REMARKETING MEMORANDUM

Dated: November 15, 2022

REMARKETING; NOT A NEW ISSUE – Book-Entry-Only **RATINGS: See "RATINGS" herein.**

In the Original Opinion (defined herein), Original Co-Bond Counsel (defined herein) rendered an opinion, which assumed continuing compliance by the City (defined herein) after the date of the initial delivery of the Bonds (defined herein) (the "Initial Delivery Date") with certain covenants contained in the Ordinance (defined herein) and subject to the matters set forth under "TAX MATTERS" herein, that interest on the Bonds for federal income tax purposes under then-existing statutes, regulations, published rulings, and court decisions (1) would be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the Initial Delivery Date, and (2) would not be included in computing the alternative minimum taxable income of individuals or, except as described herein, corporations. Settlement of the Bonds' remarketing that is the subject of this Remarketing Memorandum is subject to delivery by Co-Bond Counsel (defined herein) to the Paying Agent/Registrar (defined herein) of their opinion that such remarketing will not adversely affect the excludability of interest on the Bonds for federal income tax purposes. The Remarketing Agent (identified below) will be allowed to rely on the opinion. Co-Bond Counsel has not been asked to and has not rendered any opinion as to the current excludability of interest on the Bonds from gross income for federal income tax purposes. See "TAX MATTERS" herein; additionally, see "THE BONDS – Interest During the New Interest Period" identifying circumstances when an opinion of nationally recognized bond counsel is required as a condition for an interest rate mode conversion.

$134,870,000

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS

VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2018

CONVERSION TO A NEW SIFMA INDEXED INTEREST PERIOD OF THREE YEARS

SEE PAGE ii FOR DATED DATE, MATURITY DATE, SIFMA INDEX MODE DURATION, MANDATORY TENDER DATE, APPLICABLE SPREAD, STEPPED INTEREST RATE, AND CUSIP NUMBER

The Bonds. The City of San Antonio, Texas (the "City") has heretofore issued its Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2018 (the "Bonds"), pursuant to a City ordinance adopted by its City Council on June 14, 2018 (the "Ordinance") for the purposes therein identified. The Bonds were issued as variable rate, multi-modal obligations and are currently outstanding in a "Term Mode", expiring on November 30, 2022 and during which the Bonds bear interest at the "Term Rate". The Bonds are currently outstanding in the aggregate principal amount of $134,870,000. On December 1, 2022, the outstanding maturity amount of the Bonds is subject to mandatory tender for purchase, without right of retention by the owners thereof, and $134,870,000 will be remarketed into a new interest period where the Bonds bear interest at a SIFMA Index Rate (the "New Interest Period") to provide proceeds to pay the purchase price of the aforementioned mandatorily tendered Bonds (see "THE BONDS – Bond Provisions – Authority for the Bonds").

The Bonds are issued in fully-registered form only, without coupons, in denominations of $5,000 (or any integral multiple thereof) while in the New Interest Period (see "THE BONDS – Description of the Bonds" herein). No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds is payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as paying agent/registrar for the Bonds (the "Paying Agent/Registrar"), to Cede & Co., which makes distribution of the amounts so paid to its participants, who in turn distribute such amounts to the beneficial owners of the Bonds (see "THE BONDS – Bond Provisions – Book-Entry-Only System" herein).

Interest. During the New Interest Period, the Bonds will bear interest at a SIFMA Index Rate, being the per annum interest rate, determined weekly, equal to the lesser of the Maximum Rate and the sum of the SIFMA Index then in effect and the Applicable Spread (each of the foregoing described and further defined herein). During a SIFMA Index Mode, interest on the bonds will be calculated on a 365/366 basis and actual number of days elapsed and will be payable on the first Business Day of each month (commencing January 3, 2023).

Redemption; Tenders. During the New Interest Period, the Bonds (i) are not subject to optional tender, but (ii) are subject to mandatory tender and optional redemption, in whole or in part, at the direction of the City, prior to the expiration of the New Interest Period, as further described herein. On the Mandatory Tender Date, the Bonds are subject to mandatory tender, without right of retention, and are subject to redemption at the option of the City; provided, however, if such day is not a business day, actual tender shall occur on the next such business day (though interest will have ceased to accrue as of the expiration of the New Interest Period). At the conclusion of the New Interest Period, the City expects to convert and remarket the Bonds at such time subject to mandatory tender into a new Interest Mode (as defined in the Ordinance) in accordance with the provisions of the Ordinance (which may include a conversion of Interest Mode or the same Interest Mode(s) in a to be determined duration).

All tenders of Bonds must be made to The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as tender agent for the Bonds (the "Tender Agent"). Bonds tendered for purchase at the conclusion of the New Interest Period will be bought by the City at the "Purchase Price", being the principal amount of tendered Bonds plus accrued (but unpaid) interest, from the proceeds derived from the remarketing of such Bonds, if any; provided, however, that should the date for tender of the Bonds occur on an Interest Payment Date, the accrued interest portion of the Purchase Price is to be paid by the City.

