed Order was received May 8, 2018. CPS Energy submitted a Supplemental Offset check in the amount of \$10,500 to the TCEQ on May 8, 2018.

On August 15, 2017, CPS Energy notified the TCEQ of its plans to conduct an Environmental, Health and Safety compliance audit under the Texas Audit Privilege Act at its underground petroleum storage tank sites. The scope of the audit was a review of CPS Energy's compliance with state and federal storage tank regulations, including but not limited to CPS Energy's processes and procedures, and the applicable monitoring, maintenance, management, and reporting requirements. Any issues disclosed to the TCEQ are protected from enforcement as long as CPS Energy corrects them in a timely manner as required by the Texas Audit Privilege Act. The audit was performed, and the audit action items were completed and the TCEQ was notified.

On December 20, 2018, CPS Energy received a notice of potential violation during a TCEQ site assessment for an amendment to an existing Water Pollution Abatement Plan (the "WPAP") at the Stonegate Substation. The Stonegate Substation site is undergoing modifications to facilitate the TXDOT 281 North widening project. A WPAP is required because the substation is over the Edwards Aquifer Recharge Zone. On January 30, 2019, CPS Energy received a Category C violation for disturbance of a permanent stormwater Best Management Practices ("BMP"), namely soil from construction activities was placed on a grass strip which was designed to assist in stormwater runoff filtration. Corrective measures were implemented. A Category C violation is considered a minor violation by the TCEQ, and no fine was assessed.

The soil that was placed on the grass strip was removed on December 21, 2018. The strip was hydromulched and seeded on December 27, 2018 and topsoil and grass sod was installed in January 2019. Existing procedures were revised and additional training of personnel and contractors was conducted to ensure understanding of the WPAP regulatory requirements. New procedures were developed to prevent reoccurrence. Additional signage was added to substation locations over the Edwards Aquifer Recharge Zone to indicate they are under a WPAP. A corporate Root Cause Analysis was conducted. CPS Energy submitted a response to the TCEQ on March 1, 2019, with documentation demonstrating vegetation had been re-established in the grass strip area; therefore, the matter is closed.

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 secure web site, Manage My Account at <https://www.cpsenergy.com/en/customer-support/manage-my-account.html>. 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;

- maintaining a secure web site, named My Energy Portal, at <https://www.cpsenergy.com/en/customer-support/my-home-billing-acct/my-energy-portal.html>. 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, 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. These additional insights will eventually be available to all customers. CPS Energy has installed more than 1.1 million smart meters as of January 31, 2019;
- maintaining a phone number where customers can obtain conservation and other energy-related information;
- providing a free comprehensive weatherization program for low-income customers at or below 200% of the federal poverty level;
- 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;
- offering a full suite of rebate programs for energy efficiency improvements by residential, small commercial, multi-family and large commercial customers;
- scheduling consumer information exhibits at high-traffic locations such as customer care fairs, special events and trade shows;
- conducting utility-related presentations for schools, community service organizations, business and professional groups, and home owner associations; and
- making available a free in-person home energy assessment at <https://residential.savenow.cpsenergy.com/assessment>.

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. CPS Energy offers rebates for residential and commercial customers who elect to install a "rooftop" solar PV system. In addition to receiving a rebate, these customers currently receive the additional 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 the utility's costs for maintaining and upgrading its systems. In October 2014, CPS Energy issued the first of two one-megawatt (AC) solar Requests for Proposal. Responses to these pilot program requests for proposal were evaluated and two vendors were selected. CPS Energy selected Clean Energy Collective ("CEC"), the world's leading community solar provider, to bring the first "Roofless" community solar pilot project to the City. CEC has since developed a 1.2 MW (DC) solar PV facility, providing CPS Energy customers the opportunity to own local clean energy generation through the Roofless Solar program. The Roofless Solar program went live August 26, 2016, and is fully subscribed. CPS Energy also 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 photovoltaic systems on their rooftops in exchange for credits on their energy bill. Working under a power purchase agreement with CPS Energy, PowerFin installs and operates up to 5 MW (AC) of rooftop solar on homes and businesses throughout the CPS Energy service territory, offering the community the chance to realize the benefits of local solar at no cost to them. The two new programs, Roofless Solar and SolarHostSA, are marketed to customers under the trademarked name Simply Solar. Beginning February 1, 2016, CPS Energy allocated an additional \$30 million of solar rebates for customer-owned PV systems. The rebate extension was designed so the rebate amount would decline at predetermined spending levels. The first \$10 million of rebate funds were designated with a rebate of \$1.20 per watt, the second \$10 million at \$1.00 per watt, and the last \$10 million at \$0.80 per watt. On January 30, 2017, CPS Energy announced its intention to fund an additional \$15 million in solar rebates (\$9 million for residential and \$6 million for commercial projects) allocated for this initiative. The new solar incentive, which took effect April 2017, is at \$0.60 per watt, with an additional \$0.10 per watt applicable to systems that utilize locally-manufactured components. CPS Energy added an additional \$15 million in rebate funds in January 2018 that took effect starting March 2018. On December 3, 2018, CPS Energy initiated another round of solar rebate funding with a new flat incentive of \$2,500 for residential systems. An additional \$500 is provided for systems utilizing local-made panels. Commercial systems are rebated at \$0.60 per watt for the first 25 kW and \$0.40 per watt on greater than 25 kW, with another \$0.10 per watt for utilizing local-made panels. As of January 31, 2019, 14,823 customers have installed rooftop solar with 126 MW of capacity.

In connection with CPS Energy's development of a Strategic Energy Plan that includes energy efficiency as well as generation, CPS Energy has committed to STEP. The goal of the STEP program is to save 771 MW of demand between 2009 and 2020. The 771 MW is equivalent to the amount of energy produced by a medium-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 714 MW through fiscal year 2019. 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 have expanded

the portfolio of program offerings available to customers and increased adoption toward achievement of the STEP goal. On April 29, 2019, CPS Energy approved an eight month extension of the CLEAResult and Franklin Energy contracts for delivery of services through January 31, 2020.

CPS Energy evaluates and modifies program offerings annually to target the most effective methods for energy reduction. CPS Energy is on track to achieve its target of saving 771 MW of capacity from energy efficiency ahead of schedule. CPS Energy expects to reduce its electric demand by more than 800 MW at a cost that is 15% less than originally forecasted. CPS Energy is currently reassessing the STEP program to determine if continuing the program beyond 2020 is a viable option based on projected annual reductions in energy consumption and demand going forward and the costs that would be incurred to achieve such reductions. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein.

On June 8, 2010, CPS Energy committed to partner with the Texas Sustainable Energy Research Institute (the "Institute") at the University of Texas at San Antonio ("UTSA") for sustainable energy research. CPS Energy agreed to invest up to \$50 million over 10 years in the Institute. From its inception in September 2010 through May 2018, CPS Energy has invested \$8.7 million in the Institute. On June 26, 2018, the Board approved funding for four research initiatives to enhance intelligent building energy management, solar forecasting, energy harvesting from roadways, and smart grid security, totaling approximately \$0.9 million. Future funding will be determined by the scope of the projects defined by the partnership and will be subject to annual approval by the Board.

Public Safety Programs

CPS Energy's Public Safety Awareness ("PSA") program provides natural gas safety messaging, in accordance with the RRCT'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 Bexar and surrounding counties. In addition to formal presentations to the stakeholder audiences referred to, PSA is in constant face-to-face contact with excavators in the area to disseminate messaging regarding Texas' 811 Call Before You Dig program.

In addition, PSA 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 mailings, media, billboards, excavator events and at public gatherings.

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

LITIGATION AND REGULATORY COMPLIANCE

The City of San Antonio

This section describes the litigation involving the City that does not directly involve CPS Energy or claims payable out of Systems' revenues. This section describes litigation which has been determined by the City Attorney's office as being material (that the financial results of a decision adverse to the City could have a negative result on the City's financial position). Please see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Litigation and Regulatory Compliance – Systems Litigation and Claims" herein for a description of litigation involving CPS Energy.

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits is capped under the Texas Tort Claims Act ("TTCA"). Consequently, the amount of \$17,050,516 (unaudited) is the reserve for claims liability as of the City's fiscal year ended September 30, 2018. This estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund of the City. Specific litigation statuses range from assertion of potential claims, to filing of lawsuits, to early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits, including the pursuit of all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the outcome of such lawsuits.

In the opinion of the City Attorney, it is improbable that the lawsuits now outstanding against the City could become final in a timely manner, as determined by the date of this document, so as to have a material adverse financial impact upon the City that should be reflected in the financial information of the City included herein.

The City provides the following information related to the lawsuits:

Jimmy Maspero and Regina Maspero, et al. v. City of San Antonio, et al. Plaintiffs allege that on September 19, 2012, Plaintiffs' vehicle was involved in a collision with a vehicle being pursued by a San Antonio Police Department ("SAPD") patrol car causing the death of two of Plaintiffs' children and severe permanent injuries to the remaining Plaintiffs (two children, two adults). The Plaintiffs have asserted a "state-created danger" theory under 42 U.S.C. § 1983 alleging a violation of Plaintiffs' 14th Amendment substantive due process. Plaintiffs are also asserting State law theories of negligence. Plaintiffs seek to recover damages for mental anguish, physical pain, impairment, medical expenses, and the wrongful death of two of their children. Plaintiffs are seeking monetary damages of at least \$3 million. This case has been remanded back to State district court. On February 19, 2018, the District Court granted the City's plea to the jurisdiction, dismissing all claims. Plaintiffs' motion for a new trial was denied. Plaintiffs filed an appeal to the Fourth Court of Appeals. On August 28, 2019, the Fourth Court issued its opinion reversing the trial court and remanding the case to the trial court for further proceedings. The City has filed a motion for rehearing en banc.

Estate of Norman Cooper, et al. v. City of San Antonio, et al. SAPD officers were called to a residence on a report of domestic violence. At the scene, decedent was tased on two separate occasions. Decedent later collapsed and died. Decedent's estate and family members have filed suit against the City and named officers alleging use of excessive force in violation of 42 U.S.C. § 1983. Plaintiffs seek damages in excess of \$250,000. Discovery closed on September 1, 2017. This matter is not yet set for trial. The Court granted the City's motion for summary judgment, but denied the officers' motions for summary judgment. The denial of the officers' motions for summary judgment on the issue of excessive force has been appealed to the Fifth Circuit. Briefing has been completed. The Fifth Circuit took up this matter on October 9, 2019. Trial on this matter has been stayed.

Elena Scott, Individually and as Representative of the Estate of Antronie Scott v. City of San Antonio, et al./Diane Peppar, et al. v. City of San Antonio, et al. An SAPD officer was attempting to execute an arrest warrant when Plaintiff's decedent exited his vehicle with an object the officer believed was a weapon. The officer discharged his service weapon, fatally wounding decedent. Plaintiffs have filed suit under 42 U.S.C. § 1983 alleging use of excessive force. This case was consolidated with *Diane Peppar vs. City of San Antonio*. Diane Peppar is Decedent Antronie Scott's mother. In March 2019, the Court granted the City's motion for summary judgment, dismissing all claims against the City. The officer's motion for summary judgment was granted in part but denied as to the claims of excessive force and unreasonable seizure. This matter is set for trial on January 27, 2020.

Rogelio Carlos III, et al. v. Carlos Chavez, et al. SAPD SWAT officers were assisting High-Intensity Drug Trafficking Areas ("HIDTA") in searching for a fleeing suspect. Plaintiff was misidentified by the HIDTA officer as being the suspect. The HIDTA officer engaged and attempted to physically apprehend Plaintiff and was assisted by SAPD SWAT officers. Plaintiff suffered minor injuries as a result of the arrest, although he later complained of neck and shoulder / arm pain. Several months after the incident, Plaintiff underwent surgery, during which procedure, Plaintiff was paralyzed. Plaintiff has filed suit against the City and various officers under 42 U.S.C. § 1983. The Plaintiff has amended his suit to include the physicians involved in the Plaintiff's surgical procedure. Discovery is ongoing. Motions for summary judgment have been filed. This case has not been set for trial.

Neka Scarborough Jenkins v. City of San Antonio. Plaintiff's decedent was driving northbound on Blanco Road and attempted to turn left onto Lockhill Selma at a controlled traffic signal. Plaintiff contends that the traffic signal for her lane of traffic was facing the wrong direction. While making the turn, decedent was struck by an oncoming vehicle and was killed. Plaintiff claims the City had prior notice but failed to correct the issue within a reasonable period of time. Plaintiff also claims the investigation revealed the light was placed too low and was not at the correct height for a traffic signal. This litigation is brought under the TTCA and discovery is ongoing. Under the TTCA, damages are capped at \$250,000. This case is not yet set for trial.

Patricia Slack, et al. v. City of San Antonio and Steve Casanova. SAPD officers responded to persons complaining they had been assaulted in front of a nearby residence. The officers went to the address provided by the victims and approached the front door, which was behind a security door made of metal bars. The officers knocked, and the door swung open to the living room, although the security door remained closed. At least three individuals were present in the living room. One individual stood and approached the door while reaching his hand into his waistband. Officer Casanova discharged his weapon. A bullet fired by Officer Casanova grazed one individual and fatally struck a second individual. A suit was brought on behalf of the estate of the deceased, the injured individual and another individual on the scene. Plaintiffs have filed suit under 42 U.S.C. § 1983 alleging use of excessive, deadly force. Discovery is ongoing. No trial date has been set.

Texas Sterling Construction Co. v. City of San Antonio. The City contracted with Plaintiff in a Construction Manager at Risk Contract to build road improvements on Bulverde Road. Plaintiff billed on a unit cost basis and after the City paid all the bills, Texas Sterling Construction Co. ("TSC") wrote complaining it should have been paid for actual costs. They also claim the City caused multiple delays. Plaintiff filed suit for breach of contract and is claiming damages in excess of \$250,000. Discovery is ongoing. This case is set for trial on September 14, 2020.

Paid Sick Leave Ordinance and Litigation

Working Texans for Paid Sick Time, a State-wide coalition of grassroots organizations, submitted to the City on May 24, 2018 a petition seeking a referendum on a City ordinance requiring that businesses operating within the City (being those that annually perform 80 hours or more of work within the City) provide mandatory paid sick leave to their employees or be subject to a civil penalty of \$500 per violation. Under the proposed ordinance, businesses with 15 or more employees would be required to provide eight days of paid sick leave to each employee; those with less than 15 employees would be required to provide six days of paid sick leave per employee. The City Council voted to adopt the proposed ordinance on August 16, 2018 which eliminated the need for an election on the matter. Plaintiff businesses and the State sued to enjoin implementation. The court approved an order submitted by the parties that moves the implementation date to December 1, 2019. The City Council previously appointed a Paid Sick Leave Commission to review and work on recommended changes, which were presented to City Council in September 2019. The City and Paid Sick Leave Commission worked on recommended changes to implement and defend the ordinance. At the October 3, 2019 meeting, the City Council voted in favor of approving revisions to the ordinance passed in 2018. The modifications include a requirement that all businesses provide paid sick leave to their employees. The ordinance is now known as the "Sick and Safe Leave Ordinance". The City is preparing for continued litigation and will work to implement and defend the ordinance.

Collective Bargaining Negotiations

The City is required to collectively bargain the compensation and other conditions of employment with its fire fighters and police officers. The City engages in such negotiations with the association selected by the majority of fire fighters and police officers, respectively, as their exclusive bargaining agent. The International Association of Fire Fighters, Local 624 ("Local 624") is the recognized bargaining agent for the fire fighters. The San Antonio Police Officers Association ("SAPOA") is the recognized bargaining agent for the police officers. The following is a status of the collective bargaining negotiations with each association.

Collective Bargaining Agreement between the City of San Antonio and the San Antonio Police Officers Association. The City Council approved a collective bargaining agreement with the SAPOA on September 1, 2016, which provides for a term through September 30, 2021.

Collective Bargaining Agreement between the City of San Antonio and the International Association of Fire Fighters, Local 624 (Local 624). The collective bargaining agreement between the City and Local 624 expired September 30, 2014, with refusal for renegotiation by Local 624 pursuant to the bargaining process. The parties continue to operate under the terms of agreement; however, the City challenged the evergreen clause which purports to extend the agreement through September 30, 2024. The City filed a lawsuit questioning the constitutionality of the evergreen clause. On August 23, 2017, the Texas Fourth Court of Appeals ruled that the City's collective bargaining agreement with Local 624 does not violate the Texas Constitution. Following the decision from the Texas Fourth Court of Appeals, the City petitioned the Texas Supreme Court to rule under the Texas Constitution. Although the Texas Supreme Court asked for briefs on the merits, the Texas Supreme Court decided on June 22, 2018 that it would not hear the case, effectively ending the lawsuit in 2018. Local 624 agreed to start labor negotiations on February 6, 2019, with the parties invoking the services of a former Texas Supreme Court Justice as a mediator on April 17, 2019. Local 624 then declared impasse on July 2, 2019, and invoked a binding arbitration process recently added to the City Charter that will determine the terms of the collective bargaining agreement. The arbitration hearing is scheduled for early December 2019 with a determination of the labor panel expected in early 2020. The City expects that the terms of the new labor agreement likely would go into effect in Fiscal Year 2020.

Petition Initiatives

Local 624, as defined in the preceding subsection, gathered signatures on three petitions seeking to amend the City Charter. The first petition ("Proposition A") sought to expand the topics of referendum in the City Charter to include referendum of any ordinance including appropriations, levying taxes, setting utility rates and zoning (actions not subject to referendum under the current City Charter). Proposition A also sought to lower the threshold of signatures for a referendum of any ordinance from approximately 70,000 to 20,000 and expanded the timeframe for obtaining the signatures from 40 to 180 days. A second petition ("Proposition B") sought to eliminate the City Council's authority to determine compensation and term of the City Manager by limiting pay to 10 times the amount of the lowest paid city employee and limiting the term of a City Manager to eight years. It further would require a supermajority (8 votes out of 11) to select the City Manager. A third petition ("Proposition C") sought to allow Local 624 to declare impasse in collective bargaining unilaterally and to unilaterally require binding arbitration upon the City.

Local 624 delivered these three petitions to the City on April 11, 2018. At an election held on November 6, 2018, Proposition A was rejected by City voters, but Propositions B and C passed. Election results were canvassed on November 15, 2018. On December 19, 2018, citing passage of Proposition C as a primary concern, Fitch downgraded the City's general obligation debt rating to "AA+" from "AAA". The City continues to evaluate the potential short-term and long-term financial and operational impacts of these

Charter amendments. CPS Energy has not conducted its own report that would analyze the impact of the City Charter amendments to the Systems' operations or financial condition.

Systems Litigation and Claims

CPS Energy is involved in various legal proceedings related to alleged personal and property damages, condemnation appeals and discrimination cases. As the operator of the Systems, various claims have been asserted against CPS Energy. Most of those claims, including those in active litigation, do not merit individual disclosure, and in all cases, except where mentioned below, CPS Energy maintains a litigation reserve that CPS Energy management believes to be sufficient to satisfy reasonable outcomes concerning these pending claims and litigation. Subject to the foregoing, CPS Energy separately discloses certain pending litigation and potential claims, as follows:

Time Warner Cable San Antonio, L.P. v. City Public Service of San Antonio. Texas law prohibits discrimination by a MOU in the rates and terms the MOU charges a certificated telecommunications provider ("CTP") for the attachments the CTP makes to a MOU's poles and, beginning September 1, 2006, required the MOU to charge a single, uniform pole attachment rate to all CTPs. Beginning with its 2007 invoices, CPS Energy started charging all CTPs the same pole attachment rate, but since inception of uniform invoicing of pole attachment rates AT&T claimed that under its 1987 joint use pole attachment agreement with CPS Energy it was entitled to pay a lower contractual rate. The 1987 joint use contract was terminated July 31, 2016. Effective August 1, 2016, AT&T executed a new pole attachment agreement with CPS Energy under which there is no dispute as to the appropriate pole attachment rate.

AT&T's position asserting the right to pay a lower pole attachment rate under the joint use contract was the basis for the lawsuit filed against CPS Energy by Time Warner Cable San Antonio, L.P. ("TWC"), which is now owned by Charter Communications, Inc.*. TWC sued CPS Energy in State district court in Bexar County, claiming CPS Energy's failure to collect the outstanding balance from AT&T is in violation of the statutory requirement and that CPS Energy had discriminated against TWC by charging TWC and AT&T different pole attachment rates. TWC seeks damages of no less than \$5 million. CPS Energy responded to the lawsuit by asking the court to abate the lawsuit pending a final outcome in a PUCT docket CPS Energy filed, *Petition of CPS Energy for Enforcement Against AT&T and Time Warner Cable Regarding Pole Attachments*, Docket No. 36633. CPS Energy also counter-sued for TWC's outstanding balance, which has resulted from TWC paying for its pole attachments at the 30-year-old AT&T rate instead of the 2008 rate CPS Energy is uniformly charging all pole attaching entities. By order issued March 17, 2009, the Bexar County District Court abated the proceeding pursuant to CPS Energy's request, and on April 3, 2009, the PUCT issued an order assuming jurisdiction over the administrative case in Docket No. 36633. The State Office of Administrative Hearings ("SOAH") heard the PUCT docket on September 8-14, 2011. The SOAH issued a Proposal for Decision on March 9, 2012, and the PUCT released a final Order on February 1, 2013. CPS Energy, TWC and AT&T appealed the PUCT order to the Travis County District Court, which heard the case on January 22, 2014 and issued its order on March 3, 2014. The Travis County District Court's March 3, 2014 final judgment reversed the PUCT on the grounds that the PUCT lacked jurisdiction to make determinations about private pole attachment agreements, about whether a breach of contract had occurred, and about whether discrimination under State law caused harm. The final judgment also reversed the PUCT's determinations on using a rate of return other than the Federal Communications Commission's (the "FCC") default rate of return and on using three attaching entities in its calculation of the pole attachment rate for billing years 2005-2010. The final judgment affirmed the PUCT's final order in all other respects and remanded it to the PUCT. CPS Energy, AT&T, TWC, and the Texas Attorney General (on behalf of the PUCT) all appealed the district court's decision to the Texas Third Court of Appeals (the "Third Court of Appeals") in May and June 2014. The case was argued before the Third Court of Appeals on April 22, 2015. On July 31, 2016, TWC's existing pole attachment agreement was terminated and it executed a new agreement effective August 1, 2016. CPS Energy's potential exposure under the case may not extend beyond July 31, 2016.

On February 24, 2017, the Third Court of Appeals issued its opinion in the appeal of the PUCT order. The Third Court of Appeals found that the PUCT has jurisdiction to review and modify CPS Energy's pole attachment rate formula inputs because it was not setting rates, but rather calculating the highest annual pole attachment rate allowed by statute. On a related jurisdictional issue, the Third Court of Appeals vacated the district court's judgment that the FCC's 2011 amendment to the pole attachment formula was prospectively applicable to CPS Energy under State law, finding that the PUCT's ruling on the matter was advisory, not ripe for adjudication, and outside the scope of the Third Court of Appeals' jurisdiction to review. Regarding formula inputs, the Third Court of Appeals ruled that (i) three was the appropriate average number of attaching entities per pole to consider in the pole-attachment rate calculation, finding that CPS Energy met its burden of proof to overcome the FCC formula's presumptive average of five for a metropolitan area; and (ii) the default rate of return of 11.25% in the FCC formula applied to CPS Energy for all years in dispute, including 2005, and rejected the argument that the PUCT had the authority to set CPS Energy's rate of return. On the issue of discrimination, the Third Court of Appeals ruled that CPS Energy had provided discriminatory terms for a four month period between September 1, 2006 and December 31, 2006 (the result of different billing period applicable to AT&T and TWC); otherwise, CPS Energy did not engage in discriminatory treatment for the rest of the billing years in dispute (2007 to 2010). The court reached this conclusion by finding that CPS Energy had properly charged a non-discriminatory, uniform rate throughout the billing period in dispute as required by statute.

On March 9, 2017, the Third Court of Appeals granted TWC's request for a 30-day extension to file a motion for rehearing. On April 12, 2017, TWC filed its motion for rehearing and en banc reconsideration. On August 31, 2017, the Third Court of Appeals denied TWC's motion for rehearing and en banc hearing and issued a substitute opinion replacing the opinion issued on February 24, 2017. The substitute opinion did not alter the Court's earlier rulings. On November 15, 2017, TWC filed a petition for review with the Texas Supreme Court, which was joined by the Texas Attorney General. The high court requested that CPS Energy file a response to TWC's petition for review, which was filed on April 18, 2018. Subsequently, on June 1, 2018, the Texas Supreme Court requested the parties to file briefs on the merits of the case. TWC and the Texas Attorney General filed their initial briefs on July 23, 2018, followed by CPS Energy's response on September 5, 2018, and concluding with TWC's reply brief on September 28, 2018. On November 11, 2018, the Texas Supreme Court granted TWC's petition for review. The Texas Supreme Court heard oral arguments on January 24, 2019 and issued an opinion on May 17, 2019. The court ruled the PUCT's finding that CPS Energy failed to make any serious or meaningful effort to collect from AT&T before it initiated the enforcement proceeding is supported by substantial evidence, and the effect on TWC was clearly discriminatory. Thus, the Texas Supreme Court reversed the Third Court of Appeal's decision in part and remanded the case to the trial court.

On June 17, 2019, CPS Energy filed a motion for rehearing with the Texas Supreme Court arguing that the high court erred in its May 17, 2019 opinion by holding that CPS Energy waived the "argument" that a cable company is not entitled to the nondiscriminatory protections of State law applicable to a certificated telecommunications provider for failure to raise the argument at a lower court. The motion for rehearing asserts that error occurred because the holding is contrary to the court's long-standing precedent providing that "issues" not raised below are waived, but parties are free to construct new "arguments" in response to issues raised before the high court by opposing parties, whether or not those arguments were raised at a lower court. On October 4, 2019, the motion for rehearing was denied. The Texas Supreme Court has remanded the case back to the District Court to enter a revised order consistent with the legal proceedings, prior to remanding the case back to the PUCT for issuance of the revised order.

* On October 5, 2012, the PUCT approved the consolidation of State-Issued Certificates of Franchise Authority ("SICFA") granted to Time Warner Cable San Antonio, LP (SICFA No. 90007) and Time Warner Cable Texas LLC (SICFA No. 90008), both affiliated companies of Time Warner Cable, Inc., into SICFA No. 90008. PUCT Project No. 40756, Notice of Approval (October 5, 2012), *Joint Application of Time Warner Entertainment, Advance/Newhouse Partnership and Time Warner Cable San Antonio, L.P. to Amend Its State-Issued Certificate of Franchise Authority; Name Change, Expansion of SAF & Other*. On May 18, 2016, Time Warner Cable Texas LLC became an indirectly, wholly owned subsidiary of Charter Communications, Inc. On July 13, 2016, the PUCT amended SICFA No. 90008 to recognize the change of ownership from Time Warner Cable, Inc. to Charter Communications, Inc., but otherwise the name of SICFA No. 90008 remained in the name of Time Warner Cable Texas LLC d/b/a Time Warner Cable. PUCT Project No. 46020, Notice of Approval (July 13, 2016), *Application of Time Warner Cable Texas LLC for Amendment to a State-Issued Certificate of Franchise Authority for Name Change and Transfer of Ownership*.

Steven Mathewson & Cameron Mathewson v. City of San Antonio, by and through its agent, City Public Service Board of San Antonio d/b/a CPS Energy, et al. Plaintiffs allege that on November 13, 2017, Plaintiffs' vehicle was involved in a collision with a CPS Energy vehicle resulting in personal injuries necessitating multiple surgeries. Plaintiffs seek to recover damages for physical and mental injuries, pain, physical impairment, disfigurement, medical expenses, lost wages, and earning capacity. Plaintiffs have not tendered a demand to CPS Energy. Mediation is scheduled for the fourth quarter of fiscal year 2020.

No Litigation Certificate

On the date of delivery of the Bonds to the Underwriters, the City will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

Except as disclosed herein and as of the date hereof, the City is aware of no litigation of any nature that has been filed or is pending, as of the date hereof, to restrain or enjoin the issuance or delivery of the Bonds or which could affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

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, system reliability, nuclear plant safety, physical and cyber security, employee and operational safety, and other business issues. Responsibility for ensuring compliance lies within the responsible business units and, at an enterprise level, with the Interim Vice President of Compliance, Ethics & Facility Master Planning. 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 or business risks would be disclosed individually, if they were to 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 a number of 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. One of the most significant of these factors has been the effort on national 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 both the 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 – THE ELECTRIC UTILITY INDUSTRY GENERALLY – ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein.

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 have an effect on 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 subsequent to the date of this Official Statement. Extensive information on the electric utility industry is available from sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

FEDERAL ENERGY POLICY

Since taking office in January 2017, President Donald Trump's administration has sought regulatory reforms of the Obama administration's policies that are expected to have an impact on federal energy policies. Specifically, President Trump vowed to drastically alter the country's direction on climate and energy policy. His promises include actions such as withdrawing from the Paris Agreement and dismantling the EPA as well as repealing restrictions on domestic energy development. In addition, on February 28, 2019, Deputy Administrator Andrew Wheeler was appointed Administrator and confirmed by the U.S. Senate.

Regulatory reform continues to be a focus of the administration. Notable actions by President Trump in the energy sector include an Executive Order he signed on March 28, 2017, directing the EPA to start the process of re-evaluating and rewriting the CPP — the EPA's rule, issued in final form in late 2015, to reduce carbon dioxide emissions from fossil fuel-fired power plants. Additionally, on March 26, 2019, President Trump signed an Executive Order related to resiliency to electromagnetic pulses. Federal agencies are in the process of gathering information to comply with both of these directives. More specific to the electricity sector, in Executive Order 13783, President Trump directed the EPA to immediately review and, as appropriate, suspend, revise or rescind the regulations relating to greenhouse gas emissions from the electric sector. Because such an action is governed by processes established in federal law, the EPA will have to go through a formal rulemaking process, subject to input from the public, before electric utilities will know how this administration wants to regulate greenhouse gases. This process could take considerable time.

On August 21, 2018, the EPA proposed the ACE rule which would establish emission guidelines for states to develop plans to address GHG emissions from existing coal-fired power plants.

The ACE rule has several components: a determination of the BSER for GHG emissions from coal-fired power plants, a list of "candidate technologies" states can use when developing their plans, a new preliminary applicability test for determining whether a physical or operational change made to a power plant may be a "major modification" triggering new source review, and new implementing regulations for emission guidelines under Clean Air Act section 111(d). The EPA received comments through October 31, 2018. In October 2018, the EPA announced a five-month delay for release of changes to the Clean Air Act's new source review program. In mid-November 2018, the EPA further modified its interpretation of the new source review program as it relates to project aggregation, which includes a determination as to whether a number of smaller, but related, projects within a facility must be aggregated for the purposes of determining whether emission increases from a project are significant.

The EPA issued the final ACE rule on June 19, 2019 and was effective on September 6, 2019. The final ACE rule includes 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 CO₂ emissions and incorporate into their state plans. The ACE rule defined the BSER for CO₂ emissions from an existing power plant is by HRIs. CPS Energy has already implemented most of the HRI projects listed in the ACE rule.

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 new law, the Resource Conservation and Recovery Act ("RCRA") is 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.

In 2013, President Obama issued an Executive Order "Improving Critical Infrastructure Cybersecurity", 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. In July 2019, NIST published its "Smart Grid Profile", which applies risk management strategies from the Framework to the smart grid. The Congress continues to make cybersecurity and grid security a priority regarding preparedness of the electric utility sector for cybersecurity threats. CPS Energy participates in a variety of cyber initiatives and continues to analyze vulnerabilities and update its security, monitoring, and alerting technology in an effort to prevent cybersecurity incidents.

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, including at substation fences and control houses. Other technologies, such as cameras, photoelectronic ("PE") beams, fiber optic fence detection systems and lighting, are also employed to deter security threats.

On March 7, 2014, FERC directed NERC to develop reliability standards requiring owners and operators of the bulk-power system to address risks due to physical security threats and vulnerabilities. The order gave NERC 90 days to submit one or more proposed standards that require owners and operators of the bulk-power system to take at least three steps to protect physical security. NERC met the deadline and drafted a standard ("CIP-014-1"), which requires transmission owners and operators to (1) perform a risk assessment of their system to identify facilities that, if damaged, could have a critical impact on the operation of the bulk-power system; (2) evaluate potential threats and vulnerabilities to those facilities; and (3) develop and implement a security plan to address potential threats and vulnerabilities. The final rule was issued on November 20, 2014. CPS Energy has taken steps to comply with the CIP-014-1 standard requirements.

The FERC acted in July 2016 to improve the cybersecurity of the bulk electric system ("BES") NERC to develop a supply chain risk management standard to address risks to information systems and related electric system assets. FERC directed NERC to develop a Critical Infrastructure Protection ("CIP") Reliability Standard that requires entities to develop and implement a supply chain management plan for industrial control system hardware, software, and vendor services associated with electric system operations. NERC was required to submit the new CIP standard within one year. The standard was developed and approved by NERC on June 16, 2017. On December 21, 2017, FERC unanimously voted to direct NERC to modify the existing "Cybersecurity Incident Reporting and Response Planning" standards, citing concerns that current reporting "understates the true scope of cyber-related threats facing the bulk electric system". NERC approved the proposed standard on August 10, 2017. The standard was approved by FERC on July 19, 2018, as revised on June 20, 2019, (to extend mandatory reporting of cyber incidents to attempted attacks and events that comprised the system without necessarily impacting a reliability task) and will be effective on or about January 1, 2021. CPS Energy is making the necessary preparations to comply with this new CIP standard, as supplemented.

Beginning with the 112th United States 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 Investment Tax Credit ("ITC") for solar power and the Production Tax Credit ("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 would then be 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Carbon Dioxide ("CO₂") and Greenhouse Gases ("GHG"))" herein. In February 2016, the U.S. 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. Court of Appeals 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. Public comment on the proposal was extended to January 16, 2018. On July 9, 2018, the EPA sent its draft rule entitled "State Guidelines for Greenhouse Gas Emissions from Existing Electric Utility Generating Units" to the Office of Information and Regulatory Affairs in the White House OMB. In response to the finalization of the ACE rule, legal challenges have been launched against the ACE rule in the D.C. Circuit. CPS Energy continues to assess the ACE rule's provisions prior to implementation.

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.

The 2005 Energy Act included several provisions that could affect CPS Energy's business and continue to be evaluated by management, 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 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 Municipal Utilities 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 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. Municipal Utilities, 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.

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. Municipal Utilities 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 subsequent to 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 in order 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 United States Court of Appeals for the District of Columbia 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 October 24, 2018, President Trump named Neil Chatterjee as the FERC chair.

A commission seat was subsequently vacated when FERC Commissioner Robert Powelson left his position in mid-August 2018. President Trump nominated Bernard McNamee to fill the vacant seat, which was confirmed by the United States Senate on December 6, 2018.

CPS Energy and the STPNOC will continue to monitor and evaluate FERC developments with a potential to impact the gas and electric systems.

THE PUBLIC UTILITY COMMISSION OF TEXAS (PUCT)

The PUCT exercises regulatory authority over the retail and wholesale markets of Texas. The PUCT is comprised of two commissioners and a chair appointed by the 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. Beginning in 2021, as a result of legislation passed by the 84th Legislature in 2015, the PUCT will require MOUs to file certificates of convenience and necessity ("CCN") to build transmission 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. These rules allow for MOUs to continue building transmission outside their service areas plus 10 miles until the 2021 effective date, without having to go to the PUCT for a CCN. 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. 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.

TEXAS RELIABILITY ENTITY, INC. (TEXAS RE)

Headquartered in Austin, Texas, 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. In addition, Texas RE has been authorized by the PUCT and is permitted by NERC to investigate compliance with the ERCOT Protocols and Operating Guides, working with the PUCT staff regarding any potential protocol violations. 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.

ERCOT

ERCOT is one of eight Regional Reliability Councils in NERC. The ERCOT bulk electric system is located entirely within the State and serves approximately 25 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 a total of 46,500 miles of transmission lines, including 9,249 miles at 345-kV.

In response to legislative directive, ERCOT amended its articles of incorporation to establish an ISO in 1996. Under ERCOT's organizational structure, the ISO reports to the ERCOT Board of Directors, 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 chairman is an ex-officio member 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 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 transmission service provider annually recovers, through ERCOT-wide transmission charges, its Transmission Cost of Service ("TCOS"), which is set by the PUCT. The PUCT recently approved changes to the Substantive Rule 25.247 that establishes a filing schedule for non-investor-owned transmission service providers ("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. CPS Energy's most recently filed Earnings Monitoring Report was submitted on May 23, 2019. 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. Smaller non-investor-owned TSPs with charges less than one percent of the total ERCOT wholesale transmission charges must file every 96 months. Recent PUCT rule changes require CPS Energy to submit an interim or comprehensive TCOS application on or before November 28, 2020. There is not an expectation for a mandated full filing in the near future. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein.

In September 2019, ERCOT released its final fall and preliminary winter 2019 Seasonal Assessment of Resource Adequacy ("SARA") report. Based on the final fall 2019 and preliminary winter SARA report, the ERCOT region is expected to have sufficient resource capacity to serve forecasted peak demands in the upcoming fall and winter seasons of October through November 2019 and December 2019 through February 2020. The fall peak demand forecast is 61,034 MW and the total resource capacity expected to be available for the peak demand is 83,984 MW. The winter peak demand forecast is 62,257 MW and the total resource capacity expected to serve peak demand of 82,740 MW. In May 2019, ERCOT also released the May 2019 Capacity Demand and Reserves ("CDR") report which calculates higher planning reserve margins for the summers of 2020 through 2023 (10.5%, 15.2%, 13.0%, 10.3%, respectively), primarily due to an increased number of potential wind and solar projects that are currently in the interconnection queue and eligible to be included in the CDR. CPS Energy proactively monitors the ERCOT market closely to ensure it is mitigating risk of exposure to high and volatile prices.

On June 14, 2017, the ERCOT Board of Directors endorsed a transmission project that includes two new 345-kV lines to address future reliability concerns in West Texas. ERCOT only has asynchronous ties to other reliability councils and is only connected through two direct current ("DC") ties to the eastern interconnect and three small DC ties to Mexico, providing only limited import / export capability.

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 Municipal Utilities, such as CPS Energy, as well as other provisions that govern investor owned utilities ("IOUs") and electric co-operatives ("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 Municipal Utilities 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 IOUs 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 bases. Municipal Utilities 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 does 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 Power Generation Companies, 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. Retail sales activities are performed by Retail Electric Providers ("REPs") which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities 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 Power Generation Companies, 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 Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). TDUs, Municipal Utilities, 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

Municipal Utilities 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 Municipal Utility 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 Municipal Utility 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. 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 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.

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 Municipal Utilities 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 a 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.

A 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 Municipal Utilities to enter into risk management and hedging contracts for fuel and energy is clarified. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 & SOLUTIONS" herein for discussion of the Energy Price Risk Management Program in use at CPS Energy.

TEXAS LEGISLATIVE IMPACT ON THE ELECTRIC INDUSTRY

Most Recent Legislative Session

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 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.

Additional bills passed that will have a direct operational impact on CPS Energy pending their respective regulatory rulemaking process. HB 4150 adds comprehensive reporting regarding transmission line inspections and safety incidents for all electric utilities. All utilities (MOUs, IOUs and Electric Co-ops) will be 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/added, 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 NESC height requirements. A rulemaking at the PUCT to implement HB 4150 is expected in the coming months.

Other bills include HB 864 and HB 866 and pertain to gas infrastructure safety and reporting. As of July 2019, the RRCT initiated a comprehensive rulemaking 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 result of the rulemaking, which is in the process of reformulation, will impact the reports CPS Energy currently files with the RRCT regarding new pipeline construction and CPS Energy's annual risk-based programs for identifying and replacing gas infrastructure. The rulemaking will also make changes to the annual schedule by which CPS Energy pays its permit fees.

Two additional bills of note are SB 1012 and 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 power generation companies ("PGC"). SB 1938 codifies within State law certain ERCOT protocols as they pertain to transmission owners' ability to construct off existing transmission end-points.

In regard to cyber and grid security, three bills passed relevant to the electric utility industry. All of these bills are pending implementation and further action by the PUCT and ERCOT. SB 64 establishes a program for the PUCT to coordinate and share with utilities best practices on a number of 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. 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 will be comprised of representatives from the PUCT, ERCOT and the Governor's office, and coordinate with industry and specific State and federal entities. Lastly, 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.

Prior Legislative Sessions

During its 83rd Legislative Session in 2013, the Texas Legislature reviewed and passed the mission and performance of the PUCT as required by the Texas Sunset Act. This act provides that the Sunset Advisory Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed, and what improvements are needed to ensure that tax dollars are appropriately utilized. Based on recommendations of the Sunset Advisory Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future. The 86th Texas Legislature passed SB 619, which groups the next Sunset review of the PUCT, Office of Public Utility Counsel, and ERCOT in 2024-2025.

During the 84th Legislative Session in 2015, the Texas Legislature passed SB 776, requiring a MOU to obtain a CCN from the PUCT for the construction of a transmission facility in certain circumstances. MOUs must get PUCT-approved CCNs outside of their service territory plus ten miles until September 2021; from that point forward, MOUs must get PUCT-approved CCNs to construct outside their city limits. MOUs can make payments in lieu of taxes on external transmission. A MOU required to apply for a CCN would be entitled to recover payments in lieu of property taxes through its wholesale transmission fees if the utility had a written agreement with the taxing entity, the payments in lieu of taxes were equivalent to the taxes it would have paid if it were a private entity, the governing body of the taxing entity was not the same as the governing body of the utility, and the utility provided the PUCT with a copy of the written agreement and any other information the PUCT deemed necessary. The PUCT rulemaking process on implementation of SB 776 was completed in June 2016. As of the spring of 2019, the PUCT has initiated workshops with MOUs in preparation for the September 2021 implementation date. *See* "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – THE ELECTRIC UTILITY INDUSTRY GENERALLY – The Public Utility Commission of Texas (PUCT)".

In 2017, the 85th Texas Legislature convened in general and special sessions. The most notable piece of legislation that passed during these sessions impacting CPS Energy was SB 758, which amends the utility's bill payment assistance program for low-income customers. The enactment of this legislation removed the statutory requirement for CPS Energy and SAWS to notify a low-income customer with disconnection before they could be enrolled in the program. The bill payment assistance program for utility system customers now only requires a determination by the municipality as to low-income status.

Another notable piece of legislation important to CPS Energy was the passage of HB 1818, the Railroad Commission Sunset Bill. The passage of HB 1818 continued the functions of the RRCT until September 2029, with a focus on agency efficiencies and on pipeline safety. The legislation granted the RRCT the ability to create a pipeline safety & regulatory fee to fill a budget shortfall in its pipeline safety & damage prevention program. The RRCT initiated a rulemaking on this fee that was completed on June 5, 2018, and became effective June 25, 2018. Based on the definitions within the rulemaking, CPS Energy's fees are assessed at \$20 per mile of pipe plus an annual \$500 permit renewal. An internal assessment of these new fees determined they could be absorbed within CPS Energy's current operations.

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 virtue of "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* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Air Act" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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. As a result 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 on line.

Changes to environmental emission controls may have the greatest effect on coal plants. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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, enacted by the Texas Legislature in 2005 ("SB 20"), 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 is directed to establish a target of 10,000 MW by January 1, 2025. 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.

According to the ERCOT Demand and Energy Report, 18.6% of the electricity generated in Texas during calendar year 2018 came from wind energy resources, up from 17.4% for 2017. The total capacity of renewable facilities in Texas as of June 2019, is approximately 23,909 MW which exceeds the 5,256 MW January 1, 2013 goal specified in the PUCT Substantive Rule 25.173 – Goal for Renewable Energy, and is above the January 1, 2025 "target" of 10,000 MW of wind generation. On January 21, 2019, wind generation in ERCOT produced a new record of 19,672 MW. ERCOT's wind penetration record was set on January 19, 2019, at 56% of load.

Looking to the future, CPS Energy plans to evolve from focusing on providing low-cost power from traditional generation sources to providing competitively priced power from a variety of 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 November 2017, ERCOT updated its previously issued May 2017 CDR report indicating the summer 2018 planning reserve margin was projected to be 9.3% (a reduction of 9.6% from the May 2017 CDR report). This projected reduction was attributable to unit retirements and delays in planned renewable generation projects. 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, and implementation of Marginal Line Losses. As of December 27, 2017, stakeholders have filed comments and advocated for various positions. In October 2017, ERCOT received notice of multiple generator retirements totaling about 4,500 MW. In November 2017, ERCOT notified the market that the pending generator retirements would not impact the reliability of the electric system and would be allowed to retire on the schedule proposed in their initial retirement notices. The May 2018 CDR report reflected the impact of these generator retirements. In August 2018, the PUCT opened Dockets 48539, 48540, and 48551 to examine the Real-Time Co-Optimization proposal, Marginal Losses proposal, and review the market performance for summer 2018, respectively. CPS Energy will monitor these proceedings closely to assess the effect of the new regulations on its business.

In order to improve scarcity price signals, the PUCT instructed ERCOT to implement an Operating Reserve Demand Curve ("ORDC") in June 2014. In June 2018, as a result 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 seen as a minor adjustment prior to summer 2018. In early 2019, the PUCT endorsed the Real-Time Co-Optimization proposal as well as a two phase ORDC modification that would result in an increase in the reserve adder pricing. In April 2019, ERCOT formed the Real-Time Co-Optimization Task Force ("RTCTF"), reporting to the ERCOT Technical Advisory Committee ("TAC"), to formulate and vet the policies needed to implement the Real-Time Co-Optimization market change. The first phase of the ORDC modification was implemented in spring 2019, with the second phase adjustment scheduled for 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 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 cap of \$9,000 per MWh, as is also required by ERCOT protocols.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City, acting by and through the Board (who has accepted such responsibility by resolution of the Board adopted on March 25, 2019) made the agreement described below for the benefit of the owners and Beneficial Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Board, on behalf of the City, will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the MSRB through its EMMA System, where such information will be available to the general public, free of charge, through an internet website at www.emma.msrb.org.

ANNUAL REPORTS

Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, Texas Government Code Sections 1502.66, 1502.67 and 1502.68, as amended, and the City's Home Rule Charter, the Board must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by an independent certified public accountant, and must file each audit report with the Secretary of the Board, within 180 days after the close of the Board's fiscal year. The Board's financial statements and independent auditors' reports are available for public inspection to the extent information contained in them is not excepted from disclosure under the Texas Public Information Act, as amended, Texas Government Code, Chapter 552. Persons may obtain copies of the portions of these documents not excepted from disclosure under the Texas Public Information Act upon submission of a written request to the Secretary of the Board, and paying the reasonable copying, handling and delivery charges for providing this information.

The Ordinance obligates the City, acting by and through the Board, to provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the Board of the general type included in this Official Statement under the headings "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – Retail Service Area – Customer Base as of January 31, 2019"; "TEN-YEAR ELECTRIC CUSTOMER STATISTICS", "FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY" and "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" Tables under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates"; "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System - Generating Capability"; "Five-Year South Texas Project Capacity Factor" Table under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources"; "Other Electric and Gas Systems Statistics" under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Gas System – Rule Relating to Replacement of Gas Distribution Facilities"; and APPENDIX B. The Board will update and provide this information within six months after the end of each fiscal year of the Board. See "CONTINUING DISCLOSURE OF INFORMATION – Availability of Information" below.

The Board may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the SEC Rule 15c2-12 ("Rule"). The updated information will include audited financial statements, if the Board commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Board will provide unaudited financial statements by the required time and audited financial statements when and if the audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B, or such other accounting principles as the Board may be required to employ from time to time pursuant to State law or regulation.

NOTICE OF CERTAIN EVENTS

The Board will also provide timely notices of certain events to the MSRB. The Board will provide notice in a timely manner (not in excess of ten business days after the occurrence of the event) of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of registered owners of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City or CPS Energy, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or CPS Energy or the sale of all or substantially all of the assets of the City or CPS Energy, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent / Registrar or change in the name of the Paying Agent / Registrar, if material; (15) incurrence of a Financial Obligation of the City or CPS Energy (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City or CPS Energy, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the City or CPS Energy, any of which reflect financial difficulties. In the Ordinance, the City adopted policies and procedures to ensure timely compliance with its continuing disclosure undertakings. Neither the Bonds nor the Ordinance make any provision for liquidity enhancement, or credit enhancement. In addition, the Board will provide timely notice of any failure by the Board to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City or CPS Energy in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City or CPS Energy, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City or CPS Energy, and (b) the City and CPS Energy intend the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

AVAILABILITY OF INFORMATION

Effective July 1, 2009 ("EMMA Effective Date"), the SEC implemented amendments to the Rule approving the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the Board in accordance with its undertakings, including its undertaking for the Bonds, will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB. To view CPS Energy's latest financial information, please visit CPS Energy's website at: <http://www.cpsenergy.com/en/about-us/who-we-are/Financial-Information>.

With respect to debt of the City secured by revenues of the Systems and issued prior to the EMMA Effective Date, the City, acting by and through the Board, remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository ("SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas ("Texas MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the Texas MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the Texas MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's

website simultaneously with such posting. Until the City receives notice of a change in this contractual agreement between the Texas MAC and EMMA or of a failure of either party to perform as specified thereunder, the City has determined, in reliance on guidance from the Texas MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

LIMITATIONS AND AMENDMENTS

The City, acting by and through the Board, has agreed to update information and to provide notices of specified events only as described above. The City, acting by and through the Board, has not agreed to provide other information that may be relevant or material to a complete presentation of the Board's financial results of operations, conditions, or prospects or agreed to update any information that is provided, except as described above. The City and the Board make no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City and the Board disclaim any contractual or tort liability for damages resulting in whole or in part from any breach of their continuing disclosure agreement or from any statement made pursuant to their agreement, although registered owners and Beneficial Owners of Bonds may seek a writ of mandamus to compel the City and the Board to comply with their agreements.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City or the Board, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule and either the registered owners of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Board (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Bonds. The City may also repeal or amend the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the City also may amend these provisions in its discretion in any other manner or circumstance, but in either case, only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the City amends its agreement, it has agreed that the Board, on behalf of the City, shall include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS

CPS Energy, during the past five years, has complied in all material respects with continuing disclosure agreements made by the City for which CPS Energy has agreed to comply on the City's behalf, in accordance with the Rule.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the unqualified approval of the Attorney General of the State of Texas and the approval of certain legal matters by Co-Bond Counsel. Though they represent the Co-Financial Advisors and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Co-Bond Counsel has been engaged by the Board and only represents the Board and the City in connection with the issuance of the Bonds. Co-Bond Counsel was not requested to participate and did not take part in the preparation of this Official Statement except as hereinafter noted, and such firms did not assume any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in their capacity as Co-Bond Counsel, such firms reviewed the information under the captions "THE BONDS" (except under the sub-captions "Purpose", "Sources and Uses of Funds", "Perfection of Security for the Bonds", "Registered Owners' Remedies", and "Book-Entry-Only System", as to which no opinions are expressed), "CONTINUING DISCLOSURE OF INFORMATION" (except matters discussed under the subcaption "Compliance with Prior Undertakings", as to which no opinion is expressed), "LEGAL MATTERS" (except for the last two sentences of the first paragraph thereof, as to which no opinion is expressed), "TAX MATTERS", "LEGAL INVESTMENTS IN TEXAS", "SECURITIES LAWS", "APPENDIX C – CERTAIN PROVISIONS OF THE ORDINANCE", and "APPENDIX D – FORM OF OPINION OF CO-BOND COUNSEL" in this Official Statement, and such firms are of the opinion that the information relating to the Bonds, the Ordinance and the legal issues contained under such captions and sub-captions are an accurate and fair description of the laws and the legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fees to be paid to Co-Bond Counsel in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their legal counsel, McCall, Parkhurst & Horton L.L.P., of San Antonio, Texas, whose legal fees are contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for CPS Energy by its General Counsel and for the City by the City Attorney.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering legal opinions, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of opinions guarantee the outcome of any legal dispute that may arise out of the transaction.

UNDERWRITING

Citigroup Global Markets Inc. ("Citigroup"), as representative of the Underwriters, has agreed, subject to certain customary conditions to closing, to purchase the Bonds from the City at the initial prices indicated on page ii hereof, less an Underwriters' discount of \$1,062,608.82, and no accrued interest. The Underwriters have agreed, subject to certain customary conditions to closing, to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than the initial public offering prices set forth on page ii of this Official Statement, which may be changed, from time to time, by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to CPS Energy or the City and to persons and entities with relationships with CPS Energy or the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and / or instruments of CPS Energy or the City (directly, as collateral securing other obligations or otherwise) and / or persons and entities with relationships with CPS Energy or the City. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and / or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and / or short positions in such assets, securities and instruments.

Citigroup, as the Senior and Book Running Manager of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup may distribute municipal securities to retail investors at the original price through Fidelity. As part of this arrangement, Citigroup will compensate Fidelity for its selling efforts.

Piper Jaffray & Co. ("Piper"), one of the underwriters of the Bonds, has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from Piper at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

TAX MATTERS

TAX EXEMPTION

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C., Co-Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Co-Bond Counsel's opinion that will be delivered in conjunction with the initial delivery of the Bonds appears in APPENDIX D hereto.

In rendering the foregoing opinion, Co-Bond Counsel will rely upon the Verification Report (defined herein) regarding the sufficiency of the deposit to the Escrow Fund on the date of closing and upon the representations and certifications of the City and the Board made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Ordinance by the City subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City and the Board with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or

local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Co-Bond Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Co-Bond Counsel's opinion is not a guarantee of a result, but represents their legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the IRS with respect to the matters addressed in the opinion of Co-Bond Counsel, and Co-Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

TAX CHANGES

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

ANCILLARY TAX CONSEQUENCES

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

TAX ACCOUNTING TREATMENT OF DISCOUNT BONDS

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

In the event of the sale or other taxable disposition of a Discount Bond prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income. Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that,

under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual, even though there will not be a corresponding cash payment.

TAX ACCOUNTING TREATMENT OF PREMIUM BONDS

The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

LEGAL INVESTMENTS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, as amended, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. *See "RATINGS"* herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least one million dollars of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

SECURITIES LAWS

No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any such jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

RATINGS

Fitch, Moody's and S&P have each assigned and reaffirmed the long-term ratings of "AA+", "Aa2", and "AA-", respectively, to the Junior Lien Obligations (including the Bonds). An explanation of the significance of such ratings may be obtained from Fitch, Moody's and S&P. The rating of the Bonds by Fitch, Moody's and S&P reflects only the view of said companies at the time the rating is given, and the City makes no representations as to the appropriateness of any rating. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Fitch, Moody's and S&P if in the judgment of Fitch, Moody's and S&P circumstances so warrant. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price of the Bonds.

CO-FINANCIAL ADVISORS

PFM Financial Advisors LLC and Estrada Hinojosa & Company, Inc. ("Co-Financial Advisors") are employed as Co-Financial Advisors to the Board in connection with the issuance of the Bonds. The Co-Financial Advisors' fee for services rendered with respect to the initial issuance of the Bonds is contingent upon the issuance and delivery of the Bonds. Although the Co-Financial Advisors have read and participated in the preparation of this Official Statement, they have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's and the Board's records and other sources which are believed to be reliable, including financial records of the Board and other entities, which may be subject to interpretation. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as implicit or explicit expression of opinions as to the completeness and accuracy of the information contained in this Official Statement. The Co-Financial Advisors have relied on the opinion of Co-Bond Counsel and have not verified and do not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Verification Agent will deliver to the City, on or before the settlement date of the Bonds, its verification report (the "Verification Report") indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants ("AICPA"), the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds.

The Verification Agent relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, the Verification Agent has relied on any information provided to it by the City's retained advisors, consultants or legal counsel. The Verification Agent was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

INDEPENDENT AUDITORS

This Official Statement includes the basic financial statements of CPS Energy for the fiscal years ended January 31, 2019 and 2018. These financial statements included in this Official Statement as APPENDIX B have been audited by Baker Tilly Virchow Krause, LLP, independent accountant, as stated in their report thereon, which also appears in APPENDIX B hereto.

As part of its external audit procurement process, CPS Energy issued a Request for Proposal for annual financial audits and related services in April 2018. In August 2018, CPS Energy selected Baker Tilly Virchow Krause, LLP, to serve as its external auditor. CPS Energy negotiated a new two-year term agreement with Baker Tilly Virchow Krause, LLP. The two-year agreement contract will expire on August 25, 2020.

USE OF INFORMATION IN OFFICIAL STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Board. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

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 Official Statement for purposes of, and as that term is defined in, the Rule.

FORWARD-LOOKING STATEMENTS

This Official Statement, including the Appendices hereto, 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 guarantees 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 the Systems, 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 Official Statement 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.

MISCELLANEOUS

The description of the Bonds contained in this Official Statement does not purport to be complete. All references to the Bonds are qualified by reference to the Ordinance and to the complete form of the Bonds. 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 resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. 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. So far as any statements made in this document involve budgeted amounts or other estimates or projections, whether or not so expressly stated, they should not be considered statements of fact or representations that the budgeted amount, estimate or projection will approximate actual results.

This Official Statement has been approved by the authorized representatives of the City Council and the Board.

CITY OF SAN ANTONIO, TEXAS

**CITY PUBLIC SERVICE BOARD OF
SAN ANTONIO, TEXAS**

By: /s/ Ron Nirenberg
Mayor, City of San Antonio, Texas

By: /s/ John T. Steen Jr.
Chair, Board of Trustees
City Public Service Board of San Antonio, Texas

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APPENDIX A



CPS ENERGY

GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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APPENDIX A

CITY OF SAN ANTONIO, TEXAS GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

This Appendix contains a brief discussion of certain economic and demographic characteristics of the City of San Antonio, Texas (the “City” or “San Antonio”) and of the metropolitan area in which the City is located. Although the information in this Appendix has been provided by sources believed to be reliable, no investigation has been made by the City to verify the accuracy or completeness of such information.

Population and Location

The 2010 Decennial Census (“2010 Census”), prepared by the United States Census Bureau (“U.S. Census Bureau”), found a City population of 1,327,407. For the 2010 San Antonio population, it was determined that the U.S. Census Bureau had erroneously assigned 35 census blocks to the City that are actually outside of the City limits. The revised 2010 San Antonio population is 1,326,539.

The City’s Information Technology Services Department has estimated the City’s population to be 1,507,192 in 2019. The U.S. Census Bureau ranks the City as the second largest in the State of Texas (the “State”) and the seventh largest in the United States (“U.S.”).

The City is the county seat of Bexar County. Bexar County had a population of 1,714,773 according to the 2010 Census. The City’s Information Technology Services Department has estimated Bexar County’s population to be 1,960,415 and the San Antonio-New Braunfels Metropolitan Statistical Area (“MSA”) population to be 2,470,471 in 2019. The City is located in south central Texas approximately 80 miles south of the State capital of Austin, 165 miles northwest of the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo.

The following table provides the population of the City, Bexar County, and the San Antonio-New Braunfels MSA for the years shown:

Year	City of San Antonio	Bexar County	San Antonio- New Braunfels MSA ¹
1920	161,379	202,096	255,928
1930	231,542	292,533	351,048
1940	253,854	338,176	393,159
1950	408,442	500,460	556,881
1960	587,718	687,151	749,279
1970	654,153	830,460	901,220
1980	785,880	988,800	1,088,710
1990	935,933	1,185,394	1,324,749
2000	1,144,646	1,392,931	1,711,703 ²
2010	1,326,539	1,714,773	2,142,508 ³

¹ Data for 1920-1990 has been restated to the redefined eight-county MSA from the original four-county MSA.

² As of June 2003, the U.S. Office of Management and Budget redefined the MSA by increasing the number of counties from four to eight: Atascosa, Bandera, Kendall, and Medina Counties were added to its mainstays of Bexar, Comal, Guadalupe, and Wilson Counties. (The 2000 figure reflects the new 2003 redefined eight-county area.) As of December 2009, New Braunfels, Texas qualified as a new principal city of the San Antonio MSA, and the MSA was re-titled San Antonio-New Braunfels MSA.

³ Provided by the 2010 Decennial Census.

Sources: U.S. Census Bureau; Texas Association of Counties – County Information Project; and City of San Antonio, Information Technology Services Department.

Area and Topography

The area of the City has increased through numerous annexations and now contains approximately 515 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 788.68 feet above mean sea level.

Annexation Process

Through full-purpose, limited-purpose, and annexations requested by property owner (commonly referred to as voluntary annexations), the City of San Antonio has grown from its original area of 36 square miles in the 1940s to its current size of approximately 515 square miles. San Antonio has a net taxable assessed value of \$114.7 billion in tax year 2018.

2019 Annexations and Municipal Boundary Adjustment

As allowed by recent changes in the State annexation law, the City Council ordered a special annexation election on November 6, 2018 for two areas within five miles of the boundary of the Camp Bullis and Camp Stanley military bases (22.39 square miles) and the Lackland Air Force Base and Medina Training Annex (20.27 square miles), in order to protect the missions of military installations within San Antonio's Extraterritorial Jurisdiction ("ETJ"). Both measures were defeated at this election. As a result, these areas will remain within the City's ETJ outside of the City limits and will be regulated per land use according to the most recent military joint land use study. Since the election, the City has developed military protection area land use regulations and will consider their adoption on September 2019.

During the 2019 fiscal year, three voluntary annexations, totaling 252.2 acres, were completed. Another voluntary annexation was completed on June 20, 2019, which added 124.405 acres to the City limits on the effective date of July 1, 2019. Three additional voluntary annexations will be completed in August 2019, which will add another 205.25 acres to the City limits, bringing the total area to approximately 515 square miles.

In March 2017, the Cities of San Antonio and Converse mutually approved an interlocal agreement that would culminate with the annexation by Converse of approximately 12 square miles of ETJ released by San Antonio and a transfer to Converse of approximately 3.6 square miles of San Antonio's corporate area through boundary adjustments, over the course of 17 years. The first phase of the program was completed. However, the newly passed annexation law affects the terms of the agreement; hence the entire agreement is being reviewed and will be renegotiated in the future.

Currently, the City is in the process of updating its Annexation and Growth Policy which will provide new growth management strategies and evaluation criteria to manage growth and development issues within its ETJ. These policies will conform to newly passed Tier 2 annexation provisions and the goals of the City's SA Tomorrow Comprehensive Plan.

Governmental Structure

The City is a "Home Rule Municipality" that operates pursuant to the City Charter, which was adopted on October 2, 1951, became effective on January 1, 1952, and was last amended pursuant to an election held on November 6, 2018, whereby, subject only to the limitations imposed by the Texas Constitution, Texas statutes, and the City Charter, all powers of the City are vested in an 11-member City Council which enacts legislation, adopts budgets, and determines policies. The City Charter provides for a Council-Manager form of government with ten council members elected from single-member districts, and the Mayor elected at-large, each serving two-year terms, limited to four full terms of office as required by the City Charter. The Office of the Mayor is considered a separate office. All members of the City Council stand for election at the same time in odd-numbered years. The City Council appoints a City Manager who administers the government of the City and serves as the City's chief administrative officer. The City Manager serves at the pleasure of City Council, limited to a term of eight years.

City Charter

See “THE CITY-City Charter” in the Official Statement for a discussion regarding the City Charter, its amendment process, and recent developments with respect thereto.

Services

The full range of services provided to its constituents by the City includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers the promotion of convention and tourism and participation in economic development programs high priorities. The funding sources from which these services and capital programs are provided include ad valorem, sales and use, and hotel occupancy tax receipts, grants, user fees, debt proceeds, tax increment financing, and other sources.

In addition to the above-described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport and solid waste management.

Electric and gas services to the San Antonio area are provided by CPS Energy (“CPS”), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 19-generating unit electric system and the gas system that serves the San Antonio area. CPS’ operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. As specified in the City ordinances authorizing the issuance of its system debt, CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City’s fiscal year ended September 30, 2018 were \$371,136,348. (See “San Antonio Electric and Gas Systems” herein.)

Water services to most of the City are provided by the San Antonio Water System (“SAWS”), San Antonio’s municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS is in its 27th year of operation as a separate, consolidated entity. SAWS’ operating and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City’s fiscal year ended September 30, 2018 were \$18,182,361. (See “San Antonio Water System” herein.)

Economic Factors

The City facilitates a favorable business environment that supports economic diversification and growth. San Antonio’s economic base is comprised of a variety of industries, including: healthcare and bioscience, aerospace, information technology, advanced manufacturing, new energy, and financial services; all with growing international trade. Support for these economic activities is demonstrated through the City’s commitment to ongoing infrastructure improvements and development, and investment in a growing and dedicated workforce. This commitment and the City’s continued status as one of the top leisure and convention destinations in the country support a strong and growing economy.

Traditional economic growth indicators are charting positively for San Antonio. Population grew by 45,162 between 2016 and 2017 to 2.4 million. GDP also grew by \$9 billion between 2016 and 2017 to \$129 billion. San Antonio’s unemployment rate of 3.2% as of August 2019 fares well when compared to the State at 3.6% and the nation at 3.8%. San Antonio experienced a 2.1% annual job growth rate between 2018 and 2019, with total nonfarm employment in the San Antonio-New Braunfels MSA for August 2019 increasing to 1,082,600.

The City’s Economic Development Department (“EDD”) seeks to promote inclusive growth through strategic investments and partnerships. All full-time employees associated with a project receiving an economic incentive from the City must earn at least \$12.38 per hour, which is considered the poverty level for a family of four by the US Department of Health and Human Services. In addition, at least 70% of all full-time employees must meet the all-industry wage within one year of the execution of an incentive agreement with the City. The all-industry wage is currently \$16.65 and is determined by the Bureau of Labor Statistics by conducting an Occupational

Employment Survey in the San Antonio Metropolitan Statistical Area. The City obtains this data from the Texas Workforce Commission on an annual basis. These wage standards are intended to drive an incremental increase in wages in San Antonio.

The San Antonio Economic Development Corporation (“SAEDC”) was established by the City to foster the commercialization of intellectual property in San Antonio through direct equity investment in projects. This economic development strategy seeks to realize a direct return on investment back to the City. By making equity investments in later stage companies or key entrepreneurs with proven track records, the City supports commercialization of intellectual property in San Antonio, creating more jobs, investments, and entrepreneurs.

Healthcare and Bioscience

According to the Biosciences Economic Impact Study, a 2018 Economic Impact Study commissioned by the San Antonio Chamber of Commerce, the economic impact from this industry sector totaled approximately \$30.6 billion in 2017 measured conservatively, and \$40.2 billion by a more comprehensive estimate. The industry was composed of 182,112 jobs in 2017, meaning that more than one of every six employees in San Antonio works in the healthcare and bioscience industry. Since 2009, the healthcare and bioscience industry has added 40,899 net new jobs, an increase of 29%.

Central to the healthcare and bioscience industry is the University of Texas Health Science Center at San Antonio (“UT Health”), located on more than 100 acres in the heart of the medical center. A total of 4,372 students (including residents and fellows) are enrolled in UT Health’s five schools. UT Health employs approximately 2,092 faculty and 4,902 staff with a total annual operating budget of approximately \$1.4 billion, supporting six campuses in San Antonio, Laredo, Harlingen, and Edinburg. UT Health is one of the country’s leading health sciences universities, and ranks in the top 3% of all institutions worldwide receiving federal funding from the National Institutes of Health.

Brooke Army Medical Center (“BAMC”) contains the largest inpatient medical facility in the Department of Defense (“DoD”), the only DoD Burn Center, and the only DoD Level 1 Trauma Center in the U.S. Wilford Hall Ambulatory Surgical Center (“WHASC”) at Joint Base San Antonio-Lackland is the largest outpatient ambulatory surgical center in the DoD with more than 29 sub-specialties and 30 credited graduate medical education training programs. The facility provides primary and specialty care; outpatient surgery; a sleep center; a contingency aeromedical staging facility; and eye, hearing and diabetes centers of excellence. The San Antonio Military Health System (“SAMHS”) oversees the healthcare delivery of 240,000 DoD beneficiaries in the San Antonio metropolitan region. Healthcare services are provided by the BAMC and the WHASC. The SAMHS treatment facilities manage a total combined budget of over \$1.2 billion and have an economic impact of \$1 billion annually.

In June 2014, the University of the Incarnate Word (“UIW”) announced plans to build the City’s first osteopathic medical school (the “School of Medicine”) on the campus of Brooks City-Base (“Brooks”). Phase I of the medical school consisted of four buildings in the historic district of Brooks. The cost of building the School of Medicine is approximately \$12 million. UIW began leasing the buildings in 2014 and will take ownership after 25 years. The School of Medicine opened in July 2017.

The Texas Biomedical Research Institute (“Texas Biomed”) is one of the largest independent, non-profit, biomedical research institutions in the U.S. conducting internationally renowned fundamental and applied research in the medical sciences. With the nation’s only privately owned biosafety level 4 laboratory, designed for maximum containment, Texas Biomed investigators can safely study deadly pathogens for which there currently are no treatments or vaccines, including potential bio-terror agents and emerging diseases. In August 2017, City Council approved a loan of \$250,000 to Texas Biomed to fund the design of a second state-of-the-art biosafety level 4 facility on its City Council District 6 campus. The \$49 million expansion project is anticipated to retain 43 jobs and create at least nine additional full-time jobs in the newly expanded facility.

The University of Texas at San Antonio (“UTSA”) houses a number of research institutes. The Neuroscience Research Center, which is funded by \$6.3 million in ongoing grants, is tasked with training students in research skills while they perform basic neuroscience research on subjects such as aging and Alzheimer’s disease. UTSA is also a partner in Morris K. Udall Centers of Excellence for Parkinson’s Disease Research. A joint

partnership between UTSA, the UT Health Science Center, and the participation of Texas Biomed and the Southwest National Primate Research Center, has resulted in the formation of the San Antonio Institute of Cellular and Molecular Primatology (“SAICMP”). The focus of the SAICMP is the study of primate stem cells and early embryos to develop nonhuman model systems for studies of primate stem cells and their applications to regenerative medicine. The South Texas Center for Emerging Infectious Diseases was established to focus State and national attention on UTSA in the fields of molecular microbiology, immunology, medical mycology, virology, microbial genomics, vaccine development, and biodefense.

The SAEDC has supported several projects within the healthcare and bioscience sphere. To date, the SAEDC has incentivized the following bioscience and healthcare companies, InCube, Innovative Trauma Care, Inc., and BioAffinity Technologies. Throughout 2017 and 2018, EDD and the SAEDC facilitated an ongoing working group of local military, academic, and private life science industry leaders on a study and action plan for greater commercialization out of the military medical research missions in San Antonio. The final San Antonio Military Life Science Commercialization Action Plan (the “Action Plan”) and recommendation for a San Antonio Military Medical Innovation (“SAMMI”) Specialist were presented to the working group in July 2018. The targeted position and industry alliance will focus on increasing technology commercialization that arises from the innovative research being done at San Antonio’s local military missions, academic institution, research organizations, and government entities. In September 2018, the SAEDC board approved the agreement for implementation of Phase I of the Action Plan’s recommendations and in April 2019 approved the creation of the SAMMI specialist position.

In September 2017, City Council approved a grant of up to \$200,000 for Pelican Therapeutics to relocate its headquarters to San Antonio and create 22 new full-time jobs within five years. Pelican Therapeutics is a subsidiary of Heat Biologics, a Durham, North Carolina–based biopharmaceutical firm focused on developing anticancer drugs. Pelican Therapeutics will establish lab and office space in City Council District 8 to support efforts linked to a \$15.2 million Cancer Prevention Research Institute of Texas grant.

The Texas Research and Technology Foundation (“TRTF”) is a non-profit organization that focuses on life science and technology-based economic development in San Antonio. On August 2017, TRTF acquired the 4-acre Merchant’s Ice complex to establish a life science and technology focused Innovation District (the “Innovation District”) that will be managed by VelocityTX, the organization’s innovation, commercialization, and entrepreneurial development-focused subsidiary. In February 2019, City Council approved a performance-based grant up to \$750,000 over five years and a tax increment finance development agreement up to \$5 million over seven years with VelocityTX. Both agreements will assist in developing the Innovation District, which will include an incubator and innovation center to serve multiple target industries and provide a broad array of resources to entrepreneurs. TRTF estimates that when completed, the Innovation District will support approximately 665 jobs with combined wages and benefits of over \$78 million annually.

Workforce Development

The City provides \$250,000 annually to SA Works and \$3.6 million annually to various non-profit organizations that provide workforce services. Combined, these agencies work to prepare the local workforce to meet industry demands so they have the talent they need to grow or locate to San Antonio.

SA Works is tasked with identifying skill gaps in the targeted industries of IT and cyber, healthcare, and manufacturing through industry convenings and surveys.

The focus of contracts with various workforce agencies is to develop a network of services that provides a pathway of skill attainment to self-sustaining jobs for San Antonio residents. In fiscal year 2019, this network, called the Upskill Partners Network, continues to be tested and expanded through private sector investments. The system is being developed to track participant milestones attainment, movement from one agency to another, and to identify the wage increases of participants to measure the outcomes and effectiveness of the system.

The City also works closely with Workforce Solutions Alamo (“WSA”). WSA is the regional workforce development board and implements state and federal jobs programs. The City works to align the workforce agencies they fund with WSA programs and to co-enroll participants to leverage funds and provide more effective services to residents.

The Alamo Colleges are the local community college district. The City partners with the Alamo Colleges by providing tuition scholarships through the contracted workforce agencies and through an agreement which supports several programs including the Alamo Academies, a program that prepares high school students for Science, Technology, Engineering, and Math (“STEM”) careers driven by industry.

Financial Services

The largest private sector employer in the industry is United Services Automobile Association (“USAA”). The company has approximately 9.4 million customers, comprised of military members, veterans, and their families. The company currently employs a total of 32,896 people nationwide. While this sector is led by USAA, San Antonio is home to other insurance company headquarters and regional operations centers for many health care insurers. Insurers with substantial regional operations centers in San Antonio include: Nationwide Mutual Insurance Company, Caremark, United Health, and PacifiCare.

San Antonio is also the home of many banking headquarters and regional operations centers such as Frost Bank, Broadway National Bank, and USAA Federal Savings Bank. In December 2014, Security Service Federal Credit Union, the largest credit union in Texas and seventh largest credit union in the United States, established its corporate headquarters in City Council District 8. In October of 2017, San Antonio-based lending institution Credit Human announced plans to invest \$113 million to construct a new state-of-the-art corporate headquarters on the Broadway corridor in City Council District 1. The facility will seek a LEED Gold rating, making it of the most sustainably built facilities of its kind in the nation. The new headquarters will bring 485 jobs to the urban core. Other companies with large regional operations centers in San Antonio include: Bank of America, Wells Fargo, J.P. Morgan Chase, Citigroup, and Pentagon Federal Credit Union.

In 2018, Victory Capital Management (“Victory”), an investment management company with \$63.6 billion in assets under management, acquired USAA Asset Management Co. from USAA. In January 2019, the City Council approved a \$500,000 grant for Victory to relocate its headquarters operations to San Antonio and retain the 300 existing USAA jobs. In addition, the company will create 51 new high wage jobs, invest \$500,000, partner with the City by implementing financial literacy programs for military personnel, and sponsor at least five annual paid student internships.

Hospitality Industry

The City’s diversified economy includes a significant sector relating to the hospitality industry. An Economic Impact Report of San Antonio’s Hospitality Industry (representing 2017 data) found that the hospitality industry has an economic impact of \$15.2 billion. The estimated annual payroll for the industry is \$3.2 billion, and the industry provided an average of 140,188 jobs.

In 2018, the City’s overall level of hotel occupancy was up 1.8%; room supply increased 1.7%; total room nights sold increased 3.5%; the average daily room rate increased 4.1%; revenue per available room increased 5.9%; and overall revenue increased 7.8%.

Tourism. The list of attractions in the San Antonio area includes, among many others, the Alamo and other sites of historic significance, the River Walk, and two major theme parks, SeaWorld San Antonio and Six Flags Fiesta Texas. San Antonio attracts 37 million visitors a year. Of these, over 23.1 million are overnight visitors, placing San Antonio as one of the top U.S. destinations in Texas. Recent fiscal year 2018 accomplishments contributing to Visit San Antonio’s success include: (1) having obtained over 16.2 million in online engagement, showing consumer interest in San Antonio through the Visit San Antonio website and social-media channels, both important travel decision influencers; (2) proactively serviced more than 165 meetings and conventions, and reaching an additional 620 meetings via the meetings.visitsanantonio.com website along with calls and walk-in clients, resulting in a total reach of more than 821,000 attendees which include meetings, trade shows, reunions, weddings, and events; and (3) reported an estimated \$39.2 million in earned media. This media value is the dollar value of the positive media coverage generated by the Visit San Antonio communications team, which represents the stories and articles in print (i.e., magazines, newspapers, etc.), TV, radio, and online media; the dollar figure aligns with what the advertising cost of that coverage would have been if Visit San Antonio had purchased the exposure.

Conventions. San Antonio is also one of the top convention cities in the country and hosts 6.6 million business visitors a year who come to the area for a convention, meeting or other business purpose. In fiscal year 2018, the Visit San Antonio sales staff booked over 920,000 room nights for current and future years. Significant meetings booked included: The Lutheran Church-Missouri Synod with a total of 43,100 room nights for 2028; Ellucian with a total of 33,180 room nights for 2024 and 2028; San Antonio Breast Cancer Symposium with a total of 27,600 room nights for 2029 and Commodity Classic with 23,045 room nights for 2026. In addition, Visit San Antonio will continue to be proactive in attracting convention business through its management practices and marketing efforts.

The following table shows both overall performance as well as convention activity hosted by Visit San Antonio for the calendar years indicated:

Calendar Year	Hotel Occupancy ¹	Revenue per Available Room (RevPAR) ¹	Room Nights Sold ¹	Convention Attendance ²	Convention Room Nights ²
2007	66.3	69.90	7,397,123	455,256	647,386
2008	64.6	70.82	7,669,475	563,164	691,525
2009	57.1	55.94	7,167,603	399,408	660,736
2010	59.3	57.02	7,768,002	535,400	736,325
2011	61.3	58.08	8,236,019	499,171	637,593
2012	63.5	60.79	8,651,826	449,202	635,829
2013	63.1	63.44	8,610,676	712,577	734,190
2014	64.9	67.32	8,817,338	652,443	725,333
2015	65.7	69.55	8,913,575	699,662	773,569
2016	65.9	71.12	9,116,363	637,658	676,501
2017	66.0	73.45	9,268,201	823,561	816,582
2018	67.1	77.88	9,568,119	672,288	882,650

¹ Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code reports dated January 2019 (reporting 2018 numbers), and historical annual reports for prior years.

² Reflects only those conventions hosted by Visit San Antonio.

Source: Visit San Antonio

Military Industry

The growth in new missions and significant construction activities brought about by Base Realignment and Closure (“BRAC 2005”) strengthened San Antonio’s role as a leading military research, training, and education center. One of the major outcomes of BRAC 2005 was the creation of Joint Base San Antonio (“JBSA”) which is the largest joint base in the DoD. JBSA consolidates all the base support functions, real property, and land for JBSA-Lackland, JBSA-Randolph, and JBSA-Fort Sam Houston (including Camp Bullis) under the 502nd Air Base Wing. JBSA includes over 46,500 acres, supports over 80,000 personnel, has a plant replacement value of \$30 billion, and an annual budget of \$800 million. Over 138,000 personnel are trained at JBSA facilities every year. In addition, JBSA is currently scheduled to receive approximately \$405 million in Military Construction (“MILCON”) funding making it the largest MILCON program in the Air Force.

JBSA and its 266 mission partners represent a significant component of the City’s economy providing an annual economic impact, when combined with other DoD contracts and contractors, military retirees, veterans, and direct and indirect jobs, of over \$17 billion for the City and approximately \$30 billion to the State of Texas. In addition, the property of the former Brooks Air Force Base (“Brooks AFB”), a fourth major military installation, was transferred from the U.S. Air Force to the City-created Brooks Development Authority (“BDA”) in 2002 as part of the Brooks City-Base Project. Furthermore, the military is still leasing over 1.7 million square feet of space at Port San Antonio (the “Port”), which is the former Kelly Air Force Base that was closed in 2001.

One of the other significant events brought about by BRAC 2005 is the realignment of medical facilities resulting in a major positive impact on military medicine in San Antonio, with \$3.2 billion in construction and the addition of approximately 12,500 jobs at the JBSA complex. Currently, BAMC continues to play a critical role in

patient care, graduate medical education and research, as well as caring for wounded military service members, and civilian members of the community. Along with other institutions, BAMC provides support to 22 counties in Southwest Texas, covering over 26,000 square miles, including the City, and servicing over 2.2 million people. Regarded as one of the top medical facilities in DoD, BAMC benefits the community by serving as an additional tertiary referral center to care for the most critically wounded and complex patients without concerns for payor status. BAMC receives approximately \$2.5 million annually through the Uncompensated Trauma Care Grant administered by the Texas Department of State Health Services (“DSHS”) to offset a small portion of the indigent care provided. BAMC health professionals benefit from being a Level I trauma center through the large volume of complex trauma from the community replicating wartime for wartime readiness. Future providers are trained to go to war, as over 600 physicians are in Graduate Medical Education (“GME”) programs and 900 medical students at BAMC, most of which benefit from caring for trauma patients, with several programs (orthopedics, ophthalmology, emergency medicine, and otolaryngology) relying on trauma patients to achieve case minimums. Over 1,200 participants graduate annually from various allied health programs who receive clinical instructions at BAMC. This center is the nation’s premier military training platform to prepare military healthcare professionals to provide life-saving combat medical care.

JBSA-Fort Sam Houston. JBSA-Fort Sam Houston is engaged in military-community partnership initiatives to help reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the U.S. Army entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. (“FSHRP”), for the redevelopment of the former BAMC and two other buildings at Fort Sam Houston. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, had been vacant for several years and were in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the U.S. Army to redevelop and lease these three properties to commercial tenants.

Some of the major mission partner organizations on JBSA-Fort Sam Houston are: U.S. Army North, the Army Installation Management Command, the Army Medical Command, U.S. Army South, the Army Medical Department and School, the Regional Health Command-Central, BAMC, the Medical Educational and Training Campus, the Mission and Installation Contracting Command, the Navy Medicine Education and Training Command, three Army Reserve Depots, a Navy/Marine Reserve Operations Center, and a Texas Army National Guard armory.

The potential economic impact from JBSA-Fort Sam Houston due to the BRAC 2005 expansion, along with major growth from the Army Modular Force and Army Grow the Force programs, is estimated at nearly \$8.3 billion. The economic impact due to the amount of construction on post to accommodate the new mission accounts for approximately 80% of the impact (\$6.7 billion). While the major surge of construction from BRAC 2005 and the other major force programs are complete, the economic impact from JBSA-Fort Sam Houston will increase by nearly \$1.6 billion annually with additional annual sales tax revenue of \$4.9 million. The major personnel moves under BRAC 2005 were completed by September 15, 2011, and this increase in personnel and missions at JBSA-Fort Sam Houston supports the employment of over 15,000 in the community.

Various construction projects continue or have been completed at JBSA-Fort Sam Houston. The new Walters Street Gate and Entry Control Point and a new Medical Education and Training Campus Headquarters Building have been completed. A new Student Activity Center opened in November 2013 and construction was completed on a new BAMC Visitor Control Center and Entry Control Point in January 2014. A new 310-room hotel was completed in October 2014, and a new 192-room apartment style dormitory broke ground in 2016 and was completed in early 2018. A small addition to the hospital for a hyperbaric chamber was completed in June 2017 and a new two story Army-Air Force Exchange Services Exchange Main Store is planned for completion by Spring 2020. In 2016, the United Service Organization (“USO”) in partnership with JBSA, completed a new all-service facility located in the Sam Houston Community Center. New construction includes a Combat Medic Lab Instructional Building (the “Lab”) which will replace a 1940’s facility. The Lab will train combat medics—a daily average of 180 students. Mission growth will see five new organizations whose cyber and medical missions will bring approximately 305 new positions to the base.

JBSA-Camp Bullis. Armed Forces medics and Corpsmen at JBSA-Fort Sam Houston receive additional field training at JBSA-Camp Bullis, which comprises 28,000 acres. JBSA-Camp Bullis is also used by the 37th Training Wing for Security Forces technical and professional development training. Additionally, JBSA-Camp

Bullis is home to the United States Air Force (“USAF”) Medical Training Readiness Center, which encompasses four medical-related courses. It is also home to multiple Army Reserve and Army National Guard units of all types, to include Military Intelligence, Engineer, Medical, Infantry and Special Forces. The 470th Military Intelligence Brigade, headquartered at JBSA-Fort Sam Houston, operates the United States Army Intelligence and Security Command Detention Training Facility at JBSA-Camp Bullis, and the Defense Medical Readiness Training Institute operates the Combat Casualty Care Course. JBSA-Camp Bullis also supports regular use by local law enforcement agencies and Federal entities. Between 2013 and 2016, JBSA-Camp Bullis supported the training of approximately 550,000 personnel. Because of its geographical size, numerous units and missions are continually looking at JBSA-Camp Bullis as a viable place to locate and train. New construction includes a 36,000 square foot dining facility which will serve approximately 370,000 meals a year. In fiscal year 2019, two buildings aboard the base will be demolished and a much needed vehicle maintenance shop will be constructed. JBSA-Camp Bullis will host a new organization whose cyber mission will add an additional 14 new positions.

JBSA-Lackland. JBSA-Lackland is home to the 37th Training Wing, situated on 9,700 acres, all within the city limits of San Antonio. According to a recent Economic Impact Analysis, over 53,000 military personnel, civilians, students, contractors, and military dependents work, receive training, or utilize JBSA-Lackland services. JBSA-Lackland hosts the Air Force’s only Basic Military Training (“BMT”) function for all enlisted Airmen, which is known as the “Gateway to the Air Force”. Additionally, JBSA-Lackland hosts many of the technical training courses which the BMT graduates are routed to prior to their first assignment. On an annual basis, JBSA-Lackland is expected to graduate 86,000 Airmen and international students. The Air Force is in the middle of a \$900 million program to replace the BMT Recruit Housing and Training buildings that have been in continuous operation since construction in the late 1960s. Construction is now complete for four of the Airmen Training Complexes (“ATC”) and the first two Dining/Classroom Facilities (“DCF”) that support the ATCs. Construction is also complete for the Pfingston BMT Reception Center, every new recruit’s entry into BMT. The beginning of the second half of the BMT Complex replacement program is planned for fiscal year 2019 with the start of the fifth ATC and the third DCF. Each ATC will house up to 1,200 trainees and the DCF includes dining halls and classroom facilities for two ATCs. The BMT replacement program is estimated to be complete by fiscal year 2020. The City of San Antonio is supporting these efforts by building a third entry (deceleration) lane into JBSA-Lackland. This ongoing project will support over \$600 million in new construction over the next 10 years. The deceleration lane was JBSA’s number one funding priority and will support the transit of approximately 100 heavy trucks a day for the duration of these projects. In addition, construction of the lane will reduce wear and tear on both City and JBSA streets while minimizing traffic congestion outside the base, enhancing overall safety for both military members and the community.

Projected growth also includes a 160,000 square foot expansion of the 24th Air Force, the Cyber Command, facilities, and a potential increase of 1,500 students at the Defense Language Institute English Learning Center. The Transportation Security Agency’s Canine Academy headquarters opened in March 2016.

Adjacent and contiguous to JBSA-Lackland is the Port, where the Air Force maintains a significant presence. The Air Force and the Port jointly utilize the Kelly Field runway for military and commercial airfield operations. The Air Force continues to lease over 30 buildings, which consist of 1.75 million square feet of space and over 270 acres. The largest Air Force leaseback is at Building 171, a 460,000 square foot facility previously closed from the 1995 Base Realignment and Closure of Kelly AFB. Approximately 7,000 Air Force and other DoD employees work at this and other facilities on the Port in this post-BRAC 2005 era. Recently approved federal Military Construction and state Defense Economic Adjustment Assistance Grant funding will result in the replacement of the aging, non-compliant Kelly Air Traffic Control Tower, and upgrade and renovation of an aging hangar and operations facilities. This much needed infrastructure improvement will support C-5 and F-16 training missions.

Much of the new BRAC 2005 growth which occurred on the Port property is at Building 171. The Air Force spent \$26.5 million to renovate the building, which houses 11 missions. Seven missions and approximately 800 personnel have relocated to the building from Brooks. These include the Air Force Civil Engineer Center, four medical missions including Air Force Medical Operations Agency, and other support missions. Building 171 also houses the new “Cyber” 24th Air Force consisting of approximately 450 personnel and the Air Force Real Property Agency.

In the near future, eight new organizations are expected to bring approximately 660 new positions to JBSA-Lackland. These new personnel will perform cyber, flight and technical, and training missions. Part of this growth has already taken place. In October of 2018 the Secretary of the Air Force announced that JBSA would be home to the Special Warfare Training Wing bringing 135 new jobs to the area and significantly enhancing the base's military value.

JBSA-Randolph. JBSA-Randolph, which is known as “the Showplace of the Air Force” because of its consistent Spanish Colonial Revival architectural standard retained from when the installation was first constructed in the early 1930s, is on the northeast side of San Antonio and houses the Headquarters Air Education and Training Command and the Air Force Personnel Center. Other major tenant organizations include the Air Force Manpower Agency, 19th Air Force, the Air Force Recruiting Service, and the Air Force Office of Special Investigations (Region 4). The main operational mission is carried out by the 12th Flying Training Wing (the “Wing”) which equips and trains aviators and supports worldwide contingency operations. The Wing operates parallel runways on either side of the main installation facilities and conducts 24-hour-a-day flight training operations. In a related aviation mission, JBSA-Randolph, which, in 2017, added 85 instructors and staff to its Remotely Piloted Aircraft (“RPA”) training unit, will produce RPA pilots to man an Unmanned Aerial Systems (“UAS”) force which now encompasses 8.5% of total Air Force pilot manning. The UAS force grew by approximately 25% between fiscal year 2013 and fiscal year 2017. New construction includes a commercial gate which replaces a non-compliant gate in the airfield clear zone. This new gate will support commercial vehicle entry and be compliant with force protection measures. New organizations will see 30 new positions supporting the base's flight training mission.

The BRAC 2005 growth supported the City's economic development strategy to promote development in targeted areas of the City, to leverage military installation economic assets to create jobs, and to assist the City's military installations in reducing base support operating costs.

San Antonio is home to two large projects which serve all of the military branches. The Audie L. Murphy Veterans Administration Hospital, which includes a new \$67 million Level I Polytrauma Center, was completed in 2011. This hospital is designed to be the most advanced in the world and is capable of providing state-of-the art medical care to veterans with multiple serious injuries. San Antonio is also home to the National Trauma Institute (“NTI”), a collaborative military-civilian trauma institute involving BAMC, University Hospital, the UT Health Science Center, and the U.S. Army Institute of Surgical Research (“USAISR”). The NTI coordinates resources from the institutions to most effectively treat trauma victims and their families.

In 2005, the San Antonio community put in place organizations and mechanisms to assist the community and the military with BRAC 2005 and other military-related issues. The Military Transformation Task Force (“MTTF”) is a City, Bexar County, and Greater San Antonio Chamber of Commerce organization which provides a single integrated voice from the community to the military. The MTTF is comprised of several committees dedicated to working with the community and military on BRAC 2005 actions and post-BRAC 2005 actions.

In January 2007, the City established the Office of Military Affairs (“OMA”) as the single point of contact for the City on military and veteran related issues. In 2018, OMA formally changed its name to the Office of Military and Veterans Affairs (“OMVA”). The mission of OMVA is to work with the military to sustain and enhance mission readiness, develop and institutionalize relations to strengthen a community-military partnership, and to provide an official formalized point of contact for the military and veteran community on issues of common concern. OMVA provides staff support to the City's MTTF and works closely with each MTTF committee in order to facilitate their work. OMVA is working with the MTTF Tri-Chairs to refocus the MTTF by updating and codifying its mission, vision, membership, leadership, chain of command, branding and measures of effectiveness.

For the past three years, OMVA has aggressively pursued partnerships with JBSA to preserve and increase military missions, protect military installations, and improve the City's military-friendly environment for the military and veteran community, and by advocating for the military at the local, state and national level. Through advocacy and close relationships with JBSA leadership, OMVA has advocated for, and been successful in securing numerous infrastructure projects for JBSA. This tangible support, which has included funding through the City's bond program, state funding, and other sources, has resulted in millions of dollars in projects which have been mutually beneficial for both the City and the military.

OMVA is also working with the local military bases to address compatible land-use issues around the installations in order to enhance mission readiness. This includes testifying at committee hearings before the Texas Legislature during the year and at their biennial sessions. During the 85th Texas Legislative Session, OMVA, along with local and state elected officials, were successful in ensuring the establishment of a five-mile protection buffer against encroachment around all Texas military installations. OMVA also assists the Mayor with the Commission on Veterans Affairs. Chartered in 2001, this eleven-member board serves the Mayor and ten City Council districts in an advisory capacity focused on all veteran issues within the community.

In 2008, OMVA introduced the Growth Management Plan as one of the responses to the growth brought about by the BRAC 2005 actions, and it clearly laid out the partnership between the San Antonio community and the military. One example of the partnership is the City's effort to gather over \$30 million in resources and funding from bond proceeds, City funding, federal earmarks, and grants to provide significant infrastructure improvements around Fort Sam Houston. The premier project was the reconstruction and widening of Walters Street, a primary entrance to Fort Sam Houston. This project was substantially completed in June of 2013. This project was complex, since it was the center segment of a cooperative effort joining the already completed Texas Department of Transportation ("TxDOT") improvements on IH-35 to a new, high security gate entrance that was completed at Fort Sam Houston. An even more unique project is the City's construction of a much improved bridge over Salado Creek on Binz Engleman Road, which was actually built on federal property and was gifted to the military upon completion in June of 2012. Other key projects included intersection improvements on Harry Wurzbach Road between the JBSA-Fort Sam Houston Gate and Rittiman Road, and the construction of a new bridge on Rittiman Road, west of IH-35. The City also expended significant funding to support development along Walters Street by improving utilities, installing a new water line, and improving numerous side streets in that area. These improvements are now complete. The City was also selected by the DoD's Office of Economic Adjustment to receive an award of \$25 million in federal funds to construct new ramp connectors between IH-35 and Loop 410 near BAMC. This project is under construction. This initiative with TxDOT will greatly improve traffic flow and safety for personnel seeking access to the medical facility area.

On March 24, 2017, the United States Patent and Trademark Office granted San Antonio the trademark Military City, USA. The trademark was a result of a year-long process to ensure that no other city had previously met the criteria. For over 300 years, San Antonio has had a rich military history. The moniker Military City, USA became most prominent after World War II. During this time, five military installations operated in San Antonio and the surrounding areas. The trademark emphasizes San Antonio's rich military history and honors approximately 250,000 veterans.

Currently, DoD is the community's largest employer, supporting the employment of over 805,685 people, with an economic impact of approximately \$101 billion to the Texas economy. JBSA alone directly employs 282,995 people and has a total economic impact of \$49 billion in payroll, contract expenditures, and value of jobs created. Over 250,000 veterans reside in San Antonio and receive over \$1.5 billion in annual benefit payments. The BRAC 2005 program in San Antonio concluded in 2011, but the construction momentum continues.

Aerospace

According to the Economic Impact Study commissioned by the Greater San Antonio Chamber of Commerce in 2018, aerospace is a \$3.4 billion industry in San Antonio. This industry provides approximately 17,250 jobs, with employees earning total annual wages of over \$1 billion. The aerospace industry continues to expand as the City leverages its key aerospace assets, which include: San Antonio International Airport, Stinson Municipal Airport, the Port, JBSA-Randolph, JBSA-Lackland, and training institutions. Many of the major aerospace industry participants such as Boeing, StandardAero, STSA, FedEx, UPS, and others, have significant operations in San Antonio. The aerospace industry in San Antonio has seen continued growth in air passenger service, maintenance, repair, overhaul, and general aviation.

The Port is a logistics-based industrial platform on the former Kelly Air Force Base. It was created by the Texas Legislature in 2001 following the closure of the base and tasked with redeveloping and managing the property to ensure that it continues serving as an economic engine for the region and includes over 1,900 acres. Though created by the local government, the Port is self-sustaining and operates like a business, receiving its income from the properties it leases and services it provides, and reinvesting profits into further development of the property. The

Port is the region's single largest real estate management and leasing firm, overseeing 12.9 million square feet of facilities and logistics assets that include an industrial airport, Kelly Field, SKF, and a 350-acre railport, East Kelly Railport.

Fourteen of the Port's customers are aerospace-related firms, including industry leaders Boeing, StandardAero, Chromalloy, and GDC Technics. These Port customers operate within more than 3.5 million square feet of highly specialized facilities, including hangars that accommodate multiple wide-bodied aircraft, workshops and an array of engine test cells. The campus is also home to the nationally-acclaimed Alamo Academies, which prepares the region's youth for advanced technology careers, particularly in the aerospace industry.

In early 2012, Boeing announced that its San Antonio facility would gain 300 to 400 workers along with maintenance responsibilities for the nation's executive fleet due to a decision to close a Wichita, Kansas plant. The aircraft maintenance and support work, which moved to San Antonio, included improvements to the nation's fleet of executive jets, including Air Force One, the Boeing 747s that transport the President of the United States, and the jets that transport the Vice President, Cabinet members, and other government officials. In 2018, Boeing announced that it would be increasing its San Antonio workforce by around 900, effectively doubling its presence in the City, due to a recent contract win. Although aerospace companies such as Boeing have had to contend with long-term reductions in military spending, the company anticipates a future mix of contracts that includes more commercial work.

In 2017, StandardAero was awarded a contract to overhaul engines that power military transport planes and other aircraft. In 2018, StandardAero also announced that it would be increasing its San Antonio workforce, creating 100 jobs, with several hundred more in the pipeline for the next two to three years.

IT and Cybersecurity

The information technology industry plays a major role in San Antonio. The economic impact of IT and cyber business was \$10 billion in 2016. San Antonio boasts some of the most sophisticated uses of IT in the world, even though much of that advanced usage remains undisclosed for security reasons, as the community is home to a large concentration of military and intelligence agencies charged with the missions of intelligence, surveillance and reconnaissance, information operations and network defense, attack and exploitation. Prominent activities in cyber warfare, high-tech development, acquisition, and maintenance are found among the Air Intelligence Agency, Joint Information Operations Warfare Command, National Security Agency and Central Security Service Texas, 67th Network Warfare Wing, Air Force Information Operations Center, and Cryptology Systems Group.

UTSA has two leading institutions in the field of IT and Cybersecurity, the Center for Infrastructure Assurance and Security ("CIAS") and the National Security Collaboration Center ("NSCC"). The CIAS at UTSA is one of the leading research and education institutions in the area of information security in the country. The CIAS has established partnerships with major influential governmental and non-governmental organizations such as the DoD, Department of Homeland Security, and the United States Secret Service. The CIAS has also been actively involved with sector-based Information Sharing and Analysis Centers' security preparedness exercises for organizations in critical infrastructures. The NSCC is a Government-University-Industry ecosystem, attracting diverse thinkers and problem-solvers to join the national security conversation to uncover transdisciplinary solutions collectively. The Center will enhance the cybersecurity ecosystem in the region and provide state-of-the-art space housing computational capabilities, including a Sensitive Compartmented Information Facility and an Innovation Factory where academia, industry, and government can rapidly develop products for application in the national security enterprise.

The Alamo Regional Security Operations Center ("ARSOC") is an initiative led by the City and its partners at SAWS and CPS. This initiative would create a centralized security operations facility for real-time, collaborative cybersecurity information sharing among municipally owned entities in the San Antonio Area. In doing so, the ARSOC will become the model Urban Cyber Security Center of Excellence.

Geekdom is a collaborative coworking space in San Antonio, and the heartbeat of the startup ecosystem along the City's growing Tech District located in the Downtown area on Houston Street. At over 44,000 square feet, Geekdom is home to more than 1,700 members, and is one of the largest collaborative co-working spaces in Texas.

Geekdom's partners include USAA, Rackspace, Codeup, and Salesforce. In 2017, Geekdom partnered with USAA to subsidize the cost of a membership at Geekdom for military veterans, active duty military, and spouses of military. USAA is providing \$60,000 in sponsorship, which will cover 200 members.

Build Sec Foundry, located at Geekdom, is a cybersecurity accelerator made up of security professionals and entrepreneurs. The Foundry provides team space, mentorship, and access to the critical services a company needs as it prepares to launch into the market. Portfolio companies currently include Rectify, Coherent Cyber, Symmetry, and Level Effect, with Infocyte as the first graduate of the program.

In April 2017, City Council approved a grant of \$1.5 million to support infrastructure improvements at the Port associated with Project Tech, a new facility specifically designed to meet the growing needs of San Antonio's cybersecurity ecosystem. Project Tech will enable the expansion of cybersecurity operations and personnel while growing a campus environment that supports closer collaboration between high-ranking experts in cybersecurity and their technical counterparts in aviation, advanced manufacturing, and other targeted industries. Phase I was completed in early 2018 and Project Tech officially opened its doors in May 2018. In addition, the Port is developing an innovation campus focused on supporting military and commercial solutions for applied technologies in critical infrastructure, manufacturing, transportation, and related sectors. Located in close proximity to the Air Force's local cybersecurity and intelligence operations, as well as key industry partners, the campus will showcase capabilities and new technologies, offer education space, office and lab facilities, and serve as a hub for new and developing cybersecurity ideas and innovations.

In April 2017, streaming service provider Hulu chose to establish its Viewer Experience Operations headquarters in the City. City Council approved a six-year 100% tax abatement on real and personal property, as well as the location's nomination as a Texas Enterprise Zone project. The company is expected to create 500 full-time jobs in City Council District 8 over three years, invest approximately \$12.9 million in real and personal property, and support community-wide digital inclusion initiatives.

In 2018, The Hut Group, a British e-commerce company that operates more than 100 international websites offering health, beauty, and lifestyle products, announced that it will build its North American headquarters in City Council District 1, after receiving City Council approval for a \$500,000 grant. The company plans to create 165 new full-time jobs over five years, all of which will pay over \$70,000 annually and include high skill and upper management positions. The same year, the City Council approved a \$420,000 grant for San Antonio-based cybersecurity company IPSecure based on a capital investment of \$1.3 million, the creation of 80 new jobs, and the retention of 115 existing jobs at the Port. The company focuses primarily on cybersecurity services, including defending against both outsider and insider threats, penetration testing, and exploitation services.

Booz Allen Hamilton Inc., a multinational firm that provides management and technology consulting and engineering services for both the public and the private sector, decided to set up a cybersecurity and data scientist hub in San Antonio. In order to secure the project, in May 2019, the City Council approved a grant of up to \$250,000, with \$188,000 as a discretionary performance-based grant for the creation of up to 188 new, full-time jobs with an annual salary of at least \$70,000 over five years, and \$62,000 in restricted workforce development funding to support expanding the company's established local internship and scholarship programs and collaboration with local workforce entities. In addition to the 188 incentivized jobs, the company is planning to add another 62 jobs to the existing San Antonio workforce of 600.

In February 2019, City Council approved a Texas Enterprise Zone ("TEZ") nomination and a \$500,000 grant for Accenture, a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology, and operations. The San Antonio-based project will include 500 new jobs over five years and approximately \$5 million in capital investment. Half of the grant funds will be used for workforce development in the form of an internship program and upskill training. In April 2017, Accenture unveiled the new Federal Cyber Center, a state-of-the-art facility featuring advanced managed detection and response technologies located in City Council District 6.

The SAEDC has supported two economic developments of IT projects. Parlevel Systems is a local technology startup located in downtown San Antonio that offers software and hardware platforms for the food vending industry. In June 2016, City Council approved an economic development agreement for the company to

remain and expand in San Antonio. Parlevel must retain its headquarters and business operations in San Antonio, maintain at least 30 jobs, and add 10 jobs for a total of at least 40 jobs. In September 2016, City Council approved an investment for downtown San Antonio IT startup HelpSocial, Inc. Founded in 2014, HelpSocial graduated the Techstars Cloud program in 2016. The company has developed web and mobile apps for integrating social media to support customer service center operations.

Advanced Manufacturing

Toyota Motor Corporation, one of the largest manufacturing employers in San Antonio with an estimated workforce of over 3,000, expanded its local production in 2010, adding the production of the Tacoma truck at its manufacturing facility in San Antonio. Toyota shifted its Tacoma manufacturing from Fremont, California to San Antonio, creating an additional 1,000 jobs and investing \$100 million in new personal property, inventory, and supplies. Toyota and its 23 on-site suppliers, located on San Antonio's south side, support Toyota's production of Tundra and Tacoma vehicles, generating an estimated annual impact of \$1.7 billion.

Brooks continues to foster the development of its business and technology center on the south side of San Antonio through its aggressive business attraction and retention efforts. Recognized as one of the most innovative economic development projects in the United States, Brooks is a 1,308 acre community with approximately 350 acres available in undeveloped land. In June 2018, Brooks began work on a 350,000-square foot light industrial facility to help attract developers of various goods. This new facility will help increase the appeal of Brooks as a hub for the advanced manufacturing industry, one of San Antonio's prominent target industries. Total economic activity attributed to businesses located in the Brooks campus supported over 3,200 jobs in 2018.

Nissei Plastic Industrial manufacturers is a Japanese company that specializes in large scale injection molding machinery. During a trade mission to Japan in 2014, this company was engaged as they showed interest in expanding to the U.S. After a visit to San Antonio, the company acquired nine acres of land at Brooks to establish a manufacturing and assembly facility to serve the U.S. and Mexico markets. The grand opening of the new assembly plant took place on May 14, 2018.

New Energy

In response to an April 2009 request for proposal, CPS negotiated and entered into a 30-year Power Purchase Agreement ("PPA") with TX Solar I, LLC to construct a clean, dependable, and renewable energy solar farm in San Antonio and Bexar County, known as the "Blue Wing Solar Energy Generation Project". The project consists of 214,500 ground-mounted thin film panels manufactured by First Solar with an annual generation of about 14 megawatts ("MWs"). This project created approximately 100 green jobs during the construction and operation phases with a capital investment of approximately \$41.59 million in real and personal property. The site is located southwest of the City near the intersection of IH-37 and U.S. Highway 181. In 2017, the Blue Wing Solar Energy Generation Project produced over 22,000 megawatt hours through solar energy generation.

In June 2010, CPS and UTSA announced a ten-year, \$50 million agreement to position San Antonio as a national leader in green technology research. The agreement established the Texas Sustainable Energy Research Institute at UTSA. This research institute works with other academic and research entities with robust green programs including the Southwest Research Institute as well as the Mission Verde Center, a City partnership that includes the Alamo Colleges and the Texas A&M University Texas Engineering Experiment Station. The institute also has an active military establishment looking to address specific energy needs.

In 2011, CPS, the largest municipally owned, vertically integrated electric and gas utility in the United States, invested in 400 MW of solar energy through PPAs and launched a New Energy Economy ("NEE") in the City. The NEE is comprised of local companies that share the City's vision for clean energy, innovation, and energy efficiency while leveraging economic development. Through this strategic approach, the City has spurred the creation of a solar manufacturing and clean energy technology hub. As a result, the NEE has led to more than \$1 billion in annual economic impact, over 600 jobs, and over \$200 million in capital investment, while contributing towards education locally. To continue this effort, CPS launched Energy Partnerships Innovation ("EPIcenter") in 2015, a hub for clean energy technology innovation, education and community engagement, and entrepreneurial incubation and ideation. In early 2018, EPIcenter announced the first two companies to join its new energy

incubator, San Antonio-based Go Smart Solar and Morton Gestalt. In the last quarter of 2018, EPIcenter announced that Drones of Prey, an Austin based startup, would also be joining the incubator, adding the first company not based in San Antonio to its rank. The incubator is designed to help entrepreneurs build and develop innovative business ideas in the new energy industry.

On December 13, 2012, City Council designated Brooks as a reinvestment zone in accordance with State statute to contribute to the retention and expansion of primary employment and attract major investment in the zone. Mission Solar has decided to locate its solar panel manufacturing operations and its U.S. corporate headquarters at Brooks. Mission Solar has also agreed to support the creation and sustainment of a renewable energy and advanced manufacturing workforce through a \$350,000 contribution to the Alamo Colleges to continue its efforts to develop a customized curriculum and training program to support the development of a renewable energy workforce.

Inner City Development

Development in the inner city has strengthened considerably in recent years, with many catalytic projects underway or recently completed. The new 24-story Frost Tower is completed as Frost Bank employees moved in June 2019. Extensive renovations are occurring at the Light and Print buildings, the new CPS headquarters, the Grant and Kress buildings, Travis Park Plaza, the Milam Building, and Historic City Hall. These projects will soon be joined by The Soto, a mass-timber office building under construction on lower Broadway, the new federal courthouse, and the expansion of UTSA's downtown campus.

Several residential developments are taking shape in the urban core, many of them supported by the City Council-adopted Center City Housing Incentive Policy ("CCHIP"), which encourages urban-density housing development in targeted growth areas through City fee waivers, SAWS fee waivers, and real property tax reimbursement grants. Construction is nearly complete on Encore SoFlo, a 339-unit complex near the intersection of South Flores and Cesar Chavez streets. The '68, the first residential phase of development within Hemisfair; and 120 Ninth Street, located along the Museum Reach. More recently, work has begun on several large-scale residential projects including Heritage Plaza and Augusta Apartments.

Since its inception in 2012, 66 CCHIP agreements have been executed, which will result in nearly 7,200 new housing units in the center city. A revised policy was approved by City Council in December 2018.

Sources: The San Antonio Chamber of Commerce; City of San Antonio, Economic Development Department and Center City Development Office; Bureau of Labor Statistics, Economic Development Foundation, UT Health, UTSA, BAMC, SAMH, Geekdom, Build Sec Foundry, San Antonio Express News, U.S. Bureau of Economic Analysis, Port San Antonio, Brooks.

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Growth Indices

San Antonio Average Electric and Gas Customers

<u>For the Month of December</u>	<u>Average Electric Customers</u>	<u>Gas Customers</u>
2008	693,815	320,407
2009	706,235	321,984
2010	717,109	324,634
2011	728,344	328,314
2012	741,556	330,945
2013	754,893	333,587
2014	770,588	336,367
2015	783,767	337,920
2016	802,712	342,928
2017	819,333	346,247
2018	823,153	348,313

Source: CPS.

SAWS Average Customers per Fiscal Year

<u>Fiscal Year Ended December 31</u>	<u>Water Customers</u> ¹
2009	350,859
2010	355,085
2011	358,656
2012	362,794
2013	367,388
2014	371,573
2015 ²	479,100
2016 ²	486,649
2017 ²	493,768
2018 ²	502,024

¹ Average number billed, excluding SAWS irrigation customers.

² Amounts reflect the merger with SAWS District Special Project ("DSP") effective January 1, 2015.

Source: SAWS.

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Construction Activity

Set forth below is a table showing building permits issued for construction within the City at December 31 for the years indicated:

Calendar Year	New Residential Single Family ¹		Residential Multi-Family ²		Other ³	
	Permits	Valuation	Permits	Valuation	Permits	Valuation
2008	2,575	\$386,407,251	414	\$336,579,967	11,106	\$2,006,112,379
2009	2,119	\$309,815,331	145	\$216,621,122	10,634	\$1,473,424,436
2010	1,982	\$295,097,549	154	\$186,518,798	10,489	\$1,174,710,884
2011	1,650	\$245,542,976	270	\$205,177,825	10,290	\$1,594,888,560
2012	1,993	\$323,925,290	226	\$302,749,653	11,390	\$1,636,131,582
2013	1,902	\$336,790,668	268	\$320,007,487	9,888	\$1,664,008,739
2014	2,290	\$407,108,162	252	\$501,829,279	11,214	\$2,496,182,001
2015	2,161	\$408,047,290	263	\$500,853,131	11,580	\$2,096,065,163
2016	2,150	\$409,048,513	219	\$408,327,871	19,106	\$2,093,010,308
2017	2,421	\$453,152,457	196	\$505,855,511	18,172	\$2,707,666,910
2018	3,337	\$556,401,894	161	\$387,094,077	19,993	\$3,158,550,699

¹ Includes new single family attached and detached projects.

² Includes new two-, three- and four-family projects, townhomes, and multifamily apartment complexes. Apartment complexes are permitted per building.

³ Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.

Source: City of San Antonio, Development Services Department.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

Set forth below in alphabetical order is total municipal sales tax collections for the calendar years indicated:

	2018	2017	2016	2015	2014
Amarillo ²	N/A	\$74,177,530	\$74,412,781	\$74,423,001	\$72,301,582
Arlington	\$110,482,756	105,600,443	102,892,000	98,718,419	93,694,878
Austin	226,229,104	210,876,619	204,636,966	195,469,522	182,254,926
Corpus Christi ¹	N/A	N/A	N/A	77,787,653	80,774,939
Dallas	304,963,822	294,218,052	284,659,887	272,645,990	256,926,027
El Paso	90,106,254	85,606,247	83,879,102	81,307,487	78,615,134
Fort Worth	157,699,811	148,352,207	139,042,987	131,705,412	126,263,002
Frisco ¹	87,307,968	81,409,268	74,691,991	N/A	N/A
Houston	687,113,410	638,686,093	630,172,429	659,339,722	646,063,653
Plano	89,766,816	83,078,508	78,286,505	77,558,042	75,393,702
SAN ANTONIO	355,904,510	334,238,830	324,561,595	315,346,501	303,992,585
Round Rock ²	82,944,806	N/A	N/A	N/A	N/A

¹ In 2016, the City of Frisco replaced the City of Corpus Christi as the 10th largest city in the State.

Source: State of Texas, Comptroller's Office.

² In 2018, the City of Round Rock replaced the City of Amarillo as the 10th largest city in the State.

Source: State of Texas, Comptroller's Office.

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Education

As of October 2018, there are 15 independent school districts within Bexar County with a combined enrollment of 319,180 encompassing 59 high schools, 83 middle/junior high schools, 299 early education/elementary schools, 23 magnet schools, and 25 alternative schools. There are an additional 21 charter school districts with 77 open enrollment charter schools at all grade levels. In addition, Bexar County has 80 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. The seven largest accredited and degree-granting universities, which include a school of medicine, a school of nursing, a dental school, a law school, and five public community colleges, had combined enrollments of 120,045 for Fall 2018.

Sources: Texas Education Agency; Texas Higher Education Coordinating Board; and Texas Private School Accreditation Commission.

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Employment Statistics

The following table shows current non-agricultural employment estimates by industry in the San Antonio-New Braunfels MSA for the period of August 2019, as compared to the prior periods of July 2019 and August 2018, respectively.

Employment by Industry

<u>San Antonio-New Braunfels MSA ¹</u>	<u>August 2019</u>	<u>July 2019</u>	<u>August 2018</u>
Mining, Logging, and Construction ²	68,100	66,100	64,400
Manufacturing	50,200	50,800	50,500
Trade, Transportation, and Utilities	183,300	182,300	180,200
Information	20,800	21,000	20,800
Financial Activities	92,800	91,900	91,900
Professional and Business Services	146,500	145,800	142,800
Education and Health Services	170,300	168,100	165,200
Leisure and Hospitality	145,200	144,400	140,900
Other Services	39,400	39,600	38,900
Government	<u>166,000</u>	<u>165,500</u>	<u>165,000</u>
Total Nonfarm	1,082,600	1,075,500	1,060,600

¹ Based on Labor Market Information Department, Texas Workforce Commission (model-based methodology).

² Mining, Logging, and Construction have been combined compared to previous years.

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio-New Braunfels MSA, Texas, and the United States for the period of August 2019, as compared to the prior periods of July 2019 and August 2018, respectively.

Unemployment Information (all estimates in thousands)

<u>San Antonio-New Braunfels MSA ¹</u>	<u>August 2019</u>	<u>July 2019</u>	<u>August 2018</u>
Civilian Labor Force	1,205.2	1,204.9	1,185.6
Number of Employed	1,166.5	1,164.8	1,144.5
Number of Unemployed	38.6	40.1	41.1
Unemployment Rate (%)	3.2	3.3	3.5
 <u>Texas (Actual) ¹</u>	 <u>August 2019</u>	 <u>July 2019</u>	 <u>August 2018</u>
Civilian Labor Force	14,015.6	14,063.7	13,768.5
Number of Employed	13,508.8	13,539.9	13,222.4
Number of Unemployed	506.8	523.9	546.1
Unemployment Rate (%)	3.6	3.7	4.0
 <u>United States (Actual) ¹</u>	 <u>August 2019</u>	 <u>July 2019</u>	 <u>August 2018</u>
Civilian Labor Force	164,019.0	164,941.0	161,909.0
Number of Employed	157,816.0	158,385.0	155,539.0
Number of Unemployed	6,203.0	6,556.0	6,370.0
Unemployment Rate (%)	3.8	4.0	3.9

¹ Based on Labor Market Information Department, Texas Workforce Commission (model-based methodology).

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San Antonio Water System

History and Management

In 1992, the City Council consolidated all of the City's water-related systems, functions, agencies, and activities into one agency. This action was taken due to the myriad of issues confronting the City related to the development and protection of its water resources. The consolidation provided the City a singular voice of representation when promoting or defending the City's goals and objectives for water resource protection, planning, and development when dealing with local, regional, state, and federal water authorities and officials.

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which approved the creation of the City's water system into a single, unified system consisting of the former City departments: comprising the waterworks, wastewater, and water reuse systems; together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a stormwater system and any other water-related system to the extent permitted by law.

The City believes that establishing SAWS has allowed the City greater flexibility in meeting future financing requirements. More importantly, it has allowed the City to develop, implement, and plan for its water needs through a single agency.

The complete management and control of SAWS is vested in a board of trustees (the "SAWS Board") currently consisting of seven members, including the City's Mayor and six persons who are residents of the City or reside within the SAWS service area. With the exception of the Mayor, all SAWS Board members are appointed by the City Council for four-year staggered terms and are eligible for reappointment for one additional four-year term. Four SAWS Board members must be appointed from four different quadrants in the City, and two SAWS Board members are appointed from the City's north and south sides, respectively. SAWS Board membership specifications are subject to future change by City Council.

With the exception of fixing rates and charges for services rendered by SAWS, condemnation proceedings, and the issuance of debt, the SAWS Board has absolute and complete authority to control, manage, and operate SAWS, including the expenditure and application of gross revenues, the authority to make rules and regulations governing furnishing services to customers, and their subsequent payment for SAWS' services, along with the discontinuance of such services upon the customer's failure to pay for the same. The SAWS Board, to the extent authorized by law and subject to certain various exceptions, also has authority to make extensions, improvements, and additions to SAWS and to acquire, by purchase or otherwise, properties of every kind in connection therewith.

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.7 million residents. SAWS employs approximately 1,700 personnel and maintains over 12,600 miles of water and sewer mains. The tables that follow show historical water consumption and water consumption by class for the fiscal years indicated.

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Historical Water Consumption (Million Gallons) ¹

Fiscal Year	Gallons of Water Production ^a	Gallons Water Usage	Gallons Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated ^b	Total Direct Rate			
						<u>Water</u>		<u>Sewer</u>	
						Base Rate ^c	Usage Rate ^d	Base Rate ^e	Usage Rate ^f
2018 ^g	78,665	63,660	15,005	19.07%	50,775	\$12.94	\$23.34	\$13.51	\$15.84
2017 ^g	79,256	65,381	13,938	17.59%	50,945	11.82	22.09	13.04	15.29
2016 ^g	76,857	63,934	12,923	16.81%	49,282	10.90	21.18	12.35	14.48
2015 ^g	76,227	62,896	13,331	17.49%	48,563	7.75	19.73	12.75	14.04
2014	68,265	57,261	11,004	16.12%	50,689	7.49	18.99	11.99	13.20
2013	66,391	55,108	11,283	16.99%	50,076	7.31	17.81	11.54	12.71
2012	66,596	55,320	11,276	16.93%	49,055	7.31	17.96	9.92	10.91
2011	70,699	59,133	11,566	16.36%	49,918	7.10	15.72	8.73	9.60
2010	61,272	52,578	8,694	14.19%	48,151	7.10	16.03	8.73	9.60
2009	62,649	55,295	7,354	11.74%	51,987	6.77	18.74	7.76	8.58

¹ Unaudited.

^a Pumpage is total potable water production less Aquifer Storage and Recovery recharge.

^b Represents amounts billed to customers. Residential Class customers are billed based on water usage during a consecutive three month billing period from November through March. All other customer classes are billed for wastewater treatment based on actual water usage during each monthly billing period.

^c Rate shown is for 5/8" meters. Includes the State-Imposed Texas Commission on Environmental Quality ("TCEQ") fee.

^d Represents usage charge for monthly residential water usage of 7,092 gallons per month. Includes water supply and Edwards Aquifer Authority ("EAA") fees.

^e Minimum service availability charge (includes charge for first 1,496 gallons). Includes the State-Imposed TCEQ fee.

^f Represents usage charge for a residential customer based on winter average water consumption of 5,668 gallons per month.

^g Amounts reflect the merger with SAWS DSP effective January 1, 2015.

Source: SAWS.