No Liquidity Support. During the New Interest Period, the Bonds are not subject to the benefit of a liquidity facility provided by a third party. Accordingly, a failure by the Remarketing Agent to remarket the Bonds by the mandatory tender date therefor will result in the rescission of the notice of mandatory tender with respect thereto and the City will not have any obligation to purchase such mandatorily-tendered Bonds at the specified time. The occurrence of the foregoing will not result in an event of default under the Ordinance or the Bonds. Until such time as the City redeems or remarkets such Bonds that have not been successfully remarketed as described above, those Bonds shall bear interest at the Stepped Rate, which is identified on page ii of this Remarketing Memorandum, calculated on the basis of a 365/366 day year and the number of days actually elapsed. Conversion of the Bonds to certain interest rate modes requires the City, under the Ordinance, to first obtain third party liquidity support therefor as a condition to such a conversion. The City does not, at this time, anticipate converting any Bonds to an interest mode that requires third party liquidity.

Security. 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 City's Electric and Gas Systems (as further described herein, 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 any currently outstanding Commercial Paper Obligations and Inferior Lien Obligations, all as fully set forth in the Ordinance.

The Bonds were originally delivered to the initial purchaser therefor, together with the approving opinion 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., as co-bond counsel to the City ("Original Co-Bond Counsel"). McCall, Parkhurst & Horton L.L.P. and Escamilla & Poneck, LLP, serve as co-bond counsel ("Co-Bond Counsel") to the City in connection with the remarketing of the Bonds that is the subject of this Remarketing Memorandum. The remarketing of the Bonds will, through the services of DTC, be available for delivery on December 1, 2022 (the "Date of Delivery"). In connection with the remarketing of the Bonds, certain legal matters will be passed upon for the Remarketing Agent by its co-counsel, Locke Lord LLP, Austin, Texas and Cantu Harden LLP, San Antonio, Texas.

RAMIREZ & CO., INC.

NEW INTEREST PERIOD INFORMATION

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS

$134,870,000
Variable Rate Junior Lien Revenue Refunding Bonds, Series 2018
Conversion to SIFMA Index Mode

Dated Date	Stated Maturity[1]	New Interest Period Commencement	First Optional Redemption/Mandatory Tender Date	New Interest Period Expiration Date	Latest Mandatory Tender Date[2]	Applicable Spread	Stepped Rate	CUSIP No.[3]
December 1, 2018	February 1, 2048	December 1, 2022	June 1, 2025	November 30, 2025	December 1, 2025	0.87%	8.00%	79625GFV0

Optional Redemption

During the New Interest Period, the Bonds are subject to mandatory tender and optional redemption, in whole or in part, at the City's option, beginning on June 1, 2025 (prior to the expiration of the New Interest Period) and on any day thereafter through the expiration of the New Interest Period. See "THE BONDS – Redemption of Bonds".

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(1) Subject to mandatory sinking fund redemption. See "THE BONDS – Redemption of Bonds" herein.

(2) If the scheduled mandatory tender date is not a business day, tender shall occur on the first business day occurring after the scheduled mandatory tender date (though interest on such Bonds subject to tender shall cease to accrue on the date of expiration of the New Interest Period).

(3) CUSIP® numbers have been assigned to the Bonds by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of The American Bankers Association, and are included solely for the convenience of the owners and potential owners of the Bonds. No assurance can be given that the CUSIP number for 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, CPS Energy, the Co-Financial Advisors, or the Remarketing Agent shall be responsible for the selection, changes to, errors, or correctness of the CUSIP numbers set forth herein.

CONTACT INFORMATION

City Public Service Board:

CPS Energy
Ms. Julie Johnson
VP, Finance & Accounting & Assistant Treasurer
Mail Drop CT0701
P.O. Box 1771
San Antonio, Texas 78296-1771
(210) 353-2462
MJJohnson@CPSEnergy.com

Tender Agent and
Paying Agent/Registrar:

The Bank of New York Mellon Trust Company, N.A.
Mr. George Gonzalez
2001 Bryan Street
10th Floor
Dallas, Texas 75201
(214) 468-6012
George.gonzalez@bnymellon.com

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CITY OF SAN ANTONIO, TEXAS

CITY COUNCIL

Ron Nirenberg, Mayor

Mario Bravo	Jalen McKee-Rodriguez	Phyllis Viagran
Dr. Adriana Rocha Garcia	Teri Castillo	Melissa Cabello Havrda
Ana Sandoval	Manny Peláez	John Courage
	Clayton Perry[1]	

[1] On sabbatical. The City is currently taking applications for this vacancy.

KEY MANAGEMENT & PERSONNEL

Erik Walsh – City Manager
Ben Gorzell, Jr. – Chief Financial Officer
Debbie Racca-Sittre – City Clerk
Andrew Segovia – City Attorney

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

Dr. Willis Mackey, Chair		Janie Gonzalez, Vice Chair
John T. Steen, Jr., Trustee	Dr. Francine Romero, Trustee	Ron Nirenberg, Mayor

Rudy D. Garza – President & Chief Executive Officer ("CEO")[2]
Cory Kuchinsky, CPA – Chief Financial Officer ("CFO") & Treasurer
Shanna Ramirez, J.D., CISM – Chief Legal & Ethics Officer, General Counsel ("CLEO&GG"), and Board Secretary