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Water Consumption by Customer Class (Million Gallons) ¹

	2018 ^a	2017 ^a	2016 ^a	2015 ^a	2014	2013	2012	2011	2010	2009
Water Sales: ^b										
Residential Class	35,325	36,566	35,360	35,769	29,310	29,206	30,070	34,153	28,932	30,667
General Class	24,498	24,408	24,159	23,212	20,870	20,614	20,393	20,986	19,465	20,309
Wholesale Class	337	344	393	354	3,861	1,943	1,412	128	101	119
Irrigation Class	3,500	4,000	4,022	3,561	3,220	3,345	3,445	3,866	4,080	4,200
Total Water	63,600	65,381	63,934	62,896	57,261	55,108	55,320	59,133	52,578	55,295
Wastewater Sales:										
Residential Class	26,318	26,809	26,462	26,048	27,896	27,617	26,572	27,371	26,746	29,825
General Class	21,873	21,654	20,503	20,281	20,502	20,100	20,066	20,134	20,002	20,338
Wholesale Class	2,584	2,482	2,317	2,234	2,291	2,359	2,417	2,413	1,404	1,824
Total Wastewater	50,775	50,945	49,282	48,563	50,689	50,076	49,055	49,918	48,152	51,987
Conservation – Residential Class ^{c, d, e}	8,658	9,572	6,611	2,284	2,296	2,520	3,026	4,106	2,935	3,469
Recycled Water Sales	18,346	18,949	18,436	18,421	18,323	18,359	18,129	18,990	14,968	16,321

¹ Unaudited.

^a Amounts reflect the merger with SAWS DSP effective January 1, 2015.

^b Water Supply and EAA fees are billed based on the gallons billed for potable water sales.

^c Gallons billed for conservation are included in the gallons billed for potable water sales.

^d As part of a rate restructuring which took place on January 1, 2016, a portion of all monthly residential water sales in excess of 7,482 gallons is allocated to fund conservation related programs. Prior to 2016, this allocation was limited to monthly sales in excess of 17,205 gallons.

^e Gallons effective January 1, 2017, for District Special Project customers began paying for water service under the SAWS rate structure. As a result, a portion of the revenues from those customers was included in the revenue allocated to conservation. The increase in the gallons subject to the conservation allocation from 2016 to 2017 reflects this.

Source: SAWS.

SAWS System

SAWS includes all water resources, properties, facilities, and plants owned, operated, and maintained by the City relating to supply, storage, treatment, transmission, and distribution of treated potable water, and chilled water (collectively, the “waterworks system”), collection and treatment of wastewater (the “wastewater system”), and treatment and reuse of wastewater (the “water reuse system”) (the waterworks system, the wastewater system, and the water reuse system, collectively, the “System”). The System does not include any “Special Projects”, which are declared by the City, upon the recommendation of the SAWS Board, not to be part of the System and are financed with obligations payable from sources other than ad valorem taxes, certain specified revenues, or any water or water-related properties and facilities owned by the City as part of its electric and gas system.

In addition to the water-related utilities that the SAWS Board has under its control, on May 13, 1993, the City Council approved an ordinance establishing initial responsibilities over the stormwater quality program with the SAWS Board and adopted a schedule of rates to be charged for stormwater drainage services and programs. As of the date hereof, the stormwater program is not deemed to be a part of the System.

SAWS’ operating revenues are provided by its four core businesses: Water Delivery, Water Supply, Wastewater, and Chilled Water. The SAWS rate structure is designed to provide a balance between residential and business rates and strengthen conservation pricing for all water users. For detailed information on the current rates charged by SAWS, see www.saws.org/service/rates.

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water

Board. The SAWS' waterworks system service area currently extends over approximately 934 square miles, making it the largest water purveyor in Bexar County. SAWS serves approximately 93% of the water utility customers in Bexar County. As of December 31, 2018, SAWS provided potable water service to approximately 505,600 customer connections, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 57 elevated storage tanks and 68 ground storage reservoirs, of which 28 act as both, with combined storage capacities of 287.6 million gallons. As of December 31, 2018, the waterworks system had approximately 7,140 miles of distribution mains, ranging in size from four to 61 inches in diameter (the majority being between six and 12 inches).

Wastewater System. The City Council created the City Wastewater System in 1894. A major sewer system expansion program began in 1960 with bond proceeds that provided for new treatment facilities and an enlargement of the wastewater system. In 1970, the City became the Regional Agent of the Texas Commission on Environmental Quality ("TCEQ") (formerly known as the Texas Water Commission and the Texas Water Quality Board). In 1992, the wastewater system was consolidated with the City's waterworks and recycling systems to form the System.

SAWS serves a substantial portion of the residents of the City, 12 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 630 square miles. SAWS also coordinates with the City for wastewater planning for the City's total planning area, under the ETJ, of approximately 1,107 square miles. The population for this planning area is approximately 1.6 million people. As of December 31, 2018, SAWS provided wastewater services to approximately 453,060 customer connections.

In addition to the treatment facilities owned by SAWS, there are six privately owned and operated sewage and treatment plants within the City's ETJ.

The wastewater system is composed of approximately 5,482 miles of mains and three major treatment plants, Dos Rios, Leon Creek, and Medio Creek. All three plants are conventional activated sludge facilities. SAWS holds Texas Pollutant Discharge Elimination System wastewater discharge permits, issued by the TCEQ for 187 million gallons per day ("MGD") in treatment capacity and 46 MGD in reserve permit capacity. The permitted flows from the wastewater system's three regional treatment plants represent approximately 98% of the municipal discharge within the City's ETJ.

Since 2006, the System has submitted 21 separate applications to the TCEQ to expand its Certificates of Convenience and Necessity ("CCN") or service areas for water and sewer service to the ETJ boundary of the City. These applications have added 28,309 acres to the water service area and 276,849 acres to the sewer service area. When the TCEQ grants a CCN to a water or sewer purveyor, it provides that purveyor with a monopoly for retail service. By expanding the CCN to the ETJ, developments needing retail water and sewer service within the ETJ must apply to SAWS. Service can then be provided according to System standards, avoiding small, undersized systems servicing new development. The expansion of the CCN to the ETJ supports development regulations for the City. Within the ETJ, the City has certain standards for the development that ensure areas developed in the ETJ, and when annexed by the City, will already have some City development regulations in place.

Recycling Water System. SAWS is permitted to sell Type I (higher quality) recycled water from its water recycling centers located on the City's south side, and has been doing so since 2000. The water recycling program is designed to provide up to 35,000 acre-feet per year of recycled water to commercial and industrial businesses in the City. The original system was comprised of two major transmission lines, running east and west. In 2008, these two major transmission lines were interconnected at the northern end, providing additional flexibility to this valuable water resource. In 2013, an additional water recycling center and pipeline was connected to the western line, providing further recycled water system redundancy. Currently, approximately 130 miles of pipeline deliver highly treated effluent to over 60 customers. Recycled water is being delivered for industrial processes, cooling towers, and irrigation of golf courses and parks, all of which would otherwise rely on potable-quality water. Aside from supporting the local economy, this water recycling system also releases water into the upper San Antonio River and Salado Creek to sustain base flows. The result has been significant and lasting environmental improvements for the aquatic ecosystems in these streams.

SAWS also provides 50,000 acre-feet of recycled water to San Antonio's municipally-owned electric and gas utility, CPS. This water is discharged into the San Antonio River from the Dos Rios wastewater treatment facility. CPS diverts the water downstream into Braunig and Calaveras Lakes to provide cooling water for its nearby power plants. The revenues derived from such agreement have been restricted in use to only recycling activities and are excluded from both the calculation of SAWS gross revenues and any transfers to the City's General Fund. Revenues derived from this agreement are approximately \$3.4 million each year.

Chilled Water System. SAWS owns, operates, and maintains five thermal energy facilities providing chilled water services to governmental and private entities. Two of the facilities, located in the City's downtown area, provide chilled water to 21 customers. They include various City facilities such as the Henry B. Gonzalez Convention Center and the Alamodome, which constitute a large percentage of the SAWS' downtown chilled water annual production requirements. In addition to City facilities, the two central plants also provide chilled water service to a number of major hotels in the downtown area, including the Grand Hyatt, Marriott Riverwalk, and Hilton Palacio Del Rio. The other three thermal facilities, owned and operated by SAWS, are located at the Port and provide chilled water to large industrial customers that include Lockheed Martin and Boeing Aerospace. SAWS' chilled water producing capacity places it as one of the largest producers of chilled water in south Texas. The chilled water system had gross revenues of \$10.8 million in fiscal year 2018.

Stormwater System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to Environmental Protection Agency ("EPA")-mandated stormwater runoff and treatment requirements under 40 CFR 122.26 Storm Water Discharge. The City, along with SAWS, has the responsibility, pursuant to the permit from the TCEQ, for water-quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the permit. The approved annual budget for the SAWS share of program responsibilities for SAWS fiscal year 2019 is approximately \$5.2 million, for which SAWS anticipates being fully reimbursed from the stormwater utility fee imposed by the City.

Water Supply

The primary source of water for the City is the Edwards Aquifer. The Edwards Aquifer is also the primary source of water for the agricultural economy in the two counties west of San Antonio and is the source of water for Comal and San Marcos Springs in New Braunfels and San Marcos, respectively, which depend upon springflow for their tourist-based economy. Edwards Aquifer water from these springs provides the habitat for species listed as endangered by the United States Fish & Wildlife Service (the "USFWS") under the federal Endangered Species Act and provides base flow for the Guadalupe River. Water levels in the Edwards Aquifer are affected by rainfall or lack thereof, water usage region-wide, and discharge from the aforementioned springs. One unique aspect of the Edwards Aquifer is its prolific rechargeability and the historical balance between recharge and discharge in the form of well withdrawals and spring discharges.

During the 1980s, increased demand on the Edwards Aquifer threatened to exceed average historical recharge, generating concerns by the areas dependent upon springflow for water and the local economy. Also, the fluctuations in Edwards Aquifer levels threatened to jeopardize flow from Comal and San Marcos Springs. Since groundwater, including the Edwards Aquifer, is subject to the rule of capture in Texas, meaningful management could not be accomplished in the absence of State legislation.

Regional planning efforts to address these issues were undertaken in the mid-1980s, resulting in recommendations for State legislation for management of the Edwards Aquifer. Failure to adopt this legislation in the 1989 Texas Legislative Session resulted in the initiation of various lawsuits and regulatory efforts by regional interests dependent upon springflow to force limitations on overall usage from the Edwards Aquifer. In addition to the litigation discussed below, litigation was initiated in State District Court to have the Edwards Aquifer declared an underground river under State law, and therefore owned by the State. This litigation was unsuccessful. In addition, efforts were undertaken to have the Texas Water Commission (now the TCEQ) regulate the Edwards Aquifer. In April 1992, the Texas Water Commission adopted emergency rules declaring the Edwards Aquifer to be an underground stream, and therefore State water subject to regulation by the State. After final adoption of permanent rules, litigation was initiated in State court challenging the Texas Water Commission's determination.

The Texas Water Commission's permanent rules and the Texas Water Commission's determination that the Edwards Aquifer was an underground stream, and, therefore, subject to regulation by the State, was declared invalid by the State courts.

The various litigations and regulatory efforts to manage withdrawals from the Edwards Aquifer resulted in passage of the Edwards Aquifer Authority Act in 1993 and its amendment in 1995 to allow its implementation. The Edwards Aquifer Authority ("EAA") began operation on July 1, 1996, with a goal of implementing State regulatory legislation aimed at the elimination of uncertainties concerning access to and use of Edwards Aquifer water by the City and all other Edwards Aquifer users.

The Board of the EAA has adopted rules for: (1) drought management and (2) withdrawal permits governing the use of water from the Edwards Aquifer. Drought management rules mandate staged reductions in water supplies withdrawn from the Edwards Aquifer. The City currently has a series of accompanying demand restrictions targeting discretionary water use, such as use of decorative water features and landscape irrigation. Drought demand rules do not materially adversely affect revenues or SAWS' ability to supply water to its customers for primary needs.

In 2007, the Texas Legislature passed Senate Bill 3 establishing a cap on annual pumping from the Edwards Aquifer of 572,000 acre-feet and placing restrictions into State statute regarding supply availability during drought periods, thus making these restrictions State law. SAWS currently has access to approximately 50% of the 572,000 acre-feet available. In connection with the EAA's directive from the Texas Legislature to ensure that continuous minimum spring flows of the Comal Springs and the San Marcos Springs are maintained to protect endangered and threatened species, the Edwards Aquifer Recovery Implementation Program ("EARIP") was established in 2007. The EARIP was developed through a consensus-based process that involved input from the USFWS, other appropriate federal agencies, and all interested stakeholders in the Edwards Aquifer region. Together, these entities, over a four-year period, developed and approved a springflow protection and habitat restoration plan, the Edwards Aquifer Habitat Conservation Plan ("EAHCP").

The primary parties to the EAHCP include the EAA, SAWS, the City of New Braunfels, the City of San Marcos, and Texas State University. The EAHCP was used by the USFWS as the basis for issuing an Incidental Take Permit ("ITP"), which will protect San Antonio and the region from the threat of future environmental lawsuits and federal control of the aquifer over a 15-year term. This ITP was issued by the USFWS on March 18, 2013.

For additional information on the EAHCP, see the official statement for the **CITY OF SAN ANTONIO, TEXAS WATER SYSTEM JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019C (NO RESERVE FUND) - EDWARDS AQUIFER RECOVERY IMPLEMENTATION PROGRAM AND THE EDWARDS AQUIFER HABITAT CONSERVATION PLAN** filed with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system.

Edwards Aquifer Authority

Pursuant to applicable Texas law, including the Edwards Aquifer Authority Act and legislation enrolled subsequent thereto serving to supplement and/or amend this legislation, the EAA has adopted rules that require a reduction in the amount of permitted Edwards Aquifer water rights that may be pumped annually for the duration of a drought event. During a period of drought management, water rights are impacted on a pro rata basis dependent upon the number of days of a calendar year that involves a particular category of drought (depending on severity) requiring a reduction in pumping. Reductions of permitted rights to withdraw water are generally applied to all permit holders, though there do exist some limited exceptions applicable to agriculture users. The various stages of reduction in permitted water rights are declared by the EAA Board of Directors and impact SAWS' access to its permitted Edwards Aquifer water rights, without input or action by the City or SAWS. The EAA's drought triggers and requisite reduction in pumping for the San Antonio and Uvalde Pools of the Edwards Aquifer are indicated in the following tables. All of SAWS' Edwards Aquifer water rights are subject to the restrictions associated with the San Antonio Pool.

SAN ANTONIO POOL				
Comal Springs Flow ¹	San Marcos Springs Flow ¹	Index Well J-17 Level ²	Critical Period Stage ³	Withdrawal Reduction (%)
< 225	< 96	< 660	I	20
< 200	< 80	< 650	II	30
< 150	N/A	< 640	III	35
< 100	N/A	< 630	IV	40
< 45/40 ⁴	N/A	< 625	V ⁴	44

UVALDE POOL				
Comal Springs Flow ¹	San Marcos Springs Flow ¹	Index Well J-27 Level ²	Critical Period Stage ³	Withdrawal Reduction (%)
N/A	N/A	N/A	I	N/A
N/A	N/A	< 850	II	5
N/A	N/A	< 845	III	20
N/A	N/A	< 842	IV	35
N/A	N/A	< 840	V	44

¹ Measured in cubic feet per second.

² Measured in mean sea level.

³ A change to a critical period stage with higher withdrawal reduction percentages, including initially into Stage I for the San Antonio Pool and Stage II for the Uvalde Pool, is triggered if the ten-day average of daily springflows at the Comal Springs or the San Marcos Springs or the ten-day average of daily Aquifer levels at the J-17 or J-27 Index Wells, as applicable, drop below the lowest number of any of the trigger levels for that stage. A change from any critical period stage to a critical period stage with a lower withdrawal reduction percentage, including existing from Stage I for the San Antonio Pool and Stage II for the Uvalde Pool, is triggered only when the ten-day average of daily springflows at the Comal Springs and the San Marcos Springs and the ten-day average of daily Aquifer levels at the J-17 or J-27 Index Wells, as applicable, are all above the same stage trigger level.

⁴ In order to enter into Critical Period Stage V, the applicable springflow trigger is either less than 45 cubic feet per second based on a ten-day rolling average or less than 40 cubic feet per second based on a three-day rolling average. Expiration of Critical Period Stage V is based on a ten-day rolling average of 45 cubic feet per second or greater.

Due to varying weather patterns, the EAA has, from time to time, imposed various Critical Period Stage withdrawal reduction notices. For any current drought restrictions, as well as additional information on the various levels of drought restrictions imposed by the EAA and current level of the Edwards Aquifer, see www.edwardsaquifer.org.

City's Edwards Aquifer Management Plan

In addition, and separate and apart from the EAA's rules governing withdrawal of Edwards Aquifer water during drought, the City has established a proactive Aquifer Management Plan to manage the region's water resources during periods of drought. Established by City ordinance, the Aquifer Management Plan also restricts water use based on specific levels of the Edwards Aquifer. The City approved the following Edwards Aquifer level triggers in 2009 and updated certain revisions to the water use restrictions in 2014.

Year Round – Year round restrictions are in effect when the Edwards Aquifer level is above 660 feet mean sea level at the monitored well (J-17 Index Well). During year round watering restrictions, SAWS customers are permitted to water landscape with an irrigation system or sprinkler any day of the week before 11 a.m. or after 7 p.m. Hand watering with a hand-held hose, drip irrigation, soaker hose or bucket is permitted any time of day.

Stage One – Stage One restrictions begin when the ten-day rolling average of the Edwards Aquifer level drops to 660 feet mean sea level at the monitored well (J-17 Index Well). SAWS customers are limited to one-day-per week landscape watering with an irrigation system or sprinkler based on the last number of the customer's street address and are only allowed to water before 11 a.m. or after 7 p.m. Watering with a hand-held hose, drip irrigation, bucket, or watering can is permitted at any time and any day.

Stage Two – Stage Two restrictions begin when the ten-day rolling average of the Edwards Aquifer level drops to 650 feet mean sea level at the monitored well (J-17 Index Well). SAWS customers are limited to one-day-per week landscape watering with an irrigation system or sprinkler based on the last number of the customer’s street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day. Watering with a hand-held hose is allowed any time on any day.

Stage Three – Stage Three restrictions may begin when the ten-day rolling average of the Edwards Aquifer level drops to 640 feet mean sea level at the monitored well (J-17 Index Well) and the total supply of water to SAWS from the Edwards Aquifer and other available sources is insufficient to meet customer demand while complying with applicable regulations governing water supply withdrawals. SAWS customers are limited to landscape watering with an irrigation system or sprinkler once every other week based on the last number of the customer’s street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day. Watering with a hand-held hose is allowed any time on any day.

Stage Four – Stage Four restrictions may be declared if the total supply of water from the Edwards Aquifer and other available water sources to SAWS is insufficient to meet customer demand while complying with applicable regulations governing water supply withdrawals. Stage Four restrictions may be declared at the discretion of the City Manager upon completion of a 30-day monitoring period following Stage Three declaration. SAWS customers are limited to landscape watering with an irrigation system or sprinkler once every other week based on the last number of the customer’s street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day. Also during Stage Four, a drought surcharge is assessed on all accounts for water used or assumed to be used for landscape irrigation. The surcharge is the highest volumetric rate assessed by SAWS and is assessed on any residential and irrigation account with monthly water usage exceeding 12,717 and 5,236 gallons, respectively. The surcharge rate is assessed in addition to the regular water and wastewater rates. Watering with a hand-held hose is allowed any time on any day.

Due to varying weather patterns, the City has been in and out of drought restrictions based on the fluctuating mean sea level of the Edwards Aquifer at the J-17 monitoring well as well as changes in spring flow. For any current drought restrictions, as well as additional information on the various levels of drought restrictions and current level of the Edwards Aquifer, see www.saws.org.

Water Transmission and Purchase Agreement for Carrizo and Simsboro Aquifer Water

In an effort to achieve significant diversification of the City’s water supply, the SAWS Board, on January 14, 2011, solicited requests for competitive sealed proposals for the provision and delivery of alternative water supplies for the purpose of meeting the System’s water supply needs (the “Solicitation”). In response to the Solicitation, the SAWS Board received nine responses, from which three finalists were selected and reviewed prior to determining that a joint-venture proposal (such proposer, Abengoa Vista Ridge, LLC, hereafter referred to as “Abengoa VR”) to deliver Carrizo and Simsboro aquifer water presented the most advantageous possibility for the City to obtain an alternative water source. On July 1, 2014, the Board formally selected the water supply proposal of Abengoa VR as the most advantageous to the System, subject to negotiation of an acceptable contract and City Council support.

On September 29, 2014 and October 15, 2014 the SAWS Board adopted resolutions, and on October 30, 2014 the City Council unanimously adopted an ordinance, approving the execution of a Water Transmission and Purchase Agreement (the “Agreement”) between the City, acting by and through SAWS, and Abengoa VR, pursuant to which Abengoa VR committed to make available to SAWS, and SAWS agreed to pay for, up to 50,000 acre-feet of potable water (“Project Water”) per year for an initial period of 30 years plus a limited (20 year) extension period under certain events (hereinafter referred to as the “operational” phase). To produce and deliver the Project Water, Abengoa VR planned to develop well fields to withdraw water from the Carrizo and Simsboro aquifers in Bureson County, Texas pursuant to currently-held long-term leases with landowners and construct (or cause to be constructed) a 142-mile pipeline from this well field to northern Bexar County (the well fields and the pipeline, together, the “Project”). The pipeline will ultimately be connected to the SAWS distribution system at this delivery point in northern Bexar County (the “Connection Point”).

In late 2015 and 2016, Metropolitan Water Company, L.P. and affiliated companies (collectively “Met Water”), Blue Water Systems, LP and Blue Water Vista Ridge, LLC (collectively, “Blue Water”), filed various lawsuits in Travis County against each other alleging claims related to contracts they had with each other, money owed under those contracts, among other things, and, specifically, that the assignment of leases to Blue Water Vista Ridge, LLC was entered into based upon a fraudulent inducement. The leases that were the subject of the assignment to Blue Water Vista Ridge, LLC gave Abengoa VR the right to produce the Project Water to be sold to SAWS under the Agreement. As of May 21, 2019, the litigation related to the cases has since been closed and dismissed, with the exception of Metropolitan Water Company, L.P. and Met Water Vista Ridge, L.P. v. Blue Water Systems, LP and Blue Water 130 Project, LP; Cause No. D-1-GN-18-001582, in the 261st District Court, Travis County, Texas. The remaining claims in that action concern an award of attorney’s fees and costs stemming from an arbitration concerning a project of Blue Water 130 Project, L.P. (the “130 Project”), an affiliate of Blue Water Systems, L.P.

In early 2016, following commencement of pre-insolvency proceedings in Spain by Abengoa SA, the parent company of Abengoa VR (“Abengoa Parent”), Abengoa VR solicited proposals to sell up to 80% of the equity interest in Abengoa VR. On March 22, 2016, SAWS received notice that Garney P3 LLC (“Garney”, who is wholly owned by Garney Companies, Inc. and referred to herein as “Garney Company”, who is wholly owned by Garney Holding Company, and referred to herein as “Garney Parent”; Garney, Garney Company and Garney Parent are collectively referred to herein as the “Garney Parties”) had reached agreement with Abengoa Parent, Abengoa Water USA LLC (“Abengoa Water”) and Abengoa VR (Abengoa Parent, Abengoa Water and Abengoa VR collectively referred to herein as the “Abengoa Parties”), for the sale and purchase of an 80% equity interest in Abengoa VR (such agreement, the “Equity Purchase Agreement”; such transferred interest in Abengoa VR, the “Transferred Project Company Interest”).

On May 18, 2016, the SAWS Board approved an Amendment to the Agreement (the “First 2016 Amendment”) which includes approval of the transfer to Garney of the Transferred Project Company Interest and other miscellaneous and conforming amendments to the Agreement, approved other related agreements, including a Project Real Property Conveyance Agreement between SAWS and the Central Texas Regional Water Supply Corporation, and authorized the President and Chief Executive Officer of SAWS, upon determining that all necessary prerequisites have occurred, to undertake all necessary actions and execute the First 2016 Amendment (which occurred contemporaneously with the closing under the Equity Purchase Agreement). The SAWS President and Chief Executive Officer exercised this authority on June 10, 2016, at which time the Equity Purchase Agreement closed and the First Amendment became effective. As Abengoa Parties no longer had any active participating role in the Project, the Board of Directors of Abengoa VR changed the company name to Vista Ridge LLC on September 16, 2016.

On November 1, 2016, the SAWS Board approved a second amendment to the Agreement (the “Second 2016 Amendment”) to accommodate the declaration of financial closure under the Agreement. The Second 2016 Amendment was made effective on November 2, 2016 concurrent with a declaration of financial closure under the Agreement, as amended by the First 2016 Amendment and the Second 2016 Amendment. The Second 2016 Amendment also contemplated finalization of infrastructure related to the Connection Point and selection of an operating service provider to operate the Project during the “operational phase” of the Project. Neither the First 2016 Amendment nor the Second 2016 Amendment altered the Agreement’s structure or provisions in a manner that differs from its description provided.

In February 2017, Garney reached an agreement to sell a 29% equity stake in Vista Ridge LLC to Ridgewood Infrastructure. As this sale did not result in a change of control within Vista Ridge LLC, SAWS approval was not required as a condition to its effectiveness. SAWS maintains approval rights for any sale that results in a change of controlling interest in Vista Ridge LLC, as well as the selection of an operating service provider under the Agreement.

In early 2018, Ridgewood Infrastructure, as lead agent for Vista Ridge LLC, began the process to select an operating service provider for the Project. Vista Ridge LLC ultimately selected EPCOR Services, Inc. (“EPCOR”), a wholly owned subsidiary of EPCOR USA, Inc., an entity ultimately owned by the City of Edmonton. On November 13, 2018, the SAWS Board approved the selection of EPCOR as operating service provider and the form of operating service agreement. The approved form of operating service agreement provides for a primary 30-year term

contemporaneous with the term of the Agreement. The execution of the operating service agreement, along with a purchase by EPCOR of a 5% equity interest in Vista Ridge LLC (from the equity interest of Ridgewood Infrastructure in Vista Ridge LLC) occurred on November 21, 2018. The equity interest of Vista Ridge LLC is owned by the following: Garney with 51%, Ridgewood Infrastructure with 24%, Abengoa with 20%, and EPCOR with 5%.

On April 4, 2017, the SAWS Board approved a third Amendment to the Agreement (the “Third Amendment”), which included refinements to the Agreement’s performance and operation protocols, tank configuration at the Project’s Connection Point in northern Bexar County and an amendment to timing of real estate acquisition for the Project. The Third Amendment did not materially modify the Agreement’s structure or provisions in a manner that materially differs from its description provided herein.

The Agreement is separated into three distinct phases. The “development” phase commenced on November 4, 2014, which was the date of complete execution and delivery of the Agreement. The “development” phase concluded on November 2, 2016 upon satisfaction of certain contractual requirements, referred to as “financial closure”, and conclusion of which commenced the “construction” phase of the Project. During the “construction” phase of the Project, SAWS will also construct improvements to the System necessary to accept and integrate the Project Water. The capital cost of SAWS’ improvements is currently projected at approximately \$210 million. The “construction” phase has a scheduled completion date of April 15, 2020 (when the aforementioned 30-year “operational” phase commences), during which period SAWS is obligated to pay for Project Water (up to 50,000 acre-feet annually) made available to it by Vista Ridge LLC at the Connection Point.

During the “construction” phase, SAWS has retained the right to terminate the Agreement by purchasing the Project for the aggregate amount of the outstanding Project debt, contract breakage costs and return of and on equity contributions by Vista Ridge LLC’s principals. As of June 30, 2019, should SAWS have elected to terminate the Agreement, the purchase price of the Project was estimated to be approximately \$903 million. At the end of the “operational” phase, ownership of the Project will be transferred to SAWS at no cost. SAWS has also entered into a separate agreement with Blue Water Vista Ridge, LLC, the lessee of the Project Water, to continue to acquire the 50,000 acre-feet of untreated groundwater, for an additional 30 year period upon the termination of the Agreement and transfer of the Project to SAWS. The cost of such water at the end of the Agreement will be tied to the costs of then-prevailing two-year Edwards Aquifer water leases.

Pursuant to the terms of the Agreement, SAWS will pay costs arising under the Agreement, as Maintenance and Operating Expenses of the System, only for Project Water made available at the Connection Point (which payment will include the costs of operating and maintaining the Project). SAWS will have no obligation to pay for any debt issued by Vista Ridge LLC, and any such debt will be non-recourse to SAWS. At the time of the execution of the Agreement in 2014, SAWS originally anticipated that Project Water (the costs of which were to be paid directly to Vista Ridge LLC), together with Project operations and maintenance (as a direct pass through under the Agreement) and Project electricity (paid directly by SAWS to the utility providers) would initially cost approximately \$2,200 per acre foot (with the actual cost of Project Water estimated at \$1,852 to \$1,959 per acre foot and the balance attributable to Project operation and maintenance expenses and electricity), resulting in an annual charge to the SAWS system of approximately \$110 million (which amount does not take into account potential revenue increases resultant from Project Water being available to SAWS for sale).

On November 19, 2015, the City Council approved a series of increases to the water supply fee to finance the acquisition of new water supplies, including the Project. To date, SAWS has implemented four of the five increases, with the fifth and final increase scheduled to take place during early 2020 when payment for Project Water is imminent. This final preapproved rate adjustment is currently projected to increase the average monthly SAWS residential bill by approximately 10%.

On May 17, 2016, SAWS exercised its contractual right to fix the capital and “Raw Groundwater Unit Price” under the Agreement based on the methodology provided for therein. This action reduced the price of the Project Water component of SAWS annual payment requirement from the possible maximum amount of \$1,959 per acre foot to \$1,606 per acre foot, which will remain fixed for the entire 30 year term (and any extension of that term) of the Agreement. This action results in savings to SAWS of more than \$17 million per year and more than \$529 million over the maximum that could have been charged under the 30 year term of the Agreement.

As of September 2019, Vista Ridge LLC and the Central Texas Regional Water Supply Corporation are in the process of construction of the Project, including drilling the Project wells in Burleson County and construction of the transmission pipeline in all counties the pipeline crosses leading to Bexar County, for which over 137 miles of pipe has been laid. SAWS began the process for design and construction of the SAWS' facilities in Bexar County necessary to integrate the Project Water into the SAWS' distribution system. While originally procured using the design-build delivery method, SAWS is now proceeding with the integration project using the traditional design-bid-build methodology, with the designer from the originally selected design-build team, Tetra Tech, Inc., serving as the design engineer for the integration project and Black and Veatch Corporation transitioning its role from an owner's representative under the design-build delivery to the program manager for the integration project. Through July 2019, SAWS is approximately 40% complete with the eight System projects required to accept and integrate the Project Water into the System in early 2020. SAWS' contractor for one segment of the Project notified SAWS that it encountered challenges with the operational effectiveness and efficiency of its tunnel boring machines that caused an adverse impact on its completion schedule. The contractor is implementing schedule recovery measures to mitigate the delays. SAWS is also exploring options to minimize the impact, if any, of delayed completion if this section of the integration pipeline work is late. As with any complex construction project of this magnitude, various challenges are encountered that can impact timely completion. Notwithstanding any foreseen or unforeseen delays, including the one described above, SAWS remains fully capable of providing service to its customers and remain compliant with the payment obligations required under Agreement, while maintaining the organization's overall financial and operational integrity.

The execution and implementation of the Agreement represents a significant diversification of the City's water source, as SAWS projects that Project Water, if delivered at the maximum amount (which is the expectation of both SAWS and Vista Ridge LLC), will account for approximately 20% of the System's current annual usage.

The Vista Ridge pipeline route parallels the I-35 corridor, one of the highest growth regions in the country. Communities throughout the region have increasing water needs to sustain both growing populations and flourishing economies. While no immediate plans are in place, the Project may give the System the opportunity to wholesale up to 15,000 acre-feet per year from the Vista Ridge pipeline (or its other existing water supply projects), developing regional partnerships, providing communities a diversified water supply, and potentially reducing costs to System ratepayers.

Sewer Management Program

In March 2007, SAWS was orally notified by Region 6 of the EPA of alleged failures to comply with the Clean Water Act due to the occurrence of sanitary sewer overflows. The EPA subsequently referred the matter to the DOJ for enforcement action. SAWS engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. On June 4, 2013, the SAWS Board approved a Consent Decree between SAWS and the United States of America and the State to resolve this enforcement action. SAWS signed the Consent Decree on June 5, 2013 and the Consent Decree was subsequently executed by the United States of America and the State. On September 13, 2013, after consideration of the comments received, the United States of America filed its Motion for entry of the Consent Decree, requesting the Court to approve the Consent Decree by signing and entering it. The Consent Decree was signed and entered by the Court on October 15, 2013. During the ten to 12 year term of the Consent Decree, SAWS estimates the cost to perform the operating and maintenance requirements of the Consent Decree to be approximately \$250 million. SAWS initially estimated that capital investments of approximately \$850 million would be required over the Consent Decree term. During the last several years, through flow monitoring during significant rainfall events, physical inspection and televising, SAWS has accumulated additional information relative to the performance of its collection system. Based upon this additional information, as well as inflationary costs increases, SAWS currently estimates that capital expenditures associated with the requirements of the Consent Decree could range from \$1.2 billion to \$1.3 billion. As with any estimates, the actual amounts incurred could differ materially.

As SAWS moves from the planning phase of the Consent Decree to the capital phase of the Consent Decree, an increase in capital spending is expected. As mentioned above, capital requirements could range in total from \$1.2 billion to \$1.3 billion, with approximately \$660 million being projected to be spent from 2020 to 2024. Through June 30, 2019, capital expenditures related to the Consent Decree totaled approximately \$460 million. Since entry into the Consent Decree, SAWS has performed its obligations under the terms of the Consent Decree

and management believes SAWS is in material compliance with such terms, conditions and requirements. Since 2010, SAWS has seen a significant reduction in SSOs increased to 259 in 2018. The total SSOs year to date through June 30, 2019 is 85.

SAWS operates the Mitchell Lake Site Wastewater Treatment Facility (“Mitchell Lake”) pursuant to a Texas Pollutant Discharge Elimination Permit issued by the TCEQ under a delegation of authority from the EPA (the “Permit”). In October 2015, during the presentation of SAWS’ annual report, the EPA orally notified SAWS that SAWS violated the effluent discharge limitations of that Permit as a result of discharges occurring during significant rainfall events. The EPA stated that it would likely issue a “Notice of Violation” to SAWS for these alleged violations. On August 18, 2016, SAWS received an Administrative Order from the EPA that alleges that SAWS violated the Permit by failing to meet effluent limits as required by the Permit. Mitchell Lake is not a standard brick and mortar wastewater treatment facility. Instead, Mitchell Lake is a unique and environmentally sensitive natural facility that has become a wildlife refuge and an active destination attraction within San Antonio. The Mitchell Lake surface area covers approximately 600 acres and provides an essential habitat where migrating birds can rest and feed. Discharges from Mitchell Lake only occur after significant rainfall events. The intermittent nature of the discharges after rainfall makes traditional treatment options impractical. Upon receiving the Administrative Order, SAWS began working with consulting experts and conducted preliminary feasibility evaluations of two potential solutions: (a) reconstructing the existing dam and spillway and (b) constructing extensive treatment wetlands below Mitchell Lake. While these preliminary evaluations have provided promising results, pilot studies will be necessary to confirm the effectiveness of these possible solutions. SAWS has entered a multiyear agreement with a nationally recognized wetlands treatment firm to assist with the feasibility of these options, selected the location for the pilot treatment wetlands, and on January 9, 2018, SAWS purchased a 283 acre tract of land that is anticipated to be necessary for the implementation of the downstream wetlands SAWS has partnered with the U.S. Army Corps of Engineers (“USACE”) on an Aquatic Ecosystem Restoration Feasibility Study for Mitchell Lake. The three year study will include an investigation into the methods of restoring lost and/or degraded ecological functions within the lake while reducing the eutrophic conditions of the lake water. Total cost of the study is estimated at \$3 million, with SAWS and USACE each bearing one-half of the total costs. SAWS will also continue to explore other treatment and operational alternatives and work with the EPA and the TCEQ to develop an appropriate plan that ensures compliance with the Permit. At this time, SAWS does not know what actions may ultimately be required or the costs associated with those actions.

Please refer to “Table 18 – Comparison of Selected Sources of Revenues” in the Official Statement for historical transfers from SAWS to the City’s General Fund.

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SAWS Summary of Pledged Revenues for Debt Coverage (Dollars in Thousands) ¹

Year	Gross Revenues ^b	Operating Expenses ^c	Net Available		Revenue Bond Debt Service ^a			Annual Debt Service Requirements			
			Revenue	Principal	Interest ^d	Total	Coverage	Total Debt ^e	Coverage	Senior Lien Debt ^e	Coverage ^f
2018 ^g	\$704,279	\$324,593	\$379,686	\$84,875	\$102,236	\$103,922	2.01	\$194,518	1.95	\$81,428	4.66
2017 ^g	668,998	318,442	350,556	82,840	102,236	185,076	1.89	185,076	1.89	84,440	4.30
2016 ^g	622,947	315,395	307,552	78,570	98,413	176,983	1.74	185,149	1.66	84,008	3.66
2015 ^g	555,712	291,246	264,466	71,355	106,281	177,636	1.49	175,209	1.51	117,126	2.26
2014	498,334	245,055	253,279	57,850	91,704	149,554	1.69	160,510	1.58	117,126	2.16
2013	460,776	244,348	216,428	47,315	86,058	133,373	1.62	152,496	1.42	117,126	1.85
2012	437,253	237,576	199,677	44,780	80,320	125,100	1.60	138,420	1.44	122,816	1.63
2011	417,077	209,058	208,019	39,730	79,534	119,264	1.74	132,226	1.57	112,715	1.85
2010	367,847	226,489	141,358	38,590	77,098	115,688	1.22	127,264	1.11	108,947	1.30
2009	366,753	215,812	150,941	34,900	71,824	106,724	1.41	121,367	1.24	101,917	1.48

¹ Unaudited.

^a Represents respective year debt service payments. All bonded debt is secured by revenue and is included in these totals.

^b Gross Revenues are defined as operating revenues plus nonoperating revenues less revenues from the City Public Service contract, interest on Project Funds, and federal subsidy on Build America Bonds.

^c Operating Expenses reflect operating expenses before depreciation as shown on the Statement of Revenues, Expenses, and Changes in Net Position.

^d Interest reported net of the U.S. federal interest subsidy on the Series 2009B & 2010B revenue bonds.

^e Debt service requirements consist of principal and interest payments net of the U.S. federal interest subsidy on the Series 2009B & 2010B revenue bonds.

^f SAWS bond ordinance requires the maintenance of a debt coverage ratio of at least 1.25x the maximum annual debt service on outstanding senior lien debt in order to issue additional bonds.

^g Amounts reflect the merger with SAWS DSP effective January 1, 2015.

Source: SAWS.

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CPS ENERGY

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
JANUARY 31, 2019 AND 2018
AND INDEPENDENT AUDITOR'S REPORT**

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City Public Service of San Antonio, Texas

Basic Financial Statements
For the Fiscal Year Ended January 31, 2019 and 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") serves as an introduction to the financial statements of City Public Service Board of San Antonio (also referred to as "CPS Energy" or the "Company"). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the fiscal year ("FY") ended January 31, 2019, ("FY 2019") compared to the fiscal year ended January 31, 2018 ("FY 2018"). It also provides an overview of CPS Energy's general financial condition and results of operations for FY 2018, compared to the previous fiscal year ended January 31, 2017 ("FY 2017"). This MD&A has been prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and should be read in conjunction with the audited financial statements and accompanying notes that follow.

BASIC FINANCIAL STATEMENTS OVERVIEW

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Statements of Net Position present CPS Energy's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of the end of each fiscal year.

Assets are separated into current and noncurrent categories and are reported in the order of liquidity. Current assets include unrestricted cash and cash equivalents; investments; customer, interest and other accounts receivable; and inventories, as well as prepayments and other current assets. Noncurrent assets include cash and cash equivalents, investments, and interest and other accounts receivable that have been restricted by state laws, ordinances or contracts. Noncurrent assets also include the pension regulatory asset, other noncurrent assets and net capital assets.

Deferred outflows of resources include unrealized pension and other postemployment benefits ("OPEB") contributions made in the current year, unrealized losses related to pension and OPEB, unrealized losses on fuel hedges, unamortized debt reacquisition costs, and unamortized asset retirement obligation costs.

Consistent with the reporting of assets on the Statements of Net Position, liabilities are segregated into current and noncurrent categories. Current liabilities include the current maturities of debt, accounts payable and accrued liabilities. Noncurrent liabilities include net long-term debt, asset retirement obligations, decommissioning net costs refundable, net pension liability and other noncurrent liabilities.

Deferred inflows of resources include unrealized gains related to fuel hedges, unrealized gains related to pension and OPEB, and unrealized revenues associated with the FY 2014 sale of certain assets.

The Statements of Net Position report net position as the difference between (a) the sum of assets and deferred outflows of resources and (b) the sum of liabilities and deferred inflows of resources. The components of net position are classified as net investment in capital assets, restricted or unrestricted. An unrestricted designation indicates the net funds are available for operations.

Within the Statements of Revenues, Expenses and Changes in Net Position, operating results are reported separately from nonoperating results, which primarily relate to financing and investing. Other payments to the City of San Antonio ("City"), contributed capital, impairment loss, and the effect of the South Texas Project's ("STP") defined-benefit plan funding obligations are also reported separately as components of the change in net position. These statements identify revenue generated from sales to cover operating and nonoperating expenses. Operating expenses are presented by major cost categories. Revenues remaining are available to service debt, fulfill City payment commitments, finance capital expenditures and cover contingencies.

The Statements of Cash Flows present cash flows from operating activities, capital and related financing activities, noncapital financing activities, and investing activities. These statements are prepared using the direct method, which reports gross cash receipts and payments, and presents a reconciliation of operating income to net cash provided by operating activities. These statements also separately list the noncash financing activities.

FINANCIAL HIGHLIGHTS AND SIGNIFICANT ACCOUNTING POLICIES

Allowance for Funds Used During Construction ("AFUDC") – To reflect funding methodology, the AFUDC rate includes both a debt and an equity component. The blended rate is composed of 50% equity and 50% debt based on construction funding. The rate is reviewed quarterly to determine if any adjustments are necessary. Alternate AFUDC rates are applied to projects costing more than \$100 million, reflecting the method by which they are funded.

Asset Retirement Obligations ("ARO") – CPS Energy adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, during FY 2019 and accounts for AROs by recognizing the obligations as a liability based on the best estimate of the current value of outlays expected to be incurred once the assets are retired. The Statement requires the AROs be adjusted for the effects of inflation or deflation at least annually. In addition to the AROs, the Company has recorded associated deferred outflows of resources that are being amortized over the remaining useful life of the respective asset groups. The following asset groups have been included in the ARO reflected on the Statements of Net Position:

- **STP Units 1 and 2** – CPS Energy is one of three participants in STP, currently a two-unit nuclear power plant located in Matagorda County, Texas. The Code of Federal Regulations provides the main decommissioning requirements mandated by the Nuclear Regulatory Commission ("NRC") that issues the operational license of the site. The asset retirement obligation is based on an external cost study performed every five years. The most recent study was finalized in May 2018 and estimates costs in 2018 dollars. The associated costs are being amortized utilizing a straight-line method over the estimated remaining useful lives of the units. Total asset lives for the units are 60 years based on the operating license extensions. The deferred outflows of resources are based on the estimated remaining useful life of the assets at the time of implementation. CPS Energy has established two decommissioning trusts that are reported as blended component units combined into the CPS Energy financial statements to cover the eventual decommissioning associated with STP Units 1 and 2. At January 31, 2019 and 2018, the ARO related to STP Units 1 and 2 was \$991.5 million.
- **Vaults** – CPS Energy has approximately 200 underground vaults with useful lives of 46 years. The vaults have regulatory requirements to be met prior to removal and after retirement under the Code of Federal Regulations and the Texas Commission on Environmental Quality ("TCEQ"). Methods and assumptions to determine the associated liability were based on an internal calculation of cost per square foot of each tank which includes assessment, remediation, transportation and disposal costs. The associated costs are being amortized utilizing a straight-

See accompanying independent auditors' report.

line method over the average estimated remaining useful life of the vaults. At January 31, 2019 and 2018, the ARO related to the vaults was \$9.2 million.

- Fuel Storage Tanks** – CPS Energy has 14 underground fuel storage tanks with useful lives of 30 years. The storage tanks have regulatory requirements to be met for removal or permanent closure after retirement under the Texas Administrative Code. The methods and assumptions used to determine the liability associated with the tanks were based on a cost analysis performed by an outside engineering consulting firm in July 2018. The associated retirement costs are being amortized utilizing a straight-line method over the average estimated remaining useful life of the storage tanks. At January 31, 2019 and 2018, the ARO related to the storage tanks was \$3.7 million.

Battery Energy Storage Systems (“BESS”) – On September 20, 2016, CPS Energy accepted a \$3.0 million New Technology Implementation Grant from the TCEQ. The grant proceeds will subsidize the purchase of a lithium-ion 10MW battery to be installed near the Southwest Research Institute substation and adjacent to solar generation resources. The battery will allow generation produced during peak solar intervals to be made available later during peak demand intervals and has an expected commercial operation date of mid FY 2020. Grant proceeds are recorded as contributions in aid of construction and are exempt from payments of a percentage of gross revenues made to the City. As of January 31, 2019 and 2018, CPS Energy had incurred approximately \$6.8 million and \$0.7 million, respectively, on the project. At January 31, 2019, CPS Energy had recorded \$2.7 million as a receivable for reimbursable costs due from the TCEQ related to the BESS project. No amounts were due from the TCEQ at January 31, 2018. Limits on TCEQ funding require that costs reimbursable under the grant be incurred and paid by May 31, 2020.

Build America Bonds (“BABs”) – The American Recovery and Reinvestment Act (“ARRA”) of 2009 provided authority for the issuance of BABs, which were issuable in calendar years 2009 and 2010 as taxable bonds. The ARRA permitted the issuer or the issuer’s paying agent to receive subsidy payments equal to 35% of the bond’s interest costs directly from the U.S. Department of the Treasury. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government reduced the BABs subsidy as noted below:

Subsidy Reduction	Period Covered
6.8%	October 1, 2015 through September 20, 2016
6.9%	October 1, 2016 through September 20, 2017
6.6%	October 1, 2017 through September 20, 2018
6.2%	October 1, 2018 through September 20, 2019

Transaction details for CPS Energy’s BABs issuances are provided in Note 6 – Revenue Bonds.

The City of San Antonio (“City”) – CPS Energy is considered an asset of the community through its legal ownership by the City. In turn, CPS Energy is treated as a component unit of the City, which has a September 30 fiscal year end.

Contributed Capital – Third-party contributions made for construction of capital assets flow through the Statements of Revenues, Expenses and Changes in Net Position and are shown on the Statements of Net Position as a component of net investment in capital assets. The amount reported for contributed capital was \$54.9 million for FY 2019, as compared with \$43.9 million for FY 2018. This included donated assets of \$5.1 million and \$2.6 million, respectively. The remaining portion of these balances, \$49.8 million for FY 2019, and \$41.3 million for FY 2018, represents contributions received from customers as payments for utility extensions and services, as well as funding for community initiatives and other local partnership projects.

Counterparty Risk – CPS Energy is exposed to counterparty risk associated with various transactions primarily related to debt, investments, fuel hedging and wholesale power. Counterparty risk is the risk that a counterparty will fail to meet its obligations in accordance with the terms and conditions of its contract with the Company. The Company has policies and practices in place to ensure the solvency of counterparties is assessed accurately, monitored regularly and managed actively through its Enterprise Risk Management & Solutions Division.

CPS Energy Component Units – As required under GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, the assets and liabilities accumulated for CPS Energy’s two decommissioning trusts for STP Units 1 and 2 (“Decommissioning Trusts” or “Trusts”) are combined into the CPS Energy financial statements using the blended method of inclusion. Initially, CPS Energy owned a 28% interest in STP Units 1 and 2. In May 2005, CPS Energy purchased an additional 12% interest in these units. Assets from an associated decommissioning trust were also received with this purchase. CPS Energy reports the assets in both Trusts—the 28% interest and the 12% interest—as component units.

Decommissioning – CPS Energy accounts for its legal obligation to decommission STP Units 1 and 2 in accordance with GASB Statement No. 83. The Company has recognized its pro rata share of an ARO based on the best estimate of the current values of outlays expected to be incurred to decommission the units, determined by the most recent cost study. A new cost study is performed every 5 years. In years subsequent to the latest study, the Statement requires the current value of the Company’s ARO be adjusted for the effects of inflation or deflation, at least annually. In addition to the ARO, the Company has recorded deferred outflows of resources that are being amortized over the remaining useful life of the plant which is calculated assuming the longer total plant life due to the license extensions approved in FY 2018. See Note 1 – Summary of Significant Accounting Policies under 2019 GASB pronouncement implementations for additional details on the impact on CPS Energy’s financial reporting and the criteria for determining the timing and pattern of recognition for the decommissioning liability. See Note 14 – South Texas Project for additional details on the most recent cost study and license extensions.

Additionally, due to requirements under the Code of Federal Regulations governing nuclear decommissioning trust funds, a zero net position approach is applied in accounting for the Decommissioning Trusts. Accordingly, current year and prior year activity in the Trusts is reported in the nonoperating income (expense) section of the Statements of Revenues, Expenses and Changes in Net Position as Decommissioning net costs recoverable (refundable). The cumulative effect of activity in the Trusts is reported on the Statements of Net Position as a noncurrent liability referred to as decommissioning net costs refundable since any excess funds are payable to customers. Going forward, prolonged unfavorable economic conditions could result in the assets of the Trusts being less than the estimated decommissioning liability. In that case, instead of an excess as currently exists, there would be a deficit that would be reported as decommissioning net costs recoverable. This amount would be receivable from customers.

The Dry Cask Storage Project was recently completed at STP in order to provide for the storage of spent nuclear fuel after the spent fuel pool has reached capacity. CPS Energy’s Decommissioning Trusts have separate spent fuel management accounts to pay for those costs. By contract, spent fuel will eventually be removed to final storage by the Department of Energy (“DOE”). The DOE failed to meet the contractual start date to receive spent fuel, and STP and other utilities have reached settlement agreements with the DOE. In the most recent settlement agreement dated March 15, 2017, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through calendar year 2019.

Ongoing costs for the spent fuel management project are being funded by the STP owners (CPS Energy; the City of Austin; and NRG South Texas LP, a wholly owned subsidiary of NRG Energy, Inc.) as expenditures are incurred. CPS Energy is entitled to request reimbursement at its discretion from its

See accompanying independent auditors’ report.

Decommissioning Trusts for the Company's portion of allowable costs. Annually, the South Texas Project Nuclear Operating Company ("STPNOC") submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned to the owners by STPNOC upon receipt of funds from the DOE. In turn, the settlement amount received from the DOE by CPS Energy is reimbursable to the Trusts. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Trusts. Spent fuel management costs that do not qualify for reimbursement by the DOE or the Trusts are recorded as operation and maintenance ("O&M") expense or capital costs.

Depreciation Study – In FY 2018, CPS Energy engaged an independent third-party consulting firm to conduct a depreciation study, which is performed every five years. The new depreciation rates that resulted from the study were retroactively applied to the beginning of FY 2018.

Electric Reliability Council of ("ERCOT") Nodal Market System – ERCOT is the independent system operator managing the flow of electric power for approximately 90% of the electric load for the state of Texas. ERCOT schedules power on the electric grid in a nodal market with more than 8,000 pricing nodes. In the nodal market system, generators are required to make their capacity and ancillary services available to ERCOT, and load-serving entities purchase their supply needs from ERCOT in the day-ahead market and true up in the real-time market. As both a generator and load-serving entity, CPS Energy is an active participant in the nodal market system and actively monitors and manages its exposure to the risks inherent in the retail and wholesale markets.

Federal and State Grant Programs – Periodically, federal and state grants are made available to CPS Energy as a subrecipient for a portion of grant funds allocated to the state of Texas or as a direct award. Grant receipts are recorded as nonoperating income and generally reimburse CPS Energy for costs, recorded as operating expenses, incurred in the administration of the program. Federal or state grants that subsidize in whole or a partial amount of capital assets are recognized as contributions in aid of construction. These accounting treatments result in no impact to the Company's net position. Revenues associated with the grant-related programs are exempt from payments of a percentage of gross revenues made to the City. Grant funding received by the Company is subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Flexible Rate Revolving Note ("FRRN") Private Placement Program – On January 20, 2009, CPS Energy's Board of Trustees ("Board") authorized the establishment of a FRRN program to provide additional liquidity in support of the Company's electric and gas systems ("Systems"). Under the current program, CPS Energy can issue taxable or tax-exempt notes with individual maturities of one year or less at fixed or variable interest rates in an aggregate principal amount at any one time outstanding not to exceed \$100 million, increased in FY 2019 from \$26 million. The program became effective on April 28, 2009, and through annual renewals authorizes the issuance of such notes through November 1, 2028. The FRRN has been classified as short-term in accordance with the financing terms of the Note Purchase Agreement and is reported on the Statements of Net Position under current maturities of debt. At January 31, 2019, there were no amounts outstanding under this program. The note outstanding under this program at January 31, 2018, totaled \$25.2 million. See Note 8 – Flexible Rate Revolving Note.

Hedging Derivative Instruments – CPS Energy accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Currently, CPS Energy's only derivative instruments are fuel hedges, which are used to reduce price risk for natural gas purchases. GASB Statement No. 53 requires that hedging derivative instruments be reported at fair value on the Statements of Net Position. In FY 2019, 33% of distribution and 27% of generation natural gas volumes were hedged. In FY 2018, 35% of distribution and 16% of generation natural gas volumes were hedged. See Note 12 – Other Financial Instruments.

Pension Plan – The financial statements of the CPS Energy Pension Plan (“Plan”) are separately audited and reported. The financial results of the Plan are not included herein except for certain disclosures as provided in Note 9 – Employee Pension Plan and in Required Supplementary Information. CPS Energy accounts for the pension activity in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, which was adopted in FY 2015. The net effect of prior period restatements made to comply with the guidance was accounted for as a regulatory asset that is being amortized over a 50-year period. Regulatory accounting, in accordance with guidance provided by GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, permits certain costs to be capitalized as regulatory assets until they are recovered through future rates.

Postemployment Benefits Other Than Pension (“OPEB”) – The CPS Energy Group Health, Group Life Insurance and Long-Term Disability Income Plans (collectively, “Employee Benefit Plans”) are separately audited and reported. The financial results of the Employee Benefit Plans are not included herein except for certain disclosures as provided in Note 10 – Other Postemployment Benefits and in Required Supplementary Information. In 2015, GASB issued a standard addressing accounting and financial reporting for all government-sponsored OPEB plans administered as trusts. CPS Energy adopted the new guidance in FY 2018 and concurrently restated its prior fiscal year financial statements to reflect the effects of the guidance for all periods presented. The requirements of the guidance include significant changes in the measurement and recognition of the Company’s liability related to the Employee Benefit Plans, recognition of deferred outflows of resources and deferred inflows of resources related to OPEB, changes in the measurement of OPEB expense, as well as comprehensive changes to the disclosures included in the notes to the financial statements and in Required Supplementary Information.

Rate Increases – Rates are set by the Board and approved by the San Antonio City Council. On November 7, 2013, the City Council approved a 4.25% increase in both CPS Energy’s electric and natural gas base rates, which were effective February 2014.

Reclassifications – Certain amounts in the prior years’ financial statements have been reclassified to conform to the current-year presentation.

SA Energy Acquisition Public Facility Corporation (“PFC”) – The PFC is a public, nonprofit corporation organized under the laws of the state of Texas pursuant to the Texas Public Facility Corporation Act, Chapter 303, Texas Local Government Code. The PFC was organized in FY 2008 to assist its sponsor, the City, in the procurement of natural gas and in financing, refinancing or providing public facilities to be devoted to public use. The PFC is a component unit of the City.

On June 14, 2007, the PFC entered into a Natural Gas Supply Agreement with the City, acting by and through CPS Energy. This gas supply agreement provides for the sale to CPS Energy, on a pay-as-you-go basis, of all natural gas to be delivered to the PFC under a Prepaid Natural Gas Sales Agreement. Under this prepaid gas agreement between the PFC and J. Aron, the gas supplier and a subsidiary of Goldman, Sachs & Co., the PFC prepaid the cost of a specified supply of natural gas to be delivered over 20 years. CPS Energy’s net savings resulting from this transaction are passed on, in their entirety, to its distribution gas customers. The financial statements of the PFC are separately audited and reported.

On February 25, 2013, the PFC executed certain amendments to the Prepaid Natural Gas Sales Agreement entered into with J. Aron in 2007 and other related documents with respect to the 2007 prepayment transaction with J. Aron. Under the resolution and the amendments, Goldman, Sachs & Co. surrendered for cancellation \$111.1 million of the SA Energy Acquisition Public Facility Corporation Gas Supply Revenue Bonds, Series 2007 owned by J. Aron; Goldman, Sachs & Co.; or affiliates. In exchange, the PFC agreed to reduce future required natural gas delivery volumes from 104.6 million MMBtu to 81.3 million MMBtu and to adjust the notional amount of its commodities price hedge so that hedged

See accompanying independent auditors’ report.

revenue from gas sales will bear at least the same proportion to annual debt service requirements as before the transaction. In conjunction with the transaction, a portion of the savings related to the purchase of natural gas from the PFC that would have been passed on to CPS Energy's distribution gas customers over the 20-year life of the original agreement was accelerated. Distribution gas customers benefitted from the accelerated savings from March 1, 2013, through June 30, 2015.

On June 30, 2016, as a result of a Novation Agreement by and among The Bank of New York Mellon Trust Company, N. A. (formerly known as The Bank of New York Trust Company, N. A.), as trustee ("Trustee"), the PFC, Depfa Bank plc ("Transferor") and J. Aron & Company ("Transferee"), the Transferee assumed all of the Transferor's rights, title and interest in and to the Investment Agreement and all the duties, obligations and liabilities under the Investment Agreement (excluding any rights, obligations or liabilities of the Trustee or the Transferor prior to the Novation Effective Date). In addition, an Amended and Restated Investment Agreement was entered into to amend and restate the terms of the Investment Agreement. Consequently, a Second Supplemental Indenture to the Trust Indenture, by and between the PFC and the Trustee, was executed. The original Investment Agreement dated June 21, 2007, was replaced by the Amended and Restated Investment Agreement.

Save for Tomorrow Energy Plan ("STEP") – CPS Energy is authorized, per City ordinance, to spend up to \$849 million over a 13-year period, which began in FY 2009, on energy efficiency and conservation through STEP. Contributing towards its goal to save 771 MW by 2020, CPS Energy's programs include home weatherization, higher efficiency light bulbs, solar rebates, peak-saver thermostats, home area networks, demand response, rooftop and community solar programs, and other such initiatives. As of January 31, 2019, CPS Energy had saved 711 MW of power through its STEP programs and was 92% of the way to reaching its goal.

Annually, approximately \$9.2 million of STEP expenses are funded through the electric base rate and reported as O&M expenses. STEP expenses in excess of this initial amount per year are recovered through the fuel adjustment factor over a period of 12 months, or longer for certain STEP expenses, beginning in the subsequent fiscal year after the costs are incurred and have been independently validated. These STEP recoveries are accrued as a regulatory asset referred to as STEP net costs recoverable.

Solar Prepayments – In November 2011, the Company entered into a prepaid agreement with SunEdison for purchased power from San Antonio-area solar energy facilities with a total of 30 MW of capacity. In 2012, SunEdison sold the facilities to San Antonio Solar Holdings LLC; however, SunEdison retained ownership of the land for one of the sites and continued as operator under an agreement with San Antonio Solar Holdings LLC. In FY 2013, \$77.0 million in prepayments were made for approximately 60% of the anticipated annual output over a period of 25 years. In April 2016, SunEdison filed for Chapter 11 bankruptcy protection; however, CPS Energy had no remaining agreements directly with SunEdison and determined that the event had no impact on CPS Energy's prepaid transaction. At January 31, 2019, of the remaining prepayment balance, \$3.1 million was classified as current and \$53.7 million was classified as noncurrent. At January 31, 2018, of the remaining prepayment balance, \$3.1 million was classified as current and \$56.8 million was classified as noncurrent. The purchase of the balance of the output is on a pay-as-you-go basis.

STP Units 1 and 2 – Correlating to CPS Energy's 40% interest in STP Units 1 and 2 that have been in operation since 1988 and 1989, respectively, the applicable financial results of the nonprofit special-purpose operations project are combined within these financial statements. These units are licensed by the NRC to operate until 2047 and 2048, respectively. STP follows Financial Accounting Standards Board guidance. See Note 14 – South Texas Project.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position
(Dollars in thousands)

	Fiscal Year Ended January 31,			Change			
	2019	2018 Restated	2017 Restated	2019 vs. 2018		2018 vs. 2017	
Revenues and nonoperating income							
Electric	\$ 2,576,715	\$ 2,439,858	\$ 2,299,504	\$ 136,857	5.6%	\$ 140,354	6.1%
Gas	167,444	180,411	165,814	(12,967)	-7.2%	14,597	8.8%
Total operating revenues	2,744,159	2,620,269	2,465,318	123,890	4.7%	154,951	6.3%
Nonoperating income, net	55,914	33,938	29,438	21,976	64.8%	4,500	15.3%
Total revenues and nonoperating income	2,800,073	2,654,207	2,494,756	145,866	5.5%	159,451	6.4%
Expenses							
Operating expenses							
Fuel, purchased power and distribution gas	824,753	832,070	751,646	(7,317)	-0.9%	80,424	10.7%
Operation and maintenance	573,491	540,104	515,131	33,387	6.2%	24,973	4.8%
Annual OPEB and pension expense	33,402	41,180	86,048	(7,778)	-18.9%	(44,868)	-52.1%
Energy efficiency and conservation (STEP)	69,124	80,731	102,211	(11,607)	-14.4%	(21,480)	-21.0%
STEP net costs recoverable	19,912	7,813	(39,818)	12,099	154.9%	47,631	119.6%
Regulatory assessments	86,202	84,083	74,965	2,119	2.5%	9,118	12.2%
Decommissioning	16,525	16,525	17,425	-	-	(900)	-5.2%
Depreciation and amortization	445,227	425,260	426,760	19,967	4.7%	(1,500)	-0.4%
Total operating expenses	2,068,636	2,027,766	1,934,368	40,870	2.0%	93,398	4.8%
Nonoperating expenses							
Interest and debt-related	201,925	199,785	196,962	2,140	1.1%	2,823	1.4%
Payments to the City of San Antonio	361,351	338,455	324,469	22,896	6.8%	13,986	4.3%
Total nonoperating expenses	563,276	538,240	521,431	25,036	4.7%	16,809	3.2%
Total expenses	2,631,912	2,566,006	2,455,799	65,906	2.6%	110,207	4.5%
Income before other changes in net position	168,161	88,201	38,957	79,960	90.7%	49,244	126.4%
Other payments to the City of San Antonio	(11,766)	(11,720)	(11,613)	(46)	-0.4%	(107)	-0.9%
Contributed capital	54,936	43,868	59,459	11,068	25.2%	(15,591)	-26.2%
Special item - plant impairment	(182,723)	-	-	(182,723)	-100.0%	-	-
Effect of defined benefit plan funding obligations - STP	(8,145)	(10,610)	(9,320)	2,465	23.2%	(1,290)	-13.8%
Change in net position	20,463	109,739	77,483	(89,276)	-81.4%	32,256	41.6%
Net position - beginning	3,493,564	3,383,825	3,306,342	109,739	3.2%	77,483	2.3%
Net position - ending	\$ 3,514,027	\$ 3,493,564	\$ 3,383,825	\$ 20,463	0.6%	\$ 109,739	3.2%

Total Revenues and Nonoperating Income

FY 2019 – Representing 98.0% of total revenues and nonoperating income, electric and gas revenues of \$2,744.2 million increased by \$123.9 million, or 4.7%, compared to FY 2018.

To meet its combined sales requirements for retail customers within the greater San Antonio certificated area and wholesale customers outside of this area, electric energy is primarily generated by CPS Energy from three sources—coal, nuclear and gas. Approximately 86.2% and 83.3% of its customers' electric energy needs in FY 2019 and FY 2018, respectively, were produced from CPS Energy's generating units. In addition to the energy produced from Company-owned facilities, CPS Energy also purchased power from third parties, including producers of renewable energy, such as solar-generated and wind-generated power.

Representing 92.0% of CPS Energy's total revenues and nonoperating income, electric operating revenue of \$2,576.7 million increased by \$136.9 million from FY 2018. Contributing to the increase were higher wholesale revenues from higher sales volumes resulting from favorable market opportunities and available capacity during the year, as well as higher retail nonfuel recoveries.

See accompanying independent auditors' report.

Representing 6.0% of total revenues and nonoperating income, gas revenue totaled \$167.4 million, a \$13.0 million decrease from FY 2018. This decrease was primarily due to lower fuel recoveries as a result of a lower average unit cost of fuel partially offset by higher volumes.

Net nonoperating income of \$55.9 million increased \$22.0 million from FY 2018, primarily due to increased interest income from higher interest rates and improved investment results compared to last year.

FY 2018 – Representing 98.7% of total revenues and nonoperating income, electric and gas revenues of \$2,620.3 million increased by \$155.0 million, or 6.3%, compared to FY 2017.

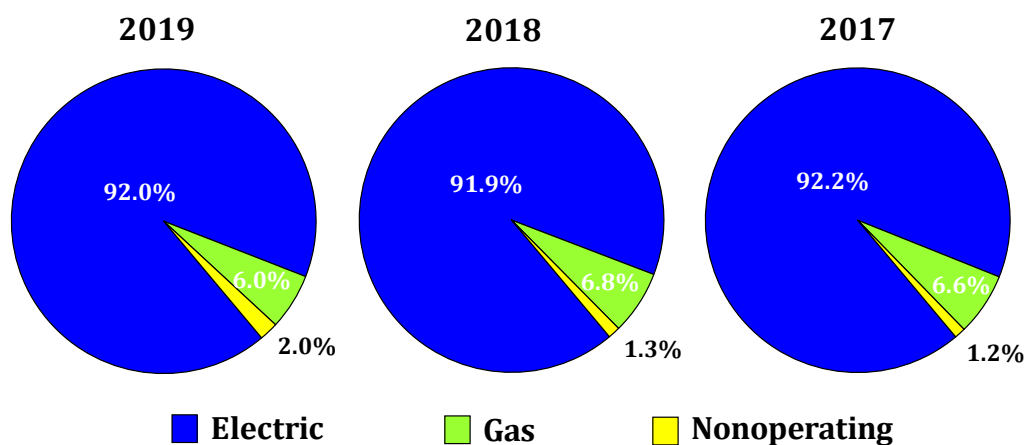
Approximately 83.3% and 82.7% of its customers’ electric energy needs in FY 2018 and FY 2017, respectively, were produced from CPS Energy’s generating units.

Representing 91.9% of CPS Energy’s total revenues and nonoperating income, electric operating revenue of \$2,439.9 million increased \$140.4 million from FY 2017. Contributing to the increase were higher retail and wholesale fuel recoveries primarily resulting from the higher unit cost of fuel and increased sales volume, as well as higher STEP recoveries.

Representing 6.8% of total revenues and nonoperating income, gas revenue totaled \$180.4 million, a \$14.6 million increase from FY 2017. This increase was due to higher fuel recoveries resulting from the higher unit cost of fuel and increased sales volume.

Net nonoperating income of \$33.9 million increased \$4.5 million from FY 2017, primarily due to improved investment results compared to the prior year.

Total Revenues and Nonoperating Income Fiscal Year Ended January 31,



Operating Expenses

FY 2019 – Operating expenses of \$2,068.6 million were \$40.9 million, or 2.0%, above last year.

Combined electric and gas fuel costs, which are passed through to customers, totaled \$824.8 million and comprised 39.9% of total operating expenses. Electric fuel and purchased power costs of \$761.0 million increased \$11.9 million, or 1.6%, above last year mainly due to higher volumes, partially offset by lower

average fuel costs. Distribution gas costs of \$63.8 million decreased by \$19.2 million, or 23.1%, from last year due to a lower unit cost of fuel.

Operation and maintenance expenses (including annual OPEB and pension expense and STP O&M) of \$606.9 million were \$25.6 million, or 4.4%, higher than last year due to higher STP O&M expense due to two refuelings this year and higher outside services, partially offset by lower OPEB and pension expense resulting from the favorable benefit trusts' investment performance.

STEP expense of \$69.1 million was \$11.6 million less than last year's expense of \$80.7 million, primarily due to lower solar rebate amounts compared to the rebate program in the prior year. These amounts represent costs incurred in the current year above the approximately \$9.2 million funded through the base rate and recorded as O&M expenses. The related contra expense account, STEP net costs recoverable, reflects the net change during the period in expenses delayed to future periods when they will be recognized concurrent with their recovery through rate adjustments. This contra expense was \$19.9 million compared to \$7.8 million last year. This operating statement item reflects the transfer of these costs to/from the Statements of Net Position as they are deferred or amortized.

Regulatory assessments, including those charged by the Public Utility Commission of Texas ("PUCT") and ERCOT, of \$86.2 million were \$2.1 million higher due to increased transmission costs of service ("TCOS") expenses.

Decommissioning expense of \$16.5 million was comparable to last year.

Depreciation and amortization expense of \$445.2 million was \$20.0 million higher than last year's expense of \$425.3 million due to the normal increase of plant-in-service before the J.T. Deely Units 1 and 2 impairment at year-end.

FY 2018 – Operating expenses of \$2,027.8 million were \$93.4 million, or 4.8%, above the FY 2017 total of \$1,934.4 million.

Combined electric and gas fuel costs, which are passed through to customers, totaled \$832.1 million and comprised 41.0% of total operating expenses. Electric fuel and purchased power costs of \$749.1 million increased \$70.2 million, 10.3%, above FY 2017 primarily due to higher unit cost of fuel and higher volumes. Distribution gas costs of \$83.0 million increased by \$10.2 million, or 14.1%, from FY 2017 due to higher sales volume and higher unit cost.

Operation and maintenance expenses (including annual OPEB and pension expense and STP O&M) of \$581.3 million were \$19.9 million, or 3.3%, lower than FY 2017 due to lower OPEB expense resulting from the favorable impact of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, implementation and lower pension expense resulting from the favorable benefit trusts' investment performance, partially offset by higher labor costs.

STEP expense of \$80.7 million was \$21.5 million less than FY 2017 expense of \$102.2 million, primarily due to lower solar rebate amounts compared to the rebate program in FY 2017. The related contra expense account, STEP net costs recoverable, reflects the net change during the period in expenses delayed to future periods when they will be recognized concurrent with their recovery through rate adjustments. This contra expense was \$7.8 million compared to \$(39.8) million for FY 2017.

Regulatory assessments, including those charged by the PUCT and ERCOT, of \$84.1 million were \$9.1 million higher due to increased TCOS expenses.

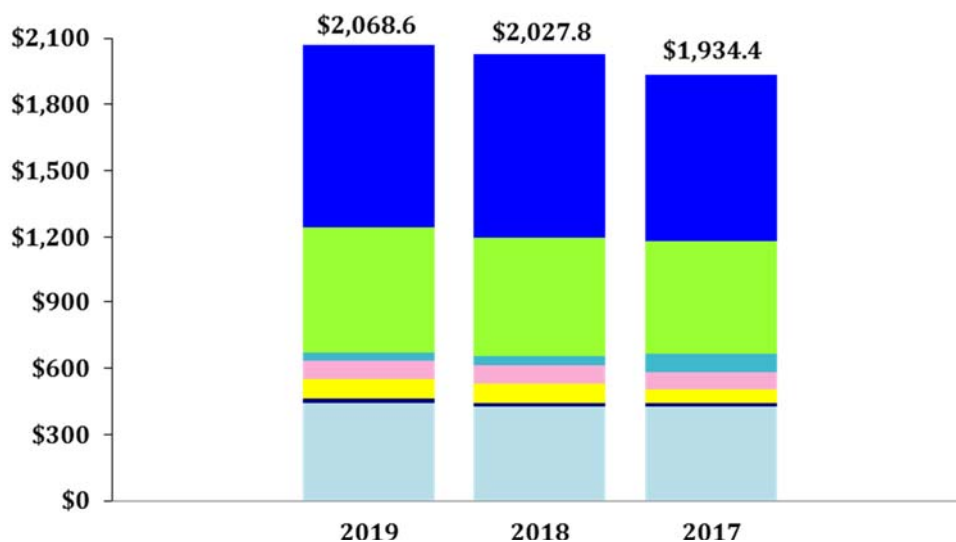
Decommissioning expense of \$16.5 million was comparable to FY2017 expense of \$17.4 million.

See accompanying independent auditors' report.

Depreciation and amortization expense of \$425.3 million was comparable to FY 2017 expense of \$426.8 million.

Total Operating Expenses

Fiscal Year Ended January 31,
(In millions)



■ Fuel, purchased power and distribution gas	\$824.8	\$832.1	\$751.6
■ Operation and maintenance	573.5	540.1	515.2
■ Annual OPEB and pension expense	33.4	41.2	86.0
■ Regulatory assessments	86.2	84.1	75.0
■ Energy efficiency and conservation (STEP) and STEP net costs recoverable	89.0	88.5	62.4
■ Decommissioning	16.5	16.5	17.4
■ Depreciation and amortization	445.2	425.3	426.8

Nonoperating Expenses

FY 2019 – Interest expense and other debt-related costs, including amortization of debt expense and AFUDC, totaled \$201.9 million and were \$2.1 million, or 1.1%, higher than last year. The increase was due to higher interest expense related to bond issuances.

The payments to the City totaled \$361.4 million and were \$22.9 million higher than last year due to higher electric revenues.

FY 2018 – Interest expense and other debt-related costs, including amortization of debt expense and AFUDC, totaled \$199.8 million and were \$2.8 million, or 1.4%, higher than FY 2017. The increase was due to higher interest expense related to bond issuances.

The payments to the City totaled \$338.5 million and were \$14.0 million higher than FY 2017 due to higher revenues.

Other Changes in Net Position

FY 2019 – Net income of \$168.2 million was \$80.0 million higher than last year's net income of \$88.2 million, an increase of 90.7%, primarily due to higher wholesale and retail nonfuel revenues, partially offset by higher O&M expenses.

Other payments to the City totaled \$11.8 million in FY 2019 and were comparable to FY 2018.

Contributed capital of \$54.9 million was \$11.1 million higher than last year. Primarily contributing to the increase were greater reimbursed projects completed in the current year.

In FY 2019, the Company recorded a special item loss of \$182.7 million related to the noncash impairment due to early retirement of J.T. Deely Units 1 and 2. See Note 4 – Capital Assets, Net.

The effect of the STP defined benefit plan funding obligations, which represents 40% of the change in the unfunded pension and other post-retirement benefits liability at STP, was \$(8.1) million compared to \$(10.6) million in FY 2018. The \$2.5 million net change is primarily due to the remeasurement of the STP defined benefit plan obligations.

CPS Energy's change in net position was \$20.5 million compared to \$109.7 million last year, an unfavorable change of \$89.3 million, due to the net income drivers explained previously and the FY 2019 noncash impairment loss recorded as a special item.

FY 2018 – Net income of \$88.2 million was \$49.2 million higher than the net income for FY 2017 of \$39.0 million, an increase of 126.4%, primarily due to higher nonfuel revenues and lower OPEB and pension expense, partially offset by higher O&M expenses.

Other payments to the City totaled \$11.7 million in FY 2018 and were comparable to FY 2017.

Contributed capital of \$43.9 million was \$15.6 million lower than FY 2017. Primarily contributing to the decrease were fewer reimbursed projects completed in FY 2018.

The effect of the STP defined benefit plan funding obligations was \$(10.6) million compared to \$(9.3) million in FY 2017. The \$(1.3) million net change is primarily due to the remeasurement of the STP defined benefit plan obligations.

CPS Energy's change in net position was \$109.7 million in FY 2018 compared to \$77.5 million in FY 2017. Primarily contributing to the favorable change of \$32.3 million were the factors mentioned above affecting the net income.

FINANCIAL POSITION

Statements of Net Position Summary

(Dollars in thousands)

	2019	January 31, 2018 Restated	2017 Restated	Change 2019 vs. 2018		Change 2018 vs. 2017	
Assets							
Current assets	\$ 920,160	\$ 938,110	\$ 877,983	\$ (17,950)	-1.9%	\$ 60,127	6.8%
Noncurrent assets							
Restricted	1,347,313	1,289,952	1,160,578	57,361	4.4%	129,374	11.1%
Other noncurrent assets	539,733	529,755	478,777	9,978	1.9%	50,978	10.6%
Capital assets, net	8,154,670	8,190,356	8,053,304	(35,686)	-0.4%	137,052	1.7%
Total assets	10,961,876	10,948,173	10,570,642	13,703	0.1%	377,531	3.6%
Deferred outflows of resources	731,136	689,889	873,301	41,247	6.0%	(183,412)	-21.0%
Total assets plus deferred outflows of resources	\$ 11,693,012	\$ 11,638,062	\$ 11,443,943	\$ 54,950	0.5%	\$ 194,119	1.7%
Liabilities							
Current liabilities	\$ 577,533	\$ 622,980	\$ 588,907	\$ (45,447)	-7.3%	\$ 34,073	5.8%
Long-term debt, net	5,895,297	5,833,768	5,716,313	61,529	1.1%	117,455	2.1%
Other noncurrent liabilities	1,532,797	1,632,083	1,705,809	(99,286)	-6.1%	(73,726)	-4.3%
Total liabilities	8,005,627	8,088,831	8,011,029	(83,204)	-1.0%	77,802	1.0%
Deferred inflows of resources	173,358	55,667	49,089	117,691	211.4%	6,578	13.4%
Total liabilities plus deferred inflows of resources	8,178,985	8,144,498	8,060,118	34,487	0.4%	84,380	1.0%
Net position							
Net investment in capital assets	2,123,616	2,162,433	2,156,211	(38,817)	-1.8%	6,222	0.3%
Restricted	778,629	699,036	613,430	79,593	11.4%	85,606	14.0%
Unrestricted	611,782	632,095	614,184	(20,313)	-3.2%	17,911	2.9%
Total net position	3,514,027	3,493,564	3,383,825	20,463	0.6%	109,739	3.2%
Total liabilities plus deferred inflows of resources plus net position	\$ 11,693,012	\$ 11,638,062	\$ 11,443,943	\$ 54,950	0.5%	\$ 194,119	1.7%

Current Assets

FY 2019 – Current assets at January 31, 2019, of \$920.2 million were \$18.0 million lower than the balance at January 31, 2018, due to decreases of \$69.7 million in customer accounts receivable and \$47.7 million in coal inventory, partially offset by increases of \$79.4 million in the General Fund, \$8.2 million in current prepayments, \$6.3 million in current interest and other accounts receivable, and \$5.4 million in solar farm deposits.

FY 2018 – Current assets at January 31, 2018, of \$938.1 million were \$60.1 million higher than the balance at January 31, 2017, due to increases of \$52.1 million in customer accounts receivable, \$19.2 million in the General Fund, \$2.4 million in current interest and other accounts receivable, and \$1.1 million in solar farm deposits. These increases were partially offset by decreases of \$5.5 million in coal inventory, \$4.6 million in current prepayments, \$2.9 million in materials and supplies, \$1.9 million in customer deposits and \$1.3 million in insurance reserves.

Noncurrent Restricted Assets

FY 2019 – Noncurrent restricted assets totaled \$1,347.3 million at January 31, 2019, an increase of \$57.4 million compared to January 31, 2018. The overall variance was largely attributable to an increase of \$85.6 million in the Repair and Replacement Account, partially offset by decreases of \$21.8 million in

the Decommissioning Trusts balance, \$5.0 million in the Capital Projects Fund and \$1.5 million in the Debt Service Account.

FY 2018 – Noncurrent restricted assets totaled \$1,290.0 million at January 31, 2018, an increase of \$129.4 million compared to January 31, 2017. The overall variance was largely attributable to increases of \$102.9 million in the Repair and Replacement Account and \$42.8 million in the Decommissioning Trusts balance. These increases were partially offset by a \$15.8 million decrease in the Capital Projects Fund.

Other Noncurrent Assets

FY 2019 – Other noncurrent assets increased to \$539.7 million at January 31, 2019, from \$529.8 million at January 31, 2018. The \$10.0 million change reflects increases of \$17.5 million in the net OPEB asset resulting from favorable investment performance, \$5.9 million in the long term service agreement inventory and \$3.3 million in noncurrent prepayments, partially offset by decreases of \$11.6 million in STEP net costs recoverable due to reclassification of approved FY 2018 costs to short-term accounts receivable and \$5.3 million in the pension regulatory asset.

FY 2018 – Other noncurrent assets increased to \$529.8 million at January 31, 2018, from \$478.8 million at January 31, 2017. The \$51.0 million change reflects increases of \$46.0 million in the net OPEB asset resulting from adoption of GASB Statement No. 75, \$33.5 million in long-term service agreement inventory due to a new agreement for the Rio Nogales plant and \$1.6 million in noncurrent prepayments. These increases were partially offset by decreases of \$21.5 million in STEP net costs recoverable due to reclassification of approved FY 2017 costs to short-term accounts receivable, \$5.3 million in the pension regulatory asset and \$2.2 million in noncurrent fuel hedges.

Deferred Outflows of Resources

FY 2019 – Deferred outflows of resources increased \$41.2 million, from \$689.9 million at January 31, 2018, to \$731.1 million at January 31, 2019, primarily due to a \$77.9 million increase in deferred outflows related to pension and OPEB to reflect updated actuarial valuations, partially offset by decreases of \$18.5 million in unamortized reacquisition costs, \$16.8 million in unamortized asset retirement obligation costs and \$1.3 million for unrealized losses on fuel hedges.

FY 2018 – Deferred outflows of resources decreased \$183.4 million, from \$873.3 million at January 31, 2017, to \$689.9 million at January 31, 2018, primarily due to decreases of \$149.0 million in deferred outflows related to pension and OPEB to reflect updated actuarial valuations and adoption of GASB Statement No. 75, \$16.3 million in unamortized asset retirement obligation costs, \$14.1 million in unamortized reacquisition costs and \$2.0 million in unrealized losses on fuel hedges.

Capital Assets, Net

Summary of Capital Assets
Net of Accumulated Depreciation and Amortization
(Dollars in thousands)

	January 31,			Change			
	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
Nondepreciable assets							
Land	\$ 104,991	\$ 97,125	\$ 87,889	\$ 7,866	8.1%	\$ 9,236	10.5%
Land easements	107,531	106,217	89,258	1,314	1.2%	16,959	19.0%
Construction-in-progress	580,984	521,471	622,296	59,513	11.4%	(100,825)	-16.2%
Total nondepreciable assets	793,506	724,813	799,443	68,693	9.5%	(74,630)	-9.3%
Depreciable/amortizable assets							
Electric plant							
Buildings and structures	531,183	536,021	556,758	(4,838)	-0.9%	(20,737)	-3.7%
Systems and improvements	5,414,331	5,543,289	5,416,585	(128,958)	-2.3%	126,704	2.3%
Total electric plant	5,945,514	6,079,310	5,973,343	(133,796)	-2.2%	105,967	1.8%
Gas plant							
Buildings and structures	86	89	91	(3)	-3.0%	(2)	-2.2%
Systems and improvements	625,783	595,411	556,471	30,372	5.1%	38,940	7.0%
Total gas plant	625,869	595,500	556,562	30,369	5.1%	38,938	7.0%
General plant							
Buildings and structures	177,979	182,309	171,567	(4,330)	-2.4%	10,742	6.3%
Machinery and equipment	283,455	293,331	289,536	(9,876)	-3.4%	3,795	1.3%
Other	2,967	5,336	3,884	(2,369)	-44.4%	1,452	37.4%
Total general plant	464,401	480,976	464,987	(16,575)	-3.4%	15,989	3.4%
Intangibles							
Software	186,937	155,657	104,923	31,280	20.1%	50,734	48.4%
Other	31,202	32,197	23,373	(995)	-3.1%	8,824	37.8%
Total intangibles	218,139	187,854	128,296	30,285	16.1%	59,558	46.4%
Nuclear fuel	107,241	121,903	130,673	(14,662)	-12.0%	(8,770)	-6.7%
Total depreciable/ amortizable assets	7,361,164	7,465,543	7,253,861	(104,379)	-1.4%	211,682	2.9%
Total capital assets, net	\$ 8,154,670	\$ 8,190,356	\$ 8,053,304	\$ (35,686)	-0.4%	\$ 137,052	1.7%

FY 2019 – At January 31, 2019, net capital assets of \$8,154.7 million decreased \$35.7 million from \$8,190.4 million at January 31, 2018. The decrease was primarily due to a \$133.8 million decrease in electric plant due to the early retirement of J.T. Deely Units 1 and 2, and \$16.6 million decrease in general plant. The decrease was partially offset by a \$30.3 million increase in intangible assets and a \$30.4 million increase in gas systems and improvements. Total depreciable/amortizable assets decreased \$104.4 million.

In June 2016, the Board approved the purchase of an existing building and land in downtown San Antonio, which will become CPS Energy's new corporate headquarters. The two towers on the property are being redeveloped and the site is expected to be ready for employees in calendar year 2020. The building is currently recorded as construction-in-progress until renovations are complete.

Of the total plant-in-service and construction-in-progress additions, \$605.6 million related to new construction and net removal costs. These additions included funding with \$339.8 million of debt, \$49.8 million from contributed capital and \$216.0 million from the Repair and Replacement Account. Included in capital assets is CPS Energy's 40% interest in STP Units 1 and 2.

FY 2018 – At January 31, 2018, net capital assets of \$8,190.4 million increased \$137.1 million from \$8,053.3 million at January 31, 2017. The increase was primarily due to a \$126.7 million increase in the electric system and improvements component of the total depreciable assets. Total depreciable/amortizable assets increased \$211.7 million.

Of the total plant-in-service and construction-in-progress additions, \$571.0 million related to new construction and net removal costs. These additions included funding with \$350.8 million of debt, \$41.3 million from contributed capital and \$178.9 million from the Repair and Replacement Account.

Current Liabilities

FY 2019 – Excluding current maturities of debt of \$136.7 million, current liabilities increased \$12.9 million, from \$427.9 million at January 31, 2018, to \$440.8 million at January 31, 2019. The higher balance was primarily due to increases of \$29.0 million in accounts payable and accrued liabilities, \$6.5 million in current customer advances for construction and \$1.1 million in pollution remediation, partially offset by decreases of \$21.3 million in STP operating, maintenance and construction payables and \$2.6 million payable to the City.

FY 2018 – Excluding current maturities of debt of \$195.1 million, current liabilities increased \$21.0 million, from \$406.9 million at January 31, 2017, to \$427.9 million at January 31, 2018. The higher balance was primarily due to increases of \$15.4 million in accounts payable and accrued liabilities, \$3.4 million payable to the City, \$2.2 million in STP operating, maintenance and construction payables and \$2.0 million in current customer advances for construction, partially offset by decreases of \$1.1 million in the Decommissioning Trusts liability and \$1.0 million in current customer deposits.

Other Noncurrent Liabilities

FY 2019 – Excluding the noncurrent portion of debt of \$5,895.3 million, noncurrent liabilities decreased \$99.3 million to \$1,532.8 million at January 31, 2019, primarily due to decreases of \$56.6 million in net pension liability, \$38.4 million in decommissioning net costs refundable, \$12.2 million in long-term service liability and \$2.6 million in STP OPEB and pension liability. These decreases were partially offset by increases of \$7.4 million in other liabilities and \$4.3 million in operating reserves.

FY 2018 – Excluding the noncurrent portion of debt of \$5,833.8 million, noncurrent liabilities decreased \$73.7 million to \$1,632.1 million at January 31, 2018, primarily due to a \$121.9 million decrease in net pension liability to reflect an updated actuarial valuation, partially offset by increases of \$27.3 million in decommissioning net costs refundable, \$18.2 million in long-term service liability due to a new agreement for the Rio Nogales plant and \$2.6 million in STP OPEB and pension liability.

Deferred Inflows of Resources

FY 2019 – Deferred inflows of resources increased \$117.7 million, from \$55.7 million at January 31, 2018, to \$173.4 million at January 31, 2019, primarily due to a \$120.4 million increase in deferred inflows related to pension and OPEB to reflect updated actuarial valuations and favorable investment performance.

FY 2018 – Deferred inflows of resources increased \$6.6 million, from \$49.1 million at January 31, 2017, to \$55.7 million at January 31, 2018, primarily due to a \$7.2 million increase in deferred inflows related to pension, partially offset by a \$1.0 million decrease in deferred tower license income.

FINANCING AND DEBT COVENANTS COMPLIANCE

Long-Term Debt (Excluding Commercial Paper)

FY 2019 – At January 31, 2019, CPS Energy’s total debt was \$5,479.4 million, excluding commercial paper, the FRRN, discounts and premiums. This long-term debt was composed of \$4,896.7 million in fixed-interest-rate instruments and \$582.7 million in variable-interest-rate instruments. Fixed-interest-rate long-term debt had an overall weighted-average yield of 4.1%. Separately, the variable-rate bonds had a weighted-average yield of 2.6%.

Issuances – On November 15, 2018, CPS Energy issued \$218.3 million of New Series 2018 Senior Lien Revenue Refunding Bonds. Bond proceeds, including the \$25.3 million premium associated with the bonds, were used to refund \$99.1 million par value of the New Series 2009D Revenue Refunding Bonds and convert the outstanding \$142.3 million Series 2012A, Series 2012B and Series 2012C Variable-Rate Junior Lien Revenue Refunding Bonds from variable-interest-rate debt to fixed-interest-rate debt. The refunding transaction, resulted in net present value debt service savings of \$3.6 million, or 3.6% of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in 2020, 2021, 2027, and 2028, is 2.75%.

On December 20, 2018, CPS Energy issued \$130.2 million of New Series 2018A Senior Lien Revenue Refunding Bonds. Proceeds, including the \$20.9 million premium associated with the bonds, were used to refund \$60.0 million and \$90.0 million of the Commercial Paper Notes Series A and Series Cs, respectively. The true interest cost for this issue, which has maturities in 2026 through 2048, is 3.65%.

On December 20, 2018, CPS Energy issued \$134.9 million of Series 2018 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the \$1.2 million premium associated with the bonds, were used to refund \$135.0 million of the Commercial Paper Series C. Reflecting stepped interest rate provisions applicable to the bonds, the true interest cost for this issue, which has maturities in 2043 through 2048, is 6.53%. The bonds were issued as multi-modal variable-rate instruments with initial term rates of 2.75% and a stepped rate of 8.0%, which is only applicable if the bonds are not remarketed before their expiration date.

Reductions – On January 24, 2019, \$52.5 million of New Series 2015 Senior Lien Revenue Refunding Bonds and \$25.1 million of New Series 2016 Senior Lien Revenue Refunding Bonds were legally defeased with cash. Under the defeasance, the debt obligations were technically voided, as the cash was escrowed with a third party to service the debt. As a result, \$3.1 million was recorded as cost of defeasance representing the additional cash put into escrow for the interest that would have been incurred between FY 2020 through FY 2022.

CPS Energy made principal payments of \$169.9 million in FY 2019. Additional principal paydowns related to refunding and defeasance transactions during the year totaled \$319.1 million.

Summary of Debt Rollforward Activity¹

(In thousands)

Balance Outstanding February 1, 2018	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2019
\$ 5,484,975	\$ 483,375	\$ (488,945)	\$ 5,479,405

¹Excludes commercial paper, the FRRN, discounts and premiums.

FY 2018 – At January 31, 2018, CPS Energy’s total debt was \$5,485.0 million, excluding commercial paper, the FRRN, discounts and premiums. This long-term debt was composed of \$4,894.9 million in fixed-interest-rate instruments and \$590.1 million in variable-interest-rate instruments. Fixed-interest-rate long-term debt had an overall weighted-average yield of 4.2%. Separately, the variable-rate bonds had a weighted-average yield of 2.4%.

Issuances – On April 27, 2017, CPS Energy issued \$308.0 million of New Series 2017 Senior Lien Revenue and Refunding Bonds. Bond proceeds, including the \$36.7 million premium associated with the bonds, are primarily being used to fund construction projects and were partially used to refund \$32.8 million and \$17.3 million par value of the New Series 2006B Revenue Refunding Bonds and New Series 2007 Revenue and Refunding Bonds, respectively. The refunding transaction resulted in a net present value debt service savings of \$1.8 million, or 3.6% of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in 2018 through 2047, is 3.80%.

On August 30, 2017, CPS Energy issued \$195.0 million of New Series 2017 Senior Lien Revenue Refunding Bonds. Proceeds, including the \$36.5 million premium associated with the bonds, were used to refund \$150.0 million and \$80.0 million of the Commercial Paper Notes Series A and Series C, respectively. The true interest cost for this issue, which has maturities in 2026 through 2047, is 3.62%.

On September 14, 2017, CPS Energy remarketed \$123.3 million of Series 2015B Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of a \$2.3 million premium, in conjunction with the remarketing, resulted in a principal paydown for the remarketed bonds of approximately \$1.7 million. The bonds have maturities in 2029 through 2033. The coupon rate for these bonds is 2.0%, with a current yield of 1.48% and true interest cost of 4.92%, which reflects stepped interest rate provisions applicable to the bonds.

Reductions – CPS Energy made principal payments of \$149.2 million in FY 2018. Additional principal paydowns related to refunding and remarketing transactions during the year totaled \$175.1 million

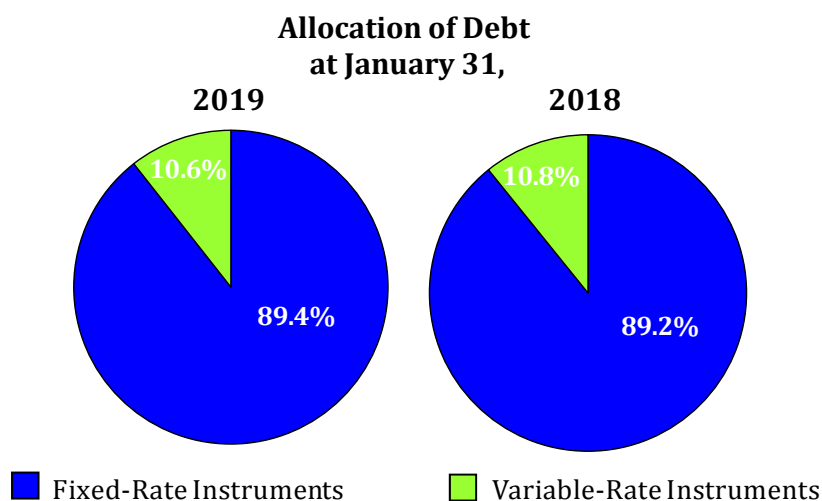
Summary of Debt Rollforward Activity¹

(In thousands)

Balance Outstanding February 1, 2017	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2018
\$ 5,182,985	\$ 626,260	\$ (324,270)	\$ 5,484,975

¹Excludes commercial paper, the FRRN, discounts and premiums.

See accompanying independent auditors’ report.



Note: Graphs exclude commercial paper and the FRRN.

Commercial Paper

CPS Energy maintains a commercial paper program to provide taxable and tax-exempt financing for various purposes. In 1988, the San Antonio City Council adopted an ordinance authorizing the issuance of up to \$300 million in tax-exempt commercial paper. The current ordinances allow for the issuance of three separate series of commercial paper to provide funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed \$600 million to the extent of support from liquidity facilities. As of January 31, 2019, there was a total of \$600 million in liquidity support. The ordinances allow for the issuance of taxable commercial paper, as well as tax-exempt commercial paper. Eligible projects include fuel acquisition, capital improvements to the Systems, and refinancing or refunding any outstanding obligations, which are secured by and payable from a lien and/or a pledge of net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds (senior lien obligations) and Series Bonds (junior lien obligations). Scheduled maximum maturities cannot extend beyond November 1, 2042.

The commercial paper has been classified as long-term in accordance with the refinancing terms under three revolving credit agreements with a consortium of banks, which support the commercial paper program. The Series A agreement provides \$150 million in liquidity support for the Series A Notes and the Series B and Series C agreements provide \$225 million each in liquidity support for the Series B and Series C Notes. The Series A, Series B and Series C agreements are all effective through June 21, 2019. Under the terms of these revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed \$600 million for the purpose of paying principal due under the commercial paper program. At January 31, 2019, there was no amount outstanding under the revolving credit agreements. Further, there have been no borrowings under the agreements since inception of the program. See Note 5 – Revenue Bond and Commercial Paper Ordinances Requirements and Note 7 – Commercial Paper and Related Revolving Credit Agreements.

FY 2019 – *Issuances* – CPS Energy issued a total of \$330.0 million in commercial paper during the year ended January 31, 2019, to fund construction costs.

Reductions – CPS Energy made reductions of \$285.0 million related to the commercial paper refunding transactions in FY 2019.

At January 31, 2019, the outstanding commercial paper balance was \$205.0 million, all of which was issued as tax-exempt.

Summary of Commercial Paper Rollforward Activity

(In thousands)

Balance Outstanding February 1, 2018	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2019
\$ 160,000	\$ 330,000	\$ (285,000)	\$ 205,000

FY 2018 – Issuances – CPS Energy issued a total of \$30.0 million in commercial paper in FY 2018 to fund construction costs.

Reductions – CPS Energy made reductions of \$230.0 million related to the commercial paper refunding transaction in FY 2018.

At January 31, 2018, the outstanding commercial paper balance was \$160.0 million, all of which was issued as tax-exempt.

Summary of Commercial Paper Rollforward Activity

(In thousands)

Balance Outstanding February 1, 2017	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2018
\$ 360,000	\$ 30,000	\$ (230,000)	\$ 160,000

The weighted-average interest rate on outstanding commercial paper was 1.8% at January 31, 2019, and 1.2% at January 31, 2018. The weighted-average maturity of commercial paper at January 31, 2019 and 2018, was 82 and 60 days, respectively.

Flexible Rate Revolving Note

CPS Energy maintains a FRRN private placement program to provide taxable and tax-exempt financing to assist in the interim funding of eligible projects in an aggregate amount not to exceed the currently effective limit of \$100 million, increased in FY 2019 from \$26 million. The FRRN has been classified as short-term in accordance with the financing terms under the Note Purchase Agreements. See Note 8 – Flexible Rate Revolving Note.

FY 2019 – There were no note issuances under the FRRN program during FY 2019. On January 22, 2019, the outstanding balance of \$25.2 million was paid off. At January 31, 2019, there was no outstanding balance due under the FRRN program.

FY 2018 – There were no note issuances or reductions under the FRRN program during FY 2018. At January 31, 2018, the outstanding FRRN balance was \$25.2 million.

Compliance

With respect to all New Series Bonds outstanding at January 31, 2019, the net revenues of the Systems are pledged to the payment of principal and interest thereon. All New Series Bonds are issued as senior lien

See accompanying independent auditors' report.

obligations, and the principal and interest thereon have a first lien upon the net revenues of CPS Energy's Systems.

The Series 2010A and 2010B Junior Lien BABs; the Series 2013 and Series 2014 Junior Lien Revenue Bonds; the Series 2015A and 2015B Variable-Rate Junior Lien Revenue Refunding Bonds; the Series 2015C and 2015D Variable-Rate Junior Lien Revenue Bonds; and the Series 2018 Variable-Rate Junior Lien Revenue Refunding Bonds were issued as junior lien obligations. The borrowings from the junior lien obligations are equally and ratably secured by and payable from the net revenues of CPS Energy's Systems. The pledge is subordinate and inferior to the pledge of net revenues securing the senior lien obligations, but prior and superior to the lien on, and pledge of, the net revenues securing the payment of the commercial paper notes.

The commercial paper revolving credit agreements permit CPS Energy to borrow up to an aggregate amount, not to exceed \$600 million, for the purpose of paying amounts due under the commercial paper program. The commercial paper outstanding is also secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of senior lien and junior lien obligations.

Under the terms of the current FRRN purchase agreement, the credit facility is taxable to the full extent of the current \$100 million limit on outstanding principal. Based on the Agreement, the credit facility would be secured by collateral based on 102% of the outstanding principal balance pledged in the form of investments and a limited, subordinate and inferior lien on and pledge of net revenues in the amount of \$0.1 million.

At January 31, 2019 and 2018, CPS Energy was in compliance with the terms and provisions of the documents related to the senior and junior lien obligations, and the commercial paper and FRRN programs.

Debt Service

CPS Energy has taken the position that the BABs direct subsidy should be deducted from debt service when calculating the debt service coverage ratio since the subsidy is received directly by the trustee and is to be used solely for debt service. Therefore, at January 31, 2019, the debt service coverage calculations included a BABs direct subsidy deduction of \$1.6 million for the senior lien debt and \$24.5 million for both the senior and junior lien debt. At January 31, 2018, the debt service coverage calculations included a BABs direct subsidy deduction of \$14.6 million for the senior lien debt and \$24.4 million for both the senior and junior lien debt.

BABs Subsidy Sequestration – Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government has reduced the BABs subsidy which resulted in an increase in CPS Energy's debt-related interest expense of approximately \$1.7 million and \$1.8 million in FY 2019 and FY 2018, respectively.

The following table illustrates the debt service coverage ratios in accordance with the bond ordinances and also provides the ratios without the direct subsidy deduction:

**Debt Service Coverage Ratios
at January 31, 2019**

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	4.62x	4.37x
Senior and junior lien debt	2.94x	2.78x

**Debt Service Coverage Ratios
at January 31, 2018**

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	3.84x	3.64x
Senior and junior lien debt	2.65x	2.49x

The ratio of debt to debt and net position was 61.8% and 61.9% at January 31, 2019 and 2018, respectively.

Summary of CPS Energy's Bond and Commercial Paper Ratings

	Ratings at January 31, 2019		
	Senior Lien Debt	Junior Lien Debt	Commercial Paper
Fitch Ratings	AA+	AA+	F1+
Moody's Investors Service, Inc.	Aa1	Aa2	P-1
S&P Global Ratings	AA	AA-	A-1+

CURRENTLY KNOWN FACTS

GASB Implementations – The following guidance issued by the GASB will be effective for future periods:

- GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2020. The Company has initiated an evaluation of the impact that adoption of this statement will have on its financial statements.
- GASB Statement No. 87, *Leases*, requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the Company's leasing activities. This standard will be adopted

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by CPS Energy in the fiscal year ending January 31, 2021. The Company has initiated an evaluation of the impact that adoption of this statement will have on its financial statements.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2021. The Company has initiated an evaluation of the impact that adoption of this statement will have on its accounting for allowance for funds used during construction ("AFUDC").
- GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. This standard will become effective in CPS Energy's fiscal year ending January 31, 2020; however, because CPS Energy does not have a majority equity interest in an organization, there is no expected impact on the Company's financial statements.

Legislation and Regulations – The Dodd-Frank Wall Street Reform and Consumer Protection Act ("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 swap transactions. The law was designed to reduce risk, establish new business conduct rules, increase transparency and promote market integrity within the financial system. The Dodd-Frank Act gave the Commodity Futures Trading Commission ("CFTC") and the Securities and Exchange Commission ("SEC") statutory authority to regulate the over-the-counter derivatives market, including many of the commodities that are currently being traded or hedged by CPS Energy in accordance with its own policies and procedures. CPS Energy is subject to some of the CFTC and SEC rules, including swap transaction reporting and recordkeeping, in addition to other administrative rules and regulations, such as the Independent Registered Municipal Advisor rule that impacts capital market participants. As an "end-user" CPS Energy is currently exempt from clearing and margining its over-the-counter positions and from capital requirements related to its commodities activities.

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, has been necessary due to regulatory requirements. Further modifications of this type are anticipated, contingent on rules to be promulgated or implemented. New relationship documentation would also take these into account. The CFTC and SEC, as well as U.S. prudential regulators charged with guarding against systemic risk to the banking and financial system, remain in the process of proposing, finalizing and implementing rules pursuant to the legislation. Consequently, the overall impact on CPS Energy remains uncertain at this time.

While there continues to be uncertainty regarding the future of the Patient Protection and Affordable Care Act, CPS Energy remains focused on its long-term strategy to address any potential cost increases associated with the health plan benefits it provides to its employees. The Company continues to monitor health care regulations as they evolve, as well as the status of the CPS Energy employee health plans, to ensure compliance with all regulations, while maintaining manageable plan costs for the Company and its employees.

There are a few pending federal environmental regulations that will affect CPS Energy, including the Clean Power Plan replacement rule. The Affordable Clean Energy rule was proposed by the Environmental Protection Agency (“EPA”) in August 2018. The rule would establish emission guidelines for states to develop plans to address greenhouse gas (“GHG”) emissions from existing coal-fired power plants. The proposed rule has several components:

- Defines the “best system of emission reduction” for GHG emissions from existing power plants as on-site, heat-rate efficiency improvements;
- Provides states with a list of “candidate technologies” that can be used to establish standards of performance and incorporated into their state plans;
- Updates EPA’s New Source Review Permitting program to incentivize efficiency improvements at existing power plants; and
- Aligns Clean Air Act section 111(d) general implementing regulations to give states adequate time and flexibility to develop their state plans.

The Generation Sector Industrial Effluent Guidelines rule’s effective date has been delayed until November 2020 during which time the EPA intends to propose and finalize a new rule for power plant wastewater discharge limits.

In July 2018, the EPA completed area designations for the 2015 ozone standards by designating eight counties in the San Antonio, Texas metropolitan area. The rule was published in the Federal Register on July 25, 2018. The EPA designated Bexar County as a Nonattainment area and the remaining seven counties – Atascosa, Bandera, Comal, Guadalupe, Kendall, Medina, and Wilson – as Unclassifiable (insufficient data to classify). Bexar County is classified as Marginal Nonattainment which is the least stringent. The area has until the end of 2020 to come into compliance with the ozone standards.

The EPA recently issued a final version of Part One of the Coal Combustion Residuals (“CCR”) Phase One rule. 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 has been extended to October 31, 2020. In August 2018, a federal appeals court ruled the EPA’s rule setting requirements for coal ash ponds and impoundments as too lenient. It is uncertain when and how the CCR rule might be amended to reflect the Court’s ruling.

CPS Energy complies with all current regulatory requirements and continues to monitor, evaluate, and assess the impacts of new and pending regulations on CPS Energy’s strategies and operations.

Federal Budget Developments – In December 2017, Congress passed the Tax Cuts & Jobs Act (“Act”). The Act preserved tax-exempt financing for municipal bonds but eliminated the use of advanced refunding at the end of calendar year 2017. The Act also reduced the corporate tax rate from 35% to 21% effective in calendar year 2018. This 14 percentage point reduction represents a 40% drop, which could potentially make tax-exempt municipal bonds less attractive to some investors.

During the end of the 115th Congress in December 2018 and beginning of the 116th Congress in January 2019, a disagreement between Congress and the President on funding for border security led to a 35-day partial government shutdown affecting nine federal agencies and departments. After a temporary deal was reached in January 2019 to reopen the government, Congress passed and the President signed a new agreement in February 2019 to fund those nine agencies through the current federal fiscal year ending September 30, 2019. In regard to the status of the BABs, subsidy payments to

See accompanying independent auditors’ report.

BABs issuers will be reduced by 6.2% from October 1, 2018, through September 30, 2019. This issue remains a focal point of conversation within Congress and the situation remains fluid.

As Congressional lawmakers continue to look for ways to manage the federal budget, future proposals affecting financing tools, such as the tax exemption on municipal bond interest and BABs, could be revisited. CPS Energy's management continues to assess proposals to offer commentary and information to the national discussion. Uncertainty remains regarding the impact any resulting legislation might ultimately have on the tax-exempt status of CPS Energy's bonds.

REQUESTS FOR INFORMATION

For more information about CPS Energy, contact Corporate Communications, Marketing & Smart City Outreach at (210) 353-2344 or at P.O. Box 1771, San Antonio, Texas 78296-1771.

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
City Public Service of San Antonio, Texas
San Antonio, Texas

We have audited the accompanying financial statements of City Public Service of San Antonio, Texas ("CPS Energy"), a component unit of the City of San Antonio, Texas as of and for the years ended January 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise CPS Energy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CPS Energy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CPS Energy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CPS Energy as of January 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, CPS Energy adopted the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations*, effective February 1, 2018. Our opinion is not modified with respect to this matter.

Other Matter***Required Supplementary Information***

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

Baker Tilly Virchow Krause, LLP

Austin, Texas
April 29, 2019

STATEMENTS OF NET POSITION

	January 31,	
	2019	2018
	Restated	
	(In thousands)	
Assets		
Current assets		
Cash and cash equivalents	\$ 349,704	\$ 205,418
Investments	104,171	163,486
Interest and other accounts receivable	53,319	47,065
Customer accounts receivable, less allowance for doubtful accounts of \$14.7 million at January 31, 2019, and \$16.1 million at January 31, 2018	202,556	272,252
Inventories, at average costs		
Materials and supplies, net	100,542	99,983
Fossil fuels	54,345	102,602
Prepayments and other	55,523	47,304
Total current assets	<u>920,160</u>	<u>938,110</u>
Noncurrent assets		
Restricted		
Cash and cash equivalents	234,326	166,669
Investments	1,107,234	1,116,139
Interest and other accounts receivable	5,753	7,144
Pension regulatory asset	239,806	245,135
Other noncurrent assets	299,927	284,620
Capital assets, net	8,154,670	8,190,356
Total noncurrent assets	<u>10,041,716</u>	<u>10,010,063</u>
Total assets	<u>10,961,876</u>	<u>10,948,173</u>
Deferred outflows of resources		
Unrealized contributions and losses related to pension and OPEB	173,193	95,267
Unrealized losses on fuel hedges	4,606	5,938
Unamortized debt reacquisition costs	62,205	80,720
Unamortized costs for asset retirement obligations	491,132	507,964
Total deferred outflows of resources	<u>731,136</u>	<u>689,889</u>
Total assets plus deferred outflows of resources	<u>\$ 11,693,012</u>	<u>\$ 11,638,062</u>
Liabilities		
Current liabilities		
Current maturities of debt	\$ 136,720	\$ 195,095
Accounts payable and accrued liabilities	440,813	427,885
Total current liabilities	<u>577,533</u>	<u>622,980</u>
Noncurrent liabilities		
Long-term debt, net	5,895,297	5,833,768
Asset retirement obligations	1,004,350	1,004,350
Decommissioning net costs refundable	59,053	97,405
Net pension liability	255,869	312,462
Other noncurrent liabilities	213,525	217,866
Total noncurrent liabilities	<u>7,428,094</u>	<u>7,465,851</u>
Total liabilities	<u>8,005,627</u>	<u>8,088,831</u>
Deferred inflows of resources		
Unrealized gains on fuel hedges	273	1,895
Unrealized gains related to pension and OPEB	170,949	50,512
Deferred income tower licenses sold	2,136	3,260
Total deferred inflows of resources	<u>173,358</u>	<u>55,667</u>
Total liabilities plus deferred inflows of resources	<u>8,178,985</u>	<u>8,144,498</u>
Net position		
Net investment in capital assets	2,123,616	2,162,433
Restricted		
Debt service	11,921	12,971
Ordinance	766,708	686,065
Unrestricted	611,782	632,095
Total net position	<u>3,514,027</u>	<u>3,493,564</u>
Total liabilities plus deferred inflows of resources plus net position	<u>\$ 11,693,012</u>	<u>\$ 11,638,062</u>

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended January 31,	
	<u>2019</u>	<u>2018</u>
		Restated
	(In thousands)	
Operating revenues		
Electric		
Retail	\$ 2,251,049	\$ 2,240,968
Wholesale	<u>325,666</u>	<u>198,890</u>
Total electric operating revenues	<u>2,576,715</u>	<u>2,439,858</u>
Gas	<u>167,444</u>	<u>180,411</u>
Total operating revenues	<u><u>2,744,159</u></u>	<u><u>2,620,269</u></u>
Operating expenses		
Fuel, purchased power and distribution gas	824,753	832,070
Operation and maintenance	573,491	540,104
Annual OPEB and pension expense	33,402	41,180
Energy efficiency and conservation (STEP)	69,124	80,731
STEP net costs recoverable	19,912	7,813
Regulatory assessments	86,202	84,083
Decommissioning	16,525	16,525
Depreciation and amortization	<u>445,227</u>	<u>425,260</u>
Total operating expenses	<u><u>2,068,636</u></u>	<u><u>2,027,766</u></u>
Operating income	<u><u>675,523</u></u>	<u><u>592,503</u></u>
Nonoperating income (expense)		
Interest and other income, net	39,389	17,413
Decommissioning Trusts investment income and change in fair value	<u>(19,122)</u>	48,290
Decommissioning net costs recoverable (refundable)	35,647	(31,765)
Interest and other expense	<u>(250,707)</u>	<u>(242,027)</u>
Amortization of debt-related costs	36,010	29,626
Allowance for funds used during construction	12,772	12,616
Payments to the City of San Antonio	<u>(361,351)</u>	<u>(338,455)</u>
Total nonoperating income (expense)	<u><u>(507,362)</u></u>	<u><u>(504,302)</u></u>
Income before other changes in net position	168,161	88,201
Other payments to the City of San Antonio	<u>(11,766)</u>	(11,720)
Contributed capital	54,936	43,868
Special item - plant impairment	<u>(182,723)</u>	-
Effect of defined benefit plan funding obligations – STP	<u>(8,145)</u>	<u>(10,610)</u>
Change in net position	<u>20,463</u>	109,739
Net position – beginning	<u>3,493,564</u>	<u>3,383,825</u>
Net position – ending	<u><u>\$ 3,514,027</u></u>	<u><u>\$ 3,493,564</u></u>

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 31	
	2019	2018
	Restated	
	(In thousands)	
Cash flows from operating activities		
Cash received from customers	\$ 2,807,995	\$ 2,564,968
Cash payments to suppliers for goods and services	(1,140,205)	(1,314,357)
Cash payments to employees for service	(223,529)	(208,977)
Net cash provided (used) by operating activities	<u>1,444,261</u>	<u>1,041,634</u>
Cash flows from capital and related financing activities		
Cash paid for additions to utility plant and net removal costs	(614,828)	(598,886)
Contributed capital	49,786	41,309
Proceeds from issuance of revenue bonds and commercial paper	331,820	334,076
Principal payments on revenue bonds and cash defeasance of debt	(456,715)	(156,575)
Interest paid	(247,488)	(229,640)
Debt issue and cash defeasance costs paid	(6,418)	(4,005)
Net cash provided (used) by capital and related financing activities	<u>(943,843)</u>	<u>(613,721)</u>
Cash flows from noncapital financing activities		
Cash payments to the City of San Antonio	(375,857)	(346,639)
Cash flows from investing activities		
Purchases of investments	(402,707)	(542,993)
Proceeds from sales and maturities of investments	440,163	485,147
Interest and other income	49,926	42,727
Net cash provided (used) by investing activities	<u>87,382</u>	<u>(15,119)</u>
Net increase (decrease) in cash and cash equivalents	<u>211,943</u>	<u>66,155</u>
Cash and cash equivalents at beginning of period	<u>372,087</u>	<u>305,932</u>
Cash and cash equivalents at end of period	<u>\$ 584,030</u>	<u>\$ 372,087</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>		
Cash flows from operating activities		
Operating income	\$ 675,523	\$ 592,503
Noncash items included		
Depreciation and amortization	445,227	425,260
Nuclear fuel amortization	43,678	46,173
Provision for doubtful accounts	6,581	9,544
Changes in current assets and liabilities		
(Increase) decrease in customer accounts receivable, net	63,115	(61,691)
(Increase) decrease in other receivables	(5,753)	(2,305)
(Increase) decrease in materials and supplies	(559)	2,881
(Increase) decrease in fossil fuels	48,257	4,971
(Increase) decrease in prepayments and other	(8,834)	3,756
Increase (decrease) in accounts payable and accrued liabilities	194,357	29,843
Changes in noncurrent and other assets and liabilities		
(Increase) decrease in other noncurrent assets and prepaid costs	(14,869)	(56,557)
Increase (decrease) in customer service deposits payable	(107)	(848)
Increase (decrease) in noncurrent liabilities	(61,698)	(108,175)
Changes in deferred outflows of resources	(61,094)	149,049
Changes in deferred inflows of resources	120,437	7,230
Net cash provided (used) by operating activities	<u>\$ 1,444,261</u>	<u>\$ 1,041,634</u>
<u>Noncash financing activities</u>		
Bond proceeds deposited into an escrow account for purposes of refunding long-term debt	\$ 530,778	\$ 406,044
Donated assets received and recorded	\$ 5,150	\$ 2,559
Impairment loss	\$ (182,723)	\$ -

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

January 31, 2019 and 2018

1. Summary of Significant Accounting Policies

Reporting Entity – City Public Service Board of San Antonio (also referred to as “CPS Energy” or the “Company”) has been owned by the City of San Antonio, Texas (“City”) since 1942. CPS Energy provides electricity and natural gas to San Antonio and surrounding areas. As a municipally owned utility, CPS Energy is exempt from the payment of income taxes, state franchise taxes, use taxes, and real and personal property taxes. CPS Energy provides certain payments and benefits to the City as permitted by bond ordinances. CPS Energy’s financial results are also included within the comprehensive annual financial report of the City.

The decision to include applicable component units in CPS Energy’s financial statements was made by applying the criteria set forth in Governmental Accounting Standards Board (“GASB”) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. The following legally separate entities, for which CPS Energy is financially accountable and with which a financial benefit/burden relationship exists, meet those criteria for inclusion in CPS Energy’s financial statements as component units; therefore, their financial statements are blended with those of CPS Energy:

- The City Public Service Restated Decommissioning Master Trust for the South Texas Project (“28% Decommissioning Trust”), and
- The City Public Service Decommissioning Master Trust (TCC Funded) (“12% Decommissioning Trust”).

These two component units are collectively referred to herein as the “Decommissioning Trusts” or the “Trusts.”

The financial statements of the CPS Energy Pension Plan (“Plan”) are separately audited and reported as of a December 31 fiscal year-end. The financial results of the Plan are not included herein except for certain disclosures as provided in Note 9 – Employee Pension Plan and in the Required Supplementary Information (“RSI”) following the financial statement notes.

The CPS Energy Group Health, Group Life Insurance and Long-Term Disability Income Plans (collectively, “Employee Benefit Plans”) are separately audited and reported as of a December 31 fiscal year-end. The financial results of the Employee Benefit Plans are not included herein except for certain disclosures as provided in Note 10 – Other Postemployment Benefits and in the RSI following the financial statement notes.

Included in CPS Energy’s financial statements are the applicable financial results for 40% of the South Texas Project (“STP”) Units 1 and 2.

STP is a nonprofit special-purpose entity that reports under the guidance issued by the Financial Accounting Standards Board (“FASB”), including Topic 958 of the FASB Accounting Standards Codification, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to STP’s financial information within CPS Energy’s financial statements for these differences.

Fiscal Year (“FY”) – The fiscal years ended January 31, 2019 and 2018, are referred to herein as “FY 2019” and “FY 2018,” respectively.

Basis of Accounting – The financial statements of CPS Energy are presented in accordance with U.S. generally accepted accounting principles (“GAAP”) for proprietary funds of governmental entities. CPS Energy, including the Decommissioning Trusts, complies with all applicable pronouncements of GASB.

In accordance with the utility systems’ revenue bond ordinances, CPS Energy has adopted the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners (“NARUC”). The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

FY 2018 GASB pronouncement implementations:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, as they relate to certain other postemployment benefit (“OPEB”) plans that are administered through trusts or equivalent arrangements. This Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. This standard was implemented in their fiscal years ending December 31, 2017, by the CPS Energy-sponsored OPEB trusts.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement 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. Additionally, Statement No. 75 sets forth note disclosure and required supplementary disclosure requirements for defined contribution OPEB. With the adoption of this standard, the affected balances within the financial statements for the period ended January 31, 2017, were restated.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. As CPS Energy is not the beneficiary of any irrevocable split-interest agreements, the guidance is not applicable and had no impact on its financial reporting.
- GASB Statement No. 85, *Omnibus 2017*, addresses a variety of topics and practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. This Statement did not have a significant impact on CPS Energy’s financial reporting.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement did not have a significant impact on CPS Energy’s financial reporting.

FY 2019 GASB pronouncement implementations:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable asset retirement obligations (“AROs”) and requires that recognition occur when the liability is both incurred and reasonably estimable. Refer to subsequent page for description of effects of implementation.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, requires additional essential information related to debt disclosure in the notes to the financial statements. Required disclosures include unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements which are related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Under the Statement, direct borrowings and direct placement of debt are required to be reported separately from other debt. This Statement did not have a significant effect on CPS Energy’s financial reporting.

Future GASB pronouncement implementations:

- GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2020. The Company has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.
- GASB Statement No. 87, *Leases*, requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the Company’s leasing activities. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2021. The Company has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2021. The Company has initiated an evaluation of the impact that adoption of this statement will have on its accounting for allowance for funds used during construction.
- GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. This standard will become effective in CPS Energy’s fiscal year ending January 31, 2020; however, because CPS Energy does not have a majority equity interest in an organization, there is no expected impact on the Company’s financial statements.

Implementation of GASB Statement No. 83 – CPS Energy adopted the requirements of GASB Statement No. 83 in FY 2019. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable asset retirement obligations and requires that recognition occur when the liability is both incurred and reasonably estimable. Evaluation of current legally enforceable obligations related to CPS Energy's assets resulted in a revised presentation and disclosure of the decommissioning liability associated with STP Units 1 and 2 and recognition of liabilities associated with underground fuel storage tanks and vaults. The impact for CPS Energy is as follows:

Asset retirement obligation liability – The asset retirement obligation reported under GASB Statement No. 83 is the best estimate of the current value of future outlays to be incurred once a tangible capital asset is retired. Previous to this new guidance, a decommissioning liability was only recognized for STP Units 1 and 2 by reflecting a liability and expense for a pro rata share of decommissioning costs as determined by the most recent cost study. The previous decommissioning expense and increase in liability were calculated by applying the effects of inflation and the ratio of years of plant usage to total plant life remaining. Under GASB Statement No. 83, the full asset retirement obligation associated with STP Units 1 and 2 is now recorded. Additionally, associated asset retirement obligations related to the vaults and underground fuel storage tanks are also included in the noncurrent ARO liability reflected on the Statements of Net Position.