EXECUTIVE MANAGEMENT

Rudy D. Garza – President & CEO
Vivian Bouet – Chief Information Officer ("CIO")[3]
Benjamin L. (Benny) Ethridge, Jr. P.E. – Executive Vice President of Energy Supply
Kathy Garcia – Vice President of Government Relations, Regulatory Affairs & Public Policy
DeAnna Hardwick – Executive Vice President of Customer Strategy
Cory Kuchinsky, CPA – CFO & Treasurer
Lisa Lewis – Chief Administrative Officer ("CAO")
Richard Lujan, P.E. – Interim Vice President of Gas Solutions
Richard Medina, P.E. – Executive Vice President of Energy Delivery Services
Shanna Ramirez, J.D., CISM – CLEO&GC and Board Secretary
Melissa Sorola – Vice President, Corporate Communications & Marketing

[2] Named by the Board of Trustees as the permanent President & CEO, effective September 6, 2022.
[3] Ms. Bouet intends to leave CPS Energy in 2022 to pursue other opportunities. No further organizational announcements are available at this time.

CONSULTANTS

McCall, Parkhurst & Horton L.L.P.	PFM Financial Advisors LLC
Escamilla & Poneck, LLP	Estrada Hinojosa & Company, Inc.
Co-Bond Counsel	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 Remarketing Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Remarketing Memorandum 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 Remarketing Memorandum 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 Remarketing Memorandum. 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 REMARKETING AGENT 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 Remarketing Agent provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agent reviewed the information in this Remarketing Memorandum in accordance with and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

The Co-Financial Advisors have provided the following sentence for inclusion in this Remarketing Memorandum. The Co-Financial Advisors have reviewed the information in this Remarketing Memorandum 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, CPS Energy, the Co-Financial Advisors, or the Remarketing Agent makes any representation or warranty with respect to the information contained in this Remarketing Memorandum 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 Remarketing Memorandum 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 REMARKETING MEMORANDUM, 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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REMARKETING MEMORANDUM

Relating To

$134,870,000
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS
VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2018

INTRODUCTORY STATEMENT

GENERAL

This Remarketing Memorandum, including the cover page and the Appendices hereto, of the City of San Antonio, Texas (the "City") is provided to furnish information with respect to the remarketing of its $134,870,000 Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2018 (the "Bonds"). See "APPENDIX C – CERTAIN PROVISIONS OF THE ORDINANCE".

The Bonds were initially issued for the purposes of (i) refunding the Notes (hereinafter defined) then-outstanding under the Commercial Paper Program by converting such short-term variable rate obligations into long-term obligations, and (ii) paying the costs of issuance of the Bonds.

The Bonds were issued pursuant to the Ordinance (as hereinafter defined) and as Additional Junior Lien Obligations (as hereinafter defined) under the provisions of the City ordinances (collectively, the "Bond Ordinances") authorizing the "Junior Lien Obligations", herein defined to mean, in addition to the Bonds, the City's Electric and Gas Systems Junior Lien Revenue Bonds, Taxable Series 2010A (Direct Subsidy – Build America Bonds), Electric and Gas Systems Junior Lien Revenue Bonds, Series 2014, Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015A, Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015B, Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015C, Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015D, Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2019, Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2020, Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2021A, and Electric and Gas Systems Fixed and Variable Rate Junior Lien Revenue Refunding Bonds, Series 2022. After giving effect to the remarketing of the Bonds, the City will have outstanding Junior Lien Obligations with an aggregate principal amount of $2,132,990,000.

TEXAS 2021 WINTER WEATHER EVENT

General

From February 12, 2021 through February 19, 2021, the continental United States experienced a severe winter storm (the "2021 Winter Weather Event") resulting from the southern migration of a polar vortex that meteorologists characterize as the most significant in terms of scope and duration since monitoring of these weather phenomena began in the 1950s. As a result of the 2021 Winter Weather Event, record breaking cold weather invaded the entire State, during which time the City experienced three consecutive days of record low temperatures, over 100 consecutive hours below freezing, and wind chills of -6 degrees Fahrenheit.

In anticipation of the 2021 Winter Weather Event, the Texas Governor, on February 12, 2021, declared a state of disaster for all 254 counties within the State, certifying in that declaration that severe winter weather posed an imminent threat of widespread and severe property damage, injury, and loss of life due to the prolonged freezing temperatures, heavy snow, and freezing rain statewide. In response to that declaration, and on the same date, the Railroad Commission of Texas ("RRCT") issued an Emergency Order approving a utilities curtailment program relating to and specifying an essential prioritization of the transportation, delivery and/or sale of natural gas in the State.

As the 2021 Winter Weather Event covered the State, the Electric Reliability Council of Texas ("ERCOT") implemented what were initially expected to be rotating outages to conserve electricity and address energy needs across the entirety of the State; however, due to the severity of the 2021 Winter Weather Event and the corresponding increase in demand on the Texas electric grid, combined with limited availability of generation, widespread and prolonged power outages began at 1:00 a.m., Central Time, on Monday, February 15, 2021, and continued throughout the week. Ultimately, approximately 4,000,000 Texas residents were without power for significant stretches of the week. By the middle of the 2021 Winter Weather Event, ERCOT announced that it had lost 46,000 megawatts ("MW") of generation, comprised of 28,000 MW of natural gas and coal generation and 18,000 MW of wind and solar.

ERCOT stated that, in sum, approximately 185 generating units had tripped offline for one reason or another related to the 2021 Winter Weather Event. Additionally, during the time of year in which the 2021 Winter Weather Event occurred, various generating plants were offline for scheduled maintenance, in anticipation of energy loads needed during spring and summer months. The extreme cold weather also impacted natural gas delivery to some gas-fired power plants, resulting in them operating at reduced capacities due to limited gas supply, further reducing the level of available generation below what was needed to meet demand. As a result, ERCOT issued an Energy Emergency Alert 3 and ordered electric providers to begin "load shedding" to protect the ERCOT grid, an order with which CPS Energy was required to comply, based on its share of ERCOT load. By February 18, 2021, the cold weather began to moderate and on February 19, 2021, ERCOT announced the existence of sufficient electric system generation to allow a return to normal operating conditions, with remaining power outages primarily attributable to localized damage requiring repair.

Throughout the 2021 Winter Weather Event, Texas utilities on both a statewide and local basis realized significant operational and financial disruption. Beginning February 12, 2021, and continuing over the next several days, the natural gas and wholesale power markets experienced extreme price volatility and, at points, ceased functioning properly. Indeed, next day delivery natural gas spot prices at various delivery hubs skyrocketed from an average of less than $3 per million British thermal unit ("MMBtu") to as high as $1,250 per MMBtu (recorded at the Oneok Gas Transportation hub in Oklahoma) at their peak; and ERCOT set the price per megawatt hour ("MWh") of electricity in the ERCOT real time market at the market cap of $9,000 from February 15, 2021 through February 19, 2021. During this time, ancillary service charges (which are incremental to the $9,000 per MWh market cap and were not subject to any price limitation) pushed the actual per MWh price to a high of $25,000. These financial impacts during the 2021 Winter Weather Event were highly disruptive to the Texas electric utilities market and some market participants became insolvent, filed for bankruptcy, or wound up exiting the market.

The ERCOT Market

Settlements and Market Participant Short-Payments and Uplift. In the immediate aftermath of the 2021 Winter Weather Event, ERCOT experienced short-payments from some of its market participants. Short-payments occur when a market participant fails to make a complete payment for settlement invoices for power purchases. When market participants do not pay the amount owed, ERCOT in turn pays amounts to market participants that are less than what their settlement statements from ERCOT reflect (i.e., they are "short-paid"). ERCOT previously estimated the cumulative aggregate short-pay amount at $2.9 billion (which is a gross amount that does not factor ERCOT's stated application of $800 million in congestion revenue rights auction revenue funds to mitigate the short-pay impacts of some market participants' non-payment in the immediate aftermaths of the 2021 Winter Weather Event). This amount reflects payments received for previously short-paid invoices and the application of financial security to short-paid balances, where available. This information is provided through short-payment notices issued to market participants.

All ERCOT market participants, including CPS Energy, could be exposed to the liability from non-paying or bankrupt ERCOT market participants. ERCOT is a membership-based nonprofit corporation, and thus revenue neutral (meaning that it has no independent revenue source and is a clearinghouse that passes on losses to other participants). If sufficient funds continue to be unavailable from short-paying entities, ERCOT also "uplifts" shortages to market participants on a pro-rata share as established through the ERCOT Protocols (this process is referred to as "Uplift"). Typical timelines of Uplift invoices are no earlier than 90 days and no more than $2.5 million per month until ERCOT uplifts the total short-paid amount. Such invoices must be at least 30 days apart. To address extraordinarily purchased power costs incurred during the storm, the 87th Texas Legislature passed Senate Bill 1580 ("SB 1580") and House Bill 4492 ("HB 4492"). SB 1580 sets forth the ability for electric cooperatives to securitize certain costs. HB 4492 pertains to the securitization of other ERCOT market participants (see "Relevant Policy and Legislation" below for additional information on HB 4492). Separately, the Texas Legislature passed House Bill 1520 ("HB 1520") to securitize the exceptionally high gas expenses incurred by investor-owned gas utilities and House Bill 1510 ("HB 1510") to assist electric utilities located within the State but outside of ERCOT by securitizing the elevated costs of power incurred during the 2021 Winter Weather Event.

In the 2020 calendar year, CPS Energy resources represented approximately 7.5% of total ERCOT generation (MWh) and peak native load (MW) represented approximately 6.8% of ERCOT peak load (MW). In 2021, because of other market participants' nonpayment, CPS Energy was short-paid a cumulative amount of approximately $18.1 million. Through December 2021, CPS Energy received $3.1 million from ERCOT reducing the outstanding short-payment amount to $15 million. This partial payment was the result of one of two securitization applications, filed by ERCOT pursuant to HB 4492 and approved by the Public Utility Commission of Texas ("PUCT") in October 2021, which resulted in the issuance of securitized bonds in the amount of $800 million. A portion of the bond proceeds was used by ERCOT to make partial payments to several market participants, including CPS Energy, that were short-paid for generation sales during the 2021 Winter Weather Event. In February 2022, ERCOT received $637.3 million from Rayburn Country Electric Cooperative, Inc. ("Rayburn") as full payment for all outstanding settlement invoices related to its power purchases. This payment was the result of Rayburn's successful bond financing completed pursuant to the securitization process outlined in SB 1580. To date, ERCOT has paid CPS Energy an additional $4.3 million from the bond proceeds delivered by Rayburn reducing the outstanding short-payment amount to $10.1 million. This leaves Brazos Electric Power Cooperative, Inc. ("Brazos"), which remains involved in bankruptcy proceedings, as the largest market participant that has