Deferred outflows of resources – unamortized asset retirement obligation costs – GASB Statement No. 83 requires recognition of deferred outflows of resources associated with an ARO based on the useful life of the asset and estimated liability at the time of recognition. Deferred outflows of resources reported at the beginning of a tangible capital asset's estimated useful life will be reduced by the recognition of amortization expense over the entire estimated useful life. Deferred outflows of resources reported after a tangible capital asset has been placed into operation will be reduced by the recognition of amortization expense over the remaining estimated useful life.

GASB Statement No. 83 requires the effects of accounting change to be applied retroactively by restating the financial statements. CPS Energy adopted GASB Statement No. 83 in FY 2019 and, accordingly, has restated amounts of the affected balances within the financial statements for the fiscal year ending January 31, 2018 as follows:

(In thousands)	As Originally Reported	As Restated	Effect of Change
Statement of Net Position			
Deferred outflows of resources			
Unamortized asset retirement obligation costs	\$ -	\$ 507,964	\$ 507,964
Total deferred outflows of resources	-	507,964	507,964
Noncurrent liabilities			
Decommissioning	463,098	-	(463,098)
Asset retirement obligations	-	1,004,350	1,004,350
Decommissioning net costs refundable	125,968	97,405	(28,563)
Total noncurrent liabilities	589,066	1,101,755	512,689
Total net position	3,498,289	3,493,564	(4,725)
Statement of Revenues, Expenses and Changes in Net Position			
Operating expenses			
Operation and maintenance	\$ 539,797	\$ 540,104	\$ 307
Decommissioning	29,639	16,525	(13,114)
Nonoperating expenses			
Decommissioning net costs recoverable (refundable)	(18,651)	(31,765)	13,114

The following information is presented alphabetically:

Allowance for Funds Used During Construction (“AFUDC”) – To reflect funding methodology, the AFUDC rate includes both a debt and an equity component. The blended rate is composed of 50% equity and 50% debt based on construction funding forecasts. The investment rate is reviewed quarterly to determine if any adjustments are necessary. Alternate AFUDC rates are applied to projects costing more than \$100 million, reflecting the method by which they are funded.

Asset Retirement Obligations (“ARO”) – CPS Energy adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, during FY 2019 and accounts for AROs by recognizing the obligations as a liability based on the best estimate of the current value of outlays expected to be incurred once the assets are retired. The Statement requires the AROs be adjusted for the effects of inflation or deflation at least annually. In addition to the AROs, the Company has recorded associated deferred outflows of resources that are being amortized over the remaining useful life of the respective asset groups. The following asset groups have been included in the ARO reflected on the Statements of Net Position:

- **STP Units 1 and 2** – CPS Energy is one of three participants in STP, currently a two-unit nuclear power plant located in Matagorda County, Texas. The Code of Federal Regulations provides the main decommissioning requirements mandated by the Nuclear Regulatory Commission that issues the operational license of the site. The asset retirement obligation is based on an external cost study performed every five years. The most recent study was finalized in May 2018 and estimates costs in 2018 dollars. The associated costs are being amortized utilizing a straight-line method over the estimated remaining useful lives of the units. Total asset lives for the units are 60 years based on the operating license extensions. The deferred outflows of resources are based on the estimated remaining useful life of the assets at the time of implementation. CPS Energy has established two decommissioning trusts that are reported as blended component units combined into the CPS Energy financial statements to cover the eventual decommissioning associated with STP Units 1 and 2. At January 31, 2019 and 2018, the ARO related to STP Units 1 and 2 was \$991.5 million.
- **Vaults** – CPS Energy has approximately 200 underground vaults with useful lives of 46 years. The vaults have regulatory requirements to be met prior to removal and after retirement under the Code of Federal Regulations and the Texas Commission on Environmental Quality (“TCEQ”). Methods and assumptions to determine the associated liability were based on an internal calculation of cost per square foot of each tank which includes assessment, remediation, transportation and disposal costs. The associated costs are being amortized utilizing a straight-line method over the average estimated remaining useful life of the vaults. At January 31, 2019 and 2018, the ARO related to the vaults was \$9.2 million
- **Fuel Storage Tanks** – CPS Energy has 14 underground fuel storage tanks with useful lives of 30 years. The storage tanks have regulatory requirements to be met for removal or permanent closure after retirement under the Texas Administrative Code. The methods and assumptions used to determine the liability associated with the tanks were based on a cost analysis performed by an outside engineering consulting firm in July 2018. The associated retirement costs are being amortized utilizing a straight-line method over the average estimated remaining useful life of the storage tanks. At January 31, 2019 and 2018, the ARO related to the storage tanks was \$3.7 million.

Build America Bonds (“BABs”) – The American Recovery and Reinvestment Act (“ARRA”) of 2009 provided authority for the issuance of BABs, which were issuable in calendar years 2009 and 2010 as taxable bonds. The ARRA permitted the issuer or the issuer’s paying agent to receive subsidy payments equal to 35% of the bond’s interest costs directly from the U.S. Department of the Treasury. Pursuant to

the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, the federal government reduced the BABs subsidy as noted below:

Subsidy Reduction	Period Covered
6.8%	October 1, 2015 through September 20, 2016
6.9%	October 1, 2016 through September 20, 2017
6.6%	October 1, 2017 through September 20, 2018
6.2%	October 1, 2018 through September 20, 2019

CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating debt service since the subsidy is received directly by a trustee to be used solely for BABs debt service payments. Transaction details for CPS Energy's BABs issuances are provided in Note 6 – Revenue Bonds.

Capital Assets – The costs of additions and replacements of assets identified as major components or property units are capitalized. Maintenance and replacement of minor items are charged to operating expense. For depreciable assets that are retired due to circumstances other than impairment, the cost of the retired asset, plus removal costs and less salvage, is charged to accumulated depreciation. Per the financial reporting requirements of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, any losses associated with capital asset impairments will be charged to operations, not to accumulated depreciation.

A constructed utility plant is stated at the cost of construction, including expenditures for contracted services; equipment, material and labor; indirect costs, including general engineering, labor, equipment and material overheads; and AFUDC, or capitalized interest. AFUDC is applied to projects that require 30 days or more to complete.

Proceeds from customers to partially fund construction expenditures are reported as contributed capital in the Statements of Revenues, Expenses and Changes in Net Position as increases in net position in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The amount reported for contributed capital was \$54.9 million for the fiscal year ended January 31, 2019, as compared with \$43.9 million at January 31, 2018. This included donated assets of \$5.2 million and \$2.6 million, respectively. The remaining portion of these balances, \$49.7 million for FY 2019, and \$41.3 million for FY 2018, represents contributions received from customers as payments for utility extensions and services, as well as funding for community initiatives and other local partnership projects.

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.4% for FY 2019, and 3.2% for FY 2018.

The estimated useful lives of depreciable capital assets for FY 2019 and FY 2018 were as follows:

<u>Depreciable Capital Asset</u>	<u>Estimated Useful Life</u>
Buildings and structures	20–45 years
Systems and improvements	
Generation	18–49 years
Transmission and distribution	15–60 years
Gas	35–65 years
Intangibles - software	10 years
Intangibles - other	20–30 years
Machinery and equipment	4–20 years
Mineral rights and other	20–40 years
Nuclear fuel	Units of Production

In FY 2018, CPS Energy engaged an independent third-party consulting firm to conduct a depreciation study, which is performed every five years. The new depreciation rates resulting from the study were retroactively applied to the beginning of FY 2018. As a result of the study, based on the plant in service as of January 31, 2017, total annual depreciation decreased by approximately 3% based on the updated estimated useful lives in FY 2018.

Thresholds contained in the Company's capitalization policy, procedures and guidelines for FY 2019 and FY 2018 were as follows:

<u>Asset Class</u>	<u>Threshold</u>
Land, land improvements and certain easements	Capitalize all
Buildings and building improvements	\$10,000
Computer software - purchased	50,000
Computer software - internally developed	50,000
Computer software - enhancements/upgrades	50,000
Computer hardware	3,000
All other assets	3,000

Cash Equivalents and Investments, Unrestricted and Restricted – CPS Energy's investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments. CPS Energy's investments with a maturity date longer than one year from the purchase date are accounted for at fair value. As available, fair values are determined by using generally accepted financial reporting services, publications and broker-dealer information. The specific identification method is used to determine costs in computing gains or losses on sales of securities. CPS Energy also reports all investments of the Decommissioning Trusts at fair value. Refer to Note 13 – Fair Value Measurement for additional information.

Restricted funds are generally for uses other than current operations. They are designated by law, ordinance or contract and are often used to acquire or construct noncurrent assets. Restricted funds consist primarily of unspent bond or commercial paper proceeds, debt service required for the New Series Bonds (senior lien obligations), Series Bonds (junior lien obligations), commercial paper, the flexible rate revolving note ("FRRN") and funds for future construction or contingencies. Restricted funds also include customer assistance programs that receive proceeds from outside parties and the assets of the Decommissioning Trusts. Also included in the restricted funds classification is the Repair and Replacement Account, restricted in accordance with the Company's bond ordinances.

CPS Energy sets aside 1% of prior fiscal year electric base rate revenue, which is transferred to the City on an annual basis as an additional transfer. In accordance with bond ordinances, the combined total of all payments to the City may not exceed 14% of gross revenues.

For additional disclosures provided in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, see Note 2 – Cash, Cash Equivalents and Investments. These disclosures address investment exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, as applicable.

Compensated Absences – Employees earn vacation benefits based upon their employment status and years of service. As of January 31, 2019 and 2018, the accrued liabilities for those vested benefits were \$21.8 million and \$20.1 million, respectively, which were recorded as accrued liabilities on the Statements of Net Position.

Decommissioning – CPS Energy accounts for its legal obligation to decommission STP Units 1 and 2 in accordance with GASB Statement No. 83. The Company has recognized its pro rata share of an ARO based on the best estimate of the current values of outlays expected to be incurred to decommission the units, determined by the most recent cost study. A new cost study is performed every 5 years; in years subsequent to the latest study, the Statement requires the current value of the Company's ARO be adjusted for the effects of inflation or deflation, at least annually. In addition to the ARO, the Company has recorded deferred outflows of resources that are being amortized over the remaining useful life of the plant which is calculated assuming the longer total plant life due to the license extensions approved in FY 2018. See Note 14 – South Texas Project for additional details on the most recent cost study and license extensions.

Additionally, due to requirements under the Code of Federal Regulations governing nuclear decommissioning trust funds, a zero net position approach is applied in accounting for the Decommissioning Trusts. Accordingly, current year and prior year activity in the Trusts is reported in the nonoperating income (expense) section of the Statements of Revenues, Expenses and Changes in Net Position as decommissioning net costs recoverable (refundable). The cumulative effect of activity in the Trusts is reported on the Statements of Net Position as a noncurrent liability referred to as Decommissioning net costs refundable since any excess funds are payable to customers. Going forward, prolonged unfavorable economic conditions could result in the assets of the Trusts being less than the estimated decommissioning liability. In that case, instead of an excess as currently exists, there would be a deficit that would be reported as decommissioning net costs recoverable. This amount would be receivable from customers.

A project to develop an independent spent fuel storage installation ("Dry Cask Storage Project") was recently completed at STP to provide for storage of spent nuclear fuel after the spent fuel pool has reached capacity. CPS Energy's Decommissioning Trusts have separate spent fuel management accounts to pay for these costs. By contract, spent fuel will eventually be removed to final storage by the Department of Energy ("DOE"). The DOE failed to meet the contractual start date to receive spent fuel, and STP and other utilities have reached settlement agreements with the DOE. In the most recent settlement agreement dated March 15, 2017, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through calendar year 2019.

Ongoing costs for the spent fuel management project are being funded by the STP owners (CPS Energy; the City of Austin; and NRG South Texas LP, a wholly owned subsidiary of NRG Energy, Inc.) as expenditures are incurred. CPS Energy is entitled to request reimbursement at its discretion from its Decommissioning Trusts for the Company's portion of allowable costs. Annually, the South Texas Project Nuclear Operating Company ("STPNOC") submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned to the owners by STP upon receipt from the DOE. In turn, the settlement amount received from the DOE by CPS Energy is reimbursable to the Trusts. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Trusts. Spent fuel management costs that do not qualify for reimbursement by the DOE or the Trusts are recorded as operation and maintenance ("O&M") expense or capital costs.

Deferred Inflows of Resources – Deferred inflows of resources related to pension and OPEB amounted to \$170.9 million and \$50.5 million at January 31, 2019 and 2018, respectively. Deferred inflows of resources related to the sale of future revenue associated with the sale of the communication towers totaled \$2.1 million and \$3.3 million at January 31, 2019 and 2018, respectively.

Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred outflows or deferred inflows of resources on the Statements of Net Position until the expiration of the contract underlying the hedged expected fuel purchase transaction. When fuel hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as an

adjustment to fuel expense. Deferred inflows of resources related to fuel hedges totaled \$0.3 million and \$1.9 million at January 31, 2019 and 2018, respectively.

Deferred Outflows of Resources – Deferred outflows of resources related to pension and OPEB amounted to \$173.2 million and \$95.3 million at January 31, 2019 and 2018, respectively.

Deferred outflows of resources related to fuel hedges totaled \$4.6 million and \$5.9 million at January 31, 2019 and 2018, respectively.

For current and advance refundings of debt, the difference between the reacquisition price and the net carrying amount of the old debt is recorded as unamortized reacquisition costs and reported as deferred outflows of resources. These amounts are amortized as components of interest expense over the shorter of the remaining life of the refunding or the refunded debt. At January 31, 2019 and 2018, reacquisition costs totaled \$62.2 million and \$80.7 million, respectively.

Deferred outflows of resources related to AROs associated with the decommissioning of STP Units 1 and 2, and the retirement of the fuel storage tanks and vaults totaled \$491.1 million and \$508.0 million at January 31, 2019 and 2018, respectively.

Federal and State Grant Programs – Periodically, federal or state grants are made available to CPS Energy as a subrecipient for a portion of grant funds allocated to the state of Texas or as direct awards. Grant receipts are recorded as nonoperating income and generally reimburse CPS Energy for costs, recorded as operating expenses, incurred in the administration of the program. Federal or state grants that subsidize in whole or a partial amount of capital assets are recognized as contributions in aid of construction. These accounting treatments result in no impact to the Company's net position. Revenues associated with the grant-related programs are exempt from payments of a percentage of gross revenues made to the City. Grant funding received by the Company is subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Flexible Rate Revolving Note ("FRRN") Private Placement Program – On January 20, 2009, CPS Energy's Board of Trustees ("Board") authorized the establishment of a FRRN program to provide additional liquidity in support of the Company's electric and gas systems ("Systems"). Under the current program, CPS Energy can issue taxable or tax-exempt notes with individual maturities of one year or less at fixed or variable interest rates in an aggregate principal amount at any one time outstanding not to exceed \$100 million, increased in FY 2019 from \$26 million. The program became effective on April 28, 2009, and through annual renewals authorizes the issuance of such notes through November 1, 2028. The FRRN has been classified as short-term in accordance with the financing terms of the Note Purchase Agreement and is reported on the Statements of Net Position under current maturities of debt. At January 31, 2019 there were no amounts outstanding under this program. The note outstanding under this program at January 31, 2018 totaled \$25.2 million. See Note 8 – Flexible Rate Revolving Note.

Generation Asset Purchase – In FY 2013, CPS Energy purchased the Rio Nogales combined-cycle natural gas electric generating plant in Seguin, Texas. In conjunction with the purchase, CPS Energy entered into a Tax Exemption Settlement Agreement in which CPS Energy agreed to pay \$25.5 million to certain parties to compromise, terminate claims and settle any disputes relating to exemption of ad valorem taxes involving the parties to this agreement. The payment was recorded as an intangible asset that is being amortized over the life of the agreement, which runs through December 2041.

Inventories – CPS Energy maintains inventories for its materials and supplies and fossil fuels. In total, CPS Energy reported ending inventories of \$154.9 million and \$202.6 million at January 31, 2019 and

2018, respectively. Included in these amounts was CPS Energy's portion of STP inventories, which are valued at the lower of average cost or net realizable value. CPS Energy's directly managed inventories are valued using an average costing approach and are subject to write-off when deemed obsolete. CPS Energy has established a reserve for excess and obsolete inventory that is based on a combination of inventory aging and specific identification of items that can be written off. The reserve is intended to adjust the net realizable value of inventory CPS Energy may not be able to use due to obsolescence. The balance in the reserve amounted to \$6.0 million and \$4.4 million at January 31, 2019 and 2018, respectively. The reserve balance at January 31, 2019, includes approximately \$2.9 million of inventory associated with the impairment of J.T. Deely Units 1 and 2.

Long-Term Debt – To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2019 and 2018, these included fixed-rate and variable-rate bonds, as well as commercial paper. Relative to the bond instruments, provisions may be included that allow for refunding after specified time periods during the bond term.

Subject to applicable timing restrictions that may prevent early payoff, CPS Energy also has the option to defease or extinguish debt. A defeasance occurs when funds are placed in an irrevocable trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, which fully discharges the bond issuer's obligation. At the time of an extinguishment, since the issuer no longer has the legal obligation, the defeased debt is removed from the Statements of Net Position, the related unamortized costs are expensed, and the gain or loss is immediately recognized.

Current refundings involve issuing new debt (refunding bonds) to redeem existing debt (refunded bonds) that can be called within 90 days of the call date of the refunded bonds. Advance refunding of bonds involves issuing new debt to redeem existing debt that cannot be called within 90 days of issuing the refunding bonds. In these circumstances, the refunding bond proceeds are irrevocably escrowed with a third party. These proceeds, and income thereon, are used to pay the debt service on the refunded bonds until the refunded bonds can be called. Refunding bonds are generally issued to achieve debt service savings. In December 2017, Congress passed the Tax Cuts & Jobs Act ("Act"). The Act preserved tax-exempt financing for municipal bonds but eliminated the use of tax-exempt advanced refundings at the end of calendar year 2017. See Note 6 – Revenue Bonds for information on current-year debt refundings.

Bond premiums and discounts are amortized using the effective interest method over the life of the related debt.

Net Pension Liability – A net pension liability is recorded in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The liability is the difference between the actuarial total pension liability and the Plan's fiduciary net position as of the measurement date. The net pension liability was \$255.9 million at January 31, 2019, and \$312.5 million at January 31, 2018. For additional information, see Note 9 – Employee Pension Plan.

Other Noncurrent Assets – Other noncurrent assets include prepayments, Save for Tomorrow Energy Plan ("STEP") net costs recoverable, inventory relating to long-term service agreements ("LTSA") and net OPEB (asset) liability. This section also includes a pension regulatory asset and unamortized bond expense discussed within the Regulatory Accounting topic below.

Prepayments – Included in prepayments is the balance related to an agreement entered into in November 2011, between the Company and SunEdison Inc., for purchased power from San Antonio-area solar energy facilities with a total of 30 MW of capacity. In 2012, SunEdison Inc. sold the facilities to San Antonio Solar Holdings, LLC; however SunEdison Inc. retained ownership of the land for one of the sites and continued as operator under an agreement with San Antonio Solar Holdings, LLC. In FY 2013, \$77.0 million in prepayments were made for approximately 60% of the anticipated annual output over a

period of 25 years. In April 2016, SunEdison Inc. filed Chapter 11 bankruptcy protection; however, CPS Energy had no remaining agreements directly with SunEdison Inc. and determined that the event had no impact on CPS Energy's prepaid transaction. At January 31, 2019, of the remaining prepayment balance, \$3.1 million was classified as current and \$53.7 million was classified as noncurrent. At January 31, 2018, of the remaining prepayment balance, \$3.1 million was classified as current and \$56.8 million was classified as noncurrent. The purchase of the balance of the output is on a pay-as-you-go basis.

Save for Tomorrow Energy Plan – Through STEP, CPS Energy has projected it will spend approximately \$849 million over a 13-year period, which began in FY 2009, on energy efficiency and conservation. Contributing towards its goal to save 771 MW by 2020, CPS Energy's programs include home weatherization, higher efficiency light bulbs, solar rebates, peak saver thermostats, home area networks, demand response, rooftop and community solar programs, and other such initiatives. As of January 31, 2019, CPS Energy had saved 711 MW of power through its STEP programs and was 92.0% of the way to reaching the goal.

Annually, approximately \$9.2 million of the STEP expenses are funded through the electric base rate and reported as O&M expenses. STEP expenses in excess of this initial amount per year are recovered through the fuel adjustment factor over a period of 12 months, or longer for certain STEP expenses, beginning in the subsequent fiscal year after they are incurred and have been independently validated. These STEP recoveries are accrued as a regulatory asset referred to as STEP net costs recoverable in accordance with guidance provided by GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This guidance permits certain costs to be capitalized as a regulatory asset until they are recovered through future rates.

Inventory relating to long-term service agreements – CPS Energy maintains LTSA arrangements with General Electric Inc. ("GE") to provide maintenance services and select replacement parts for certain combined-cycle power plants in CPS Energy's fleet. Per the maintenance schedules, Advanced Gas Path ("AGP") parts are delivered to the facilities. AGP parts not immediately required for maintenance procedures are recorded as inventory until the installation process for each set of parts at the power plant is initiated, at which time the parts are reclassified to capital assets. The liability for the purchase of the parts, along with other LTSA payment obligations are recorded as a liability on the Statements of Net Position. For additional information related to the LTSAs, see Note 11 – Other Obligations and Risk Management.

Net OPEB (Asset) Liability – A net OPEB (asset) liability is recorded in accordance with GASB Statement No. 75. The asset or liability is the difference between the actuarial total OPEB liabilities and the Employee Benefit Plans' fiduciary net positions as of the measurement date. The net OPEB (asset) liability was \$(43.7) million and \$(26.2) million at January 31, 2019 and 2018, respectively. For additional information, see Note 10 – Other Postemployment Benefits.

Other Noncurrent Liabilities – Other noncurrent liabilities include the obligation for Project Warm resources held by the Company, the unrealized change in fair value of fuel hedges, unearned communication shelter revenue, note payable, long-term LTSA obligations and other liabilities for balances payable and deposits received.

Rate Increases – Rates are set by the Board and approved by the San Antonio City Council. On November 7, 2013, the City Council approved a 4.25% increase in both CPS Energy's electric and natural gas base rates, which were effective February 2014.

Reclassifications – Certain amounts in the prior year's financial statements have been reclassified to conform to the current-year presentation.

Regulatory Accounting – Regulatory accounting applies to governmental entities with rate-regulated operations, such as CPS Energy, that fall within the scope of GASB Statement No. 62. Regulatory accounting may be applied by entities, as approved by the governing body, to activities that have regulated operations that meet all required criteria. By establishing a regulatory asset, an entity seeks to recognize a cost over a future period of time and match recovery of those costs from its ratepayers to the amortization of the asset. An entity must demonstrate that adequate future revenue will result from inclusion of that cost in allowable costs for rate-making purposes.

Beginning in FY 2014, with the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, CPS Energy adopted the use of regulatory accounting to account for debt issuance costs. Prior to FY 2014, the Company had historically reported debt issuance costs as assets and amortized them over the life of the related debt. Under GASB Statement No. 65, debt issuance costs no longer meet the definition of an asset, nor do they meet the definition of a deferred outflow of resources; therefore, they must be expensed in the period incurred. CPS Energy establishes regulatory assets for the debt issuance costs that GASB Statement No. 65 would otherwise require be expensed. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt as the designated rate-recovery period. See Note 6 – Revenue Bonds for additional information.

The Company also elected to use regulatory accounting in conjunction with the implementation of GASB Statement No. 68 in FY 2015, which required immediate recognition of the Company's previously unrecognized net 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, to create a regulatory asset representing the net effect of the prior period restatements, which totaled \$266.5 million and is being amortized over a rate-recovery period of 50 years. The amortization expense was \$5.3 million for FY 2019 and FY 2018, and is included in annual OPEB and pension expense on the Statements of Revenues, Expenses and Changes in Net Position. See Note 9 – Employee Pension Plan for additional information.

Revenues and Expenses – Revenues are recorded when earned. Customers' meters are read, or periodically estimated, and bills are prepared monthly based on billing cycles. Beginning in 2014, CPS Energy began replacing existing electric and gas meters with new "smart meters" that allow two-way communication between the meters and CPS Energy. One of the benefits of the smart meters is that they allow each meter to be read electronically without having to send a meter reader out to manually read each meter to determine the current billing period's electric or gas consumption. As of January 31, 2019, more than 1.1 million electric and gas smart meter devices have been installed.

Rate tariffs include adjustment clauses that permit recovery of electric and gas fuel costs. CPS Energy uses historical information from prior fiscal years as partial bases to estimate and record earned revenue not yet billed (unbilled revenue). This process involves an extrapolation of customer usage over the days since the last meter read through the last day of the monthly period. Also included in unbilled revenue are the over/under-recoveries of electric and gas fuel costs and regulatory assessments. Unbilled revenue receivable recorded at January 31, 2019 and 2018, including estimates for electric fuel and gas costs, was \$20.1 million and \$47.7 million, respectively.

An adjustment clause in CPS Energy's rate tariffs also permits recovery of regulatory assessments. CPS Energy recovers assessments from the PUCT for transmission access charges and from the Texas Independent System Operator, also known as ERCOT, for its operating costs and other charges applicable to CPS Energy as a wholesale provider of power to other utilities. Regulatory assessments for FY 2019 and FY 2018 were \$86.2 million and \$84.1 million, respectively.

Operating revenues include receipts from energy sales, ancillary services and miscellaneous revenue, such as late payment fees and rental income, related to the operation of the Systems. Operating expenses are recorded as incurred and include those costs that result from the ongoing operations of the Systems.

Nonoperating income consists primarily of investment income, including fair value adjustments. Certain miscellaneous income amounts from renting general property and providing various services are also recorded as nonoperating income when they are not directly identified with the Systems. Beginning in FY 2015, rental income from the sale of communication towers is also included in nonoperating income.

Service Concession Arrangement (“SCA”) – In accordance with GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, a service concession arrangement between CPS Energy, owner, and Thousand Trails Management Services, Inc. (“TTMSI”), provider, was signed on November 20, 2009. TTMSI provides labor, supervision, management, services and equipment for Braunig Lake Park and Calaveras Lake Park, which are owned by CPS Energy. Gross receipts are distributed based on the contract agreement, which expires on November 30, 2024. CPS Energy is to retain ownership of both parks upon expiration of the arrangement.

At January 31, 2019 and 2018, a receivable was recorded in the amount of \$1.1 million and \$0.8 million, respectively, related to the TTMSI SCA. This balance represents the net amount of gross receipts less expenditures as of January 31, 2019 and 2018, respectively, for both parks. The asset book values as of January 31, 2019, for Braunig Lake Park and Calaveras Lake Park were \$0.9 and \$0.8 million, respectively. The asset book values as of January 31, 2018 were \$0.9 million for each park.

Statements of Cash Flows – For purposes of reporting cash flows, CPS Energy considers all highly liquid debt instruments purchased with an original maturity of 90 days or less to be cash equivalents. CPS Energy’s Statements of Cash Flows separately list the noncash transactions.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses reported during the fiscal periods. Accordingly, actual results could differ from those estimates.

2. Cash, Cash Equivalents and Investments

CPS Energy’s cash deposits at January 31, 2019 and 2018, were either insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the collateral included letters of credit and securities. The securities were U.S. Government, U.S. Government Agency or U.S. Government-guaranteed obligations held in book entry form by the Federal Reserve Bank of New York or other allowable banks in CPS Energy’s name.

Separation – CPS Energy’s cash, cash equivalents and investments can be separated in the following manner:

- Those directly managed by CPS Energy, and
- Those managed through the Decommissioning Trusts.

For financial reporting purposes, cash, cash equivalents and investments managed directly by CPS Energy have been consistently measured as of the end of the applicable fiscal years. The Decommissioning Trusts are reported on a calendar-year basis.

Cash and Cash Equivalents

(In thousands)

	January 31,	
	2019	2018
Cash		
Petty cash funds on hand (current)	\$ 49	\$ 53
Deposits with financial institutions		
Unrestricted CPS Energy deposits (current)	2,002	15,570
Restricted CPS Energy deposits (noncurrent)		
Capital projects	144	28
Debt service	938	582
Project Warm	314	260
Total cash	<u>3,447</u>	<u>16,493</u>
Cash equivalents		
Investments with original maturities of 90 days or less		
CPS Energy unrestricted (current)	347,653	189,795
CPS Energy restricted (noncurrent)	209,500	142,587
Decommissioning Trusts – restricted (noncurrent)	23,430	23,212
Total cash equivalents	<u>580,583</u>	<u>355,594</u>
Total cash and cash equivalents	<u>\$ 584,030</u>	<u>\$ 372,087</u>

Summary of Cash, Cash Equivalents and Investments

(In thousands)

	January 31,	
	2019	2018
Cash and cash equivalents		
CPS Energy – unrestricted and restricted	\$ 560,600	\$ 348,875
Decommissioning Trusts – restricted	23,430	23,212
Total cash and cash equivalents	<u>584,030</u>	<u>372,087</u>
Gross investments – current and noncurrent		
CPS Energy – unrestricted and restricted	1,228,094	1,050,431
Decommissioning Trusts – restricted	563,894	584,788
Total gross investments	<u>1,791,988</u>	<u>1,635,219</u>
Investments with original maturities of 90 days or less included in cash and cash equivalents		
CPS Energy – unrestricted and restricted	(557,153)	(332,382)
Decommissioning Trusts – restricted	(23,430)	(23,212)
Total cash equivalents	<u>(580,583)</u>	<u>(355,594)</u>
Net noncurrent investments	<u>1,211,405</u>	<u>1,279,625</u>
Total cash, cash equivalents and investments	<u>\$ 1,795,435</u>	<u>\$ 1,651,712</u>

Public Funds Investment Act (“PFIA”) – CPS Energy’s investments and the investments held in the Decommissioning Trusts are subject to the rules and regulations of the PFIA. The PFIA regulates what types of investments can be made, requires written investment policies, mandates training requirements of investment officers, requires internal management reports to be produced at least quarterly, and provides for the selection of authorized broker-dealers and investment managers.

Investments of CPS Energy – CPS Energy’s allowable investments are defined by Board resolution, CPS Energy Investment Policy, bond ordinances, commercial paper ordinances and state law. These

investments are subject to market risk, and their fair value will vary as interest rates fluctuate. All CPS Energy investments are held in trust custodial funds by independent banks.

SEC Rule 2a-7 Money Market Reform – On July 23, 2014, the Securities and Exchange Commission adopted rule 2a-7 that governs money market funds. This rule was effective beginning October 14, 2016, and requires a floating net asset value (“NAV”) for institutional prime money market funds, which allows the daily share prices of these funds to fluctuate along with changes in the market-based value of the fund’s assets. The PFIA requires money market funds to have a stable \$1 NAV. Therefore, prior to rule 2a-7 becoming effective, CPS Energy was required to transfer its investments in institutional prime money market funds to investment types that have a stable \$1 NAV to remain in compliance with PFIA requirements. Permissible alternative investment types identified include government money market funds, investment pools, short-term commercial paper, and U.S. Government Treasury and Agency securities.

Investments of the Decommissioning Trusts – CPS Energy’s investments in the Decommissioning Trusts are held by an independent trustee. Investments are limited to those defined by Board resolution, the South Texas Project Decommissioning Trust Investment Policy, the Investment Committee, the Trust Agreements and state law, as well as PUCT and Nuclear Regulatory Commission (“NRC”) guidelines. Allowable investments for the Decommissioning Trusts include all types directly permissible for CPS Energy, except for investment pools. Additionally permitted are investments in equities and corporate bonds (including international securities traded in U.S. dollars and on U.S. stock exchanges). In accordance with the Trusts’ Investment Policy, total investments can include a maximum of 60% equity securities. In an effort to further reduce the overall risk of the portfolio, the target allocations for both Trusts are 63.5% fixed income, 28.0% equities and 8.5% U.S. real estate investment trusts.

Permissible Investments

Investment Description	CPS Energy Investments	Decommissioning Trusts Investments
U.S. Government, U.S. Government Agency, or U.S. Government-guaranteed obligations	✓	✓
Collateralized mortgage obligations issued by the U.S. Government, or other obligations for which principal and interest are guaranteed by the U.S. or state of Texas	✓	✓
Fully secured certificates of deposit offered by a broker or issued by a depository institution that has its main office or branch office in the state of Texas	✓	✓
Direct repurchase agreements	✓	✓
Reverse repurchase agreements	✓	✓
Defined bankers’ acceptances and commercial paper	✓	✓
No-load money market mutual funds	✓	✓
Investment pools	✓	Not Permitted
Equities	Not Permitted	✓
Investment quality obligations of states, agencies, counties, cities and political subdivisions of any state	✓	✓
Corporate bonds	Not Permitted	✓
International securities	Not Permitted	✓
No-load commingled funds	Not Permitted	✓
Securities lending programs	✓	✓
Other specific types of secured or guaranteed investments	✓	✓

Cash, Cash Equivalents and Investments by Fund

(In thousands)

	January 31,	
	<u>2019</u>	<u>2018</u>
Unrestricted		
Cash and cash equivalents	\$ 349,704	\$ 205,418
Investments	<u>104,171</u>	<u>163,486</u>
Total unrestricted (current)	<u>453,875</u>	<u>368,904</u>
Restricted		
Debt service		
Cash and cash equivalents	<u>13,046</u>	<u>14,494</u>
Total debt service	<u>13,046</u>	<u>14,494</u>
Capital projects		
Cash and cash equivalents	<u>54,233</u>	<u>59,222</u>
Total capital projects	<u>54,233</u>	<u>59,222</u>
Ordinance		
Cash and cash equivalents	<u>143,285</u>	<u>69,463</u>
Investments	<u>559,375</u>	<u>547,205</u>
Total ordinance	<u>702,660</u>	<u>616,668</u>
Project Warm		
Cash and cash equivalents	<u>332</u>	<u>278</u>
Investments	<u>7,395</u>	<u>7,358</u>
Total Project Warm	<u>7,727</u>	<u>7,636</u>
Decommissioning Trusts		
Cash and cash equivalents	<u>23,430</u>	<u>23,212</u>
Investments	<u>540,464</u>	<u>561,576</u>
Total Decommissioning Trusts	<u>563,894</u>	<u>584,788</u>
Total restricted		
Cash and cash equivalents	<u>234,326</u>	<u>166,669</u>
Investments	<u>1,107,234</u>	<u>1,116,139</u>
Total restricted (noncurrent)	<u>1,341,560</u>	<u>1,282,808</u>
Total cash, cash equivalents and investments (unrestricted and restricted)	<u>\$ 1,795,435</u>	<u>\$ 1,651,712</u>

Risk Exposure – Cash equivalents, equity and fixed-income investments are exposed to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk) and foreign currency risk. Interest rate risk is the exposure to fair value losses resulting from rising interest rates. Credit risk is the risk that an issuer of an investment will not fulfill its obligations (will be unable to make timely principal and interest payments on the security). Foreign currency risk is the exposure to fair value losses arising from changes in exchange rates. Cash, cash equivalents and fixed-income investments are also exposed to inflation, liquidity, political, legal, event, reinvestment and timing (call) risks. Additionally, equity investments are exposed to political, legal, event, market and general economic risks. Due to market fluctuations, it is possible that substantial changes in the fair value of investments could occur after the end of the reporting period.

CPS Energy's investments and the investments in the Decommissioning Trusts are managed with a conservative focus. The Investment Policies are structured to ensure compliance with bond ordinances, the PFIA, the Public Funds Collateral Act, the NRC, the PUCT, other applicable state statutes and Board resolutions relating to investments. CPS Energy identifies and manages risks by following an appropriate investment oversight strategy, establishing and monitoring compliance with Investment Policies and procedures, and continually monitoring prudent controls over risks.

**Summary of Investments (Including Cash Equivalents)
by Organizational Structure and Type¹**

(In thousands)

	January 31,	
	2019	2018
CPS Energy investments		
U.S. Treasuries, U.S. Agencies, municipal bonds, CDs, commercial paper, investment pools and money market mutual funds	\$ 1,228,094	\$ 1,050,431
Decommissioning Trusts		
U.S. Treasuries, U.S. Agencies, municipal bonds and money market mutual funds	218,830	219,005
Corporate bonds	138,496	130,092
Foreign bonds	12,579	10,957
Subtotal	369,905	360,054
Common stock	144,473	169,137
Real estate investment trusts	48,802	54,855
Preferred stock	714	742
Total Decommissioning Trusts	563,894	584,788
Total investments	\$ 1,791,988	\$ 1,635,219

¹Excludes cash of \$3.4 million and \$16.5 million as of January 31, 2019 and 2018, respectively.

Investment Policies – In accordance with state law, the Trusts’ Investment Policy allows for investment in additional types of securities, such as corporate bonds and equity securities. The policy provides guidelines to ensure all funds are invested in authorized securities in order to earn a reasonable return. The primary emphasis is placed on long-term growth commensurate with the need to preserve the value of the assets and, at the time funds are needed for decommissioning costs, on liquidity. The Investment Policy continues to follow the “prudent person” concept.

GASB Statement No. 40 – In accordance with GASB Statement No. 40, additional disclosures have been provided in this note that address investment exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, as applicable. CPS Energy’s investments and those in the Decommissioning Trusts do not have custodial credit risk, as all investments are held either by an independent trustee or bank and are in CPS Energy’s or the Decommissioning Trusts’ names.

CPS Energy Investments

In accordance with GASB Statement No. 40, the following tables address concentration of credit risk and interest rate risk exposure by investment type using the weighted-average maturity (“WAM”) method. Since CPS Energy does not hold foreign instruments in its direct investments (those held by CPS Energy), foreign currency risk is not applicable.

Interest rate risk – In accordance with its Investment Policy, CPS Energy manages exposure to fair value losses resulting from rising interest rates by placing a limit on the portfolio’s WAM. The Investment Policy limits the WAM to three years or less, which allows for the management of risk while optimizing returns. CPS Energy invests in money market mutual funds that have no fixed maturities.

Concentration of credit risk – In accordance with its Investment Policy, CPS Energy manages exposure to concentration of credit risk through diversification and by limiting investment in each federal agency to 35% and investment in any other issuer of debt securities to 5% of the total fixed-income portfolio. Additionally, negotiable certificates of deposit are limited to 35% of the total portfolio per issuer.

(Dollars in thousands)

Investment Type	January 31, 2019				January 31, 2018			
	Carrying Value	Fair Value	Allocation	WAM	Carrying Value	Fair Value	Allocation	WAM
U.S. Treasuries	\$ 27,574	\$ 27,574	2.24%	1.5	\$ 27,472	\$ 27,472	2.62%	2.5
U.S. Agencies								
Federal Agriculture Mtg Corp	24,891	24,891	2.03%	0.5	24,813	24,813	2.36%	1.4
Federal Farm Credit Bank	95,665	95,665	7.79%	3.3	97,858	97,858	9.32%	3.5
Federal Home Loan Bank	92,478	92,478	7.53%	4.4	98,372	98,372	9.36%	3.4
Federal Home Loan Mortgage Corp	137,067	137,067	11.16%	3.9	105,793	105,793	10.07%	4.1
Federal National Mortgage Assn	126,504	126,504	10.30%	4.6	118,673	118,673	11.30%	5.5
Small Business Administration	22,196	22,196	1.81%	5.7	32,382	32,382	3.08%	6.3
Municipal bonds	134,567	134,565	10.96%	1.9	152,918	152,917	14.56%	2.2
Certificates of deposit	10,000	10,000	0.81%	0.6	-	-	-	-
Commercial paper	-	-	-	-	59,768	59,768	5.69%	0.2
Investment pools	471,702	471,702	38.41%	-	267,797	267,797	25.49%	-
Money market mutual funds	85,450	85,450	6.96%	-	64,585	64,585	6.15%	-
Total fixed-income portfolio	<u>\$ 1,228,094</u>	<u>\$ 1,228,092</u>	<u>100.00%</u>	1.9	<u>\$ 1,050,431</u>	<u>\$ 1,050,430</u>	<u>100.00%</u>	2.3

Credit risk – In accordance with its Investment Policy, CPS Energy manages exposure to credit risk by limiting long-term debt security investments to those with a credit rating of “A” or better. As of January 31, 2019 and 2018, CPS Energy held no debt securities with a long-term credit rating below “A-,” or equivalent, or a short-term credit rating below “A-1/P-1/F-1.”

(Dollars in thousands)

Credit Rating	January 31, 2019			January 31, 2018		
	Carrying Value	Fair Value	Allocation	Carrying Value	Fair Value	Allocation
U.S. Treasuries (AA+)	\$ 27,574	\$ 27,574	2.24%	\$ 27,472	\$ 27,472	2.62%
AAA / Aaa	565,293	565,293	46.78%	353,211	353,211	33.63%
AA+ / Aa1	532,328	532,328	42.60%	505,164	505,163	48.08%
AA / Aa2	47,017	47,015	3.83%	55,326	55,326	5.27%
AA- / Aa3	17,357	17,357	1.41%	20,038	20,038	1.91%
A+ / A1	2,680	2,680	0.22%	2,618	2,618	0.25%
A / A2	-	-	-	1,407	1,407	0.13%
Short-term:						
A-1 / P-1 / F-1	-	-	-	59,768	59,768	5.69%
Not rated ¹	35,845	35,845	2.92%	25,427	25,427	2.42%
Total fixed-income portfolio	<u>\$ 1,228,094</u>	<u>\$ 1,228,092</u>	<u>100.00%</u>	<u>\$ 1,050,431</u>	<u>\$ 1,050,430</u>	<u>100.00%</u>

¹ Money market deposit accounts, which meet PFIA/CPS Energy Investment Policy requirements.

Decommissioning Trusts Investments

As mentioned previously, the Decommissioning Trusts report their assets on a calendar-year basis; therefore, information related to the Trusts is as of December 31, 2018 and 2017. The tables in this section address interest rate risk exposure by investment type, concentration of credit risk, credit risk and foreign currency risk. All investments held by the Decommissioning Trusts are long-term in nature and are recorded at fair value.

Interest rate risk – Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity allow interim fluctuations in fair value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim fair value of assets can be sensitive to

changes in interest rates. As the general level of interest rates moves up and down, the interim fair value of longer-maturity bonds may change substantially.

To mitigate interest rate risk, a limitation is placed on the weighted-average duration (“WAD”) of the fixed-income portfolio. The overall portfolio duration is limited by the Investment Policy to a deviation of no more than +/- 1.5 years from the WAD of the Investment Committee’s specified fixed-income index. The specified fixed-income index for both the 28% Trust and the 12% Trust is Bloomberg Barclays US Aggregate, which was 5.86 and 5.91 for the period ending December 31, 2018 and 2017, respectively.

Concentration of credit risk – In accordance with the Investment Policy, exposure to concentration of credit risk is managed through diversification and by limiting investments in each federal agency to 30% and investments in any other single issuer of debt securities to 5% of the total fixed-income portfolio. Likewise, equity investments are limited to 5% of the total portfolio for any one issuer. Total other debt securities (corporate and foreign issuers) amounted to 40.7% and 39.4% of the fixed-income portfolio for the 28% Decommissioning Trust at December 31, 2018 and 2017, respectively. Total other debt securities (corporate and foreign issuers) amounted to 41.3% and 38.6% of the fixed-income portfolio for the 12% Decommissioning Trust at December 31, 2018 and 2017, respectively.

The following table lists the fixed-income investment holdings by type:

(Dollars in thousands)	December 31, 2018			December 31, 2017		
Investment Type – 28% Trust	Fair Value	Allocation	WAD	Fair Value	Allocation	WAD
U.S. Treasuries	\$ 49,303	18.47%	9.8	\$ 47,860	17.97%	10.0
U.S. Agencies						
Federal Farm Credit Bank	-	-	-	5,656	2.12%	1.0
Federal Home Loan Mortgage Corp	41,657	15.61%	4.6	44,956	16.88%	4.4
Federal National Mortgage Assn	34,554	12.95%	5.5	32,435	12.18%	5.0
Government National Mortgage Assn	4,577	1.71%	6.8	2,699	1.01%	5.5
Small Business Administration	4,597	1.72%	5.3	3,995	1.50%	5.5
Municipal bonds – Texas	1,054	0.39%	9.1	1,228	0.46%	8.3
Municipal bonds – other states	6,200	2.32%	9.8	6,599	2.48%	9.2
Corporate bonds	98,313	36.84%	5.4	96,019	36.04%	6.1
Foreign bonds	10,264	3.85%	4.6	8,905	3.34%	5.7
Money market mutual funds	16,390	6.14%	-	16,040	6.02%	-
Total 28% Trust fixed-income portfolio	<u>266,909</u>	100.00%	6.3	<u>266,392</u>	100.00%	6.3
Investment Type – 12% Trust						
U.S. Treasuries	17,920	17.40%	12.2	15,563	16.62%	12.5
U.S. Agencies						
Federal Farm Credit Bank	475	0.46%	0.3	4,388	4.68%	0.7
Federal Home Loan Mortgage Corp	16,299	15.82%	3.7	14,726	15.72%	3.4
Federal National Mortgage Assn	11,204	10.88%	5.2	10,315	11.01%	4.8
Government National Mortgage Assn	2,585	2.51%	6.9	1,284	1.37%	5.5
Small Business Administration	2,066	2.01%	5.4	1,587	1.69%	5.4
Municipal bonds – Texas	470	0.46%	8.8	502	0.54%	7.9
Municipal bonds – other states	2,439	2.37%	9.8	2,000	2.14%	9.6
Corporate bonds	40,183	39.00%	5.4	34,073	36.38%	6.4
Foreign bonds	2,315	2.25%	3.7	2,052	2.19%	4.8
Money market mutual funds	7,040	6.84%	-	7,172	7.66%	-
Total 12% Trust fixed-income portfolio	<u>102,996</u>	100.00%	6.4	<u>93,662</u>	100.00%	6.5
Total Trusts fixed-income portfolio	<u>\$ 369,905</u>			<u>\$ 360,054</u>		

Credit risk – In accordance with the Investment Policy, exposure to credit risk is managed by limiting all fixed-income investments to a credit rating of “BBB-”, or equivalent, or better from at least two nationally recognized credit rating agencies. If a security’s rating falls below the minimum investment grade rating of “BBB-” after it has been purchased, the Investment Policy allows investment managers to continue to hold the security as long as the total fair value of securities rated below investment grade does not exceed

5% of the total fixed-income portfolio. As noted in the following tables, investments with a credit rating below “BBB-/Baa3” for the 28% Trust or 12% trust did not exceed 5% of total fixed-income portfolio at December 31, 2018 and 2017.

The following table lists the fixed-income investment holdings by credit rating:

(Dollars in thousands)	December 31, 2018		December 31, 2017	
Credit Rating – 28% Trust	Fair Value	Allocation	Fair Value	Allocation
U.S. Treasuries (AA+)	\$ 49,303	18.47%	\$ 47,860	17.97%
AAA / Aaa	32,636	12.23%	35,739	13.42%
AA+ / Aa1	88,153	33.03%	93,245	35.00%
AA/Aa2	3,961	1.48%	3,735	1.40%
AA- / Aa3	4,119	1.54%	5,725	2.15%
A+ / A1	8,502	3.19%	5,039	1.89%
A/A2	8,191	3.07%	12,005	4.51%
A-/A3	21,803	8.17%	12,664	4.75%
BBB+/Baa1	23,726	8.89%	22,809	8.56%
BBB / Baa2	14,268	5.35%	13,746	5.16%
BBB-/Baa3	8,170	3.06%	11,700	4.39%
BB+/Ba1	1,310	0.49%	871	0.33%
BB/Ba2	481	0.18%	64	0.02%
BB-/Ba3	253	0.09%	265	0.10%
Not Rated ¹	2,033	0.76%	925	0.35%
Total 28% Trust fixed-income portfolio	<u>266,909</u>	100.00%	<u>266,392</u>	100.00%
Credit Rating – 12% Trust				
U.S. Treasuries (AA+)	17,920	17.40%	15,563	16.63%
AAA / Aaa	15,931	15.47%	16,727	17.86%
AA+/Aa1	34,809	33.80%	34,106	36.41%
AA / Aa2	1,093	1.06%	866	0.92%
AA-/Aa3	1,586	1.54%	1,025	1.09%
A+/A1	5,446	5.29%	2,120	2.26%
A/A2	2,901	2.82%	4,632	4.95%
A-/A3	9,263	8.99%	5,350	5.71%
BBB+/Baa1	7,553	7.33%	6,822	7.28%
BBB/Baa2	4,228	4.10%	3,679	3.93%
BBB-/Baa3	1,599	1.55%	2,044	2.18%
BB/Ba2	28	0.03%	27	0.03%
Not Rated ¹	639	0.62%	701	0.75%
Total 12% Trust fixed-income portfolio	<u>102,996</u>	100.00%	<u>93,662</u>	100.00%
Total Trusts fixed-income portfolio	<u>\$ 369,905</u>		<u>\$ 360,054</u>	

¹ The Trusts' Investment Managers are given discretion to invest in unrated securities that are of suitable quality and in line with their investment strategy, as long as those do not exceed the 10% limit prescribed for the portfolio by the Trusts' Investment Policy.

Foreign currency risk – With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are in U.S. dollars. This reduces the potential foreign currency risk exposure of the portfolio. All foreign bonds outstanding were issued in the U.S. and amounted to \$12.6 million at December 31, 2018, and \$11.0 million December 31, 2017. In accordance with the Investment Policy, investments in international equity securities are limited to international commingled funds, American Depositary Receipts and exchange-traded funds that are diversified across

countries and industries. The international equity portfolio is limited to 20% of the total portfolio. Total foreign equity securities amounted to 12.6% and 14.4% of the 28% Trust's total portfolio at December 31, 2018 and 2017, respectively. Total foreign equity securities held by the 12% Trust amounted to 11.4% and 14.9% of the Trust's portfolio at December 31, 2018 and 2017, respectively.

3. Disaggregation of Current Accounts Receivable and Accounts Payable

Accounts Receivable – Net customer accounts receivable as of January 31, 2019, included \$20.1 million for unbilled revenue receivable and \$182.5 million for billed utility services. Interest and other accounts receivable included \$17.9 million for regulatory-related accounts receivable, \$0.7 million for interest receivable and \$34.7 million for other miscellaneous accounts receivable.

Net customer accounts receivable as of January 31, 2018, included \$47.7 million for unbilled revenue receivable and \$224.6 million for billed utility services. Interest and other accounts receivable included \$10.1 million for regulatory-related accounts receivable, \$0.2 million for interest receivable and \$36.8 million for other miscellaneous accounts receivable.

Accounts Payable – At January 31, 2019, accounts payable and accrued liabilities included \$251.8 million related to standard operating supplier and vendor accounts payable, including fuels payable; \$51.5 million for employee-related accounts payable; \$53.0 million for customer-related accounts payable; \$34.7 million for STP-related accounts payable; and \$51.1 million for other miscellaneous accounts payable and accrued liabilities.

At January 31, 2018, accounts payable and accrued liabilities included \$223.2 million related to standard operating supplier and vendor accounts payable, including fuels payable; \$42.3 million for employee-related accounts payable; \$53.3 million for customer-related accounts payable; \$56.0 million for STP-related accounts payable; and \$50.8 million for other miscellaneous accounts payable and accrued liabilities.

4. Capital Assets, Net

General Description – CPS Energy's plant-in-service includes four power stations that are solely owned and operated by the Company. In total, there are 17 generating units at these four power stations, two of which are coal-fired and 15 of which are gas-fired. Excluding STP (nuclear units), the following is a list of power stations and their respective generating units as of January 31, 2019:

Power Station	Generating Units	Type	Power Station	Generating Units	Type
Calaveras	4	Coal (2)/Gas (2)	Leon Creek	4	Gas
Braunig	8	Gas	Rio Nogales	1	Gas

Other notable capital assets in electric and gas plant include supporting coal yard assets, a fleet of railcars, a transmission network for the movement of electric power from the generating stations to substations, electric and gas distribution systems, and metering. Included in general plant are two data centers; the main office complex; the construction and customer service centers; the Villita Assembly Building; and a fleet of automobiles, trucks and work equipment.

Intangible assets consist of easements, software, a tax exemption settlement and other intangible items.

In conjunction with the Rio Nogales plant purchase, CPS Energy entered into a Tax Exemption Settlement Agreement in which CPS Energy agreed to pay \$25.5 million to certain parties to compromise, terminate claims and settle any disputes relating to exemption of ad valorem taxes involving the parties to this agreement. The payment was recorded as an intangible asset that is being amortized over the life of the agreement, which runs through December 2041.

Impairments – In FY 2012, CPS Energy announced plans to mothball its J.T. Deely Units 1 and 2 coal-fired power plants in FY 2019 instead of the originally projected dates of FY 2032 and FY 2033, respectively. Therefore, depreciation for these two units was accelerated beginning in FY 2013. At the time of the original announcement, to continue operating the units past the announced mothball dates, the Company would have needed to install \$565 million in flue gas desulfurization equipment (commonly referred to as scrubbers) to cut SO₂ emissions in order to be compliant with more stringent environmental regulations that were expected to take effect in the future. In FY 2019, a financial and operational efficiency analysis concluded it was not cost-effective to maintain the units even in a mothball status. Based on the analysis, CPS Energy decided to early retire the units at the end of FY 2019 as an impairment due to changes in the duration of use of the units. CPS Energy recorded the impairment loss of \$182.7 million as a special item on the Statements of Revenues, Expenses and Changes in Net Position for the year ended January 31, 2019.

During FY 2019, an impairment loss of \$2.2 million was recorded related to the Customer Relationship Management (“CRM”) Project due to permanent stoppage of the second phase of the software development activities. In FY 2018, part of the project was identified as impaired and a loss of \$2.5 million was written off. The CRM Project would have enabled scalability within the call center with advancements to the Salesforce software currently being utilized by CPS Energy.

Investment in STP Units 1 and 2 – STP is currently a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by STPNOC, a nonprofit Texas corporation special-purpose entity, which is financed and controlled by the owners. CPS Energy’s 40% interest in STP Units 1 and 2 is included in plant assets. See Note 14 – South Texas Project.

STP Capital Investment

(Dollars In thousands)

	January 31,	
	2019	2018
STP capital assets, net		
Land	\$ 5,701	\$ 5,701
Construction-in-progress, STP Units 1 and 2	32,369	32,493
Electric and general plant	847,399	856,523
Intangibles	9,879	9,856
Nuclear fuel	107,240	121,903
Total STP capital assets, net	<u>\$ 1,002,588</u>	<u>\$ 1,026,476</u>
Total CPS Energy capital assets, net	<u>\$ 8,154,670</u>	<u>\$ 8,190,356</u>
STP capital investment as a percentage of total CPS Energy capital assets, net	12.3%	12.5%

Capital Asset Rollforward – The following tables provide more detailed information on the activity of CPS Energy’s net capital assets as presented on the Statements of Net Position, including capital asset activity for FY 2019 and FY 2018:

FY 2019 Capital Asset Rollforward

(In thousands)

	February 1, 2018	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	January 31, 2019
Nondepreciable assets					
Land	\$ 97,125	\$ 539	\$ 7,330	\$ (3)	\$ 104,991
Land easements	106,217	-	1,314	-	107,531
Construction-in-progress	<u>521,471</u>	<u>522,375</u>	<u>(462,398)</u>	<u>(464)</u>	<u>580,984</u>
Total nondepreciable assets	<u>724,813</u>	<u>522,914</u>	<u>(453,754)</u>	<u>(467)</u>	<u>793,506</u>
Depreciable/amortizable assets					
Electric plant	11,237,458	56,442	319,285	(535,371)	11,077,814
Gas plant	970,146	11,379	39,715	(26)	1,021,214
General plant	736,605	3,832	38,063	(52,358)	726,142
Intangibles					-
Software	209,730	-	56,691	(6,901)	259,520
Other	38,548	24	-	-	38,572
Nuclear fuel	<u>972,268</u>	<u>29,016</u>	<u>-</u>	<u>-</u>	<u>1,001,284</u>
Total depreciable/ amortizable	<u>14,164,755</u>	<u>100,693</u>	<u>453,754</u>	<u>(594,656)</u>	<u>14,124,546</u>
Accumulated depreciation and amortization					
Electric plant	(5,158,148)	(340,363)	-	366,211	(5,132,300)
Gas plant	(374,646)	(22,280)	-	1,581	(395,345)
General plant	(255,629)	(56,154)	-	50,042	(261,741)
Intangibles					-
Software	(54,073)	(25,411)	-	6,901	(72,583)
Other	(6,351)	(1,019)	-	-	(7,370)
Nuclear fuel	<u>(850,365)</u>	<u>(43,678)</u>	<u>-</u>	<u>-</u>	<u>(894,043)</u>
Total accumulated depreciation and amortization	<u>(6,699,212)</u>	<u>(488,905)</u>	<u>-</u>	<u>424,735</u>	<u>(6,763,382)</u>
Capital assets, net	<u><u>\$ 8,190,356</u></u>	<u><u>\$ 134,702</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (170,388)</u></u>	<u><u>\$ 8,154,670</u></u>

Cash flow information – Cash paid for additions and net removal costs totaled \$585.8 million. This amount includes \$594.6 million in additions to construction-in-progress and electric, gas and general plant, plus net salvage and removal costs of \$9.6 million, partially offset by \$12.8 million in AFUDC and \$5.2 million in donated assets.

Other – Depreciation and amortization expense for the period totaled \$445.2 million, while amortization of nuclear fuel of \$43.7 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

FY 2018 Capital Asset Rollforward

(In thousands)

	February 1, 2017	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	January 31, 2018
Nondepreciable assets					
Land	\$ 87,889	\$ 24,508	\$ (15,272)	\$ -	\$ 97,125
Land easements	89,258	-	16,959	-	106,217
Construction-in-progress	622,296	414,972	(515,797)	-	521,471
Total nondepreciable assets	799,443	439,480	(514,110)	-	724,813
Depreciable/amortizable assets					
Electric plant	10,880,247	82,184	339,220	(64,193)	11,237,458
Gas plant	912,650	17,523	40,485	(512)	970,146
General plant	694,989	6,286	64,546	(29,216)	736,605
Intangibles					
Software	155,936	-	69,859	(16,065)	209,730
Other	28,704	9,844	-	-	38,548
Nuclear fuel	934,865	37,403	-	-	972,268
Total depreciable/ amortizable assets	13,607,391	153,240	514,110	(109,986)	14,164,755
Accumulated depreciation and amortization					
Electric plant	(4,906,904)	(329,531)	-	78,287	(5,158,148)
Gas plant	(356,088)	(21,030)	-	2,472	(374,646)
General plant	(230,002)	(54,554)	-	28,927	(255,629)
Intangibles					
Software	(51,013)	(19,125)	-	16,065	(54,073)
Other	(5,331)	(1,020)	-	-	(6,351)
Nuclear fuel	(804,192)	(46,173)	-	-	(850,365)
Total accumulated depreciation and amortization	(6,353,530)	(471,433)	-	125,751	(6,699,212)
Capital assets, net	\$ 8,053,304	\$ 121,287	\$ -	\$ 15,765	\$ 8,190,356

Cash flow information – Cash paid for additions and net removal costs totaled \$561.5 million. This amount includes \$545.5 million in additions to land, construction-in-progress and electric, gas and general plant, plus net salvage and removal costs of \$15.5 million, partially offset by \$12.6 million in AFUDC and \$2.6 million in donated assets.

Other – Depreciation and amortization expense for the period totaled \$425.3 million, while amortization of nuclear fuel of \$46.2 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

5. Revenue Bond and Commercial Paper Ordinances Requirements

Senior Lien – As of January 31, 2019, the bond ordinances for New Series Bonds contained, among others, the following provisions:

Revenue deposited in CPS Energy's General Account shall be pledged and appropriated to be used in the following priority for:

- Maintenance and operating expenses of the Systems;
- Payment of the New Series Bonds;
- Payment of prior lien bonds, including junior lien obligations;
- Payment of the notes and the credit agreement (as defined in the ordinance authorizing commercial paper);
- Payment of any inferior lien obligations issued, which are inferior in lien to the New Series Bonds, the prior lien bonds and the notes and credit agreement;

- An annual amount equal to 6% of the gross revenues of the Systems to be deposited in the Repair and Replacement Account;
- Cash payments and benefits to the General Fund of the City not to exceed 14% of the gross revenues of the Systems; and
- Any remaining net revenues of the Systems in the General Account to the Repair and Replacement Account, which is used to partially fund construction costs.

The maximum amount in cash to be transferred or credited to the City's General Fund from the net revenues of the Systems during any fiscal year shall not exceed 14% of the gross revenues of the Systems, less the value of gas and electric services of the Systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system and other authorized exclusions. The percentage of gross revenues of the Systems to be paid over, or credited to, the City's General Fund each fiscal year shall be determined (within the 14% limitation) by the governing body of the City.

The net revenues of the Systems are pledged to the payment of principal and interest on the New Series Bonds, which are classified as senior lien obligations. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the Systems.