not paid in full outstanding settlement invoices to ERCOT. In early October 2022, the court in the Brazos bankruptcy proceeding preliminarily approved disclosure statements and a plan of reorganization, which include a settlement intended to reimburse ERCOT's unsecured claim of $1.88 billion. Approximately $1.15 billion of ERCOT's claim is expected to be satisfied through securitized bonds to be issued by Brazos' down-stream membership electric cooperatives (as the plan of reorganization was approved by the bankruptcy court on November 14, 2022). The proceeds from securitized bonds received from Brazos are targeted at further reducing ERCOT's short-payment liability to generators and to reimburse the congestion revenue rights auction fund from which ERCOT borrowed during the 2021 Winter Weather Event to make short-payments. Beyond the Brazos bankruptcy proceeding, CPS Energy does not have insight into other market participants that may cease to operate or that have outstanding settlement invoices from ERCOT and their ability to repay.

State Response to the 2021 Winter Weather Event

In the aftermath created by the 2021 Winter Weather Event, the ERCOT market faced many challenges. The storm exposed deficiencies in the natural gas supply as well as deficiencies in the winterization programs implemented by generator and transmission owners. As a result, numerous changes occurred at both the PUCT and ERCOT, including the following:

- All three commissioners of the PUCT resigned their positions. The PUCT was expanded from three to five commissioners and the current commissioners are as follows: Peter Lake, Chair, Will McAdams, Lori Cobos, Jimmy Glotfelty, and Kathleen Jackson.
- All out-of-state board members of the ERCOT Board of Directors (the "ERCOT Board") submitted letters of resignation; shortly thereafter, three additional ERCOT Board members resigned.
- The ERCOT Board voted to terminate its CEO, Bill Magness.
- The ERCOT Board was reconstituted by eliminating the prior 16-member board, which represented different market segments. The new ERCOT Board membership consists of 11 members with the PUCT Chair, the Public Counsel, and the ERCOT CEO acting as *ex officio* non-voting members, with the remaining 8 voting members appointed by a select committee.
- Paul Foster was named Chair of the ERCOT Board.
- All seats on the ERCOT Board are currently filled.
- The ERCOT Board selected Pablo Vegas as President and CEO, who joined ERCOT in October 2022.

The Texas Legislature also addressed events from the 2021 Winter Weather Event during the 87th Texas Legislature Regular Session, which ended on May 31, 2021. Senate Bill 3 ("SB 3") was the comprehensive bill approved by the Texas Legislature and signed into law by the Governor on June 8, 2021, addressing the vulnerabilities exposed during the 2021 Winter Weather Event. Among other items, SB 3 requires electric and other energy companies to implement several reforms, including (i) implementation of winterization measures for natural gas, electric generation, and transmission facilities; water production facilities, and supply systems; (ii) identification and mapping of facilities that support the electricity supply chain, including pipeline facilities that supply natural gas fuel generators; (iii) identification and designation of such natural gas facilities as "critical facilities"; and (iv) implementation of a statewide energy outage alert system. These provisions apply to CPS Energy by the addition of Section 38.075 of the Utilities Code, which: (i) requires the PUCT to adopt weatherization standards to prepare for weather emergencies, (ii) requires ERCOT to inspect the covered entities for compliance, (iii) requires ERCOT to inform the PUCT of violations, and (iv) authorizes the PUCT to impose an administrative penalty for each violation, not to exceed $1 million for each day of noncompliance.

The PUCT is implementing weatherization regulations in two phases. The first phase requires owners/operators to weatherize their transmission and generation facilities to the standards established by North American Electric Reliability Corporation ("NERC") following the 2021 Winter Weather Event and to address any failures experienced during such time. Phase two, which was approved in September 2022 and is intended to be implemented in December 2022, addresses additional weatherization standards accounting for recommendations in a yet-to-be published state climatologist report. Concerning the weatherization of critical gas pipeline and delivery facilities, the RRCT also acted in two phases. In phase one, the RRCT adopted a rule in November 2021 focused on the identification of critical gas facilities, as well as relatively small facilities that would be are exempt from critical designation. Under the rule, pipelines that are directly serving a city gate (to supply gas distribution systems) and generation resources are not eligible for an exemption from critical designation. In April 2022, the Texas Electricity Supply Chain Security and Mapping Committee released its confidential map and public report on the State's electric utility supply chain. Following the release of the map, the RRCT implemented phase two by adopting a new rule in August 2022 relating to weatherization standards. The new rule applies to natural gas supply and gas pipeline facilities included on the Electricity Supply Chain Map, all of which must be designated as "critical facilities" under by the RRCT's earlier rule. The new rule outlines standards applicable to these facilities to ensure operation during extreme weather, requirements for attestations and inspections, and penalties. On a going-forward basis, the RRCT will publish an online guide on best weatherization practices (subject to update).