Junior Lien – The Series Bonds are composed of two categories of debt: fixed-interest-rate and variable-interest-rate. The junior lien fixed-interest-rate Series Bonds are similar to the senior lien New Series Bonds, as they have fixed and set interest rates for the life of the bonds. The junior lien Variable-Rate Note bonds are variable-interest-rate debt instruments of the City. The junior lien obligations are payable solely from, and equally and ratably secured by, a junior lien on and pledge of the net revenues of the Systems, subject and subordinate to liens and pledges securing the outstanding senior lien obligations and any additional senior lien obligations hereafter issued, and superior to the pledge and lien securing the currently outstanding commercial paper obligations, all as fully set forth in the ordinances authorizing the issuance of the junior lien obligations as noted below:

The City agrees that it will at all times maintain rates and charges for the sale of electric energy, gas or other services furnished, provided and supplied by the Systems to the City and all other consumers, which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

- All operation and maintenance expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502 of the Texas Government Code, as amended;
- The interest on, and principal of, all senior lien bonds, as defined in the New Series Bond ordinances, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the senior lien bonds;
- The interest on, and principal of, the prior lien bonds, including the junior lien obligations and any additional junior lien obligations hereafter issued (all as defined in the New Series Bond ordinances), as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the junior lien obligations and any additional junior lien obligations;
- To the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the commercial paper), the interest on and principal of all notes (as defined in said ordinance), and the credit agreement (as defined in said ordinance); and
- Any inferior lien obligations or any other legal debt or obligation of the Systems as and when the same shall become due.

Commercial Paper – As of January 31, 2019, the commercial paper ordinances contain, among others, the following provisions: authorized capacity of \$600 million, ability to issue tax-exempt or taxable commercial paper, ability to issue multiple series notes and final maturity on November 1, 2042.

To secure the payment of commercial paper principal and interest, a pledge is made of:

- Proceeds from
 - The sale of bonds and additional notes issued for such purposes, and
 - The sale of Project Notes;
- Loans under and pursuant to a revolving credit agreement;
- Amounts held in funds used specifically for payment of commercial paper principal and interest balances and unspent proceeds from commercial paper; and
- The net revenues of the Systems, after payment on New Series Bond requirements and prior lien bond obligations.

6. Revenue Bonds

On April 27, 2017, CPS Energy issued \$308.0 million of New Series 2017 Senior Lien Revenue and Refunding Bonds. Proceeds, including the \$36.7 million premium associated with the bonds, are primarily being used to fund construction projects and were partially used to advance refund \$32.8 million and \$17.3 million par value of the New Series 2006B Revenue Refunding Bonds and New Series 2007 Revenue and Refunding Bonds, respectively. Consequently, the New Series 2006B Revenue Refunding Bonds and New Series 2007 Revenue and Refunding Bonds were considered legally defeased and were removed from the CPS Energy financial statements in FY 2018. The refunding transaction resulted in a net present value debt service savings of \$1.8 million, or 3.6% of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in 2018 through 2047, is 3.80%.

On August 30, 2017, CPS Energy issued \$195.0 million of New Series 2017 Senior Lien Revenue Refunding Bonds. Proceeds, including the \$36.5 million premium associated with the bonds, were used to advance refund \$150.0 million and \$80.0 million of the Commercial Paper Notes Series A and Series C, respectively. The true interest cost for this issue, which has maturities in 2026 through 2047, is 3.62%.

On September 14, 2017, CPS Energy remarketed \$123.3 million of Series 2015B Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of a \$2.3 million premium, in conjunction with the remarketing, resulted in a principal paydown for the remarketed bonds of approximately \$1.7 million. The bonds have maturities in 2029 through 2033. The coupon rate for these bonds is 2.0%, with a current yield of 1.48% and true interest cost of 4.90%, which reflects stepped interest rate provisions applicable to the bonds.

On November 15, 2018, CPS Energy issued \$218.3 million of New Series 2018 Senior Lien Revenue Refunding Bonds. Bond proceeds, including the \$25.3 million premium associated with the bonds, were used to refund \$99.1 million par value of the New Series 2009D Revenue Refunding Bonds and convert the outstanding \$142.3 million Series 2012A, Series 2012B and Series 2012C Variable-Rate Junior Lien Revenue Refunding Bonds from variable-interest-rate debt to fixed-interest-rate debt. The refunding transaction, resulted in net present value debt service savings of \$3.6 million, or 3.6% of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in 2020, 2021, 2027, and 2028, is 2.75%.

On December 20, 2018, CPS Energy issued \$130.2 million of New Series 2018A Senior Lien Revenue Refunding Bonds. Proceeds, including the \$20.9 million premium associated with the bonds, were used to refund \$60.0 million and \$90.0 million of the Commercial Paper Notes Series A and Series C, respectively. The true interest cost for this issue, which has maturities in 2026 through 2048, is 3.65%.

On December 20, 2018, CPS Energy issued \$134.9 million of Series 2018 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the \$1.2 million premium associated with the bonds, were used to refund \$135.0 million of the Commercial Paper Series C. Reflecting stepped interest rate provisions applicable to the bonds, the true interest cost for this issue, which has maturities in 2043 through 2048, is 6.53%. The bonds were issued as multi-modal variable-rate instruments with initial term rates of 2.75% and a stepped rate of 8.0%, which is only applicable if the bonds are not remarketed before their expiration date.

On January 24, 2019, \$52.5 million of New Series 2015 Senior Lien Revenue Refunding Bonds and \$25.1 million of New Series 2016 Senior Lien Revenue Refunding Bonds were legally defeased with cash. Under the defeasance, the debt obligations were technically voided, as the cash was escrowed with a third party to service the debt. As a result, \$3.1 million was recorded as cost of defeasance representing the additional cash put into escrow for the interest that would have been incurred between FY 2020 through FY 2022.

Revenue Bond Summary (Dollars in thousands)

	Issues	Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2019	January 31,	
				2019	2018
Tax-exempt new series bonds	2012, 2015, 2016 2017, 2018 and 2018A	2020-2048	4.0%	\$ 2,464,500	\$ 2,385,315
Taxable new series bonds	2009C ¹ , 2010A ¹ and 2012	2026-2042	4.1%	1,276,000	1,276,000
Total new series bonds			4.0%	3,740,500	3,661,315
Taxable series bonds	2010A ¹ , 2010B ¹	2034-2041	3.9%	500,000	500,000
Tax-exempt variable-rate series bonds	2015A, 2015B, 2015C 2015D and 2018	2029-2048	2.6%	582,700	590,115
Tax-exempt series bonds	2013, 2014	2020-2048	4.7%	656,205	733,545
Total series bonds			4.4%	1,738,905	1,823,660
Total long-term revenue bonds outstanding				5,479,405	5,484,975
Less: Current maturities of bonds				136,720	169,895
Total revenue bonds outstanding, net of current maturities				\$ 5,342,685	\$ 5,315,080

¹ Direct Subsidy Build America Bonds

Build America Bonds Direct Subsidy – The ARRA of 2009 provided authority for the issuance of BABs, which were issuable in calendar years 2009 and 2010 as taxable bonds. The ARRA permitted the issuer or the issuer’s paying agent to receive a subsidy payment equal to 35% of the bond’s interest directly from the U.S. Department of the Treasury.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government has reduced the BABs subsidy through sequestration reduction. For the year ended January 31, 2019, after a sequestration reduction totaling \$1.7 million, the total subsidy received for the 2009C and 2010A Senior Lien BABs and the 2010A and 2010B Junior Lien BABs was \$24.5 million. For the year ended January 31, 2018, the total subsidy received for the 2009C and 2010A Senior Lien BABs and the 2010A and 2010B Junior Lien BABs was \$24.4 million, which included a reduction totaling \$1.8 million.

As of January 31, 2019, principal and interest amounts due for all revenue bonds outstanding for each of the next five years and thereafter to maturity are:

(In thousands)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Direct Subsidy</u>	<u>Total</u>
2020	\$ 136,720	\$ 263,845	\$ (24,512)	\$ 376,053
2021	161,160	268,081	(24,512)	404,729
2022	180,495	265,394	(24,512)	421,377
2023	208,790	262,676	(24,512)	446,954
2024	212,780	258,574	(24,512)	446,842
2025-2029	882,955	1,152,170	(125,798)	1,909,327
2030-2034	1,001,950	925,255	(129,494)	1,797,711
2035-2039	1,305,815	622,255	(80,964)	1,847,106
2040-2044	1,020,054	258,945	(9,093)	1,269,906
2045-2048	368,686	51,291	-	419,977
Totals	<u>\$ 5,479,405</u>	<u>\$ 4,328,486</u>	<u>\$ (467,909)</u>	<u>\$ 9,339,982</u>

The above table includes senior lien and junior lien bonds. Interest on the senior lien bonds and the junior lien fixed-rate bonds is based upon the stated coupon rates of each series of bonds outstanding. The direct subsidy associated with the BABs has been presented in a separate column and includes the impact of sequestration. CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating total debt service since the subsidy is received directly by the trustee to be used solely for BABs debt service payments.

The Series 2015A and Series 2015B Junior Lien Bonds were issued as multi-modal variable-rate bonds issued initially in a SIFMA Index Mode. The Series 2015A Junior Lien Bonds were remarketed in FY 2017 and issued as variable-rate bonds that utilize an interest rate of 2.25% through their term rate period's expiration in FY 2020. A stepped rate of 8.0% is assumed in the table above for this series thereafter through applicable final maturity. The Series 2015B Junior Lien Bonds were remarketed in FY 2018 and issued as variable-rate bonds that utilize an interest rate of 2.0% through their term rate period's expiration in FY 2022. A stepped rate of 7.0% is assumed in the table above for this series thereafter through applicable final maturity.

The Series 2015C and Series 2015D Junior Lien Bonds were issued as multi-modal variable-rate bonds initially issued in a term rate mode as variable-rate bonds that utilize an interest rate of 3.0% through their term rate period's expiration in FY 2020 and FY 2021, respectively. A stepped rate of 8.0% is assumed in the table above for each series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

The Series 2018 Junior Lien Bonds were issued as multi-modal variable-rate bonds that utilize an interest rate of 2.75% through their term rate period's expiration in FY 2023. A stepped rate of 8.0% is assumed in the table above for each series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

Pursuant to guidance provided in GASB Statement No. 65, debt reacquisition costs meet neither the definition of an asset nor a liability and are therefore required to be classified as deferred outflows or inflows of resources on the Statements of Net Position. The debt refundings that occurred in FY 2019 and FY 2018 resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$(6.0) million and \$0.5 million, respectively. Debt reacquisition costs reported as deferred outflows of resources totaled \$62.2 million at January 31, 2019, and \$80.7 million at January 31, 2018. These amounts are amortized as components of interest expense using the effective interest method over the shorter of the remaining life of the refunding or the refunded debt.

CPS Energy FY 2019 Basic Financial Statements

CPS Energy, as a rate-regulated entity and in accordance with guidance found in GASB Statement No. 62, establishes regulatory assets for debt issuance costs that would otherwise be required to be expensed in accordance with GASB Statement No. 65. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt. Debt issuance costs, which are reported within other noncurrent assets on the Statements of Net Position, totaled \$35.5 million at January 31, 2019, and \$35.4 million at January 31, 2018.

FY 2019 Long-Term Debt Activity

(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding 2-1-18	Additions During Year	Decreases During Year	Balance Outstanding 1-31-19
Revenue and refunding bonds							
2009A tax-exempt	\$ 442,005	2034	4.863	\$ 16,120	\$ -	\$ (16,120)	\$ -
2009C taxable	375,000	2039	3.944	375,000	-	-	375,000
2009D tax-exempt	207,940	2021	3.720	147,450	-	(147,450)	-
2010A taxable	380,000	2041	3.834	380,000	-	-	380,000
2010A taxable – Junior Lien	300,000	2041	3.806	300,000	-	-	300,000
2010B taxable – Junior Lien	200,000	2037	4.101	200,000	-	-	200,000
2012 taxable	521,000	2042	4.382	521,000	-	-	521,000
2012 tax-exempt	655,370	2025	2.552	655,370	-	-	655,370
2012A tax-exempt – Junior Lien	48,170	2027	Variable	47,135	-	(47,135)	-
2012B tax-exempt – Junior Lien	47,815	2027	Variable	47,650	-	(47,650)	-
2012C tax-exempt – Junior Lien	47,660	2027	Variable	47,500	-	(47,500)	-
2013 tax-exempt – Junior Lien	375,000	2048	4.753	375,000	-	-	375,000
2014 tax-exempt – Junior Lien	200,000	2044	4.142	200,000	-	-	200,000
2014 tax-exempt – Junior Lien	262,530	2020	1.220	158,545	-	(77,340)	81,205
2015A tax-exempt – Junior Lien	125,000	2033	Variable	124,555	-	-	124,555
2015B tax-exempt – Junior Lien	125,000	2033	Variable	123,275	-	-	123,275
2015 tax-exempt	320,530	2032	2.992	306,080	-	(68,380)	237,700
2015 tax-exempt	235,000	2039	3.476	235,000	-	-	235,000
2015C tax-exempt – Junior Lien	100,000	2045	Variable	100,000	-	-	100,000
2015D tax-exempt – Junior Lien	100,000	2045	Variable	100,000	-	-	100,000
2016 tax-exempt	544,260	2034	2.144	544,260	-	(25,120)	519,140
2017 tax-exempt	40,685	2047	1.126	18,735	-	(12,250)	6,485
2017 tax-exempt	267,320	2047	3.804	267,320	-	-	267,320
2017 tax-exempt	194,980	2047	3.619	194,980	-	-	194,980
2018 tax-exempt	218,285	2028	2.745	-	218,285	-	218,285
2018A tax-exempt	130,220	2048	3.654	-	130,220	-	130,220
2018 tax-exempt – Junior Lien	134,870	2048	Variable	-	134,870	-	134,870
Bonds outstanding				5,484,975	483,375	(488,945)	5,479,405
Current maturities				(169,895)	-	33,175	(136,720)
(Discount) premium				358,688	47,350	(58,426)	347,612
Revenue bonds, net				5,673,768	530,725	(514,196)	5,690,297
Commercial paper, tax-exempt			Variable	160,000	330,000	(285,000)	205,000
Long-term debt, net				<u>\$ 5,833,768</u>	<u>\$ 860,725</u>	<u>\$ (799,196)</u>	<u>\$ 5,895,297</u>

FY 2018 Long-Term Debt Activity
(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding 2-1-17	Additions During Year	Decreases During Year	Balance Outstanding 1-31-18
Revenue and refunding bonds							
2006B tax-exempt	\$ 128,845	2021	3.974	\$ 32,800	\$ -	\$ (32,800)	\$ -
2007 tax-exempt	46,195	2018	4.159	16,630	-	(16,630)	-
2007 tax-exempt	403,215	2032	4.575	660	-	(660)	-
2008 tax-exempt	287,935	2032	4.582	20,470	-	(20,470)	-
2009A tax-exempt	442,005	2034	4.863	31,500	-	(15,380)	16,120
2009C taxable	375,000	2039	3.944	375,000	-	-	375,000
2009D tax-exempt	207,940	2021	3.720	175,935	-	(28,485)	147,450
2010A taxable	380,000	2041	3.834	380,000	-	-	380,000
2010A taxable – Junior Lien	300,000	2041	3.806	300,000	-	-	300,000
2010B taxable – Junior Lien	200,000	2037	4.101	200,000	-	-	200,000
2012 taxable	521,000	2042	4.382	521,000	-	-	521,000
2012 tax-exempt	655,370	2025	2.552	655,370	-	-	655,370
2012A tax-exempt – Junior Lien	48,170	2027	Variable	47,135	-	-	47,135
2012B tax-exempt – Junior Lien	47,815	2027	Variable	47,650	-	-	47,650
2012C tax-exempt – Junior Lien	47,660	2027	Variable	47,500	-	-	47,500
2013 tax-exempt – Junior Lien	375,000	2048	4.753	375,000	-	-	375,000
2014 tax-exempt – Junior Lien	200,000	2044	4.142	200,000	-	-	200,000
2014 tax-exempt – Junior Lien	262,530	2020	1.220	206,990	-	(48,445)	158,545
2015A tax-exempt – Junior Lien	125,000	2033	Variable	124,555	-	-	124,555
2015B tax-exempt – Junior Lien	125,000	2033	Variable	125,000	123,275	(125,000)	123,275
2015 tax-exempt	320,530	2032	2.992	320,530	-	(14,450)	306,080
2015 tax-exempt	235,000	2039	3.476	235,000	-	-	235,000
2015C tax-exempt – Junior Lien	100,000	2045	Variable	100,000	-	-	100,000
2015D tax-exempt – Junior Lien	100,000	2045	Variable	100,000	-	-	100,000
2016 tax-exempt	544,260	2034	2.144	544,260	-	-	544,260
2017 tax-exempt	40,685	2047	1.126	-	40,685	(21,950)	18,735
2017 tax-exempt	267,320	2047	3.804	-	267,320	-	267,320
2017 tax-exempt	194,980	2047	3.619	-	194,980	-	194,980
Bonds outstanding				5,182,985	626,260	(324,270)	5,484,975
Current maturities				(156,810)	(13,085)	-	(169,895)
(Discount) premium				330,138	75,534	(46,984)	358,688
Revenue bonds, net				5,356,313	688,709	(371,254)	5,673,768
Commercial paper, tax-exempt			Variable	360,000	30,000	(230,000)	160,000
Long-term debt, net				<u>\$ 5,716,313</u>	<u>\$ 718,709</u>	<u>\$ (601,254)</u>	<u>\$ 5,833,768</u>

7. Commercial Paper and Related Revolving Credit Agreements

In 1988, the San Antonio City Council adopted an ordinance authorizing the issuance of up to \$300 million in tax-exempt commercial paper. The current ordinances allow for the issuance of three separate series of commercial paper to provide funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed \$600 million to the extent of support from liquidity facilities. As of January 31, 2019, there was a total of \$600 million in liquidity support. The ordinances allow for the issuance of taxable, as well as tax-exempt commercial paper. Eligible projects include fuel acquisition, capital improvements to the Systems, and refinancing or refunding any outstanding obligations, which are secured by and payable from a lien and/or a pledge of net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing senior lien and junior lien obligations. Scheduled maximum maturities cannot extend beyond November 1, 2042.

The commercial paper has been classified as long-term in accordance with the refinancing terms under three revolving credit agreements with a consortium of banks, which support the commercial paper program. Each revolving credit agreement relates to a particular series of notes and provides liquidity support therefore in the amount specified. The Series A agreement provides \$150 million in liquidity

support for the Series A Notes and the Series B and Series C agreements provide \$225 million each in liquidity support for the Series B and Series C Notes. The Series A, Series B and Series C agreements are all effective through June 21, 2019. Under the terms of these revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed \$600 million for the purpose of paying principal due under the commercial paper program. At January 31, 2019, there was no amount outstanding under the revolving credit agreements. Further, there have been no borrowings under the agreements since inception of the program.

During FY 2019, CPS Energy issued a total of \$330.0 million in commercial paper and \$285.0 million was refunded. As of January 31, 2019 and 2018, the outstanding commercial paper balance was \$205.0 million and \$160.0 million, respectively, all of which was tax-exempt.

Commercial Paper Summary

(Dollars in thousands)

	January 31,	
	2019	2018
Commercial paper outstanding	\$ 205,000	\$ 160,000
New commercial paper issues	\$ 330,000	\$ 30,000
Weighted-average interest rate of outstanding	1.8%	1.2%
Average life outstanding (number of days)	82	60

8. Flexible Rate Revolving Note

In FY 2010, the San Antonio City Council adopted an ordinance authorizing the establishment of the FRRN Private Placement Program, under which CPS Energy may issue taxable or tax-exempt notes, bearing interest at fixed or variable rates in an aggregate principal amount at any one time outstanding not to exceed the currently effective limit of \$100 million, increased in FY 2019 from \$26 million. This ordinance provides for funding to assist in the interim financing of eligible projects that include the acquisition or construction of improvements, additions or extensions to the Systems, including capital assets and facilities incident and related to the operation, maintenance and administration of fuel acquisition and development and facilities for the transportation thereof; capital improvements to the Systems; and refinancing or refunding of any outstanding obligations secured by the net revenues of the Systems; or with respect to the payment of any obligation of the Systems pursuant to any credit. Under the program, maturity dates cannot extend beyond November 1, 2028.

On May 10, 2010, CPS Energy issued a \$25.2 million taxable Flexible Rate Revolving Note, Series A, under its taxable Note Purchase Agreement with JPMorgan Chase Bank, N.A., which currently serves as the note purchaser under the program. On May 11, 2010, the proceeds from the note, along with cash, were used to defease \$25.7 million in principal amounts of the allocable portion of the debt associated with the common facilities of STP Units 1 and 2 that were assigned to Nuclear Innovation North America, Inc. ("NINA"), in March 2010 when CPS Energy reduced its ownership share of STP Units 3 and 4 to 7.625%. The FRRN balance was paid off in FY 2019 and there were no amounts outstanding under this program as of January 31, 2019. As of January 31, 2018, the outstanding balance was \$25.2 million.

In FY 2018, the FRRN was classified as current in accordance with the financing terms under the taxable Note Purchase Agreement and was reported on the Statements of Net Position under current maturities of debt. Based on the Agreement, the credit facility would be secured by collateral based on 102% of the outstanding principal balance pledged in the form of investments and a limited, subordinate and inferior lien on and pledge of net revenues in the amount of \$0.1 million. At January 31, 2019, no outstanding balance was due under the taxable Note Purchase Agreement and therefore, no amounts were

collateralized. The current taxable Note Purchase Agreement will expire on December 31, 2019, but through an annual renewal process may be extended through November 1, 2028.

The ordinance defines events of default to include the City's failure to pay principal and interest on the notes; a continuing default, such as a covenant breach, under the ordinance or the program notes; the City's liquidation, dissolution, or entrance into bankruptcy; or an appointment of a third party to handle the System's financial affairs. Each of the foregoing could invoke a finance-related consequence, as FRRN program noteholders' default remedies include, but are not limited to, the ability to seek judicial relief and compel performance of the ordinance's provisions. The ordinance is silent as to termination events. As set forth in the ordinance, the remedy of acceleration is only available to holders of program notes secured by the Program Note Security Fund (as defined in the ordinance), which holds collateral available to pay costs related to accelerated program notes.

The Note Purchase Agreement specifies additional events of default with potential financial consequences, including failure to pay the fees set forth in the agreement; inclusion of materially incorrect representations in transaction documentation; receipt of final judgement rendered against the City or CPS Energy Board of Trustees in an amount greater than \$20 million (payable from the System's revenues) or City default in an amount of the same.

9. Employee Pension Plan

Plan Description – The CPS Energy Pension Plan (the “Plan”) is a self-administered, single-employer, defined-benefit contributory pension plan covering substantially all employees who have attained age 21 and completed one year of service. It is sponsored by and may be amended at any time by CPS Energy, acting by and through the Employee Benefits Oversight Committee (“EBOC”), which includes the President & CEO, the Chief Financial Officer, and the Audit & Finance Committee of the Board. Plan assets are segregated from CPS Energy's assets and are separately managed by the Administrative Committee, whose members are appointed by the EBOC. The Plan reports results on a calendar-year basis, and the separately audited financial statements, which contain historical trend information, may be obtained at www.cpsenergy.com or by contacting Benefit Trust Administration at CPS Energy. The Plan's financial statements include certain disclosures related to CPS Energy's net pension liability. However, because the financial reporting and pension measurement dates for the Plan and CPS Energy are not aligned, the Plan's disclosures will vary from information provided by CPS Energy in this footnote and in the accompanying RSI.

In addition to the defined-benefit Plan, CPS Energy has two Restoration Plans that were effective as of January 1, 1998, which supplement benefits paid from the Plan due to Internal Revenue Code restrictions on benefit and compensation limits. The benefits due under those Restoration Plans have been paid annually by CPS Energy.

Employees who retired prior to 1983 receive annuity payments from an insurance carrier, as well as some benefits directly from CPS Energy. The costs for the benefits directly received from the Company were \$0.01 and \$0.02 million for FY 2019 and FY 2018, respectively. These costs were recorded when paid.

Benefits Provided – Participants become fully vested in the benefits of the Plan upon attainment of age 40 or after completion of seven years of vesting service before age 40. Normal retirement age is 65; however, early retirement is available with 25 years of benefit service, as well as to those employees who are age 55 or older with at least ten years of benefit service. Plan benefits consist of a normal retirement annuity calculated based primarily on length of service and compensation. Benefits are reduced for retirement before age 55 with 25 years or more of benefit service or before age 62 with less than 25 years of service. If early retirement occurs due to disability, the reductions in benefits normally associated with early retirement are modified.

Payments to retirees are adjusted each year by an amount equal to 50% of the change in the Consumer Price Index-U, limited to a maximum adjustment of 5% each year, with no reduction allowed below the retirees' initial benefit levels.

The following table presents information about Plan participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate the net pension liability, as of the measurement dates, for the fiscal years ended January 31, 2019 and 2018, were:

	January 31,	
	2019	2018
Active participants	2,886	2,860
Participants currently receiving benefits	2,348	2,360
Participants entitled to deferred benefits	218	151
Total plan participants	5,452	5,371

Contributions – The current policy of CPS Energy is to use an actuarial valuation as the basis for determining employer contributions to the Plan during the fiscal year beginning thirteen months after the valuation date. The January 1, 2017, valuation is the basis for contributions in FY 2019. With recommendations from the Administrative Committee, composed of a cross-functional group of active and retired CPS Energy employees, the Company establishes funding levels, considering annual actuarial valuations. Generally, participating employees contribute 5.0% of their total compensation, commencing with the effective date of participation and continuing until normal or early retirement, completion of 44 years of benefit service, or termination of employment. Participants who leave CPS Energy service before becoming eligible for retirement benefits receive a return of the total amount they contributed to the Plan, plus the vested portion of accumulated interest. Beginning January 1, 2015, through December 31, 2017, the employee contribution interest crediting rate was 5.50%. Beginning January 1, 2018, the employee contribution interest credit rating was 5.25%.

The balance of Plan contributions is the responsibility of CPS Energy, giving consideration to actuarial information, budget controls, legal requirements, compliance, and industry and/or community norms. For FY 2019 and FY 2018, the amount to be funded was established using a general target near the 30-year funding contribution level as determined by the Plan's actuary using the entry-age normal cost method.

Net Pension Liability – CPS Energy's net pension liability at January 31, 2019 and 2018, was measured as of January 31, 2018 and 2017, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2017 and 2016, rolled forward using generally accepted actuarial procedures to the January 31, 2018 and 2017, measurement dates, respectively.

Changes in Net Pension Liability
(In thousands)

	Fiscal Year Ended January 31,	
	<u>2019</u>	<u>2018</u>
<u>Total pension liability</u>		
Service cost	\$ 32,569	\$ 31,547
Interest cost	132,861	128,991
Changes in Plan benefits	-	-
Changes in assumptions	77,574	-
Differences between expected and actual experience	6,025	(18,647)
Benefit payments	<u>(93,550)</u>	<u>(91,230)</u>
Net change in total pension liability	155,479	50,661
Total pension liability, beginning of period	<u>1,784,838</u>	1,734,177
Total pension liability, end of period	<u>1,940,317</u>	<u>1,784,838</u>
<u>Plan fiduciary net position</u>		
Employer contributions	(46,200)	(44,500)
Participant contributions	(13,039)	(12,144)
(Earnings) loss on Plan assets	(246,772)	(207,196)
Benefit payments	93,550	91,230
Administrative expense	389	-
Net change in Plan fiduciary net position	(212,072)	(172,610)
Plan fiduciary net position, beginning of period	<u>(1,472,376)</u>	<u>(1,299,766)</u>
Plan fiduciary net position, end of period	<u>(1,684,448)</u>	<u>(1,472,376)</u>
Net pension liability, end of period	<u>\$ 255,869</u>	<u>\$ 312,462</u>

CPS Energy recorded \$27.1 million and \$46.2 million in pension expense for the years ended January 31, 2019 and 2018, respectively.

Actuarial Assumptions – Significant actuarial assumptions used in the January 1, 2017, valuation include a rate of return on the investment of present and future assets of 7.25%, a discount rate on Plan liabilities of 7.25%, annual projected salary increases averaging 4.72% per year and annual post-retirement cost-of-living increases of 1.5%. The projected salary increases include an inflation rate of 3.0%. Mortality rates were based on the RP-2016 Combined Healthy with No Collar Adjustment, Male and Female Tables, as appropriate, projected using MP-2016 Mortality Improvement Scale.

The actuarial assumptions used in the January 1, 2017, valuation for amounts reported in FY 2019 were based on the results of an actuarial experience study completed in 2017 covering experience for the period January 1, 2012, through December 31, 2016.

Significant actuarial assumptions used in the January 1, 2016, valuation include a rate of return on the investment of present and future assets of 7.50%, a discount rate on Plan liabilities of 7.50%, annual projected salary increases averaging 4.66% per year and annual post-retirement cost-of-living increases of 1.5%. The projected salary increases include an inflation rate of 3.0%. Mortality rates were based on the RP-2000 Combined Healthy Annuitant Mortality Table for Males or Females, as appropriate, projected using Scale BB.

The actuarial assumptions used in the January 1, 2016, valuation for amounts reported in FY 2018 were based on the results of an actuarial experience study completed in 2014 covering experience for the period January 1, 2009, through December 31, 2013.

The long-term expected rate of return on Plan investments was determined based on a blend of historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions, developed on a geometric basis. An economic simulation method was used in which best-estimate ranges of expected future rates of return (expected returns net of Plan investment expense) for each major asset class were combined using simulations that ensure the economic consistency of each individual trial, and then reduced by a factor representing inflation to produce long-term expected real rates of return for each major asset class. The assumed allocation and expected real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Expected Real Rate of Return
Equities	52.5%	5.1%
Debt securities	25.5%	3.2%
Alternative investments	22.0%	5.2%
Total investments	100.0%	

Discount Rate – The discount rates used to measure the total pension liability for FY 2019 and FY 2018 were 7.25% and 7.50%, respectively. The projection of cash flows used to determine the discount rates assumed that future employee contributions will be made at the current contribution rate and that future CPS Energy contributions will be made in a manner consistent with the current contribution practices. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the sensitivity of net pension liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total pension liability:

Discount Rate Sensitivity
(In thousands)

	Net Pension Liability at January 31,	
	2019	2018
Discount rate		
1% decrease - 6.25%	\$ 496,332	\$ -
Current discount rate - 7.25%	255,869	-
1% increase - 8.25%	52,973	-
1% decrease - 6.50%	-	533,656
Current discount rate - 7.50%	-	312,462
1% increase - 8.50%	-	125,823

Plan Fiduciary Net Position – Detailed information about the Plan’s fiduciary net position is available in the separately issued Plan financial statements. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position for the Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan.

Investments are stated at fair value. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the terms of the Plan.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension – The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for CPS Energy at January 31, 2019 and 2018:

	January 31,	
	2019	2018
<u>Deferred outflows of resources</u>		
Changes in assumptions	\$ 82,905	\$ 21,884
Differences between expected and actual experience in the measurement of total pension liability	20,010	21,253
Employer's contributions to the Plan subsequent to the measurement of total pension liability	58,700	46,200
Total deferred outflows of resources	<u>\$ 161,615</u>	<u>\$ 89,337</u>
<u>Deferred inflows of resources</u>		
Differences between projected and actual earnings on pension assets	\$ (112,229)	\$ (1,764)
Differences between expected and actual experience in the measurement of total pension liability	(35,566)	(48,748)
Total deferred inflows of resources	<u>\$ (147,795)</u>	<u>\$ (50,512)</u>

The following table presents the future amortization of pension-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the Plan in the current fiscal year and subsequent to the net pension liability measurement date. The deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the net pension liability in the subsequent fiscal year.

Amortization of Pension-Related Deferred Outflows/Inflows of Resources

(In thousands)

Year ended January 31,	
2020	\$ (3,644)
2021	(9,718)
2022	(37,307)
2023	(15,433)
2024	9,279
Thereafter	11,943
Total	<u>\$ (44,880)</u>

10. Other Postemployment Benefits

Plan Descriptions – The Company provides certain health and welfare benefits for active and retired employees through the CPS Energy Group Health, Group Life Insurance and Long-Term Disability Income Plans (collectively, "Employee Benefit Plans"). CPS Energy employees and their dependents may elect to participate in the plans and most employees continue eligibility upon retirement from the Company. Disclosures included in this footnote are limited to information related only to those benefits provided on a postemployment basis. Assets of the postemployment benefit plans are held in three separate, single-employer contributory plans:

- CPS Energy Group Health Plan (“Health Plan”)—a defined-benefit contributory group health plan that provides health, dental and vision insurance benefits;
- CPS Energy Group Life Insurance Plan (“Life Plan”)—a defined-benefit contributory plan that provides life insurance benefits; and
- CPS Energy Long-Term Disability Income Plan (“Disability Plan”)—a defined-benefit contributory plan that provides disability income benefits.

The Employee Benefit Plans may be amended at any time by CPS Energy, acting by and through the EBOC, which includes the President & CEO, the Chief Financial Officer, and the Audit & Finance Committee of the Board.

The Employee Benefit Plans’ assets are segregated from CPS Energy’s assets and are separately managed by an Administrative Committee whose members are appointed by the EBOC. The plans report results on a calendar-year basis and issue separately audited financial statements that may be obtained by contacting Benefit Trust Administration at CPS Energy. The Employee Benefit Plans’ financial statements include certain disclosures related to CPS Energy’s net OPEB (asset) liability. However, because the financial reporting and OPEB measurement dates for the Employee Benefit Plans and CPS Energy are not aligned, the Employee Benefit Plans’ disclosures will vary from information provided by CPS Energy in this footnote and in the accompanying RSI.

Benefits Provided – The Health Plan provides health, dental and vision benefits to eligible retirees, including their enrolled dependents, and the spouse and dependent children of deceased employees. The Life Plan provides life insurance benefits and death benefits to eligible retired employees and enrolled dependents. The Disability Plan provides disability income benefits to employees as of an employee’s date of hire; however, benefits under the Plan are reduced if the employee is receiving certain other disability, retirement or welfare benefits.

The following tables present information about the Employee Benefit Plans’ participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate the net OPEB liability, as of the measurement dates, for the fiscal years ended January 31, 2019 and 2018, were:

	January 31, 2019		
	Health	Life	Disability
Active participants	2,886	2,886	2,992
Participants currently receiving benefits	-	2,268	69
Retirees receiving medical and vision	1,926	-	-
Retirees receiving dental	1,863	-	-
Total plan participants	<u>6,675</u>	<u>5,154</u>	<u>3,061</u>

	January 31, 2018		
	Health	Life	Disability
Active participants	2,886	2,886	2,992
Participants currently receiving benefits	-	2,268	69
Retirees receiving medical and vision	1,926	-	-
Retirees receiving dental	1,863	-	-
Total plan participants	<u>6,675</u>	<u>5,154</u>	<u>3,061</u>

Contributions – The funding requirements for both the plan participants and the employer are established by and may be amended by CPS Energy. Funding is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the

Company. The current policy of CPS Energy is to use each actuarial valuation as the basis for determining monthly employer contributions to the Employee Benefit Plans during the fiscal year beginning thirteen months after the valuation date. The January 1, 2017, valuation was the basis for contributions in FY 2019.

Retired employees contribute to the Health Plan in varying amounts depending upon an equity formula that considers age and years of service. Individuals who retired before February 1, 1993, contribute a base rate plus 2.25% of the difference between that amount and the aggregate rate for each year that the sum of age and service is less than 95. Those who retired on or after February 1, 1993, contribute a base rate plus a percentage of the CPS Energy contribution, based on the number of years of service, if they retire with less than 35 years.

Based on the funded status of the Health Plan, the Company made no contributions in FY 2019 and FY 2018.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the Health Plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the Health Plan on behalf of certain plan participants. These payments totaled \$1.0 million and \$0.9 million for FY 2019 and FY 2018, respectively. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*, future projected payments from the federal government have not been used to lessen total projected obligations under the Company's Health Plan.

Active employees contribute to the Life Plan at a rate of \$0.13 per \$1,000 of insurance per month on amounts in excess of \$20,000. Individuals who retired prior to February 1, 1993, contribute at a rate of \$0.13 per \$1,000 of insurance per month on amounts in excess of \$20,000 plus 2.25% of the difference between that amount and the aggregate rate for retiree coverage for each year the sum of retirement age and service is less than 95. Those who retired on or after February 1, 1993, contribute \$0.13 per \$1,000 of insurance per month on amounts in excess of \$20,000 plus a percentage of the CPS Energy contribution, based on number of years of service, if they retire with less than 35 years. Based on the funded status of the Life Plan, the Company made no contributions in FY 2019 and FY 2018.

Beginning in FY 2015, the Disability Plan has been funded by a combination of employee and employer contributions. Active employee contribution rates are determined by CPS Energy and may be adjusted on an annual basis. The Company's contributions are determined on a discretionary basis and are generally based on actuarial valuation calculations. Retired employees are not eligible to participate and therefore do not contribute to the Disability Plan. Prior to FY 2015, the Disability Plan was funded completely by CPS Energy. The Company's average contribution rate was 0.4% of covered-employee payroll in FY 2019 and 0.6% of covered-employee payroll in FY 2018.

Net OPEB (Asset) Liability – CPS Energy's net OPEB (asset) liability at January 31, 2019 and 2018, was measured as of January 31, 2018 and 2017, respectively. The total OPEB liability used to calculate the net OPEB (asset) liability was determined by actuarial valuations as of January 1, 2017, rolled forward using generally accepted actuarial procedures to the January 31, 2018 and 2017, measurement dates, respectively.

FY 2019 Changes in Net OPEB (Asset) Liability

(In thousands)

	Health	Life	Disability	Total
Total OPEB liability				
Service cost	\$ 3,376	\$ 349	\$ 516	\$ 4,241
Interest cost	17,182	3,432	473	21,087
Changes in Plan benefits	415	-	-	415
Changes in assumptions	9,657	(457)	94	9,294
Differences between expected and actual experience	-	-	-	-
Benefit payments	(12,197)	(3,813)	(1,012)	(17,022)
Net change in total OPEB liability	18,433	(489)	71	18,015
Total OPEB liability, beginning of period	234,808	47,289	6,295	288,392
Total OPEB liability, end of period	253,241	46,800	6,366	306,407
Plan fiduciary net position				
Employer contributions	-	-	(1,300)	(1,300)
Participant contributions	(7,156)	(1,000)	(265)	(8,421)
Medicare Part D payment	(998)	-	-	(998)
(Earnings) loss on Plan assets	(41,718)	(8,066)	(627)	(50,411)
Benefit payments	19,353	3,813	1,012	24,178
Administrative expense	1,346	30	18	1,394
Net change in Plan fiduciary net position	(29,173)	(5,223)	(1,162)	(35,558)
Plan fiduciary net position, beginning of period	(260,648)	(49,698)	(4,234)	(314,580)
Plan fiduciary net position, end of period	(289,821)	(54,921)	(5,396)	(350,138)
Net OPEB (asset) liability, end of period	\$ (36,580)	\$ (8,121)	\$ 970	\$ (43,731)

FY 2018 Changes in Net OPEB (Asset) Liability

(In thousands)

	Health	Life	Disability	Total
Total OPEB liability				
Service cost	\$ 3,435	\$ 336	\$ 527	\$ 4,298
Interest cost	18,176	3,256	455	21,887
Changes in Plan benefits	(19,185)	-	-	(19,185)
Changes in assumptions	-	-	-	-
Differences between expected and actual experience	475	2,378	255	3,108
Benefit payments	(14,001)	(3,469)	(974)	(18,444)
Net change in total OPEB liability	(11,100)	2,501	263	(8,336)
Total OPEB liability, beginning of period	245,908	44,788	6,032	296,728
Total OPEB liability, end of period	234,808	47,289	6,295	288,392
Plan fiduciary net position				
Employer contributions	(8,500)	-	(700)	(9,200)
Participant contributions	(6,802)	(972)	(260)	(8,034)
Medicare Part D payment	(933)	-	-	(933)
(Earnings) loss on Plan assets	(38,949)	(6,936)	(501)	(46,386)
Benefit payments	20,804	3,469	974	25,247
Administrative expense	1,621	27	15	1,663
Net change in Plan fiduciary net position	(32,759)	(4,412)	(472)	(37,643)
Plan fiduciary net position, beginning of period	(227,889)	(45,286)	(3,762)	(276,937)
Plan fiduciary net position, end of period	(260,648)	(49,698)	(4,234)	(314,580)
Net OPEB (asset) liability, end of period	\$ (25,840)	\$ (2,409)	\$ 2,061	\$ (26,188)

CPS Energy recorded \$1.0 million and \$(10.4) million in OPEB expense for the years ended January 31, 2019 and 2018, respectively.

Actuarial Assumptions – Significant actuarial assumptions used in the calculations for the January 1, 2017, actuarial valuations for FY 2019 included: (a) a rate of return on the investment of present and future assets of 7.25% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 3.0% per year for the Life and Disability Plans, (c) projected annual base salary increases for the Health Plan ranging from 3.1% to 11.6% depending on age and projected average annual salary increases of 4.54% and 4.72% for the Life and Disability Plans, respectively, and (d) overall medical and prescription cost increases projected at 7.00% for 2017, decreasing annually to 5.0%, in 2022 and thereafter. Mortality rates for retirees were based on the RP-2016 Combined Healthy, with No Collar Adjustment, Male and Female tables; with MP-2016 Mortality Improvement Scale. Mortality rates for disabled lives were based on the 1987 Commissioners Group Disabled Life Mortality Table.

The actuarial assumptions used in the January 1, 2017, valuations for amounts reported in FY 2019 were based on the results of an actuarial experience study completed in 2017 covering experience for the period January 1, 2012, through December 31, 2016.

Significant actuarial assumptions used in the calculations for the January 1, 2017, actuarial valuations for FY 2018 included: (a) a rate of return on the investment of present and future assets of 7.50% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 3.00% per year for the Life and Disability Plans, (c) projected annual base salary increases for the Health Plan ranging from 4.00% to 9.50% depending on age and projected average annual salary increases of 4.78% for the Life and Disability Plans, and (d) overall medical and prescription cost increases projected at 7.00% for 2017, decreasing annually to 5.00%, in 2022 and thereafter. Mortality rates for retirees were based on the RP-2000 Combined Healthy, with No Collar Adjustment, Projected to 2020 using Scale BB, Male and Female tables. Mortality rates for disabled lives were based on the 1987 Commissioners Group Disabled Life Mortality Table.

The actuarial assumptions used in the January 1, 2017, valuations for amounts reported in FY 2018 were based on the results of an actuarial experience study completed in 2014 covering experience for the period January 1, 2009, through December 31, 2013.

The long-term expected rate of return on OPEB plan investments was determined based on a blend of historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions, developed on a geometric basis. An economic simulation method was used in which best-estimate ranges of expected future rates of return (expected returns on Employee Benefit Plans investment expense) for each major asset class were combined using simulations that ensure the economic consistency of each individual trial, then reduced by a factor representing inflation to produce long-term expected real rates of return for each major asset class. The assumed allocation and expected real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Expected Real Rate of Return
Equities	54.5%	5.1%
Debt securities	28.5%	3.1%
Alternative investments	17.0%	5.6%
Total investments	100.0%	

Discount Rate and Healthcare Cost Trend Rates – The discount rates used to measure the total OPEB liability for FY 2019 and FY 2018 were 7.25% and 7.50%, respectively. The projection of cash flows used to determine the discount rates assumed that CPS Energy contributions will be made in a manner consistent with the current contribution practices. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on the OPEB plans investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following tables present the sensitivity of net OPEB (asset) liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total OPEB liability:

Discount Rate Sensitivity

(In thousands)

	Net OPEB (Asset) Liability at January 31, 2019			
	<u>Health</u>	<u>Life</u>	<u>Disability</u>	<u>Total</u>
<u>Discount rate</u>				
1% decrease - 6.25%	\$ (6,335)	\$ (1,665)	\$ 1,131	\$ (6,869)
Current discount rate - 7.25%	(36,580)	(8,121)	970	(43,731)
1% increase - 8.25%	(66,824)	(14,303)	819	(80,308)

	Net OPEB (Asset) Liability at January 31, 2018			
	<u>Health</u>	<u>Life</u>	<u>Disability</u>	<u>Total</u>
<u>Discount rate</u>				
1% decrease - 6.50%	\$ 2,203	\$ 4,135	\$ 2,219	\$ 8,557
Current discount rate - 7.50%	(25,840)	(2,409)	2,061	(26,188)
1% increase - 8.50%	(53,883)	(8,639)	1,911	(60,611)

The following table presents the sensitivity of net Health Plan OPEB (asset) liability calculation to a 1% increase and a 1% decrease in the healthcare cost trend rates used to measure the total Health Plan OPEB liability:

Healthcare Cost Trend Rates Sensitivity

(In thousands)

	Net Health Plan OPEB (Asset) Liability at January 31,	
	<u>2019</u>	<u>2018</u>
<u>Healthcare Cost Trend Rates</u>		
1% decrease - 6.00% decreasing to 4.00%	\$ (63,986)	\$ (51,252)
7.00% decreasing to 5.00%	(36,581)	(25,840)
1% increase - 8.00% decreasing to 6.00%	(3,849)	4,508

Plan Fiduciary Net Position – Detailed information about the OPEB plans’ fiduciary net position is available in the separately issued Employee Benefit Plans financial statements. For purposes of measuring the net OPEB (asset) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position for the Employee Benefit Plans and additions to/deductions from the Employee Benefit Plans’ fiduciary net position have been determined on the same basis as they are reported by the Employee Benefit Plans. Investments are stated at fair value. Benefit payments are recognized when due and payable in accordance with the terms of the Employee Benefit Plans.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – The following tables present information about the OPEB-related deferred outflows of resources and deferred inflows of resources for CPS Energy at January 31, 2019 and 2018:

	January 31, 2019			Total
	Health	Life	Disability	
<u>Deferred outflows of resources</u>				
Changes in assumptions	\$ 8,278	\$ -	\$ 80	\$ 8,358
Differences between expected and actual experience in the measurement of total OPEB liability	340	1,698	182	2,220
Employer’s contributions to the Plan subsequent to the measurement of total OPEB liability	-	-	1,000	1,000
Total deferred outflows of resources	<u>\$ 8,618</u>	<u>\$ 1,698</u>	<u>\$ 1,262</u>	<u>\$ 11,578</u>
<u>Deferred inflows of resources</u>				
Differences between projected and actual earnings on OPEB assets	\$ (19,416)	\$ (3,197)	\$ (149)	\$ (22,762)
Changes in assumptions	-	(392)	-	(392)
Total deferred inflows of resources	<u>\$ (19,416)</u>	<u>\$ (3,589)</u>	<u>\$ (149)</u>	<u>\$ (23,154)</u>

	January 31, 2018			Total
	Health	Life	Disability	
<u>Deferred outflows of resources</u>				
Differences between projected and actual earnings on OPEB assets	\$ 787	\$ 1,019	\$ 159	\$ 1,965
Differences between expected and actual experience in the measurement of total OPEB liability	408	2,038	219	2,665
Employer’s contributions to the Plan subsequent to the measurement of total OPEB liability	-	-	1,300	1,300
Total deferred outflows of resources	<u>\$ 1,195</u>	<u>\$ 3,057</u>	<u>\$ 1,678</u>	<u>\$ 5,930</u>

The following table presents the future amortization of OPEB-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the Employee Benefit Plans in the current fiscal year and subsequent to the net OPEB (asset) liability measurement date. The deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the net OPEB (asset) liability in the subsequent fiscal year.

Amortization of OPEB-Related Deferred Outflows/Inflows of Resources
(In thousands)

	Health	Life	Disability	Total
Year ended January 31,				
2019	\$ (1,001)	\$ 46	\$ 69	\$ (886)
2020	(1,985)	(191)	41	(2,135)
2021	(7,558)	(1,341)	(52)	(8,951)
2022	(3,082)	(615)	(8)	(3,705)
2023	1,448	275	50	1,773
Thereafter	1,380	(65)	13	1,328
Total	<u>\$ (10,798)</u>	<u>\$ (1,891)</u>	<u>\$ 113</u>	<u>\$ (12,576)</u>

11. Other Obligations and Risk Management

Other Liabilities – CPS Energy maintains other obligations as noted on the following tables. The relative long-term portion of these obligations compared to the total was 80.7% as of January 31, 2019, and 82.6% as of January 31, 2018.

FY 2019 Other Liabilities Rollforward
(In thousands)

	Balance Outstanding 2-1-2018	Additions During Year	Decreases During Year	Balance Outstanding 1-31-2019	Amounts Due within One Year	Noncurrent Balance Outstanding
Customer deposits	\$ 39,066	\$ 24,302	\$ (24,093)	\$ 39,275	\$ 23,625	\$ 15,650
Operating reserves	31,520	11,302	(7,122)	35,700	4,040	31,660
STP pension and OPEBs	91,436	12,308	(14,925)	88,819	-	88,819
Pollution remediation liability	2,616	2,139	(2,093)	2,662	2,004	658
Project Warm	7,797	186	(123)	7,860	-	7,860
Notes payable	2,360	7	(136)	2,231	129	2,102
Fuel hedges	6,861	20,904	(22,540)	5,225	2,220	3,005
Long-term service agreement liability	65,942	31,972	(39,783)	58,131	19,049	39,082
Other	16,187	74,463	(65,961)	24,689	-	24,689
Total other long-term liabilities	<u>\$ 263,785</u>	<u>\$ 177,583</u>	<u>\$ (176,776)</u>	<u>\$ 264,592</u>	<u>\$ 51,067</u>	<u>\$ 213,525</u>

FY 2018 Other Liabilities Rollforward
(In thousands)

	Balance Outstanding 2-1-2017	Additions During Year	Decreases During Year	Balance Outstanding 1-31-2018	Amounts Due within One Year	Noncurrent Balance Outstanding
Customer deposits	\$ 40,936	\$ 23,946	\$ (25,816)	\$ 39,066	\$ 23,309	\$ 15,757
Operating reserves	30,635	11,636	(10,751)	31,520	4,134	27,386
STP pension and OPEBs	88,850	15,001	(12,415)	91,436	-	91,436
Pollution remediation liability	3,369	1,819	(2,572)	2,616	881	1,735
Project Warm	7,742	150	(95)	7,797	-	7,797
Notes payable	2,496	8	(144)	2,360	136	2,224
Fuel hedges	12,018	5,816	(10,973)	6,861	2,698	4,163
Long-term service agreement liability	34,093	49,357	(17,508)	65,942	14,631	51,311
Other	15,321	21,164	(20,298)	16,187	130	16,057
Total other long-term liabilities	<u>\$ 235,460</u>	<u>\$ 128,897</u>	<u>\$ (100,572)</u>	<u>\$ 263,785</u>	<u>\$ 45,919</u>	<u>\$ 217,866</u>

Long-Term Service Agreements (“LTSA”) – CPS Energy has two LTSAs with General Electric, Inc. (“GE”) for two of its combined-cycle power plants, Arthur Von Rosenberg (“AVR”) and Rio Nogales.

AVR – In 2007, CPS Energy entered into a 20-year LTSA with GE to provide maintenance services and select replacement parts for the AVR power plant. In September 2015, the contract was amended primarily to add a provision for the advance purchase from GE of three new sets of Advanced Gas Path (“AGP”) parts to eventually be installed at the AVR plant.

In FY 2017, delivery was complete and title was transferred to CPS Energy for all three sets of AGP parts. AGP parts not immediately required for maintenance procedures are recorded to inventory until the installation process for each set of parts at the power plant is initiated, at which time the costs are reclassified to capital assets. The liability for the purchase, along with other LTSA payment obligations, is recorded as a liability on the Statements of Net Position.

The balance of the AVR LTSA obligation at January 31, 2019, totaled \$33.0 million of which \$2.0 million and \$31.0 million was reported as a current and noncurrent liability, respectively, on the Statements of Net Position. The balance of the AVR LTSA obligation at January 31, 2018, totaled \$34.9 million of which \$1.9 million and \$33.0 million was reported as a current and noncurrent liability, respectively.

Rio Nogales – In March 2017, the existing Rio Nogales power plant LTSA contract was amended primarily to add a provision for the advance purchase from GE of four new sets of AGP parts to eventually be installed at the power plant. At January 31, 2019, two sets of AGP parts had been delivered and are reported as noncurrent inventory.

The balance of the Rio Nogales LTSA obligation at January 31, 2019, totaled \$25.1 million of which \$17.0 million and \$8.0 million was reported as a current and noncurrent liability, respectively, on the Statements of Net Position. The balance of the Rio Nogales LTSA obligation at January 31, 2018, totaled \$31.0 million of which \$12.7 million and \$18.3 million was reported as a current and noncurrent liability, respectively.

Insurance and Reserves – CPS Energy is exposed to various risks of loss including, but not limited to, those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major risks. The property insurance program provides \$3.5 billion of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, and fire damage coverage for construction equipment and valuable

papers. The deductible for the property insurance policy is \$1.0 million for non-power plant/non-substation locations, \$2.5 million for substations and \$5.0 million for power plant locations.

The liability insurance program includes:

- \$100 million of excess general liability coverage over a retention amount of \$3 million;
- \$25 million of fiduciary liability coverage;
- \$100 million of employment practices liability coverage; and
- Other property and liability insurance coverage, which includes directors & officers, cyber insurance, commercial crime, employee travel and event insurance.

CPS Energy also manages its own workers' compensation program. To support this program, \$35 million of excess workers' compensation coverage over a retention amount of \$3 million is maintained. No claims exceeded insurance coverage and there were no decreases in coverage in FY 2019, FY 2018 or FY 2017.

Actuarial studies are performed periodically to assess the adequacy of CPS Energy insurance reserve retentions. Actuarial valuations include nonincremental claims expenses. An actuarial study was last completed in the fourth quarter of FY 2018.

In the following table, the remaining balance under the property reserve column at January 31, 2019, relates to estimated obligations for the cleanup, closure and post-closure care requirements of the Company's landfills. CPS Energy has seven landfill sites, four of which are at full capacity. The estimates for landfills, surface impoundment and ash ponds liability are based upon capacity to date and are subject to change due to inflation or deflation, as well as new developments in technology, applicable laws or regulations.

Under CPS Energy's reserve program, all claims are recorded against the reserve, which is a component of operating reserves presented on the preceding tables describing Other Liabilities.

FY 2018 and FY 2019 Reserve Rollforward

(In thousands)

	Employee & Public Liability Claims	Property Reserves	Total
Balance – FY 2017	\$ 22,097	\$ 6,735	\$ 28,832
Payments	(5,869)	-	(5,869)
Other claims adjustments	4,589	1,873	6,462
Balance – FY 2018	20,817	8,608	29,425
Payments	(6,383)	-	(6,383)
Other claims adjustments	6,369	2,915	9,284
Balance – FY 2019	<u><u>\$ 20,803</u></u>	<u><u>\$ 11,523</u></u>	<u><u>\$ 32,326</u></u>

Counterparty Risk – CPS Energy is exposed to counterparty risk associated with various transactions primarily related to debt, investments, fuel hedging, suppliers and wholesale power. Counterparty risk is the risk that a counterparty will fail to meet its obligations in accordance with the terms and conditions of its contract with CPS Energy. CPS Energy has policies and practices in place to ensure the solvency of counterparties is assessed accurately, monitored regularly and managed actively through its Enterprise Risk Management & Solutions Division.

12. Other Financial Instruments

Fuel Hedging – The 1999 Texas utility deregulation legislation, Senate Bill 7, contains provisions modifying the PFIA to allow municipal utilities the ability to purchase and sell energy-related derivative instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil and electric energy. In 2002, CPS Energy began hedging its exposure to changes in natural gas prices, with the goal of controlling fuel costs to native load customers and stabilizing the expected cash flows associated with wholesale power transactions.

CPS Energy reports its derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses recognition, measurement and disclosures related to derivative instruments. CPS Energy does not use derivative instruments for speculative purposes. The only derivative instruments entered into are for the purposes of risk mitigation; therefore, these instruments are considered potential hedging derivative instruments under GASB Statement No. 53.

On December 17, 2018, the Board reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. The essential goal of the Energy Price Risk Management Policy is to provide a framework for the operation of a fuel and energy price hedging program to better manage CPS Energy's risk exposure in order to stabilize pricing and costs for the benefit of CPS Energy and its customers.

In accordance with the requirements of GASB Statement No. 53, all fuel hedges are reported on the Statements of Net Position at fair value. The fair value of option contracts is determined using a Black Scholes pricing model based on the New York Mercantile Exchange ("NYMEX") closing futures prices as of the last day of the reporting period. For fixed-price contracts, the fair value is calculated by deriving the difference between the closing futures prices on the last day of the reporting period and the futures or basis swap purchase prices at the time the positions were established. See additional disclosures regarding fuel hedge fair values at Note 13 – Fair Value Measurement.

All hedging derivative instruments were evaluated for effectiveness at January 31, 2019 and 2018. As of January 31, 2018, the instruments were categorized into two broad groups for the purposes of this testing. In Category One, hedges utilize natural gas forwards and options that are priced based on the underlying Henry Hub natural gas price, while the physical gas is typically purchased at prices based on either the Western Area Hub Association ("WAHA") or the Houston Ship Channel ("HSC"). Therefore, effectiveness testing was based on the extent of correlation between the first of the month index prices of natural gas at each of these locations and the settlement price at Henry Hub. The correlation coefficient was established as the critical term to be evaluated, with 0.8944 established as the minimum standard.

In Category Two, hedges utilize both Henry Hub based natural gas forwards and locational basis swaps to the appropriate natural gas hub (WAHA or HSC) with volumes matching the underlying expected physical transaction. Considering the substantive characteristics of these hedge transactions, these instruments were tested for effectiveness utilizing the consistent critical terms method prescribed under GASB Statement No. 53.

As of January 31, 2019, as a result of changes in WAHA market conditions and a deterioration in the related WAHA correlation test, the hedge instruments were categorized into three broad groups for the purposes of testing. In Category One, hedges utilize natural gas forwards and options that are priced based on the underlying Henry Hub natural gas price, while the physical gas was purchased at the HSC. Therefore, effectiveness testing was based on the extent of correlation between the first of the month index prices of natural gas at this location and the settlement price at Henry Hub. The correlation coefficient was

established as the critical term to be evaluated, with 0.8944 established as the minimum standard. The testing demonstrated a substantial offset in the fair values, as evidenced by the calculated R value, 0.9822, indicating that the changes in cash flows of the derivative instruments substantially offset the changes in cash flows of the hedgeable item. Additionally, the substantive characteristics of the hedge have been considered, and the evaluation of this effectiveness measure has been sufficiently completed and documented such that a different evaluator, using the same method and assumptions, would reach substantially similar results.

In Category Two, hedges utilize both Henry Hub based natural gas forwards and locational basis swaps to the appropriate natural gas hub (WAHA or HSC) with volumes matching the underlying expected physical transaction. Considering the substantive characteristics of these hedge transactions, these instruments were tested for effectiveness utilizing the consistent critical terms method prescribed under GASB Statement No. 53.

The introduction of Category Three became necessary as fundamentals of the WAHA market changed over the last year. In response to these changes, certain forward hedge positions were modified to include WAHA basis swaps. These modified hedge positions utilize the regression analysis method prescribed under GASB Statement No. 53 when a change in market conditions exist, which establishes the following three critical regression analysis terms to be evaluated: the R-squared must be at least 0.80, the slope must be between -0.80 and -1.25, and the F-statistic must demonstrate that the model is significant using a 95 percent confidence interval. The testing demonstrated a substantial offset in fair values, as evidenced by the calculated critical terms. Tests were performed for call and put options separately, regressing each against the WAHA natural gas forward price. The R-squared values were 0.94 and 0.93, respectively; the slopes were -0.94 and -0.91, respectively; and the F-statistic values were 1.0603 and 1.1224, respectively, which are both below the F Critical one-tail table value of 1.7721 at the 95 percent confidence interval, demonstrating model significance. Collectively, this regression test indicates that the changes in cash flows of the derivative instruments substantially offset the changes in cash flows of the hedgeable item.

As of January 31, 2019, the total fair value of outstanding hedge instruments was a net liability of \$1.6 million. Fuel hedging instruments with a fair value of \$1.7 million and \$(1.7) million are classified on the Statements of Net Position as a component of current assets and current accounts payable and accrued liabilities, respectively. Long-term fuel hedging instruments with a fair value of \$1.3 million and \$(2.9) million are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

As of January 31, 2018, the total fair value of outstanding hedge instruments was a net liability of \$1.9 million. Fuel hedging instruments with a fair value of \$2.9 million and \$(2.7) million are classified on the Statements of Net Position as a component of current assets and current accounts payable and accrued liabilities, respectively. Long-term fuel hedging instruments with a fair value of \$2.0 million and \$(4.1) million are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

In FY 2018, as a result of revisions to the expected volumes of some underlying wholesale physical transactions, it was determined that a group of existing financial hedge positions in this category were no longer effective. Offsetting financial positions were executed and fair value of the ineffective hedges resulted in a loss totaling \$.08 million, which was recognized as a reduction in investment income. All other hedging derivative instruments in both effectiveness testing categories were determined to be effective in substantially offsetting the changes in cash flows of the hedgeable items at January 31, 2018.

Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred outflows or deferred inflows of resources on the statements of net position until the contract

expiration that occurs in conjunction with the hedged expected fuel purchase transaction. When fuel hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel expense. The deferred outflows of resources related to fuel hedges totaled \$4.6 million and \$5.9 million at January 31, 2019 and 2018, respectively. The deferred inflows of resources related to fuel hedges totaled \$0.3 million and \$1.9 million at January 31, 2019 and 2018, respectively.

Following is information related to CPS Energy's outstanding fuel hedging derivative instruments:

Fuel Derivative Transactions as of January 31, 2019

(Dollars in thousands)

Type of Transaction	Referenced Index	Duration	Volumes (MMBtu)	Fair Value	FY 2019 Change in Fair Value
Long Natural Gas Swap	Henry Hub	Feb 2019 through Dec 2022	26,702,285	\$ (2,155)	\$ (1,937)
Short Natural Gas Swap	Henry Hub	Feb 2019 through Dec 2022	3,279,023	185	363
Long Natural Gas Call Option	Henry Hub	Feb 2019 through Jan 2022	30,961,179	1,253	(2,532)
Short Natural Gas Call Option	Henry Hub	Jan 2020	1,000	-	2
Long Natural Gas Put Option	Henry Hub	Jan 2020	1,000	-	(1)
Short Natural Gas Put Option	Henry Hub	Feb 2019 through Jan 2022	30,961,179	(815)	1,892
Long HSC Basis Swap	Henry Hub	Feb 2019 through Dec 2022	24,808,285	719	2,625
Short HSC Basis Swap	Henry Hub	Feb 2019 through Dec 2022	1,009,023	(107)	(165)
Long HSC Gas Daily Swap	Henry Hub	Feb 2019	784,000	(27)	-
Long WAHA Basis Swap	Henry Hub	Mar 2019 through Jan 2022	23,506,317	(603)	(502)
Long WAHA Gas Daily Swap	Henry Hub	Feb 2019	378,000	(14)	4
				<u>\$ (1,564)</u>	<u>\$ (251)</u>

Fuel Derivative Transactions as of January 31, 2018

(Dollars in thousands)

Type of Transaction	Referenced Index	Duration	Volumes (MMBtu)	Fair Value	FY 2018 Change in Fair Value
Long Natural Gas Swap	Henry Hub	Feb 2018 through Dec 2022	29,916,034	\$ (218)	\$ 5,234
Short Natural Gas Swap	Henry Hub	Feb 2018 through Dec 2022	3,793,245	(178)	23
Long Natural Gas Call Option	Henry Hub	Feb 2018 through Jan 2021	26,375,251	2,599	(3,811)
Short Natural Gas Call Option	Henry Hub	Nov 2018 through Jan 2020	23,218	(2)	5
Long Natural Gas Put Option	Henry Hub	Nov 2018 through Jan 2020	23,218	1	(3)
Short Natural Gas Put Option	Henry Hub	Feb 2018 through Jan 2021	26,320,251	(2,151)	1,981
Long HSC Basis Swap	Henry Hub	Feb 2018 through Dec 2022	23,269,064	(1,906)	144
Short HSC Basis Swap	Henry Hub	Mar 2018 through Dec 2022	1,545,681	58	(212)
Long HSC Gas Daily Swap	Henry Hub	Feb 2018 through Sep 2018	3,252,000	(27)	(22)
Long WAHA Basis Swap	Henry Hub	Apr 2018 through May 2018	1,525,000	(101)	(101)
Long WAHA Gas Daily Swap	Henry Hub	Feb 2018 through Feb 2018	350,000	(18)	(13)
				<u>\$ (1,943)</u>	<u>\$ 3,225</u>

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established and options are sold, premiums are received and an obligation to honor the terms of the option contract, if exercised, is created. The decision to exercise the options or let them expire rests with the purchasing party.

Futures contracts represent a firm obligation to buy or sell the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy or sell the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. Only if expressly requested in advance, may an exchange for physical assets take place.

Credit Risk – CPS Energy executes over-the-counter hedge transactions directly with approved counterparties. These counterparties are generally highly rated entities that are leaders in their respective industries. CPS Energy monitors the creditworthiness of these entities on a daily basis and

manages the resulting financial exposure via a third-party, vertically integrated risk system. Contractual terms with each existing counterparty vary, but each is structured so that, should the counterparty's credit rating fall below investment grade, no unsecured credit would be granted and the counterparty would be required to post collateral for any calculated credit exposure. In the event of default or nonperformance by counterparties, brokers or NYMEX, the operations of CPS Energy could be materially affected. However, CPS Energy does not expect these entities to fail to meet their obligations given the level of their credit ratings and the monitoring procedures in place with which to manage this risk. As of January 31, 2019, the exposure to all hedge-related counterparties was such that no material counterparty credit risk existed.

Termination Risk – For CPS Energy's fuel hedges that are executed over the counter directly with approved counterparties, the possibility exists that one or more of these derivative instruments may end earlier than expected, thereby depriving CPS Energy of the protection from the underlying risk that was being hedged or potentially requiring CPS Energy to make a significant termination payment. This termination payment between CPS Energy and its counterparty is determined based on current market prices. In the event a transaction is terminated early, CPS Energy would likely be able to replace the transaction at current market prices with similar, although not exact, terms with one of its other approved counterparties.

Basis Risk – The Company is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will be priced based on a pricing point (HSC or WAHA) different than which the contracts are expected to settle (Henry Hub). For January 2019, the HSC price was \$3.75 per MMBtu, the WAHA price was \$1.54 per MMBtu and the Henry Hub price was \$3.64 per MMBtu.

Congestion Revenue Rights – In the normal course of business, CPS Energy acquires Preassigned Congestion Revenue Rights ("PCRRs") and Congestion Revenue Rights ("CRRs") as a hedge against congestion costs. The CRRs are purchased at semi-annual and monthly auctions at market value. Non-Opt-In Entities are granted the right to purchase PCRRs annually at a percentage of the cost of CRRs. While PCRRs exhibit the three characteristics of derivatives as defined in GASB Statement No. 53, they are generally used by CPS Energy as factors in the cost of transmission. Therefore, these PCRRs meet the normal purchases and sales scope exception and are thus reported on the Statements of Net Position at cost and classified as prepayments. From time to time, the Company purchases PCRRs and sells them at the same auction at market price. In this case, the PCRRs are considered investments and the proceeds are reported as either investment gains or losses. There were no gains or losses on the sale of PCRRs and CRRs for FY 2019 and FY 2018.

13. Fair Value Measurement

CPS Energy records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Fair value is defined in GASB Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

As a basis for considering market participant assumptions in fair value measurements, GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities and U.S. Government Treasury securities are examples of Level 1 inputs.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Government agency and mortgage-backed securities are examples of Level 2 inputs.
- Level 3 inputs are unobservable inputs that reflect CPS Energy's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

Valuation methods of the primary fair value measurements disclosed below are as follows:

- The majority of investments in equity securities are valued using Level 1 measurements. Investments in equity securities are typically valued at the closing price in the principal active market. For equity securities, these markets include published exchanges such as the National Association of Securities Dealers Automated Quotations and the New York Stock Exchange. Foreign equity prices are translated from their trading currency using the currency exchange rate in effect at the close of the principal active market.
- Most investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.
- Commodity derivatives, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using Level 1 inputs. Options included in this category are those with an identical strike price quoted through a clearinghouse.
- Other commodity derivatives, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on internally developed pricing algorithms using observable market quotes for similar derivatives. Pricing inputs are derived from published exchange transactions and other observable data sources.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

CPS Energy's fair value measurements are performed on a recurring basis. The table on the following page presents fair value balances and their levels within the fair value hierarchy for CPS Energy as of January 31, 2019 and 2018, and Decommissioning Trusts investment balances as of December 31, 2018 and 2017. The CPS Energy and Decommissioning Trusts investment balances presented exclude amounts related to money market mutual fund investments and short-term investments accounted for using amortized cost.

Fair Value Measurements as of January 31, 2019 and 2018

(In thousands)

	January 31, 2019				January 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Fair Value Investments								
<u>CPS Energy</u>								
U.S. Treasuries	\$ 27,574	\$ -	\$ -	\$ 27,574	\$ 27,472	\$ -	\$ -	\$ 27,472
U.S. Agencies								
Federal Agricultural Mortgage Corp	-	24,891	-	24,891	-	24,813	-	24,813
Federal Farm Credit Bank	-	95,665	-	95,665	-	97,858	-	97,858
Federal Home Loan Bank	-	92,478	-	92,478	-	98,372	-	98,372
Federal Home Loan Mortgage Corp	-	137,067	-	137,067	-	105,793	-	105,793
Federal National Mortgage Assn	-	126,504	-	126,504	-	118,673	-	118,673
Small Business Administration	-	22,196	-	22,196	-	32,382	-	32,382
Municipal bonds	-	134,567	-	134,567	-	151,728	-	151,728
Total CPS Energy fair value investments	27,574	633,368	-	660,942	27,472	629,619	-	657,091
<u>Decommissioning Trusts Investments</u>								
<u>28% Trust</u>								
U.S. Treasuries	49,303	-	-	49,303	47,860	-	-	47,860
U.S. Agencies								
Federal Farm Credit Bank	-	-	-	-	-	5,656	-	5,656
Federal Home Loan Mortgage Corp	-	41,657	-	41,657	-	44,956	-	44,956
Federal National Mortgage Assn	-	34,554	-	34,554	-	32,435	-	32,435
Government National Mortgage Assn	-	4,577	-	4,577	-	2,699	-	2,699
Small Business Administration	-	4,597	-	4,597	-	3,995	-	3,995
Municipal bonds - Texas	-	1,054	-	1,054	-	1,228	-	1,228
Municipal bonds - other states	-	6,200	-	6,200	-	6,599	-	6,599
Corporate bonds	-	98,313	-	98,313	-	96,019	-	96,019
Foreign bonds	-	10,264	-	10,264	-	8,905	-	8,905
Total 28% Trust fair value fixed-income income portfolio	49,303	201,216	-	250,519	47,860	202,492	-	250,352
Equity securities								
Common stock	108,210	-	-	108,210	120,803	-	-	120,803
Real estate investment trusts	36,065	-	-	36,065	40,416	-	-	40,416
Preferred stock	-	714	-	714	-	742	-	742
Total 28% Trust fair value investments	193,578	201,930	-	395,508	209,079	203,234	-	412,313
<u>12% Trust</u>								
U.S. Treasuries	17,920	-	-	17,920	15,563	-	-	15,563
U.S. Agencies								
Federal Farm Credit Bank	-	475	-	475	-	4,388	-	4,388
Federal Home Loan Mortgage Corp	-	16,299	-	16,299	-	14,726	-	14,726
Federal National Mortgage Assn	-	11,204	-	11,204	-	10,315	-	10,315
Government National Mortgage Assn	-	2,585	-	2,585	-	1,284	-	1,284
Small Business Administration	-	2,066	-	2,066	-	1,587	-	1,587
Municipal bonds - Texas	-	470	-	470	-	502	-	502
Municipal bonds - other states	-	2,439	-	2,439	-	2,000	-	2,000
Corporate bonds	-	40,183	-	40,183	-	34,073	-	34,073
Foreign bonds	-	2,315	-	2,315	-	2,052	-	2,052
Total 12% Trust fair value fixed-income income portfolio	17,920	78,036	-	95,956	15,563	70,927	-	86,490
Equity securities								
Common stock	36,263	-	-	36,263	48,334	-	-	48,334
Real estate investment trusts	12,737	-	-	12,737	14,439	-	-	14,439
Total 12% Trust fair value investments	66,920	78,036	-	144,956	78,336	70,927	-	149,263
Total Trusts fair value investments	260,498	279,966	-	540,464	287,415	274,161	-	561,576
Total fair value investments	\$ 288,072	\$ 913,334	\$ -	\$ 1,201,406	\$ 314,887	\$ 903,780	\$ -	\$ 1,218,667
Financial Instruments								
<u>Assets</u>								
Current fuel hedges	\$ 805	\$ 657	\$ -	\$ 1,462	\$ 2,363	\$ 729	\$ -	\$ 3,092
Noncurrent fuel hedges	868	654	-	1,522	287	1,708	-	1,995
Total financial instruments - Assets	\$ 1,673	\$ 1,311	\$ -	\$ 2,984	\$ 2,650	\$ 2,437	\$ -	\$ 5,087
<u>Liabilities</u>								
<u>Financial Instruments</u>								
Current fuel hedges	\$ (1,032)	\$ (331)	\$ -	\$ (1,363)	\$ (2,239)	\$ (627)	\$ -	\$ (2,866)
Noncurrent fuel hedges	(2,679)	(506)	-	(3,185)	(2,654)	(1,510)	-	(4,164)
Total financial instruments - (Liabilities)	\$ (3,711)	\$ (837)	\$ -	\$ (4,548)	\$ (4,893)	\$ (2,137)	\$ -	\$ (7,030)
Total financial instruments	\$ (2,038)	\$ 474	\$ -	\$ (1,564)	\$ (2,243)	\$ 300	\$ -	\$ (1,943)

14. South Texas Project

Units 1 and 2 – CPS Energy is one of three participant owners of STP, a two-unit nuclear power plant with each unit having a nominal output of approximately 1,330 MW. The other owners in STP Units 1 and 2 are NRG and the City of Austin. The units, along with their support facilities and administrative offices, are located on a 12,220-acre site in Matagorda County, Texas. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS Energy's 40% ownership in STP Units 1 and 2 represents approximately 1,064 MW of total plant capacity.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, STPNOC, a Texas nonprofit, nonmember corporation created by the owners, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. STPNOC is financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs STPNOC, with each owner appointing one member to serve with STPNOC's chief executive officer.

Units 1 and 2 Licenses Renewed – In September 2017, the NRC approved STPNOC's license renewal applications for STP Units 1 and 2, which extends the operating licenses to 2047 and 2048, respectively.

Suspension of Used Nuclear Fuel Fee – Under the Nuclear Waste Policy Act ("NWSA"), the DOE has an obligation to provide for the permanent disposal of high-level radioactive waste, which includes used nuclear fuel at U.S. commercial nuclear power plants such as STP. To fund that obligation, all owners or operators of commercial nuclear power plants entered into a standard contract under which the owners paid a fee to the DOE based on the amount of electricity generated and sold from the power plant, along with additional assessments. In exchange for collecting this fee and the assessments, the 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. The National Association of Regulatory Utility Commissioners ("NARUC") challenged further collection of this fee; and on November 19, 2013, the Court ruled in favor of NARUC and ordered the DOE to submit to the U.S. Congress a proposal to reduce the fee to zero until certain conditions are met. While the reporting to the DOE of used nuclear fuel volumes will continue, effective May 16, 2014, the rate was reduced to zero.

DOE Settlement and Dry Cask Storage Project – Multiple cases have been filed in the U.S. Court of Federal Claims by the existing owners or operators of nuclear facilities against the DOE related to its failure to meet its obligations under the NWSA. The owners/operators were seeking damages related to ongoing used nuclear fuel storage costs incurred because the DOE did not meet its obligation. On August 31, 2000, in *Maine Yankee Atomic Power Company, et al. v. United States*, the U.S. Court of Appeals for the Federal Circuit affirmed that the DOE had breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, the DOE 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 February 2013, STPNOC, on behalf of the owners of STP, entered into a similar settlement with the DOE. Under the terms of the settlement, the DOE reimbursed STP for certain costs incurred in continuing onsite storage of all of its used nuclear fuel through December 2013. A settlement extension, executed on January 24, 2014, extended the term of the Spent Fuel Settlement Agreement with the DOE through December 31, 2016. In the most recent settlement agreement dated March 15, 2017, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through December 31, 2019. Pursuant to STPNOC's analysis of NRC guidance, STPNOC recently completed

building an on-site independent spent fuel storage installation ("ISFSI" or the "Dry Cask Storage Project") and the ISFSI commenced operations in January 2019.

Ongoing costs for the spent fuel management project are being funded by the STP owners as expenditures are incurred. CPS Energy requests reimbursement periodically from its Decommissioning Trusts for the Company's portion of allowable costs. 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. In turn, the settlement amount received from the DOE by CPS Energy is reimbursable to the Trusts. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Trusts. Any costs not reimbursable by the DOE or the Trusts are recorded as an O&M expense or capital costs.

Post-Fukushima Recommendations – On March 11, 2011, a region of Japan sustained significant loss of life and destruction as a result of a major earthquake and resulting tsunami. Following the incident, the NRC convened a Near-Term Task Force to conduct a review of the Commission's processes and regulations in light of the events at Fukushima. The Near-Term Task Force's 90-day report confirmed the safety of U.S. nuclear power plants and included twelve recommendations to the NRC to enhance readiness to safely manage severe events. The NRC Commissioners directed the staff to implement several of the recommendations that were identified as those that should be implemented without unnecessary delay. In addition, the Commissioners directed the staff to identify the schedule and resource needs associated with those Near-Term Task Force recommendations that were identified as long-term actions and/or that require additional staff study to inform potential regulatory changes. On March 12, 2012, the NRC issued three Orders and one Request for Information letter. These actions represented the first regulatory activity initiated as a result of the lessons learned from the events at Fukushima. The Orders outlined actions that must be taken and also provided a compliance deadline. License holders were to complete the actions within two refueling outages or by December 31, 2016, whichever came first. To date, STPNOC has submitted the requested information and complied with the NRC Orders in a timely manner on all deadlines that have come due.

Unit 1 Control Rod D6 Issue – On November 18, 2015, STP Unit 1 Shutdown Bank Control Rod D6 was determined to be inoperable following a scheduled refueling and maintenance outage. In December 2016, STP received notification from the NRC that Unit 1 Control Rod D6 License Amendment Request ("LAR") had been approved. The approved LAR permanently changes the Unit 1 Technical Specifications to reflect future operations without Shutdown Bank Control Rod D6. The approved changes were implemented during the spring 2017 Unit 1 refueling outage.

NRC Violations – On February 9, 2017, STPNOC received a final significance determination notice from the NRC that concluded a previously identified security-related finding was Greater than Green and of low to moderate significance. The finding was identified during an NRC inspection conducted from October 19 through December 1, 2016. STPNOC took prompt action to address the finding. Beginning February 16, 2017, the NRC webpage reflected STP Units 1 and 2 in the Regulatory Response column of the Reactor Oversight Process ("ROP") Action Matrix. In August 2017, STP successfully completed an NRC Inspection (95001) and in September 2017, the NRC determined that the actions taken by STPNOC were effective in identifying and correcting the cause and returned STP to the Licensee Response column of the NRC ROP effective October 2017.

On June 24, 2017, STPNOC informed the Owners that they had received NRC notification regarding two proposed apparent violations related to an Office of Investigation ("OI") review into its Fire Watch Program. The two proposed violations were both based on results of the OI investigation into apparent willful violations involving the Fire Marshall during the 2014 – 2015 timeframe. Both violations are related to the falsification of Fire Watch records, whereby the Fire Marshall failed to provide complete

and accurate information. Following an internal STP investigation into the Fire Watch Program in 2015, the Fire Marshall was terminated.

The NRC assessed these issues under the Traditional Enforcement program and recommended Severity Level 3 for these apparent violations because they involved supervisory personnel. For reference, Severity Level 4 violations are the lowest level of significance, with Severity Level 1 infractions being the most severe.

On June 29, 2017, STPNOC received a letter from the NRC that includes options of response. In response, STP documented in its corrective action program the reasons for the violations and the actions taken to address the issue. The NRC has noted that STP has already taken significant actions to address the Fire Marshall issue.

In late August 2017, the NRC upheld their recommendation and assigned Severity Level 3 to the violations under the Traditional Enforcement program. The NRC noted to STPNOC that civil penalty could have been assessed for these violations but the NRC considered STP's significant actions to address the issues and terminate the employment of the Fire Marshall. The NRC assigned credit for these actions and the violations were closed with no further action.

Texas Commission on Environmental Quality ("TCEQ") Violations - On January 11, 2018, STPNOC received a draft notice of enforcement letter from the TCEQ for three violations which all occurred in 2016. The violations were identified and reported by STPNOC to TCEQ and are related to STP's air quality permit. These deviations were included in STP's 2017 semi-annual report submitted to the TCEQ in February 2017.

On February 15, 2018, the TCEQ transmitted a proposed agreed order assessing a nominal administrative penalty regarding the Notice of Enforcement issued on January 11, 2018, for late reporting of the air quality permit deviation in 2016. The order acknowledges that STP submitted the report in February 2017 and did not require any additional corrective action. On June 26, 2018, the TCEQ issued a letter approving closure of the enforcement action received in January 2018 related to an air quality permit violation that occurred in 2016. The TCEQ acknowledged that corrective action was complete and the administrative penalty had been paid. No further action is required.

Units 3 and 4 Development - In September 2007, NRG and CPS Energy signed the South Texas Project Supplemental Agreement ("Supplemental Agreement") under which CPS Energy elected to participate in the development of two new nuclear units at the STP site, STP Units 3 and 4, pursuant to the terms of the participation agreement among the STP owners and agreed to potentially own up to 50% of STP Units 3 and 4. Also in September 2007, STPNOC, on behalf of CPS Energy and NRG, filed with the NRC a combined construction and operating license application ("COLA") to build and operate STP Units 3 and 4. This COLA was the first complete application for new commercial nuclear units to be filed with the NRC in nearly 30 years. On November 29, 2007, the NRC announced it had accepted the COLA for review.

On March 26, 2008, NRG announced the formation of NINA. Upon the formation of NINA, NRG had an 88.0% ownership interest in NINA, while Toshiba America Nuclear Energy Corporation ("TANE") owned the remaining 12.0%. NRG contributed its 50% ownership of, and its development rights to, STP Units 3 and 4 to NINA. As a result, NINA became CPS Energy's partner for the co-development of STP Units 3 and 4.

In June 2009, CPS Energy management provided the Board its formal assessment and recommendations concerning these options compared to other possible new generation types including the first public estimate of the cost of the first possible project at \$13 billion, inclusive of financing costs. Reports of higher cost estimates, however, resulted in reconsideration of the advisability of participating in the STP

Units 3 and 4 Project and, ultimately, in CPS Energy's decision to limit participation in further development of STP Units 3 and 4. In a settlement negotiated with NRG and the other participants in the development of STP Units 3 and 4, CPS Energy received a 7.625% ownership interest in STP Units 3 and 4. CPS Energy is not liable for any STP Units 3 and 4 project development costs incurred after January 31, 2010.

Despite the project having secured the NRC's authorization for issuance of the COL, in January 2016 the Company concluded that as a result of sustained changes in a number of environmental and economic factors directly affecting the projected economic feasibility of completing construction of STP Units 3 and 4, the project had experienced a permanent impairment. The Company determined it was appropriate to write off the entire \$391.4 million investment in STP Units 3 and 4. The impairment loss was reported as an extraordinary item on CPS Energy's Statements of Revenues, Expenses, and Changes in Net Position for the period ending January 31, 2016. This noncash transaction did not impact CPS Energy's debt service coverage ratio; however, there was a resulting increase from 61.1% to 63.7% in the debt to debt and net position ratio at January 31, 2016.

In June 2018, NINA sent a written request to the NRC to terminate the STP Units 3 and 4 COLs. The NRC approved this request on July 12, 2018, thereby terminating the COLs for STP Units 3 and 4. Effective October 1, 2018, NINA executed an Assignment Agreement and Mutual Release with the owners of STP Units 1 and 2 and NINA Units 3 and 4. This agreement returns ownership of the STP Units 3 and 4 assets, including rights for future expansion, to the STP Units 1 and 2 owners and essentially restores the site ownership arrangement to pre-2006 terms.

See Note 4 – Capital Assets, Net for more information about CPS Energy's capital investment in STP.

Nuclear Insurance – STP maintains required insurance coverage pursuant to the Price-Anderson Act, providing limitations on liability and governmental indemnities with respect to nuclear incidents. Pursuant to the Price-Anderson Act, effective November 1, 2018, the maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$138 million, taking into account a 5% adjustment for administrative fees and subject to adjustment for inflation every 5 years, for the number of operating nuclear units and for each licensed reactor, payable at \$20 million per year per reactor for each nuclear incident. CPS Energy and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests. For purposes of these assessments, STP currently has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC in accordance with the financial protection requirements of the Price-Anderson Act. A nuclear liability policy, with a maximum limit of \$450 million for the nuclear industry as a whole, provides protection from nuclear-related claims. A Master Worker Certificate policy, also with a maximum limit of \$450 million for the nuclear industry as a whole, provides protection from radiation tort claims of workers at nuclear facilities.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of approximately \$1.1 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP Units 1 and 2 currently maintain nuclear property insurance at or above the legally required amount. The nuclear property insurance consists of primary property damage insurance and excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited ("NEIL"). A retrospective assessment could occur if property losses,

as a result of an accident at any nuclear plant insured by NEIL, exceed the accumulated funds available to NEIL. CPS Energy also maintains accidental outage insurance through STP's NEIL membership that provides weekly indemnity payments for an insured property loss subject to an applied deductible period.

Nuclear Decommissioning – In 1991, CPS Energy started accumulating funds for decommissioning of its 28% ownership in STP Units 1 and 2 in an external trust in accordance with NRC regulations. The 28% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excess or deficient funds related to the 28% Trust will be distributed to or received from CPS Energy's ratepayers after decommissioning is complete.

In conjunction with the acquisition of the additional 12% interest in STP Units 1 and 2 in May 2005, the Company also assumed control of a relative portion of the decommissioning trust previously established by the prior owner, American Electric Power ("AEP"). The 12% Decommissioning Trust's assets and related liabilities are also included in CPS Energy's financial statements as a component unit. Subject to PUCT approval as may be requested in the future, excess or deficient funds related to the 12% Trust will be distributed to or received from AEP's ratepayers after decommissioning is complete.

CPS Energy, together with the other owners of STP Units 1 and 2, files a certificate of financial assurance with the NRC for the decommissioning of the nuclear power plant every two years or upon transfer of ownership. The certificate assures that CPS Energy and the other owners meet the minimum decommissioning funding requirements mandated by the NRC. The owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically.

In FY 2009, CPS Energy determined that some preshutdown decommissioning and spent fuel management activities would be required prior to shutdown of STP Units 1 and 2. As a result, separate trust accounts were created to pay for preshutdown decommissioning activities. Additionally, funds in the Trusts applicable to spent fuel management were transferred to separate spent fuel management accounts so that they were not commingled with funds allocable to preshutdown or postshutdown decommissioning costs. Based on projected costs, the spent fuel management accounts are currently fully funded; therefore, no contributions were made to these accounts in FY 2019 or FY 2018. In FY 2019 and FY 2018, no contributions were made to fund preshutdown decommissioning costs for CPS Energy's 28% ownership in STP. No preshutdown decommissioning expenses were incurred for the 28% ownership in calendar years 2018 or 2017. For the 12% Trust, preshutdown costs were funded by AEP's ratepayers. The 12% Trust incurred no preshutdown decommissioning expenses in the calendar years 2018 or 2017.

The most recent cost study, which was finalized in May 2018, estimated decommissioning costs for the 28% ownership in STP Units 1 and 2 at \$694.1 million and \$297.5 million for the 12% ownership in STP Units 1 and 2 in 2018 dollars. Included in the cost study was a 10% contingency component as required to comply with the PUCT. Based on the level of funds accumulated in the 28% Trust and an analysis of this cost study, the Company determined that no further decommissioning contributions will be required to be deposited into the Trust.

As of December 31, 2018 and 2017, CPS Energy had accumulated \$414.8 million and \$431.9 million, respectively, in the 28% Trust. Total funds are allocated to decommissioning costs, preshutdown decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC as of December 31, 2018, the 28% Trust funds allocated to decommissioning costs totaled \$264.1 million, which exceeded the calculated financial assurance amount of \$111.2 million.

As of December 31, 2018 and 2017, \$152.9 million and \$157.5 million, respectively, had been accumulated in the 12% Trust. Total funds are allocated to decommissioning costs, preshutdown decommissioning costs, spent fuel management and site restoration. Based on the most recent annual

calculation of financial assurance required by the NRC as of December 31, 2018, the 12% Trust funds allocated to decommissioning costs totaled \$105.5 million, which exceeded the calculated financial assurance amount of \$47.7 million.

CPS Energy adopted GASB Statement No. 83 during FY 2019 and concurrently restated its prior fiscal year financial statements to reflect the effects for all periods presented. Implementation of the new guidance resulted in a change in accounting for the decommissioning liability related to STP Units 1 and 2. The Company accounts for decommissioning by recognizing its pro rata share of an ARO based on the best estimate of the current values of outlays expected to be incurred, determined by the most recent cost study. A new cost study is performed every 5 years; in years subsequent to the latest study, the statement requires the current value of the Company's ARO be adjusted for the effects of inflation or deflation, at least annually. In addition to the ARO, the Company has recorded a deferred outflow of resources that is being amortized over the remaining useful life of the plant which is calculated assuming the longer total plant life due to the license extensions approved in FY 2018. Restatement for the ARO resulted in a change in the calculation of decommissioning expense reflected in the Statements of Revenues, Expenses and Changes in Net Position, which is now based on the amortization of the deferred outflow.

Both Decommissioning Trusts also have separate calendar-year financial statements, which are separately audited and can be obtained by contacting the Controller at CPS Energy.

STP Pension Plans and Other Post-retirement Benefits – STPNOC maintains several pension and other post-retirement benefit plans covering most employees, including a noncontributory defined-benefit pension plan, defined-benefit post-retirement plan, supplementary nonqualified unfunded pension plan, supplemental retirement plan, deferred compensation program and a contributory savings plan. The owners of STPNOC, including CPS Energy, although not sponsors to the STPNOC plans, share in all plan costs in the same proportion as their respective ownership percentages.

The noncontributory defined-benefit pension plan covers certain employees. Effective January 1, 2007, STPNOC approved a change to the pension plan to preclude the eligibility of employees hired after December 31, 2006, in the plan. Employees hired after this date receive enhanced matching contributions under the STP Nuclear Operating Company Savings Plan.

STPNOC also maintains a defined-benefit postretirement plan that provides postretirement health and welfare benefits. As of May 1, 2014, certain STPNOC employees voted to transition STPNOC's medical plan to a Taft-Hartley multi-employer health and welfare plan. During calendar 2018, there were additional plan design changes related to the STPNOC postretirement health and welfare benefits resulting in additional employees transitioning to the Taft-Hartley multi-employer plan, therefore, reducing STPNOC's OPEB liability as of December 31, 2018. STPNOC pays monthly premiums for the benefits, to be partially funded by participating employees.

Employees whose eligible compensation exceeds the limitations established under the 1974 Employee Retirement Income Security Act, \$275 thousand for 2019 and 2018, are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligations. The accruals for the costs of that plan are based on substantially the same actuarial methods and economics as the noncontributory defined-benefit pension plan.

An unfunded supplemental retirement plan and other unfunded deferred compensation programs are maintained by STPNOC for certain key individuals.

The effect to CPS Energy of funding obligations related to the defined-benefit plans sponsored by STPNOC was \$8.1 million for FY 2019 and was reflected as a decrease in Other Changes in Net Position on the Statements of Revenues, Expenses and Changes in Net Position. For FY 2018, the effect of the defined benefit obligations was \$10.6 million and was reflected as a decrease in Other Changes in Net Position on the Statements of Revenues, Expenses and Changes in Net Position.

15. Commitments and Contingencies

Purchase and construction commitments approximated \$6,632.6 million at January 31, 2019. This amount includes construction commitments, provisions for coal purchases through December 2021 and natural gas purchases through June 2027; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for wind power through 2038, solar power through 2044, landfill power through 2029, and raw uranium associated with STP fabrication and conversion services needed for refueling through 2026.

On January 20, 2009, the Board approved a policy statement affirming that CPS Energy's strategic direction centers on transforming from a company focused on providing low-cost power from traditional generation sources to a company providing competitively priced power from a variety of sources, including low and non-carbon emitting sources. To be sustainable, CPS Energy has to balance its financial viability, environmental commitments and social responsibility as a community-owned provider.

In FY 2008, CPS Energy entered into a Natural Gas Supply Agreement with the SA Energy Acquisition Public Facility Corporation ("PFC"), a component unit of the City, to purchase, to the extent of its gas utility requirements, all natural gas to be delivered under a Prepaid Natural Gas Sales Agreement. Under the Prepaid Natural Gas Sales Agreement between the PFC and a third-party gas supplier, the PFC prepaid the cost of a specified supply of natural gas to be delivered over 20 years.

On February 25, 2013, the PFC executed certain amendments to the Prepaid Natural Gas Sales Agreement entered into with J. Aron in 2007 and other related documents with respect to the 2007 prepayment transaction with J. Aron. Under the resolution and the amendments, Goldman, Sachs & Co. surrendered for cancellation \$111.1 million of the SA Energy Acquisition Public Facility Corporation Gas Supply Revenue Bonds, Series 2007 owned by J. Aron; Goldman, Sachs & Co.; or affiliates. In exchange, the PFC agreed to reduce future required natural gas delivery volumes from 104.6 million MMBtu to 81.3 million MMBtu and to adjust the notional amount of its commodities price hedge so that hedged revenue from gas sales will bear at least the same proportion to annual debt service requirements as before the transaction. In conjunction with the transaction, a portion of the savings related to the purchase of natural gas from the PFC that would have been passed on to CPS Energy's distribution gas customers over the 20-year life of the original agreement was accelerated. Distribution gas customers benefitted from the accelerated savings from March 1, 2013, through June 30, 2015. CPS Energy's 20-year commitment under the Natural Gas Supply Agreement is included in the aforementioned purchase and construction commitments amount.

On June 30, 2016, as a result of a Novation Agreement by and among The Bank of New York Mellon Trust Company, N. A. (formerly known as The Bank of New York Trust Company, N. A.), as trustee ("Trustee"), the PFC, Depfa Bank plc ("Transferor") and J. Aron & Company ("Transferee"), the Transferee assumed all of the Transferor's rights, title and interest in and to the Investment Agreement and all the duties, obligations and liabilities under the Investment Agreement (excluding any rights, obligations or liabilities of the Trustee or the Transferor prior to the Novation Effective Date). In addition, an Amended and Restated Investment Agreement was entered into to amend and restate the terms of the Investment Agreement. Consequently, a Second Supplemental Indenture to the Trust Indenture, by and between the PFC and the Trustee, was executed. The original Investment Agreement dated June 21, 2007, was replaced by the Amended and Restated Investment Agreement. 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, Sachs & Co., 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.

In FY 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority ("BDA") to upgrade the electric and gas utility systems located within Brooks City-Base. CPS Energy and BDA each committed to invest \$6.3 million (\$4.2 million in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. Annual reductions to BDA's obligation were made from incremental revenues to the City for electric and gas sales to customers that reside on the BDA-developed property. Annual reductions to BDA's obligation were also made in accordance with contract terms for economic development at Brooks City-Base that benefited CPS Energy's Systems. To date, capital renewals and upgrades of \$14.4 million have surpassed the \$12.6 million commitment. BDA has met its obligation, net of annual interest, of \$4.2 million.

In September 2010, CPS Energy and the University of Texas at San Antonio ("UTSA") entered into an agreement ("Strategic Alliance") whereby UTSA agreed to perform services for CPS Energy in support of its function as a provider of electric and gas utility services while supporting the progress of the City of San Antonio in renewable energy technologies and energy research. The Strategic Alliance calls for CPS Energy to invest up to but not exceeding \$50 million over 10 years. Investment committed through January 31, 2019, was approximately \$9.0 million from funds currently allocated to research and development. Future funding will be determined by the scope of the projects defined by the partnership and is subject to annual approval by the CPS Energy Board of Trustees. Projects will be designed to produce clear value to CPS Energy and its customers.

CPS Energy sells excess power into the wholesale market with a balanced portfolio that includes a mix of short-term (less than a month) and mid-term (one month to a year) transactions with market participants and long-term (one to five years) and super long-term (5 years or more) wholesale power agreements with other public power entities and cities. In addition to a long-standing wholesale power relationship with the city of Floresville, the Company currently has agreements to provide either full or partial requirements to six other public power entities. These agreements have varying terms expiring between December 2021 and December 2025. The volumes committed under these agreements represent approximately 5% to 7% of current capacity. The Company regularly monitors the market values of these transactions to manage contract provisions with the counterparties.

On June 20, 2011, CPS Energy announced its New Energy Economy initiative. The program is designed to focus on more clean energy sources rather than traditional energy sources and includes several major initiatives to which the Company has committed (current commitments are included in the aforementioned \$6,632.6 million):

- CPS Energy offers customers the opportunity to better manage their home's energy use through the My Thermostat Rewards program. The program gives customers access to a wide choice of programmable thermostat options. Customers benefit from better control of their home's air conditioning use and the visibility to program settings from their mobile devices. Customers in My Thermostat Rewards can choose to have a CPS Energy contractor install a free programmable thermostat in their place of residence. Alternatively, they can purchase and self-install their own thermostat from a list of qualifying devices and receive a rebate from CPS Energy. In exchange for the rebate, customers allow CPS Energy to periodically control and interrupt service to manage peak energy periods. The program is funded through STEP. As of January 31, 2019, there were 144,679 CPS Energy customers enrolled in My Thermostat Rewards.

- The Company is in the process of replacing 25,000 San Antonio streetlights with 250 Watt equivalent Light Emitting Diode (“LED”) streetlights. The streetlights use 60% less energy than standard sodium lights and are designed to last 12 to 15 years, thereby reducing maintenance costs. Approximately \$2.2 million of the deployment costs were funded through STEP, with the remainder being funded by the City. Through January 31, 2019, approximately 23,500 LED streetlights have been installed. The installation of the remaining 1,500 is currently on hold pending feedback from the City on lighting for the downtown area.

The City also requested the replacement of 30,000 residential streetlights with 100 Watt equivalent LED streetlights. The Company began this project in City Districts 2 and 5 where a total of 5,100 replacement LED lights were installed in FY 2017. A total of 4,275 were installed in FY 2018. This project with the City has been placed on hold indefinitely at their request. At this time, new lights are installed or replaced on a limited basis as requested.

LED street lights have become the standard for ongoing city-wide streetlight maintenance. As older sodium lights fail, they will be replaced with LED equivalents.

- In November 2011, the Company entered into a \$77.0 million prepaid agreement with SunEdison Inc. for purchased power equal to approximately 60% of the anticipated output from 30 MW of solar energy facilities in the San Antonio area. Subsequent to the execution of this agreement, SunEdison Inc. transferred 100% of its interest in these facilities to San Antonio Solar Holdings, LLC. A subsidiary of SunEdison continued as operator of these facilities. The unamortized balance of the prepayment was \$56.8 million and \$59.9 million at January 31, 2019 and 2018, respectively. The agreement expires in 2037, and the purchase of the balance of the output is on a pay-as-you-go basis.
- In July 2012, CPS Energy executed a Master Agreement with OCI Solar Power (“OCI”) for approximately 400 MW from seven facilities. All seven facilities became operational by the end of 2017. In addition, CPS Energy also executed two separate 25-year Purchase Power Agreements for Project Pearl and for Project Ivory for an additional 100 MW. Project Pearl became operational in October 2017, and Project Ivory, which recently sold to D.E. Shaw Renewable Investments, began commercial operation in December 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.

The table below represents the OCI solar farms facilities included in the revised 25-year power purchase agreement:

Facility	Capacity in MW	Achieved Commercial Operations
Alamo 1	40.7	December 2013
St. Hedwig (Alamo 2)	4.4	March 2014
Walzem (Alamo 3)	5.5	January 2015
Eclipse (Alamo 4)	39.6	August 2014
Helios (Alamo 5)	95.0	December 2015
Sirius 1 (Alamo 6)	110.2	March 2017
Solara (Alamo 7)	106.4	September 2016
Sirius 2 (Pearl)	50.0	October 2017
Lamesa 2 (Ivory)	50.0	December 2018
Total 25-years Power Purchase Agreements	501.8	

- In December 2013, CPS Energy, along with partners Silver Spring Networks and Landis+Gyr, began the Company's Grid Optimization project, or more commonly known as Smart Grid. In January 2018, Itron, Inc. purchased Silver Spring Networks. Silver Springs Networks will operate as a subsidiary of Itron, under the name Itron Networked Solutions, Inc. There was no change in the product or services provided. This project is providing a standards-based networking platform, advanced metering infrastructure and distribution automation solutions across CPS Energy's service territory. The completed system also facilitates wireless two-way communication between CPS Energy and its customers, allowing increased energy efficiency and offering greater customer control and savings. The targeted number of project deployments were completed in the summer of 2018, although various project closeout activities will continue through the end of the fiscal year. The estimated cost of this project is approximately \$270 million and has brought approximately 50 jobs to San Antonio as of January 31, 2019.
- Simply Solar is the trademarked name for CPS Energy's pilot solar initiatives – Roofless Solar and SolarHostSA. Roofless Solar is being offered by CPS Energy in partnership with Clean Energy Collective ("CEC"). CEC built and maintains a 1MW community 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. On June 18, 2015, CPS Energy entered into an agreement to purchase the output from the solar farm for 25 years. On December 17, 2018, CPS Energy entered into a 25-year agreement with Big Sun SA 1 ("Big Sun") to expand the Roofless Solar program by an additional 5 MW. Big Sun will be installing community solar panels on carports at commercial businesses across San Antonio. The panels will be sold to customers who then receive bill credits from CPS Energy for their share of the solar production. For the SolarHostSA program, CPS Energy partnered with PowerFin Partners to install up to 5 MW of rooftop systems on customer homes and businesses. The program provides participating customers a monthly credit for hosting the systems on their rooftops. The program makes solar accessible to more customers by eliminating the significant upfront cost of traditional rooftop systems. On August 12, 2015, CPS Energy entered into an agreement to purchase the output from the rooftop systems for an initial term of 20 years.

In June 2017, the Company awarded a construction contract to renovate the new corporate headquarters to Sundt Construction. The Board approved a guaranteed maximum price of \$145 million. CPS Energy also made provisions for a \$5 million contingency fund which may be used to fund additional requirements related to the headquarters project. The Company expects to start moving its employees into the renovated headquarters during calendar year 2020.

In FY 2018, CPS Energy entered into a 50-year agreement with Joint Base San Antonio ("JBSA") to operate and maintain the natural gas and the electric utility systems at JBSA Randolph, Lackland and Lackland Training Annex. The agreement includes a cost reimbursable transition period that closes on June 30, 2019. In addition, the Department of Defense ("DOD") will transfer ownership of these systems to CPS Energy through a bill of sale effective July 1, 2019. The DOD will reimburse CPS Energy for the costs to operate, maintain and upgrade these systems throughout the contract term.

16. Leases

Capital Leases

CPS Energy was not a contracted party to any capital leases during FY 2019 or FY 2018, either as a lessee or lessor.

Operating Leases

Leases Related to Communication Towers Sale – In FY 2014, the Company entered into an agreement to sell 69 of its communication towers to an independent third party. Title to 62 of the towers was conveyed to the purchaser in January 2014. Resolution of easement issues related to the remaining sites was concluded in early FY 2017, resulting in the transfer of title to the purchaser for five additional towers for a total of 67 towers. CPS Energy retained title to the remaining two towers. Additionally, new licensing agreements were entered into between CPS Energy and the purchaser for CPS Energy's ongoing use of the towers and the purchaser's use of CPS Energy's communication buildings for a period of 40 years, with three five-year options by the purchaser to extend the agreement. See Note 4 – Capital Assets, Net for additional information related to the sale.

In accordance with lease guidance provided in GASB Statement No. 62, leases related to the communication towers sale, both with CPS Energy as lessor and as lessee, have been classified as operating leases. Future minimum lease payment information provided in this footnote includes lease revenue and lease expense to be recognized as a result of the following lease components of the communication towers sale:

- **Lease of Tower Space for CPS Energy Communication Equipment** – The parties to the sale transaction agreed that no cash would be paid by CPS Energy for the space it leased on the communication towers for the 40-year term of the lease agreement. As a result, the total sale transaction proceeds received from the purchaser were reduced by an amount representing an advance payment to the purchaser of the net present value of the estimated total lease obligation. This value represents a prepaid lease expense to the Company, benefitting a period of time equal to the 40-year term of the leases. In accordance with GASB Statement No. 62, the value of this prepaid lease obligation for space on the 67 towers was recorded at fair value and totaled \$20.2 million, which is being amortized to lease expense over the 40-year term.
- **Lease of Communication Building Space** – The parties agreed that no cash would be paid by the purchaser for the space it leased in CPS Energy's communication buildings for the term of the lease agreement. As a result, the total sale transaction proceeds received from the purchaser included an additional amount representing an advance payment by the purchaser of the net present value of the estimated total lease obligation. This value represents unearned lease revenue to CPS Energy to be generated over a period of time equal to the 40-year term of the leases. In accordance with GASB Statement No. 62, the value of this unearned lease revenue for space in the 67 communication buildings was recorded at fair value and totaled \$6.8 million, which is being amortized to nonoperating income over the 40-year term.

Additionally, the communication towers sale transaction included an assignment of existing operating lease agreements with tenants who had equipment located on the towers. At the time of sale, there were approximately 127 lease agreements outstanding, with CPS Energy as lessor for space on the towers and in the Company's communication buildings, having remaining terms varying from fewer than two years to ten years. In FY 2014, these leases provided approximately \$2.8 million in proceeds to the Company, which was recognized as nonoperating income. With the sale of the towers, these leases were assigned to the purchaser, and the right to collect future cash flows from the leases was conveyed. The estimated net present value of these cash flows, including annual escalations based on estimated future Consumer Price Indices, totaled approximately \$6.5 million for the 62 towers conveyed in the initial closing plus an additional \$0.5 million for the five towers subsequently conveyed. Proceeds to the Company from the towers sale transaction included a purchase price for these leases, which was recorded as a deferred inflow of resources totaling \$6.5 million in accordance with guidance provided in GASB Statement No. 65. As of January 31, 2019 and 2018, the balance of unearned revenue reported as a deferred inflow of resources was \$2.1 million and \$3.3 million, respectively. Revenue from the sale of future revenues

related to these leases will be recognized over the term of the original leases in accordance with guidance provided in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*.

Following is a brief description of CPS Energy's current leases, as well as future minimum payments and receipts related to those leases.

CPS Energy as Lessee – CPS Energy has entered into operating lease agreements to secure the usage of communication towers space, railroad cars, natural gas storage facilities, land, office space, parking lot space and engineering equipment. The lease for the parking lot space and several of the leases for office space, as well as the lease of communication towers space, include an escalation in the monthly payment amount after the first year of each lease.

CPS Energy's projected future minimum lease payments for noncancelable operating leases with terms in excess of one year are as follows:

(In thousands)	
<u>Year Ended January 31,</u>	<u>Operating Lease Payments</u>
2020	\$ 8,284
2021	8,239
2022	4,338
2023	1,781
2024	1,665
Thereafter	64,484
Total future minimum lease payments	<u>\$ 88,791</u>

CPS Energy's minimum lease payments for all operating leases for which the Company was the lessee amounted to \$9.1 million in FY 2019 compared to \$10.1 million in FY 2018. Contingent lease payments amounted to \$0.05 million in both FY 2019 and FY 2018.

CPS Energy as Lessor – CPS Energy has entered into operating lease agreements allowing cable and telecommunication companies to attach telephone, cable and fiber-optic lines to CPS Energy's electric poles. Operating leases also exist between CPS Energy and telecommunication companies allowing the companies to attach communication equipment to CPS Energy's communication and transmission towers. As described previously, CPS Energy sold 67 of its communication towers to a third party.

CPS Energy has three operating leases for the use of land that the Company owns, and it has entered into multiple agricultural leases allowing the lessees to use CPS Energy's land for sheep and cattle grazing. The three land leases contain provisions for contingent lease receipts based on the Consumer Price Index. Additionally, the majority of the operating leases pertaining to the use of CPS Energy's transmission towers contain provisions for contingent lease receipts that will equal the lesser of a 15% increase in the prior five-year lease payment or the percentage increase in the Consumer Price Index over the same five-year period.

Projected future minimum lease receipts to CPS Energy for noncancelable operating leases with terms in excess of one year are as follows:

(In thousands)	
Year Ended January 31,	Operating Lease Receipts
2020	\$ 805
2021	744
2022	761
2023	629
2024	571
Thereafter	21,104
Total future minimum lease receipts	<u>\$ 24,614</u>

CPS Energy's minimum lease receipts for all operating leases for which the Company was the lessor amounted to \$8.4 million in both FY 2019 and FY 2018. Contingent lease receipts amounted to \$0.03 million in both FY 2019 and in FY 2018. There were no sublease receipts in FY 2019 or FY 2018.

17. Pollution Remediation Obligation

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that a liability be recognized for expected outlays for remediating existing pollution when certain triggering events occur. The general nature of existing pollution that has been identified at CPS Energy sites is consistent with that experienced within the electric and gas utilities industry. Under most circumstances, the triggering event most relevant to the Company is the voluntary commencement of activities to clean up pollution.

Under Federal Energy Regulatory Commission guidance, reserves have been established for dismantling and closure costs. In FY 2008, in preparation for implementation of GASB Statement No. 49, a portion of those reserves were reclassified to remediation and dismantling reserve accounts reported on the Statements of Net Position within other liabilities. When a triggering event occurs, those reserves will be reclassified as a pollution remediation liability also reported within other liabilities.

The pollution remediation liability was \$2.7 million and \$2.6 million as of January 31, 2019 and 2018, respectively. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49, utilizing information provided by the Company's environmental staff and consultants.

CPS Energy adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, in FY 2019 and concurrently restated its prior fiscal year financial statements to reflect the effects for all periods presented. Certain pollution remediation obligations presented and accounted for under GASB Statement No. 49 were not affected by implementation of GASB Statement No. 83. Pollution remediation obligations recognized under GASB statement No. 83 were estimated utilizing information provided by the Company's environmental and engineering staff, consultants, and costs provided under the cost study for decommissioning. See Note 1 – Summary of Significant Accounting Policies – Asset Retirement Obligations for additional details on implementation of GASB Statement No. 83.

REQUIRED SUPPLEMENTARY INFORMATION (“RSI”)

January 31, 2019 and 2018

(Unaudited)

Schedules of Changes in CPS Energy Net Pension Liability and Related Ratios – The following schedules present multiyear trend information that demonstrates the components of change in the net pension liability from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts are presented on a net pension liability measurement date basis for the following periods:

(Dollars in thousands)

	Measurement Period Ended January 31,						
	2018	2017	2016	2015	2014	2013	2012
Total pension liability							
Service cost	\$ 32,569	\$ 31,547	\$ 30,183	\$ 32,591	\$ 33,417	\$ 33,470	\$ 31,420
Interest cost	132,861	128,991	122,800	117,802	116,155	112,356	105,013
Changes in assumptions	77,574	-	-	38,296	-	-	-
Differences between expected and actual experience	6,025	(18,647)	19,691	(35,634)	(24,410)	25,158	(13,581)
Benefit payments	(93,550)	(91,230)	(91,293)	(84,319)	(74,352)	(70,677)	(66,147)
Net change in total pension liability	155,479	50,661	81,381	68,736	50,810	100,307	56,705
Total pension liability, beginning of period	1,784,838	1,734,177	1,652,796	1,584,060	1,533,250	1,432,943	1,376,238
Total pension liability, end of period	1,940,317	1,784,838	1,734,177	1,652,796	1,584,060	1,533,250	1,432,943
Plan fiduciary net position							
Employer contributions	(46,200)	(44,500)	(46,000)	(55,800)	(44,400)	(39,016)	(37,687)
Participant contributions	(13,039)	(12,144)	(11,563)	(12,140)	(12,569)	(12,332)	(11,745)
(Earnings) loss on Plan assets	(246,772)	(207,196)	52,945	(85,520)	(145,883)	(110,529)	(22,510)
Benefit payments	93,550	91,230	91,293	84,319	74,352	70,677	66,147
Administrative expenses	389	-	-	-	-	-	-
Net change in Plan fiduciary net position	(212,072)	(172,610)	86,675	(69,141)	(128,500)	(91,200)	(5,795)
Plan fiduciary net position, beginning of period	(1,472,376)	(1,299,766)	(1,386,441)	(1,317,300)	(1,188,800)	(1,097,600)	(1,091,805)
Plan fiduciary net position, end of period	(1,684,448)	(1,472,376)	(1,299,766)	(1,386,441)	(1,317,300)	(1,188,800)	(1,097,600)
Net pension liability, end of period	\$ 255,869	\$ 312,462	\$ 434,411	\$ 266,355	\$ 266,760	\$ 344,450	\$ 335,343
Plan fiduciary net position as a percentage of the total pension liability	86.8%	82.5%	74.9%	83.9%	83.2%	77.5%	76.6%
Covered payroll	\$ 242,477	\$ 235,360	\$ 256,236	\$ 261,085	\$ 260,730	\$ 251,136	\$ 241,318
Net pension liability as a percentage of covered payroll	105.5%	132.8%	169.5%	102.0%	102.3%	137.2%	139.0%

Notes to Schedule

For FY 2019, the annual investment rate of return underlying the calculation of total pension liability was assumed to be 7.25%. For FY 2018 and FY 2017, the annual investment rate of return was assumed to be 7.50%. For the previous years presented, the rate used was 7.75%. Based on an experience study completed in 2017, the FY 2019 valuation results include the impact of other revised actuarial assumptions including salary increases and the use of updated mortality tables. No other actuarial assumptions were modified in FY 2018. Other actuarial assumptions were modified in FY 2016 without significantly affecting trends in the amounts reported above. There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, or other factors that significantly affected trends from year to year in the amounts reported above.

Schedules of Employer Contributions to CPS Energy Pension Plan – The following schedules, present multiyear trend information regarding employer contributions to the Plan. Information is presented related to all periods for which the required data is available. The amounts presented are determined as of the fiscal years ending:

(Dollars in thousands)

	2019	2018	2017	2016	2015	2014	2013
Actuarially determined contribution	\$ 58,657	\$ 46,234	\$ 44,532	\$ 46,001	\$ 48,696	\$ 44,362	\$ 39,016
Contributions in relation to the actuarially determined contribution	58,700	46,200	44,500	46,000	55,800	44,400	39,016
Contribution deficiency (excess)	\$ (43)	\$ 34	\$ 32	\$ 1	\$ (7,104)	\$ (38)	\$ -
Covered payroll	\$ 254,241	\$ 242,477	\$ 235,360	\$ 256,236	\$ 261,085	\$ 260,730	\$ 251,136
Contributions as a percentage of covered payroll	23.1%	19.1%	18.9%	18.0%	21.4%	17.0%	15.5%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal cost
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years beginning with calendar year 2014; expected value adjusted market value method for all prior periods
Inflation	3.0% per year compounded annually
Salary increases	Average, including inflation: 4.72% for FY 2019, 4.66% for FY 2018, 4.78% for FY 2017, 5.01% for FY 2016, 5.03% for FY 2015, 5.07% for FY 2014, 5.18% for FY 2013
Investment rate of return	7.25% per year, compounded annually, for FY 2019, 7.50% for FY 2018, 2017 and 2016, 7.75% for prior years
Mortality	Based on RP-2016 Combined Healthy, with No Collar Adjustment, Male and Female Tables; with MP-2016 Mortality Improvement Scale for FY 2019; RP-2000 Combined Healthy Annuitant Mortality Table for Males or Females, projected using Scale BB for 2017 and 2016; RP-2000 Combined Healthy Annuitant Mortality Table for Males or Females, projected using Scale AA for prior years.
Cost-of-living increases	1.50% per year

Other information: For FY 2019, the annual investment rate of return underlying the calculation of total pension liability was assumed to be 7.25%. For FY 2018 and FY 2017, the annual investment rate of return was assumed to be 7.50%. For the previous years presented, the rate used was 7.75%. Based on an experience study completed in 2017, the FY 2019 valuation results include the impact of other revised actuarial assumptions including salary increases and the use of updated mortality tables. No other actuarial assumptions were modified in FY 2018. Other actuarial assumptions were modified in FY 2016 without significantly affecting trends in the amounts reported above. There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, or other factors that significantly affected trends from year to year in the amounts reported above.

Schedules of Changes in CPS Energy Net OPEB Liability and Related Ratios – The following schedules present multi-year trend information that demonstrates the components of change in the net OPEB (asset) liability from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts are presented on a net OPEB (asset) liability measurement date basis for the following periods:

Health Plan

(Dollars in thousands)

	Measurement Period Ended January 31,			
	2018	2017	2016	2015
Total OPEB liability				
Service cost	\$ 3,376	\$ 3,435	\$ 3,319	\$ 3,207
Interest cost	17,182	18,176	17,601	17,050
Changes in Plan benefits	415	(19,185)	-	-
Changes in assumptions	9,657	-	-	-
Differences between expected and actual experience	-	475	-	-
Benefit payments	(12,197)	(14,001)	(12,756)	(13,275)
Net change in total OPEB liability	18,433	(11,100)	8,164	6,982
Total OPEB liability, beginning of period	234,808	245,908	237,744	230,762
Total OPEB liability, end of period	253,241	234,808	245,908	237,744
Plan fiduciary net position				
Employer contributions	-	(8,500)	(8,806)	(3,200)
Participant contributions	(7,156)	(6,802)	(6,734)	(6,024)
Medicare Part D payment	(998)	(933)	(976)	(933)
(Earnings) loss on Plan assets	(41,718)	(38,949)	9,765	(12,536)
Benefit payments	19,353	20,804	19,490	19,299
Administrative expense	1,345	1,621	1,456	1,137
Net change in Plan fiduciary net position	(29,174)	(32,759)	14,195	(2,257)
Plan fiduciary net position, beginning of period	(260,648)	(227,889)	(242,084)	(239,827)
Plan fiduciary net position, end of period	(289,822)	(260,648)	(227,889)	(242,084)
Net OPEB (asset) liability, end of period	\$ (36,581)	\$ (25,840)	\$ 18,019	\$ (4,340)
Plan fiduciary net position as a percentage of the total OPEB liability	114.4%	111.0%	92.7%	101.8%
Covered-employee payroll	\$ 220,522	\$ 223,523	\$ 215,964	\$ 242,652
Net OPEB (asset) liability as a percentage of covered-employee payroll	-16.6%	-11.6%	8.3%	-1.8%

Notes to Schedule

The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.25% for FY 2019. A rate of 7.50% was assumed for the previous years presented. The Plan was amended to eliminate the CPS Energy contribution to participants' Health Reimbursement Account and the actuary valuation used for FY 2019 reflects the impact of this change. In FY 2019 and 2018, claim costs were updated to reflect plan changes and to reflect recent experience. Medical and prescription trend was reset in FY 2018, FY 2017 and FY 2016.

Life Plan

(Dollars in thousands)

	Measurement Period Ended January 31,			
	2018	2017	2016	2015
<u>Total OPEB liability</u>				
Service cost	\$ 349	\$ 336	\$ 325	\$ 313
Interest cost	3,432	3,256	3,244	3,228
Changes in assumptions	(457)	-	-	-
Differences between expected and actual experience	-	2,378	-	-
Benefit payments	(3,813)	(3,469)	(3,358)	(3,313)
Net change in total OPEB liability	(489)	2,501	211	228
Total OPEB liability, beginning of period	47,289	44,788	44,577	44,349
Total OPEB liability, end of period	46,800	47,289	44,788	44,577
<u>Plan fiduciary net position</u>				
Employer contributions	-	-	-	-
Participant contributions	(1,000)	(972)	(930)	(911)
(Earnings) loss on Plan assets	(8,066)	(6,936)	2,102	(2,460)
Benefit payments	3,813	3,469	3,358	3,313
Administrative expenses	30	27	21	16
Net change in Plan fiduciary net position	(5,223)	(4,412)	4,551	(42)
Plan fiduciary net position, beginning of period	(49,698)	(45,286)	(49,837)	(49,795)
Plan fiduciary net position, end of period	(54,921)	(49,698)	(45,286)	(49,837)
Net OPEB (asset) liability, end of period	\$ (8,121)	\$ (2,409)	\$ (498)	\$ (5,260)
Plan fiduciary net position as a percentage of the total OPEB liability	117.4%	105.1%	101.1%	111.8%
Covered-employee payroll	\$ 210,631	\$ 198,704	\$ 191,984	\$ 218,939
Net OPEB (asset) liability as a percentage of covered-employee payroll	-3.9%	-1.2%	-0.3%	-2.4%

Notes to Schedule

The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.25% for FY 2019. A rate of 7.50% was assumed for the previous years presented. In FY 2019, the salary scale and mortality assumptions were also changed to more properly reflect actual experience. There were no other changes in benefit terms, in the size or composition of the population covered by the benefit terms that significantly affected trends from year to year in the amounts reported above.