Regarding changes to the wholesale market, SB 3, along with instructions from the Governor, directed the PUCT to consider a wide range of market design reforms to incentivize the deployment of more dispatchable generation within ERCOT. Overall, the PUCT made recent changes to move away from operating under a "crisis-based business model" where demand reserve and other resources are called upon by ERCOT only in response to emergency conditions. This model has proven ill-equipped in encouraging investment in dispatchable generation resources readily available during tight energy market conditions. In the short-term, at the direction of the PUCT, ERCOT adopted conservative operation practices characterized by much higher purchases of ancillary services and standby generation prior to entering emergency conditions compared to past practices. The desired effect is to minimize conditions of supply scarcity in the market when the price of electricity may increase sharply.

In addition, the PUCT effectuated rule changes to prevent energy prices from skyrocketing at the magnitude experienced during the 2021 Winter Weather Event. For instance, in 2021 the PUCT removed of the provision of the systemwide low-offer cap ("LCAP") rule that allowed the fuel price adder portion of the LCAP to increase by as much as 50-times the fuel cost when necessary to recover the operating cost of a generator selling power into the wholesale market. This allowed ancillary services during the 2021 Winter Weather Event to rise above the systemwide high-offer cap ("HCAP") of $9,000 per MW for natural gas fuel generators faced with the phenomenal rise in gas prices at the time due to short supply. The PUCT also approved a reduction in the HCAP to $5,000 per MW.

In the long-term, the PUCT is looking at potential changes in market structure to incentivize the construction of additional dispatchable generation resources to increase grid reliability of supply necessary to meet the increasing electricity load demand of a growing state. The potential long-term solution(s) must counteract the increasingly limited opportunities for scarcity pricing in the market, which is the result of more conservative ERCOT operational practices. While such conservative operations increase grid reliability, they also diminish instances where the price of electricity increases in the wholesale market due limited availability of generation in the real-time market ("Scarcity Pricing"). In the ERCOT energy-only market, Scarcity Pricing is intended to send a signal to invest in new dispatchable generation resources. These price signals, which have been inadequate in the past to incentivize new dispatchable generation given the entry of no marginal cost renewable generation resources, are becoming fewer under ERCOT's operational practices. Therefore, the challenge for the PUCT is to make structural changes in the market to increase opportunities for dispatchable generation resources to make enough money to prevent their early retirement and incentivize investment in new dispatchable generation. Dispatchable generation is necessary because ERCOT cannot operate the wholesale market with only intermittent renewable generation resources. In December 2021, the PUCT issued a roadmap outlining several market design options and contracted with a consulting firm to analyze and evaluate the market design reform proposals. The consulting firm released its report to the PUCT on November 10, 2022, recommending design updates to the Texas wholesale electricity market that will strengthen current and long-term reliability reforms to the electric grid.

Relevant Policy and Legislation

House Bill 16 ("HB 16") was approved by the Texas Legislature and signed into law by the Governor on May 26, 2021. HB 16 prohibits offering a wholesale indexed product to a residential customer.

Senate Bill 2 ("SB 2") was approved by the Texas Legislature and signed into law by the Governor on June 8, 2021. SB 2 changed the governance structure of the ERCOT Board. The bill reduces the ERCOT Board from 16 members to 11, eight of which now represent different professional fields instead of specific market segments. Furthermore, these eight seats were appointed by a newly created selection committee. The selection committee is composed of three people—one appointed by the Governor, one appointed by the Lieutenant Governor and one appointed by the Speaker of the House. The committee is also required to use an outside firm for recruiting members. Lastly, the bill requires that any rules or enforcement actions undertaken by ERCOT under the authority delegated to them by the PUCT must receive PUCT approval before taking effect.

Senate Bill 2154 ("SB 2154") was approved by the Texas Legislature and signed into law by the Governor on June 18, 2021. SB 2154 increased the number of PUCT Commissioners from three to five and all must be Texas residents. The Governor will continue to appoint the Commissioners with Senate confirmation. The bill restricts former PUCT Commissioners from lobbying the Commission for one year upon their departure and amends the criteria and qualifications for the Commissioners where at least two of the five commissioners must be "well-informed and qualified in the field of public utilities and utility regulation".

HB 4492 was approved by the Texas Legislature and signed into law by the Governor on June 16, 2021. HB 4492, among other things, authorizes a loan of up to $800 million to ERCOT from the State's Economic Stabilization (or "Rainy Day") fund through securitization. The proceeds from the securitization have been used by ERCOT to pay market participants that were short-paid for power purchases during the 2021 Winter Weather Event with the remainder going to reimburse an ERCOT fund that was temporarily used to make the initial short-payments for power during the storm. Payment for the debt service of the securitized loan is being allocated to all market participants based on their pro-rata share of market activity going forward. CPS Energy has received from those proceeds $3.8 million of an approximate outstanding $18.1 million owed to CPS Energy by ERCOT for power purchases made during the 2021 Winter Weather Event. In addition, CPS Energy received $4.3 million from ERCOT related to the Rayburn

securitization financing transaction. After accounting for these additional payments, the outstanding short-payment is currently at $10.1 million.

HB 4492 also permits the securitization financing of $2.1 billion in exposure to reliability deployment price adder charges and ancillary services costs incurred by load-serving entities ("LSEs") that were in excess of the ERCOT System-wide Offer Cap ("SWOC") of $9,000/MWh associated with power purchases by the LSEs during the 2021 Winter Weather Event. The purpose of this securitized transaction is to reimburse customers that would otherwise be liable for the extremely high electricity prices related to the period of the 2021 Winter Weather Event. Payment for the debt service of this securitized loan will be allocated to each obligated LSE that receives securitized funds based on their respective load ratio-share of the ERCOT wholesale market. Certain LSEs (including CPS Energy) may opt out of participation in the securitization financing described above, if they have paid in full all invoices owed ERCOT during the 2021 Winter Weather Event. CPS Energy timely filed a notice of opt-out of this securitization program. Both the $800 million and $2.1 billion securitized transactions under HB 4492 were approved by the PUCT in 2021 through debt obligation orders, and ERCOT implemented uplift procedures to recover non-bypassable charges to repay the securitized bonds over 30 years.

HB 1520 was approved by the Texas Legislature and signed into law by the Governor on June 16, 2021. HB 1520 pertains to the financing of certain extraordinary costs that were incurred by certain gas utilities by granting authority to issue bonds and authorizing fees. The bill applies to investor-owned gas utilities whose rates are subject to RRCT jurisdiction. Therefore, the securitization financing provided through this bill is not available to CPS Energy. Extraordinary costs incurred by CPS Energy to secure gas supply to provide service during the 2021 Winter Weather Event will need to be financed through traditional financing methods.

House Bill 2586 ("HB 2586") was approved by the Texas Legislature and signed into law on May 24, 2021 by the Governor. HB 2586 requires the PUCT to conduct an annual audit of ERCOT that would be sent to the Legislature and posted online for public viewing.

The legislation discussed above is not intended to be an exhaustive list of all legislation from the 87th Texas Legislature, but provides an explanation of salient laws that may impact the City or its electric, light, power plants, and systems, and gas distribution systems (collectively, the "Systems").

On July 6, 2021, the Governor sent a letter to the PUCT directing the PUCT to immediately take the following actions: (i) streamline incentives within ERCOT to foster the development and maintenance of adequate and reliable sources of power; (ii) allocate reliability costs to generation resources that cannot guarantee their own availability; (iii) instruct ERCOT to establish a maintenance schedule for non-renewable electricity generators; and (iv) order ERCOT to accelerate the development of transmission projects that increase connectivity between existing or new dispatchable generation plants and areas of need. The PUCT and ERCOT quickly responded to the directives outlined in the Governor's letter to outline the actions each entity had already undertaken, or planned to undertake, in-line with the Governor's directives. The PUCT has initiated several rulemaking proceedings to address market reforms in response to the directive from the Governor.

As described above under *State Response to the 2021 Winter Weather Event*, the PUCT eliminated the 50x the natural gas price index component of the LCAP, and on December 2, 2021, modified the value of the HCAP by lowering it from the current $9,000 to $5,000/MW.

On June 28, 2021, ERCOT approved Nodal Protocol Revision Request ("NPRR") 1080 that limits ancillary services prices at the SWOC. NPRR 1080 was proposed to correct the ERCOT protocols which allowed ancillary services prices to exceed the SWOC during the 2021 Winter Weather Event consistent with the version of the LCAP rule then in effect.

2021 Winter Weather Event's Direct Impact to the City and the Systems

General. As a result of the 2021 Winter Weather Event, demand for electricity and natural gas by CPS Energy customers was significantly above historical norms for February 2021. For its service area's combined gas distribution and gas-fired electric generation needs, CPS Energy saw (i) an increase in its demand for natural gas volumes of approximately 30% over the prior historical record, (ii) an all-time winter peak electric demand of 4,935 MW on February 14, 2021 (an approximate 14% increase over the prior historical winter record), and (iii) an all-time 24-hour usage record of 104,149 MWh on February 14, 2021 (an approximate 8% increase over the prior historical summer record).

Financial Implications. With the increasing demand for electricity and natural gas, prices also increased (with gas prices reaching unprecedented levels, as hereinbefore described). From its available sources, CPS Energy saw gas purchases that normally trade between $2-$4/MMBtu trade throughout the 2021 Winter Weather Event above $100/MMBtu and, in some cases, up to $500/MMBtu. In addition to natural gas purchases during the 2021 Winter Weather Event, CPS Energy incurred significant costs for the purchase of power from the ERCOT market. While there were periods of time CPS Energy was a net seller of power in the ERCOT market during this event, there were also periods of time when CPS Energy's generation plants were not producing power equivalent to CPS Energy's obligations. In those cases, CPS Energy incurred large purchased-power costs. As described under

"CPS Energy Actions to Address Disputed Charges", CPS Energy is currently disputing charges for natural gas that have been deemed excessive and unconscionable by CPS Energy.