Disability Plan

(Dollars in thousands)

	Measurement Period Ended January 31,			
	2018	2017	2016	2015
<u>Total OPEB liability</u>				
Service cost	\$ 516	\$ 527	\$ 509	\$ 492
Interest cost	473	455	448	426
Changes in assumptions	94	-	-	-
Differences between expected and actual experience	-	255	-	-
Benefit payments	<u>(1,012)</u>	<u>(974)</u>	<u>(775)</u>	<u>(559)</u>
Net change in total OPEB liability	71	263	182	359
Total OPEB liability, beginning of period	<u>6,295</u>	<u>6,032</u>	<u>5,850</u>	<u>5,491</u>
Total OPEB liability, end of period	<u>6,366</u>	<u>6,295</u>	<u>6,032</u>	<u>5,850</u>
<u>Plan fiduciary net position</u>				
Employer contributions	(1,300)	(700)	(175)	(175)
Participant contributions	(265)	(260)	(248)	(211)
(Earnings) loss on Plan assets	(627)	(501)	158	(177)
Benefit payments	1,012	974	775	559
Administrative expense	<u>18</u>	<u>15</u>	<u>14</u>	<u>18</u>
Net change in Plan fiduciary net position	(1,162)	(472)	524	14
Plan fiduciary net position, beginning of period	<u>(4,234)</u>	<u>(3,762)</u>	<u>(4,286)</u>	<u>(4,300)</u>
Plan fiduciary net position, end of period	<u>(5,396)</u>	<u>(4,234)</u>	<u>(3,762)</u>	<u>(4,286)</u>
Net OPEB liability, end of period	<u>\$ 970</u>	<u>\$ 2,061</u>	<u>\$ 2,270</u>	<u>\$ 1,564</u>
Plan fiduciary net position as a percentage of the total OPEB liability	84.8%	67.2%	62.4%	73.3%
Covered-employee payroll	\$ 216,558	\$ 212,904	\$ 205,704	\$ 218,939
Net OPEB liability as a percentage of covered-employee payroll	0.4%	1.0%	1.1%	0.7%

Notes to Schedule

The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.25% for FY 2019. A rate of 7.50% was assumed for the previous years presented. In FY 2019, the salary scale and mortality assumptions were also changed to more properly reflect actual experience. There were no other changes in benefit terms, in the size or composition of the population covered by the benefit terms that significantly affected trends from year to year in the amounts reported above.

Schedules of Employer Contributions to CPS Energy OPEB Plans – The following schedules present multi-year trend information regarding employer contributions to the OPEB Plans. Information is presented related to all periods for which the required data is available. The amounts presented are determined as of the fiscal years ending:

Health Plan

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	8,500	8,806
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,500)</u>	<u>\$ (8,806)</u>
Covered-employee payroll	\$ 228,240	\$ 220,522	\$ 223,523	\$ 215,964
Contributions as a percentage of covered-employee payroll	0.0%	0.0%	3.8%	4.1%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal cost
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years
Healthcare cost trend rates	7.0% initial, decreasing to an ultimate rate of 5.0% for FY 2019 and FY 2018, 7.5% initial, decreasing to an ultimate of 5.0% for FY 2017 and FY 2016
Prescription cost trend rates	7.0% initial, decreasing to an ultimate rate of 5.0% for FY 2019 and FY 2018, 8.5% initial, decreasing to an ultimate of 5.0% for FY 2017 and FY 2016
Salary increases	Projected average annual base salary increases ranging from 3.1% to 11.9% depending on age for FY 2019; ranging from 4.0% to 9.5% for previous years
Investment rate of return	7.25% per year, compounded annually for FY 2019, 7.50% for previous years
Mortality	Based on RP-2016 Combined Healthy, with no collar adjustment, projected to 2020 using Scale BB, Male and Female Tables for Active and Retirees; based on 1987 Commissioners Group Disabled Life Mortality Table for Disabled

Other information: The Plan was amended to eliminate the CPS Energy contribution to participants' Health Reimbursement Account and the actuary valuation used for FY 2019 reflects the impact of this change. For FY 2019 and FY 2018 claim costs were updated to reflect plan changes and to reflect recent experience. The medical and prescription trend was reset in FY 2018. For FY 2017 and FY 2016 claim costs were updated to reflect recent experience, and the medical and prescription trend was reset.

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Life Plan

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 435	\$ 515	\$ 145	\$ 561
Contributions in relation to the actuarially determined contribution	-	-	-	-
Contribution deficiency (excess)	<u>\$ 435</u>	<u>\$ 515</u>	<u>\$ 145</u>	<u>\$ 561</u>
Covered-employee payroll	\$ 218,003	\$ 210,631	\$ 198,704	\$ 191,984
Contributions as a percentage of covered-employee payroll	0.0%	0.0%	0.0%	0.0%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal cost
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years
Inflation	3.0% per year, compounded annually
Salary increases	4.78% average, including inflation
Investment rate of return	7.50% per year, compounded annually
Mortality	Based on RP-2000 Combined Healthy, with no collar adjustment, projected to 2020 using Scale BB, Male and Female Tables for Active and Retirees; based on 1987 Commissioners Group Disabled Life Mortality Table for Disabled

Other information: The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.25% for FY 2019. A rate of 7.50% was assumed for the previous years presented. In FY 2019, the salary scale and mortality assumptions were also changed to more properly reflect actual experience. There were no other changes in benefit terms, in the size or composition of the population covered by the benefit terms that significantly affected trends from year to year in the amounts reported above.

Disability Plan

(Dollars in thousands)	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 1,045	\$ 1,035	\$ 886	\$ 793
Contributions in relation to the actuarially determined contribution	<u>1,000</u>	<u>1,300</u>	<u>700</u>	<u>175</u>
Contribution deficiency (excess)	<u>\$ 45</u>	<u>\$ (265)</u>	<u>\$ 186</u>	<u>\$ 618</u>
Covered-employee payroll	\$ 224,137	\$ 216,558	\$ 212,904	\$ 205,704
Contributions as a percentage of covered-employee payroll	0.4%	0.6%	0.3%	0.1%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal cost
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years
Inflation	3.0% per year, compounded annually
Salary increases	4.72% average, including inflation for FY 2019; 4.78% for previous years
Investment rate of return	7.25% per year, compounded annually for FY 2019; 7.50% for previous years
Mortality	Based 1987 Commissioners Group Disabled Life Mortality Table

Other information: The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.25% for FY 2019. A rate of 7.50% was assumed for the previous years presented. In FY 2019, the salary scale and mortality assumptions were also changed to more properly reflect actual experience. During FY 2016, plan changes to provide employees with immediate coverage and an option to increase the benefit from 50% of pay to 70% of pay, less Social Security Disability Benefits and other offsets were reflected in the valuation.

GLOSSARY OF TERMS

Advance Refunding: A bond issuance in which new bonds are sold at a lower interest rate than outstanding ones. The proceeds are then invested in an irrevocable escrow; when the older bonds become callable, they are paid off with the invested proceeds.

Allowance for Funds Used During Construction ("AFUDC"): A cost accounting procedure whereby interest charges on borrowed funds and a return on equity for capital used to finance construction are added to the cost of utility plant being constructed (i.e., capitalized interest).

Amortize: To reduce an original amount or an account balance on an installment basis.

Assets: Resources with present service capacity that a governmental entity presently controls.

Asset Retirement Obligation ("ARO"): A legally enforceable liability associated with the retirement of a tangible capital asset.

Build America Bonds ("BABs"): Taxable municipal bonds created under the American Recovery and Reinvestment Act of 2009 that carry special federal subsidies for either the bondholder or the bond issuer.

Call Option: An option contract giving the owner the right (but not the obligation) to buy a specified amount of an underlying asset at a specified price within a specified time.

Capital Asset: An asset with a life of more than one year that is not bought and sold in the ordinary course of business.

Cash and Cash Equivalents: The value of assets that can be converted into cash immediately. Usually includes bank accounts and marketable securities, such as government bonds. Cash equivalents on the Statements of Net Position include securities with an original maturity of 90 days or less.

Commercial Paper: A short-term note with a maximum maturity of 270 days. Maturities for commercial paper notes, however, can be extended indefinitely for the life of the program that supports the commercial paper notes.

Component Unit: A legally separate entity for which the elected officials of the primary government are financially accountable and with which a financial benefit/burden relationship exists. The nature and significance of its relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Decommissioning: The process related to permanently taking a nuclear plant out of service, including decontaminating and removing buildings or other structures.

Defeasance: A provision that legally discharges a borrower for debt incurred when the borrower sets aside cash or bonds sufficient to service the outstanding debt.

Deferred Inflows of Resources: Acquisition of net assets applicable to a future reporting period.

Deferred Outflows of Resources: Consumption of net assets applicable to a future reporting period.

Depreciation: Amount allocated during the period to expense the cost of acquiring a capital asset over the useful life of the asset.

Derivative: In finance, a security for which price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Examples of derivatives include futures and options.

Electric Reliability Council of Texas ("ERCOT"): An organization whose mission is to direct and ensure reliable and cost-effective operation of the electric transmission grid in Texas and to enable fair and efficient market-driven solutions to meet customers' electric service needs.

Fair Value: The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Energy Regulatory Commission ("FERC"): Independent federal agency created within the U.S. Department of Energy. FERC is vested with broad regulatory authority over wholesale electric, natural gas and oil production, and the licensing of hydroelectric facilities.

Financial Accounting Standards Board ("FASB"): Board composed of independent members who create and interpret generally accepted accounting principles ("GAAP") applicable to private sector entities in the United States.

Fiscal Year ("FY"): The 12-month period covered by the income statement. A fiscal year may or may not coincide with a calendar year. For CPS Energy, the fiscal year is from February 1 through January 31.

Futures: Financial contracts obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange.

Generally Accepted Accounting Principles ("GAAP"): Conventions, rules and procedures that serve as the norm for the fair presentation of financial statements. The Governmental Accounting Standards Board is responsible for setting GAAP for state and local governments.

Governmental Accounting Standards Board ("GASB"): The authoritative standard-setting body for accounting and financial reporting for governmental entities in the United States.

Hedging: The process of buying and selling fuel oil; natural gas; diesel fuel; and electric energy futures, options or similar contracts to limit risk of loss caused by price fluctuations.

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Lease: A legal agreement to pay rent to the lessor for a stated period of time. Sometimes the lease is in substance a purchase of an asset and a financing arrangement (i.e., a capital lease).

Liabilities: Present obligations to sacrifice resources that a governmental entity has little or no discretion to avoid.

MMBtu: 1,000,000 British Thermal Units ("BTU"). A BTU is the standard unit for measuring the quantity of heat energy, such as the heat content of fuel. It is the amount of heat energy necessary to raise the temperature of one pound of water one degree Fahrenheit at sea level pressure.

Management's Discussion & Analysis ("MD&A"): A section of the basic financial statements that contains objective and easily readable analysis from management about the company's financial condition and its operations to assist users in assessing the company's financial position.

Megawatt ("MW"): A measure of electric power. A megawatt equals 1,000 kilowatts or 1,000,000 watts.

Mothballed: A generation resource that is placed in an inactive state so that it can neither be brought into operation immediately nor counted towards the electric transmission grid's reserve margin.

National Association of Regulatory Utility Commissioners ("NARUC"): A nonprofit organization whose members include the governmental agencies that are engaged in the regulation of utilities and carriers in the 50 United States, the District of Columbia, Puerto Rico and the Virgin Islands. NARUC's member agencies regulate the activities of energy, water and telecommunications utilities.

Natural Gas Basis Swap: A financial contract that allows the purchaser to lock in the price difference between two natural gas delivery points or hubs, such as the Houston Ship Channel and Henry Hub, Louisiana.

Net Costs Recoverable/Refundable: Certain costs that are required to be accrued as a regulatory asset or a regulatory liability under GASB Statement No. 62 if regulation provides assurance that these costs can be recovered or refunded through rates in the future.

Net OPEB (Asset) Liability: The difference between the actuarial total OPEB liability and an OPEB plan's fiduciary net position of as the measurement date.

Net Pension Liability: The difference between the actuarial total pension liability and a pension plan's fiduciary net position of as the measurement date.

Net Revenue: Per the New Series Bond Ordinance, all income and revenues from the operation of the Company's electric and gas systems after the deduction of maintenance and operating expenses.

New Series Bonds: A CPS Energy term used to distinguish bonds that have a first lien on the net revenues of CPS Energy's Systems.

Other Postemployment Benefits ("OPEBs"): Postemployment benefits other than pension benefits. OPEBs include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination benefits.

Public Utility Commission of Texas ("PUCT"): The governmental commission that regulates the rates and services of telephone utilities; investor-owned electric, water and sewer utilities; electric, water and sewer utilities in unincorporated areas; and radio companies statewide. The PUCT does not have authority to regulate retail activities of municipally owned utilities.

Refunding: Retiring all or a portion of an outstanding bond issue after the first call date by using money from the sale of a new offering.

Regulatory Asset/Liability: Specific costs, revenues or gains that a government with qualifying rate-regulated operations is allowed to defer, until recovered through future rates, that would otherwise be immediately recognized in the statement of revenues, expenses and changes in net position.

Required Supplementary Information ("RSI"): Schedules, statistical data and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.

Retail Sales: Retail electric sales within a utility's certificated service area. (Also see "Wholesale Sales.")

Revenue Bonds: Bonds issued by a municipality in which the issuer pledges to the bondholders its revenues as security for the bonds.

SA Energy Acquisition Public Facility Corporation ("PFC"): A public nonprofit corporation organized under the laws of the state of Texas pursuant to the Texas Public Facility Corporation Act, Chapter 303, Texas Local Government Code. The PFC was organized to assist the City of San Antonio in financing, refinancing or providing public facilities, including natural gas, to be devoted to public use.

South Texas Project ("STP"): A two-unit nuclear plant with a capacity of 2,700 MW of electricity, enough to provide service for more than one million homes and businesses.

South Texas Project Nuclear Operating Company ("STPNOC"): A not-for-profit entity that provides for the licensing, construction, operation and maintenance of the jointly owned and operated electric generation facilities of STP.

Tax-Exempt Bond: A bond usually issued by a municipal, county or state government for which interest payments are not subject to the bondholders' federal income tax and, in some cases, state and local income tax.

Transmission Costs of Service ("TCOS"): A functional classification of expenses and capital expenditures relating to the operation and maintenance of the transmission plant. The transmission function is that portion of the utility system used for the purpose of transmitting electrical energy in bulk to other principal parts of the system or to other utility systems.

True Interest Cost: The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds.

Weighted-Average Duration ("WAD"): The weighted-average time to return a dollar of principal and interest and also incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows and is used as an estimate of the interest rate risk of a fixed-income investment—especially those with payment terms dependent on market interest rates.

Weighted-Average Maturity ("WAM"): The weighted-average time to return a dollar of principal based on an investment's stated final maturity. It is used as an estimate of the interest rate risk of a fixed-income investment.

Wholesale Sales: Wholesale electric sales outside a utility's certificated service area. (Also see "Retail Sales.")

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APPENDIX C



CPS ENERGY

CERTAIN PROVISIONS OF THE ORDINANCE

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APPENDIX C

CERTAIN PROVISIONS OF THE ORDINANCE

The following constitutes a summary of certain selected provisions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

SECTION 6: Definitions. Unless the context shall indicate contrary meaning or intent, the terms below defined, for all purposes of this Ordinance or any ordinance amendatory or supplemental hereto, shall be construed, are used, and are intended to have meanings as follows:

A. *Additional Inferior Lien Obligations* – (i) any bonds, notes, warrants, certificates of obligation, or other Debt (other than the currently authorized Inferior Lien Obligations) hereafter issued by the City that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues that is subordinate and inferior to the lien on and pledge of the Net Revenues that have or will be granted as security for the currently outstanding Senior Lien Obligations, Junior Lien Obligations, and Commercial Paper Obligations and any Additional Senior Lien Obligations and Additional Junior Lien Obligations hereafter issued by the City, on a parity with the lien on and pledge of the Net Revenues that have been or are being granted as security for the currently authorized Inferior Lien Obligations, including certificates of obligation as described in Section 271.052, as amended, Texas Government Code, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by such a subordinate and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

B. *Additional Junior Lien Obligations* – (i) any bonds, notes, warrants, certificates of obligation, or other Debt (other than the Bonds and the currently outstanding Junior Lien Obligations) hereafter issued by the City that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues that is junior and inferior to the lien on and pledge of the Net Revenues that has or will be granted as security for the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, on a parity with the lien on and pledge of the Net Revenues that have been or are being granted as security for the currently outstanding Junior Lien Obligations and the Bonds, and prior and superior to the lien on and pledge of the Net Revenues that have or will be granted as security for the Commercial Paper Obligations, the Inferior Lien Obligations, and any Additional Inferior Lien Obligations hereafter issued by the City and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by such a junior and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

C. *Additional Senior Lien Obligations* – (i) any bonds, notes, warrants, certificates of obligation, or other evidences of indebtedness which the City reserves the right to issue or enter

into, as the case may be, in the future under the terms and conditions provided in Section 18 and which are equally and ratably secured solely by a prior and first lien on and pledge of the Net Revenues of the Systems and (ii) any obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and secured by a prior and first lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

D. *Board of Trustees, Board, or City Public Service Board* – the City Public Service Board of San Antonio, Texas, existing and functioning pursuant to the ordinances authorizing the issuance of the Senior Lien Obligations and this Ordinance.

E. *Bonds* – the bonds authorized by this Ordinance.

F. *City or Issuer* – the City of San Antonio, Texas.

G. *Closing Date* – the date of physical delivery of the Initial Bond in exchange for the payment in full by the Purchasers.

H. *Commercial Paper* – (i) the currently authorized obligations of the City from time to time outstanding and unpaid that are payable wholly or in part from a lien on and pledge of the Net Revenues that is subordinate and inferior to the pledge thereof securing payment of the currently outstanding Senior Lien Obligations and the Junior Lien Obligations and any Additional Senior Lien Obligations and Additional Junior Lien Obligations hereafter issued by the City, identified as follows:

(i) City of San Antonio, Texas Electric and Gas Systems Commercial Paper Notes, as further described by applicable series, authorized in the aggregate principal amount of \$700,000,000, including amounts owed under the Credit Agreement (as defined in the City ordinance authorizing the issuance of the Commercial Paper Obligations); and

(ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding obligations are payable from and equally and ratably secured, in whole or in part, by such a subordinate and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

I. *Debt* – (1) all indebtedness payable from Net Revenues incurred or assumed by the City for borrowed money (including indebtedness payable from Net Revenues arising under any Credit Agreement (as such term is defined in the ordinances of the City authorizing the issuances of the Outstanding Junior Lien Obligations that bear interest at variable rates)) and all other financing obligations of the Systems payable from Net Revenues that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and (2) all other indebtedness payable from Net Revenues (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations pertaining to the Systems that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase

property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise. For the purpose of determining Debt, there shall be excluded any particular Debt if, upon or prior to the maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the Systems in prior Fiscal Years.

J. *Debt Service Requirements* – as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on or other payments due under such obligation, (i) assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest or other payment obligations calculated by assuming (1) that such non-fixed interest rate for every future 12-month period is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the “Revenue Bond Index” or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the most recently reported yield, as of the time of calculation, at which United States Treasury obligations of like maturity have been sold and (2) that, in the case of bonds not subject to fixed scheduled mandatory sinking fund redemptions, that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds, and in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity according to a fixed schedule, the principal amounts thereof will be redeemed prior to stated maturity in accordance with the mandatory redemption provisions applicable thereto (in each case notwithstanding any contingent obligation to redeem bonds more rapidly); and (ii) after giving effect as an offset to regularly-scheduled debt service on a series of obligations the receipt or anticipated receipt of a refundable tax credit or similar payment from the United States Department of the Treasury to which the City is entitled as a result of the City’s irrevocable designation of such series of obligations as “build America bonds” and “qualified bonds” under the Code (or such similar designations that results in the City’s receipt of a similar payment from the United States Department of the Treasury). For the term of any interest rate hedge agreement entered into in connection with any such obligations, Debt Service Requirements shall be computed by netting the amounts payable to the City under such hedge agreement from the amounts payable by the City under such hedge agreement and such obligations.

K. *Depository* – such bank or banks at any time selected by the Board of Trustees to serve as depository of the funds hereinafter provided for with relation to the Bonds.

L. *Fiscal Year* – the twelve-month operational period of the Systems commencing on February 1 of each year and ending on the following January 31.

M. *Government Securities* - (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (iv) any additional securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds.

N. *Inferior Lien Obligations* – (i) any bonds, notes, warrants, certificates of obligation, or other similar debt currently outstanding or hereafter issued by the City that are payable from and equally and ratably secured by a lien on and pledge of the Net Revenues that is subordinate and inferior to the pledges thereof securing payment of the currently outstanding Senior Lien Obligations, the Junior Lien Obligations, the Commercial Paper Obligations, and any Additional Senior Lien Obligations and Additional Junior Lien Obligations hereafter issued by the City, including the “City of San Antonio, Texas Electric and Gas Systems Tax Exempt Flexible Rate Revolving Notes, Series A” and the “City of San Antonio, Texas Electric and Gas Systems Taxable Flexible Rate Revolving Notes, Series A”, authorized in an aggregate principal amount at any one time outstanding not to exceed \$100,000,000, (ii) any obligations that are issued subject to the limitations in Section 1502.052, as amended, Texas Government Code, and (iii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by such an inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

O. *Junior Lien Obligations* – (i) the currently authorized obligations of the City from time to time outstanding and unpaid that are payable wholly or in part from a lien on and pledge of the Net Revenues that is junior and inferior to the pledge thereof securing payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, identified as follows:

(1) “City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Taxable Series 2010A (Direct Subsidy – Build America Bonds)”, originally authorized in the aggregate principal amount of \$300,000,000;

(2) “City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2013”, originally authorized in the aggregate principal amount of \$375,000,000;

(3) “City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2014”, originally authorized in the aggregate principal amount of \$200,000,000;

(4) “City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2014”, originally authorized in the aggregate principal amount of \$262,530,000;

(5) “City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015A”, originally authorized in the aggregate principal amount of \$125,000,000;

(6) “City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015B”, originally authorized in the aggregate principal amount of \$125,000,000;

(7) “City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015C”, originally authorized in the aggregate principal amount of \$100,000,000;

(8) “City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015D”, originally authorized in the aggregate principal amount of \$100,000,000; and

(9) upon issuance, the Bonds; and

(ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by such a junior and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

P. *Maintenance and Operating Expenses* – those expenses (not paid from the proceeds of any Debt) required by law (Section 1502.056, as amended, Texas Government Code) to be a first lien on and charge against the income of the Systems, including the cost of insurance; the purchase and carrying of stores, materials, and supplies; the purchase, manufacture, and production of gas and electricity for distribution and resale; the payment of salaries; and the payment of all other expenses properly incurred in operating and maintaining the Systems and keeping them in good repair and operating condition (classed as a maintenance and operating expense as opposed to a capital expenditure under the Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners). Depreciation on the properties of the Systems shall not be considered or included as Maintenance and Operating Expenses in the determination of Net Revenues of the Systems.

Q. *Net Revenues* – all income and revenues from the operation of the Systems after the deduction of Maintenance and Operating Expenses. The term *Net Revenues* shall also include any additional and further security for the payment of the Bonds as may be pledged therefor consistent with the then applicable laws of the State of Texas, provided that any such additional and further security is made equally and ratably applicable as security for all Parity Bonds.

R. *Outstanding* – as of the date of determination, all Bonds theretofore issued and delivered except:

(1) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Bonds for which payment has been duly provided by the City by the irrevocable deposit with the Paying Agent/Registrar, or an authorized escrow agent, of money or Government Securities, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption; provided that, if such Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to this Ordinance or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and

(3) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof.

S. *Parity Bonds* – the Junior Lien Obligations, the Bonds, and any Additional Junior Lien Obligations.

T. *Paying Agent/Registrar* – the financial institution named in Section 3 of this Ordinance, or any successor thereto named in accordance with the provisions of Section 3 of this Ordinance.

(i) *Refunding Candidates* – shall mean:

(1) “City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2010A (Direct Subsidy-Build America Bonds)”, dated February 1, 2010 and originally issued in the principal amount of \$380,000,000;

(2) “City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Taxable Series 2010B (Direct Subsidy – Build America Bonds)”, originally authorized in the aggregate principal amount of \$200,000,000;

(3) “City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2012”, dated March 1, 2012 and originally issued in the principal amount of \$521,000,000; and

(4) “City of San Antonio, Texas Electric and Gas Systems Commercial Paper Notes, Series A, Series B, or Series C”, in the aggregate, currently outstanding principal amount of \$345,000,000.

U. *Registered Bonds* – any Bonds issued as fully-registered bonds, without coupons.

V. *Senior Lien Obligations* – i) the outstanding and unpaid obligations of the City that are payable solely from and equally and ratably secured by a prior and first lien on and pledge of the Net Revenues of the Systems, identified as follows: “City of San Antonio, Texas Electric and Gas Revenue Bonds, Taxable New Series 2012”, dated March 1, 2012 and originally authorized in the aggregate principal amount of \$521,000,000.00; “City of San Antonio, Texas Electric and Gas Revenue Refunding Bonds, New Series 2012”, dated June 1, 2012 and originally authorized in the aggregate principal amount of \$655,370,000.00; “City of

San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2015”, dated August 1, 2015 and originally issued in the principal amount of \$320,530,000; “City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2015”, dated November 1, 2015 and originally issued in the principal amount of \$235,000,000; City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2016”, dated July 1, 2016 and originally issued in the principal amount of \$544,260,000; City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2017”, dated April 1, 2017 and originally issued in the principal amount of \$308,005,000; City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2017”, dated August 1, 2017 and originally issued in the principal amount of \$194,980,000; “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2019”, dated as of September 1, 2019 and originally issued in the principal amount of \$114,685,000, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and equally and ratably secured by a first lien on and pledge of the Net Revenues of the Systems as determined by the City Council in accordance with any applicable law.

W. *Systems* – the entire electric light and power plants and systems and gas distribution system and all property of every kind appurtenant to and used or acquired in connection with said electric light and power plants and systems and gas distribution system owned by the City, together with all property of every kind now and hereafter owned or acquired by the City as a part of or for use in the operation of the City’s electric light and power plants and systems and gas distribution system. Notwithstanding the foregoing, upon payment in full, or provision for such payment, of the Senior Lien Obligations issued before May 29, 1997, and the defeasance of the ordinances authorizing the issuance of the Senior Lien Obligations, the term *Systems* shall mean or include facilities of any kind which are declared not to be a part of the *Systems* and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of *Special Facilities Bonds*, which are hereby defined as being special revenue obligations of the City which are not payable from Net Revenues but which are payable from and equally and ratably secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of the Senior Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION 7: Pledge.

A. Payment of the principal of and interest on the Bonds are and shall be secured by and payable solely from, and the City hereby grants a junior lien on and pledge of, the Net Revenues, *subject* and *subordinate* to the liens on and pledges of Net Revenues heretofore or hereafter made to secure payment of the Senior Lien Obligations and the Additional Senior Lien Obligations (and equally and ratably with the lien on and pledge of Net Revenues heretofore or hereafter made to secure payment of the Junior Lien Obligations and Additional Junior Lien Obligations, as well as with respect to any payment obligation arising under a “credit agreement”, as such term is defined in Chapter 1371, relating to any series of Parity Bonds. The Bonds are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, constituting the *Systems*. The Bonds are being issued as Additional Junior Lien Obligations. As such, the Bonds are special limited obligations of the City payable

solely from the Net Revenues, and the holders thereof shall never have the right to demand payment out of funds raised or to be raised by taxation.

Subject to making the deposits required by this Ordinance or any other ordinance of the City Council, the excess Net Revenues of the Systems may be used by the Board for any lawful purpose.

B. Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of Net Revenues granted by the City under subsection (a) of this Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Parity Bonds are outstanding and unpaid such that the pledge of the Net Revenues granted by the City is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Parity Bonds the perfection of the security interest in this pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in this pledge to occur.

SECTION 8: Rates and Charges. While any of the Bonds authorized hereby are Outstanding, the City shall establish and maintain rates and charges for facilities and services afforded by the Systems that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce income and revenues in each Fiscal Year sufficient:

A. *Prior Lien Expenses*. to pay all Maintenance and Operating Expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502, as amended, Texas Government Code;

B. *Senior Lien Expenses*. to produce Net Revenues, together with any other lawfully available funds, sufficient to satisfy the rate covenant contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations and to pay the interest on and principal of all Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Senior Lien Obligations;

C. *Junior Lien Expenses*. to produce Net Revenues, together with any other lawfully available funds, to pay the interest on and principal of all Junior Lien Obligations, the Bonds, and any Additional Junior Lien Obligations hereafter issued, as well as any “credit agreement” authorized under Chapter 1371 relating to any of the foregoing, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Bonds;

D. *Commercial Paper Expense*. to the extent the same are reasonably anticipated to be paid with Available Revenues (as defined in the ordinance authorizing the Commercial Paper Obligations), the interest on and principal of all Notes (as defined in said ordinance) and the Agreement (as defined in said ordinance); and

E. *Inferior Lien Expenses.* to pay the Inferior Lien Obligations, any Additional Inferior Lien Obligations, or any other legal debt or obligation of the Systems as and when the same shall become due.

For the purpose of satisfying the covenants specified above, the City may consider debt service on any obligations secured by and payable from revenues of the Systems after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to any such obligations' having been irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Senior Lien Obligations and Junior Lien Obligations designated as "build America bonds" and "qualified bonds" under the Code).

SECTION 9: General Account. The City, acting through the Board of Trustees, hereby covenants with respect to the holders of the Bonds that all revenues of every nature received through the operation of the Systems shall be deposited as received in the "City of San Antonio Electric and Gas Systems General Account" (the *General Account*), which shall be kept separate and apart from all other funds of the City. Revenues received for the General Account shall be deposited from time to time as received in such Depository as may be selected by the Board of Trustees in accordance with applicable laws relating to the selection of City depositories.

SECTION 10: Flow of Funds. The City, acting through the Board of Trustees, hereby agrees and reaffirms its covenant to the holders of the Parity Bonds that funds in the General Account shall be pledged and appropriated to the following uses and in the order of priority shown below:

FIRST: to the payment of reasonable and proper Maintenance and Operating Expenses of the Systems upon approval by the Board of Trustees;

SECOND: to the payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, including the establishment and maintenance of the reserve therefor;

THIRD: to the payment of the Junior Lien Obligations, the Bonds, and any Additional Junior Lien Obligations hereafter issued by the City or any other Prior Lien Bonds (as defined in the ordinance authorizing the Commercial Paper Obligations), as well as any "credit agreement" authorized under Chapter 1371 relating to any of the foregoing and the establishment and maintenance of a reserve therefor;

FOURTH: to the payment and security of the Notes and any Credit Agreement (as defined in the ordinance authorizing the Commercial Paper);

FIFTH: to the payment and security of the Inferior Lien Obligations and any Additional Inferior Lien Obligations hereafter issued, including obligations hereinafter issued which are inferior in lien to the Senior Lien Obligations, any Additional Senior Lien Obligations, the Junior Lien Obligations, the Bonds, any Additional Junior Lien Obligations, and the Notes, as well as any "credit agreement" authorized under Chapter 1371 relating to any of the foregoing;

SIXTH: to the payment of an annual amount equal to six percent (6%) of the gross revenues of the Systems to be deposited in the Repair and Replacement Account provided for in Section 12 of this Ordinance

SEVENTH: to the payment of the annual amount due the General Fund of the City of San Antonio, as provided in Section 13 of this Ordinance; and

EIGHTH: any remaining Net Revenues of the Systems in the General Account, to the Repair and Replacement Account in accordance with Section 12 of this Ordinance.

Any Net Revenues remaining in the General Account after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other Board purpose now or hereafter permitted by law and the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, subject to Section 12.

SECTION 11: Bond Fund; Excess Bond Proceeds. For purposes of providing funds to pay the principal of and interest on, and other amounts payable under, the Bonds and the Paying Agent/Registrar Agreement, as the same become due and payable, and for so long as any Bonds remain Outstanding or the City remains obligated under any other such agreement, the City agrees to maintain, at the Depository, a separate and special Fund or account relating to the Bonds to be created and known as the “City of San Antonio, Texas, Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2019 Interest and Sinking Fund” (the *Bond Fund*). The City covenants that there shall be deposited into the Bond Fund prior to each payment date from the available Net Revenues an amount equal to one hundred percent (100%) of the amount required to fully make such payments when due and payable, such deposits to be made in monthly installments that are substantially equal. If the Net Revenues in any month are insufficient to make the required payments into the Bond Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Net Revenues of the Systems, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these funds or accounts during such month or months.

Any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Net Revenues of the Systems.

SECTION 12: Repair and Replacement Account. The City reaffirms its covenant with the holders of Parity Bonds that a special fund or account shall be created and established to be known as the “City of San Antonio Electric and Gas Systems Repair and Replacement Account” (the *Repair and Replacement Account*) at such Depository as may be designated by the Board of Trustees. Money on deposit in the Repair and Replacement Account shall be used for the following purposes: providing extensions, additions, and improvements to the Systems; meeting contingencies of any nature in connection with the operations, maintenance, improvement, replacement, or restoration of properties of the Systems; and paying bonds or other obligations for which other funds are not available, or for any or all of such purposes, as, from time to time, may be determined by the Board of Trustees.

From the Net Revenues remaining in the General Account after payments in accordance with *Clauses First through Fifth* of Section 10 of this Ordinance and after payment and provisions for payments and additions to the Bond Fund in accordance with the provisions of Section 11, there shall be paid into the Repair and Replacement Account an annual sum equal to six percent (6%) of the gross revenues of the Systems for the then current Fiscal Year. This annual payment to the Repair and Replacement Account shall be accumulated each Fiscal Year by monthly installments, such monthly installments to be based on each month's gross revenues to the extent funds in the General Account are available each month; provided, however, should the total annual payment to the Repair and Replacement Account in any Fiscal Year exceed six percent (6%) of the gross revenues of the Systems, as shown by the Systems' audited annual financial statement, proper year-end adjustments shall be made (on or before March 1 after the close of each Fiscal Year) by causing any excess amount deposited therein to be transferred to the General Account.

No deposit in excess of six percent (6%) of the annual gross revenues of the Systems shall be made to the Repair and Replacement Account (as provided in the preceding paragraph) unless and until complete and full payments, or provisions for such payments, shall have been paid over or credited to the General Fund of the City in accordance with Section 13 of this Ordinance. After complete and full payments, or provisions for such payments, shall have been paid over or credited to the General Fund of the City to the full extent required in Section 13 hereof, additional deposits may be made to the Repair and Replacement Account; and at the close of each Fiscal Year, all Net Revenues of the Systems remaining in the General Account after full and complete payment to the General Fund of the City has been made (except such amounts as may be required to meet unpaid accounts and obligations which have accrued or are payable during the year to insure continued operation of the Systems), shall be deposited in the Repair and Replacement Account.

SECTION 13: Payments or Credits to the General Fund of the City. In accordance with the provisions of the ordinances authorizing the issuance of the Senior Lien Ordinance and this Ordinance, and after the payments specified in *Clauses First through Fifth* of Section 10 and the Repair and Replacement Account (for purposes of accumulating therein an amount equal to six percent (6%) of the annual gross revenues of the Systems) have been made in full in accordance with the provisions of Sections 10, 11, and 12 of this Ordinance, there shall be paid over or credited to the General Fund of the City (for general purposes of the City), to the extent Net Revenues of the Systems are available in the General Account and in monthly installments, an amount in cash not to exceed 14% of the gross revenues of the Systems for the month next preceding the month in which the monthly deposit is made, less the value of gas and electric services of the Systems used by the City for municipal purposes and the amount expended for additions to the street lighting system for the month for which such payment is being made. The maximum amount in cash to be transferred or credited to the General Fund of the City from the Net Revenues of the Systems during any Fiscal Year shall not exceed 14% of the gross revenues of the Systems less the value of gas and electric services of the Systems used by the City for municipal purposes and the amounts expended during the Fiscal Year for additions to the street lighting system. The percentage of gross revenues of the Systems to be paid over or credited to the General Fund of the City each Fiscal Year shall be determined (within the 14% limitation) by the governing body of the City.

SECTION 14: Investments. Funds on deposit in the General Account, the Construction Account (hereinafter defined), the Bond Fund and the Repair and Replacement Account may be, at the option of the Board of Trustees, invested in any investment permitted by the provisions of the Board of Trustees' Investment Policy and the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, or in any other investment authorized under applicable laws of the State of Texas from time to time, including time deposits, certificates of deposit, guaranteed investment contracts or similar contractual agreements. Any obligations, or evidences of ownership of said obligations, in which funds on deposit in the aforementioned Accounts are so invested shall be kept in escrow in the respective Depositories for such Accounts, and such investments shall be promptly sold when required and the proceeds of the sale applied to the making of payments required to be made from the Account from which the investment was made whenever such payments are necessary to be made. All income and profits received from the investment of funds in the Repair and Replacement Account shall be transferred and credited to the General Account. Income and profits received from investments of funds on deposit in the Bond Fund shall be used only for the purposes of paying the principal of and interest on the Bonds, as and when the same shall become due.

SECTION 15: Transfer of Funds to the Paying Agent/Registrar. On or before an interest or principal payment date of any Bonds, the Treasurer of the Board shall make transfer of funds on deposit in the Bond Fund to the Paying Agent/Registrar in the amounts calculated as fully sufficient to pay and discharge promptly, as due, each installment of interest and principal pertaining to the Bonds then Outstanding. In making such transfers, the Treasurer shall take into account any money on deposit with the Paying Agent/Registrar relating to the Bonds. In the event Bonds may be called for redemption prior to stated maturity, the Treasurer of the Board shall cause amounts calculated as sufficient to pay and discharge the Bonds (including accrued interest) so called for redemption to be transferred to the paying agent or paying agents (including the Paying Agent/Registrar) on or before the date fixed for the redemption of such bonds.

SECTION 16: Security of Funds. All money on deposit in the special Accounts for which this Ordinance makes provision (except any portions thereof as may be at any time properly invested) shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds.

SECTION 17: Application of Covenants and Agreements of the Senior Lien Obligations. It is the intention of the City Council and accordingly hereby recognized and stipulated that the provisions, agreements, and covenants contained herein bearing upon the management and operations of the Systems, and the administration and application of gross revenues derived from the operation thereof, shall to the extent possible be harmonized with like provisions, agreements, and covenants contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, and to the extent of any irreconcilable conflict between the provisions contained herein and in the ordinance authorizing the issuance of the currently outstanding Senior Lien Obligations, the provisions, agreements and covenants contained therein shall prevail to the extent of such conflict and be applicable to this Ordinance, especially the priority of rights and benefits conferred thereby to the holders of the currently outstanding Senior Lien Obligations. It is expressly recognized that, prior to the issuance of any Additional Senior Lien Obligations or Additional Junior Lien Obligations, the City must comply with each of the

conditions precedent contained in this Ordinance and the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations and any other Junior Lien Obligations, as appropriate.

SECTION 18: Issuance of Additional Senior Lien Obligations, Additional Junior Lien Obligations, Commercial Paper Obligations, and Additional Inferior Lien Obligations. The City hereby expressly reserves the right to hereafter issue bonds, notes, warrants, certificates of obligation, or similar obligations payable wholly or in part from and secured by a pledge of and lien on the Net Revenues of the Systems with the following priorities, without limitation as to principal amount, but subject to any terms, conditions, or restrictions applicable thereto under existing ordinances, laws, or otherwise:

A. *Senior Lien.* Additional Senior Lien Obligations payable from and equally and ratably secured by a first and prior lien on and pledge of the Net Revenues of the Systems upon (1) satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations or, in the event no Senior Lien Obligations are outstanding, the conditions precedent contained in the most recently adopted ordinance authorizing Senior Lien Obligations and (2) execution by a Designated Financial Officer of the certificates described in Subsections B(1) and B(2) of this Section, taking into account the Senior Lien Obligations then proposed to be issued;

B. *Junior Lien.* Additional Junior Lien Obligations payable from and equally and ratably secured by a junior lien on and pledge of the Net Revenues that is subordinate and inferior to the liens and pledges made to secure payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued, upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations and upon satisfying each of the following conditions precedent:

(1) No Default Certificate: a Designated Financial Officer (or other official of the City having primary responsibility for the fiscal affairs of the City) shall have executed a certificate stating that (a) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Junior Lien Obligations to satisfy the City's obligations under this Ordinance, the City is not then in default as to any covenant, obligation, or agreement contained in any ordinance or other proceedings relating to any obligations of the City payable from and secured by a lien on and pledge of the Net Revenues of the Systems and (b) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems have been duly made and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein;

(2) Coverage Certificate: a Designated Financial Officer shall have executed a certificate to the effect that, according to the books and records of the Systems, the Net Revenues of the Systems for the preceding Fiscal Year or for any 12 consecutive months out of the 18 months immediately preceding the month the ordinance authorizing the Additional Junior Lien Obligations is adopted (determined

without regard to revenue received by the City under any interest rate hedge agreement entered into in connection with any Senior Lien Obligations, Additional Senior Lien Obligations, or Parity Bonds) are at least equal to 100% of the average annual Debt Service Requirements for all Senior Lien Obligations, Junior Lien Obligations, Bonds, Additional Senior Lien Obligations, and Additional Junior Lien Obligations in any future Fiscal Year while the Additional Junior Lien Obligations then proposed to be issued are to be outstanding, after giving effect to such Additional Junior Lien Obligations (and, in making a determination of the Net Revenues, such Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Systems that became effective at least 60 days prior to the last day of the period for which Net Revenues are to be determined and, for purposes of satisfying the above Net Revenues test, make a pro forma determination of the Net Revenues for the period of time covered by the certification based on such change in rates and charges being in effect for the entire period covered by such Designated Financial Officer's certificate); and

(3) Debt Service Deposits: the ordinance authorizing the issuance of the Additional Junior Lien Obligations provides for monthly deposits to be made to a debt service fund for such obligations in amounts sufficient to pay the Additional Junior Lien Obligations when due; and

C. Inferior Lien. Commercial Paper Obligations, Inferior Lien Obligations, and Additional Inferior Lien Obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems that is inferior and subordinate to the liens and pledges made to secure payment of the Senior Lien Obligations, Additional Senior Lien Obligations, the Bonds, and Additional Junior Lien Obligations, upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, the ordinances authorizing the issuance of the currently outstanding Junior Lien Obligations, this Ordinance, the ordinance authorizing the issuance of the Commercial Paper Obligations, and, to the extent applicable, the ordinance authorizing the issuance of the Inferior Lien Obligations.

SECTION 19: Management of the Systems. In accordance with the provisions of the ordinances authorizing the currently outstanding Senior Lien Obligations, the currently outstanding Junior Lien Obligations, and this Ordinance, the City hereby agrees, covenants, and reaffirms that during such time as any Bonds issued hereunder are Outstanding and unpaid, the complete management and control of the Systems, pursuant to the authority contained in Section 1502.070, as amended, Texas Government Code, shall be vested in a Board of Trustees consisting of five citizens (one of whom shall be the Mayor of the City) of the United States of America permanently residing in Bexar County, Texas, to be known as the "City Public Service Board of San Antonio, Texas". The Mayor of the City shall be a voting member of the Board, shall represent the City Council thereon, and shall be 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.

All vacancies in membership on the Board (excluding the Mayor of the City), whether occasioned by failure or refusal of any person previously named to accept appointment or by expiration of term of office or otherwise, shall be filled in the following manner: a nominee to

fill such vacancy shall be elected by the majority vote of the remaining members of the Board of Trustees, such majority vote to include the vote of the Mayor. The name of such nominee shall then be submitted by the Mayor to the vote of the City Council, which by a majority vote of the members thereof then in office shall, as evidenced by ordinance or resolution, either confirm or reject such nominee; provided, however, if the City Council fails to act upon such nominee, such failure to do so shall be considered as a rejection of such nominee and another nominee shall be selected by the Board. If a vacancy occurs and the remaining members of the Board (including the Mayor) fail to elect a nominee to fill such vacancy within sixty (60) days after the vacancy occurs (or fail to select another nominee within sixty (60) days after rejection of a nominee by the City Council), the City Council, by a majority vote of the members thereof then in office, shall elect a person to fill such vacancy and shall appoint such Trustee by resolution or ordinance. In the event the City rejects or fails to confirm three (3) consecutive nominees of the Board to fill a vacancy on the Board, the City Council shall, within thirty (30) days after the third rejection, appoint a temporary Trustee to fill such vacancy pending the appointment of a permanent Trustee to fill such vacancy. The appointment of a temporary Trustee by the City Council shall constitute the nomination of such appointee as the permanent Trustee to fill such vacancy. Unless the remaining members of the Board, by a majority vote, reject the nominee selected by the City Council within thirty (30) days after his appointment as a temporary Trustee, the appointment shall become final and the temporary Trustee shall automatically become the permanent Trustee to fill such vacancy. In such vote, the vote of the Mayor shall automatically be cast as a vote in favor of the confirmation of such Trustee, whether cast by the Mayor or not.

If the nominee of the City Council is rejected by a majority vote of the remaining Trustees, the remaining Trustees shall within thirty (30) days after such rejection elect another nominee to fill such vacancy. Such nominee shall be considered by the City Council and if approved shall become the permanent Trustee. If such nominee is rejected by a majority vote of the members of the City Council then in office, or in the event the City Council fails to act upon such nomination within thirty (30) days after the nomination is presented to the City Council, the temporary Trustee theretofore appointed by the City Council shall automatically become the permanent Trustee to fill such vacancy. The term of office of each member appointed to the Board shall be five (5) years. A person who has served as an appointed member of the Board for a single five-year term shall be eligible for reappointment for one additional five-year term and one only. A member who is appointed to the Board to serve out an unexpired portion of a retired member's term shall not be considered to have served a "term" unless the unexpired portion of the term so served is three (3) years or more. Permanent removal of residence from Bexar County by any appointed member of the Board shall vacate his office as a member of the Board, or any member (other than the Mayor of the City) who shall be continuously absent from all meetings held by the Board for a period of four (4) consecutive months shall, unless he shall have been granted leave of absence by the unanimous vote of the remaining members of the Board, be considered to have vacated his office as a member of the Board. Any member of the Board, other than the Mayor of the City, may, by unanimous vote of the remaining members of the Board, be removed from office, but only for adequate cause.

Notwithstanding any of the foregoing provisions as contained in this Section or in any other section of this Ordinance pertaining to the appointment or selection of Trustees to the Board, the City Council reserves unto itself the absolute right at any time upon passage of an ordinance approved by a majority vote of its members to change the method of selection of and

appointment to the Board of Trustees to direct selection by the City Council, with such change of method to direct selection being at the sole option of the City Council without approval of any persons, party, holder of Bonds, or the Board of Trustees.

Except as otherwise specifically provided in this Ordinance, the Board of Trustees shall have absolute and complete authority and power with reference to the control, management, and operation of the Systems and the expenditure and application of the revenues of the Systems subject to the provisions contained in this Ordinance, all of which shall be binding upon and shall govern the Board of Trustees. In connection with the management and operation of the Systems and the expenditure and application of the revenues therefrom, the Board of Trustees shall be vested with all of the powers of the City with respect thereto, including all powers necessary or appropriate for the performance of all of the covenants, undertakings, and agreements of the City contained in this Ordinance, and shall have full power and authority to make rules and regulations governing the furnishing of electric and gas service to customers and for the payment of the same, and for the discontinuance of such services upon failure of customers to pay therefor, and, to the extent authorized by law, shall have full authority with reference to making of extensions, improvements, and additions to the Systems and the acquiring by purchase or condemnation of properties of every kind in connection therewith.

The Board of Trustees, in exercising the management powers granted herein, will ensure that policies adopted affecting research, development, and corporate planning will be consistent with City Council policy, and policies adopted by the Board of Trustees pertaining to such matters will be subject to City Council review.

The Board of Trustees shall elect one of its members as Chair and one as Vice Chair of the Board and shall appoint a Secretary and a Treasurer, or a Secretary-Treasurer, who may, but need not be, a member or members of the Board. If a member of the Board of Trustees is not appointed as Secretary or Treasurer, or Secretary-Treasurer, then an employee or employees of the Board whose duties in the operation of the Systems require performance of similar duties may be appointed as Secretary or Treasurer or Secretary-Treasurer. The Board of Trustees may follow and adopt such rules for the orderly handling of its affairs as it may see fit and may manage and conduct the affairs of the Systems with the same freedom and in the same manner ordinarily employed by the board of directors of private corporations operating properties of a similar nature. No member of the Board of Trustees, however, shall ever vote by proxy in the exercise of his duties as a Trustee.

The Board of Trustees shall appoint and employ all officers, employees, and professional consultants which it may deem desirable, including without limitation, a General Manager and Chief Executive Officer of the Systems, attorneys, engineers, architects, and other advisors. No officer or employee of the Board of Trustees may be employed who shall be related within the second degree of consanguinity or affinity to any member of the Board of Trustees.

The Board of Trustees shall obtain and keep continually in force an employees' fidelity and indemnity bond of the so-called "blanket" type, written by a solvent and recognized indemnity company authorized to do business in the State of Texas and covering losses to the amount of not less than One Hundred Thousand Dollars (\$100,000).

The members of the Board of Trustees, other than the Mayor of the City, shall receive annual compensation in the minimum amount of Two Thousand Dollars (\$2,000.00), except that the Chair of the Board shall receive annual compensation in the minimum amount of Two Thousand Five Hundred Dollars (\$2,500.00). Such compensation may be increased from time to time by the majority vote of the City Council then in office.

The members of the Board of Trustees and administrative officers shall not be personally liable, either individually or collectively, for any act or omission not willfully fraudulent or in bad faith.

SECTION 20: Maintenance and Operation--Insurance. The City hereby agrees and reaffirms that the Systems shall be maintained in good condition and operated in an efficient manner and at reasonable cost. So long as any of the Bonds are Outstanding, the City, acting by and through the Board of Trustees, agrees to maintain insurance of a kind and in an amount (including self-insurance) which usually would be carried by private companies engaged in a similar type of business.

SECTION 21: Records--Accounts--Accounting Reports. The City, acting by and through the Board of Trustees, hereby agrees, covenants, and reaffirms that so long as any Bonds, or any interest thereon, remain Outstanding and unpaid, a proper and complete set of records and accounts pertaining to the operation of the Systems shall be kept and maintained separate and apart from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Systems as provided in Chapter 1502, as amended, Texas Government Code, and that the holder or holders of any of the Bonds or any duly authorized agent or agents of such holders shall have the right at all reasonable times to inspect all such records, accounts, and data relating thereto and to inspect the Systems and all properties comprising the same. The Board of Trustees shall, so far as practicable and to the extent consistent with the provisions of this Ordinance, keep its books and records in the manner prescribed in the Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners. It is further agreed that as soon after the close of each Fiscal Year as may reasonably be done, the City (acting by and through the Board of Trustees) will cause an annual audit of such books and accounts to be made by an independent firm of certified public accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountants, shall reflect the revenues and expenses of the Systems for said Fiscal Year, and the assets, liabilities, and financial condition of the Systems (in reasonable detail) at the close of such Fiscal Year.

Expenses incurred in making the audit referred to above are to be regarded as Maintenance and Operating Expenses and paid as such. A copy of the aforesaid annual audit shall be furnished to the Municipal Securities Rulemaking Board, where it will be available through the Electronic Municipal Market Access System, in accordance with the provisions of Section 45 hereof.

SECTION 22: Remedies in the Event of Default. In addition to all of the rights and remedies provided by the laws of the State of Texas, it is specifically covenanted and agreed particularly that in the event the City (i) defaults in the payments to be made to the Bond Fund as required by this Ordinance, or (ii) defaults in the observance or performance of any other of the

covenants, conditions, or obligations set forth in this Ordinance, the holder or holders of any Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City, its officers, the Board of Trustees, and/or all of them, to observe and perform any covenants, conditions, or obligations prescribed in this Ordinance.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedies herein provided shall be cumulative of all other existing remedies, and the specifications of such remedies shall not be deemed to be exclusive.

SECTION 23: Special Covenants. The City hereby further covenants as follows:

A. The City has secured from the Board of Trustees a resolution acknowledging its duties, responsibilities, and obligations under this Ordinance and agreeing to fully comply with all its terms and provisions, including the administration and operation of the Systems and the disposition of revenues of the Systems.

B. It has the lawful power to pledge the Net Revenues supporting the Bonds and has lawfully exercised said power under the laws of the State of Texas, including said power existing under the Act, and the Additional Junior Lien Obligations, when issued, shall be equally and ratably secured under said pledge of income in such manner that one bond shall have no preference over any other bond of said issues.

C. Other than for the payment of the Senior Lien Obligations, the Junior Lien Obligations, the Bonds, the Commercial Paper Obligations, and the Inferior Lien Obligations, the rents, revenues and income of the Systems have not in any manner been pledged to the payment of any debt or obligation of the City or of the Systems, except that certain reimbursement agreements, indemnity agreements, credit facility agreements, and other financial or contractual arrangements which have been or may be entered into by the City grant a subordinate and inferior lien on and pledge of the Net Revenues of the Systems to secure the payment obligations of the City or the Board under these agreements, which lien is subordinate and inferior to the lien on and pledge thereof securing the payment of any Maintenance and Operating Expenses, the debt service requirements on the Senior Lien Obligations, the Junior Lien Obligations, the Bonds, the Commercial Paper Obligations, the Inferior Lien Obligations and any other provision of the ordinances authorizing the issuance of these obligations.

D. So long as any of the Bonds or any interest thereon remain Outstanding, the City will not sell or encumber the Systems or any substantial part thereof; *provided* that this shall not be construed to prohibit the sale of such machinery or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the Systems.

E. No free service of the Systems shall be allowed, and, should the City or any of its agents or instrumentalities make use of the services or facilities of the Systems, payments for services rendered by the Systems should either be made by the City or amounts equal in value to

the services rendered by the Systems shall be deducted from the annual payment due the General Fund of the City from the Net Revenues of the Systems as provided in Section 13 hereof.

F. To the extent it legally may, the City further covenants and agrees that, so long as any Bonds or any interest thereon are Outstanding, no franchise shall be granted for the installation or operation of any competing electric or gas system other than that owned by the City, and the operation of any such systems by anyone other than the City is hereby prohibited.

SECTION 24: Satisfaction of Obligation of City. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in this Ordinance, then the lien on and the pledge of Net Revenues and all covenants, agreements, and other obligations of the City to the Holders shall thereupon cease, terminate, and be discharged and satisfied.

The Bonds, or any principal amount(s) thereof, shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at stated maturity, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, and/or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any money deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on or prior to the stated maturity thereof. In the event of a defeasance of the Bonds, the City shall deliver a certificate from an independent accounting firm, one of its co-financial advisors, the Paying Agent/Registrar, or another qualified third party concerning the deposit of cash and/or Government Securities to pay, when due, the principal of, and interest due on any defeased Bonds. As and to the extent applicable, if at all, the City covenants that no deposit of money or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as arbitrage bonds within the meaning of section 148 of the Code.

Any money so deposited with the Paying Agent/Registrar or authorized escrow agent, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section 24 which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such money has been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar or authorized escrow agent for the payment of the principal of, premium, if any, or interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity of the Bonds such money was deposited and is held in trust to pay shall upon the request of the City be remitted to the City against a written receipt therefor, subject to the unclaimed property laws of the State of Texas.

Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem defeased Bonds or any Additional Junior Lien Obligations that is made in conjunction with the payment arrangements specified in subsection (i) or (ii) above shall not be irrevocable, provided that: (1) in the proceedings providing for such

defeasance, the City expressly reserves the right to call any Additional Junior Lien Obligations for redemption; (2) gives notice of the reservation of that right to the owners of the defeased Additional Junior Lien Obligations immediately following the defeasance; (3) directs that notice of the reservation be included in any redemption notices that it authorizes; and (4) at the time of the redemption, satisfies the conditions of (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the any Additional Junior Lien Obligations, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of Additional Junior Lien Obligations.

* * * *

APPENDIX D



CPS ENERGY

FORM OF OPINION OF CO-BOND COUNSEL

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Norton Rose Fulbright US LLP
111 W. Houston Street, Suite 1800
San Antonio, Texas 78205

Kassahn & Ortiz, P.C.
9901 I.H. 10 West, Suite 800
San Antonio, Texas 78230

FINAL

IN REGARD to the authorization and issuance of the “City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2019” (the *Bonds*), dated November 1, 2019, in the aggregate principal amount of \$252,640,000, we have reviewed the legality and validity of the issuance thereof by the City of San Antonio, Texas (the *City*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof, and have Stated Maturities of February 1 in each of the years 2033 through 2037 and February 1, 2041, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

WE HAVE SERVED AS CO-BOND COUNSEL for the City solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the City’s obligations being refunded by certain proceeds of the Bonds, and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City or the City’s Systems and have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the City’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the City in connection with the issuance of the Bonds, including the Ordinance and the Escrow and Trust Agreement (the *Escrow Agreement*) between the City and The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, as escrow agent (the *Escrow Agent*), and a special report (the *Report*) of Robert Thomas CPA, LLC, Overland Park, Kansas (the *Verification Agent*) concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; a resolution adopted by the Board of Trustees (the *Board*) of the City Public Service Board of San Antonio, Texas; (2) customary certifications and opinions of officials of the City and the Board; (3) certificates executed by officers of the City and the Board relating to the expected use and investment of proceeds of the Bonds and certain other funds of the City and the Board, and to certain other facts solely within the knowledge and control of the City and the Board; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all

Legal Opinion of Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C. in connection with the authorization and issuance of “CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019”

documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding special obligations of the City enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from and equally and ratably secured, together with the currently outstanding Junior Lien Obligations, solely by a junior and inferior lien on and pledge of the Net Revenues, such lien on and pledge of the Net Revenues being expressly junior and inferior to the lien on and pledge of Net Revenues as security for the payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City in accordance with the Ordinance. In the Ordinance, the City retains the right to issue Additional Parity Bonds and the bonds or evidences of indebtedness whose lien on and pledge of the Net Revenues shall be subordinate and inferior to that possessed by the Bonds and the other Junior Lien Obligations, without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the City, the Board, or the Systems, except with respect to the Net Revenues. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the City and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded and to be discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement, the City ordinances authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Report by the Verification Agent concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the City and the Board with the provisions of the Ordinance and in reliance upon the Report by the Verification Agent concerning the sufficiency of

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the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement and upon the representations and certifications of the City and the Board made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

Kassahn & Ortiz, P.C.

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APPENDIX E



CPS ENERGY

TABLE OF REFUNDED BONDS

TABLE OF REFUNDED BONDS

City of San Antonio, Texas Electric and Gas Systems Revenue Bonds,
Taxable New Series 2010A (Direct Subsidy - Build America Bonds)

<u>Maturities (February 1)</u>	<u>Principal Amount</u>	<u>Interest Rate (%)</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
2033 ⁽¹⁾	\$8,645,000	6.168	2/1/2020	100%
2034 ⁽¹⁾	\$9,175,000	6.168	2/1/2020	100%
2035 ⁽¹⁾	\$9,740,000	6.168	2/1/2020	100%
2036 ⁽¹⁾	\$10,340,000	6.168	2/1/2020	100%
2037 ⁽¹⁾	\$10,980,000	6.168	2/1/2020	100%
2038 ⁽¹⁾	\$11,655,000	6.168	2/1/2020	100%
2039 ⁽¹⁾	\$12,375,000	6.168	2/1/2020	100%
2040 ⁽¹⁾	\$13,140,000	6.168	2/1/2020	100%
2041 ⁽¹⁾	\$13,950,000	6.168	2/1/2020	100%
Total	\$100,000,000			

(1) Represents a sinking fund redemption of a term bond that matures on February 1, 2041

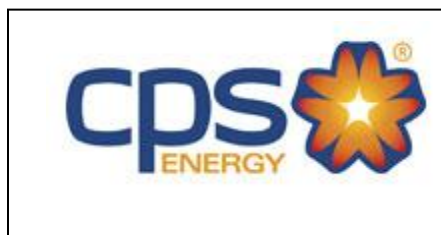
City of San Antonio, Texas Electric and Gas Systems
Junior Lien Revenue Refunding Bonds, Taxable Series 2010B (Direct Subsidy - Build America Bonds)

<u>Maturities (February 1)</u>	<u>Principal Amount</u>	<u>Interest Rate (%)</u>	<u>Redemption Date</u>	<u>Redemption Price</u>
2034 ⁽²⁾	\$50,045,000	6.308	2/1/2020	100%
2035 ⁽²⁾	\$48,750,000	6.308	2/1/2020	100%
2036 ⁽²⁾	\$49,985,000	6.308	2/1/2020	100%
2037 ⁽²⁾	\$51,220,000	6.308	2/1/2020	100%
Total	\$200,000,000			

(2) Represents a sinking fund redemption of a term bond that matures on February 1, 2037

Grand Total	<u><u>\$300,000,000</u></u>
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MUNICIPALLY OWNED ELECTRIC & GAS UTILITY

SAN ANTONIO, TEXAS 2019