Winterization of Generation Facilities. CPS Energy generation plants are weatherized during construction. Following an extended freeze event in February 2011, CPS Energy initiated a weatherization upgrade program and is currently updating its outage management system. Since that time over $5 million has been invested in weatherization upgrades. An annual winter weather preparation program was also implemented and has been evaluated multiple times by ERCOT.

CPS Energy reviewed information gathered during this event as well as an independent engineering analysis to support a reevaluation of its weatherization program and implemented solutions to weatherize certain components of generation facilities that experienced malfunction due to freezing conditions for the first time during the 2021 Winter Weather Event. These activities are in compliance with phase one of the PUCT's new weatherization rule. CPS Energy expects additional weatherization regulatory mandates with the implementation of phase two of the PUCT's weatherization rule expected to become effective in December 2022.

On February 22, 2021, Mayor Ron Nirenberg (the "Mayor") announced the formation of the Committee on Emergency Preparedness (the "CEP"), comprised of City Council members and external community stakeholders. As of December 31, 2021 all recommendations pertaining to CPS Energy made by the CEP in response to the 2021 Winter Weather Event have been addressed. These measures further strengthened reliability and resiliency of the Systems for the benefit of CPS Energy customers. These items were related to overall infrastructure and communications improvement, as well as emergency preparedness and outage management.

CPS Energy further strengthened the resiliency of its power plants against sustained freezing temperatures. Plants received over $2 million in improvements, building on nearly $20 million invested following the extended freeze in 2011. Continued weatherization efforts were funded as part of CPS Energy's rate increase approved by the Board and City Council on January 10, 2022 and January 13, 2022, respectively. Approximately $31 million of the revenue from the increase is allocated incrementally for infrastructure resiliency—power generation and distribution projects to support operations during extreme weather. CPS Energy spent $42.3 million in 2021 on these efforts and estimates it spent approximately $10.9 million thus far in 2022.

Since February 2021, CPS Energy has reevaluated its circuits to more precisely isolate the ones providing electricity to critical infrastructure such as hospitals, fire stations, and police substations. As a result, 155 circuits were added to the list of eligible circuits to rotate in the event of state-mandated outages. The approach will minimize the duration each customer is expected to experience during an outage cycle by rotating circuit outages among more customers. CPS Energy has taken freeze protection actions through the addition of heaters, temporary enclosures, and insulation, including the installation of enhanced insulation installation on lines and devices along with upgrades on selected systems.

ERCOT has made improvements that complement CPS Energy efforts in CPS Energy's service area. CPS Energy continues to work closely with the San Antonio Water System ("SAWS") to evaluate existing circuit redundancy and strategies for onsite generation as a means of greater resiliency for the most critical facilities and streamlined communication between CPS Energy and SAWS Operations Teams for greater responsiveness to the needs of both utilities. On September 21, 2022, the Board approved an agreement with SAWS that will result in the use of shared generators at select pump stations, in compliance with SB 3. Under the agreement, SAWS will pay an estimated $97 million to acquire and install the generators for CPS Energy operation. CPS Energy in turn will be allowed to utilize the generators during peak demand periods and have access to approximately 30 MW of power that could be deployed.

In addition, corrective actions were completed at South Texas Nuclear Project ("STP") to ensure the station is ready for winter weather operations. These actions focused on heat trace systems and piping insulation, revising the station's Winter Readiness procedure, and training for Operations, Maintenance and Engineering personnel on the station's winter readiness. STP also submitted Winter Weather Readiness Reports to ERCOT on December 1, 2021, required by PUCT Rule 25.55. ERCOT inspectors were onsite December 6, 2021 to tour the plant and confirm STP's compliance.

CPS Energy makes note that, because of the predominance of summer heat in comparison to winter cold that impacts its generation portfolio, its weatherization strategies generally focus on removal of heat from generating plants to avoid and prevent operational failures that are more prevalent throughout the summer.

Performance of CPS Energy Generation Assets. CPS Energy's deployed generation units were available over 85% of the time during the 2021 Winter Weather Event. One gas unit was on an ERCOT-approved, planned annual maintenance outage and, therefore, was not available for deployment. All other CPS Energy units were deployed during this event. The estimated 15% of unit unavailability was attributed to mechanical breakdown, natural gas pressure degradation, freezing weather, electrical and control failures, and low water pressure. Most of the problems were mechanical in nature, followed by low fuel pressure, then weather related frozen pipes.

As further described herein, CPS Energy owns 40% of STP. Those units are maintained and operated by a separate operating company. On February 15, 2021, an automatic reactor trip occurred in the hereinafter-defined STP1. The trip resulted from a loss of feedwater attributed to extreme cold weather-related failure of a pressure sensing line to the feedwater pumps. STP staff confirmed the issue did not exist in the hereinafter-defined STP2. STP1 was repaired, and the unit carefully came online on February 17, 2021, in accordance with standard established protocols. STP1 reached 100% power on February 18, 2021.

Liquidity and Short-Term Financing Plan. As of August 31, 2022, CPS Energy's cash and cash equivalents balance in its General Fund and Repair & Replacement Fund was approximately $788 million. Additionally, approximately $565 million of the $700 million capacity of the hereinafter-defined Commercial Paper Program is currently available. CPS Energy also has $100 million in capacity of the Series A Flexible Rate Revolving Note Program (hereinafter-defined as the "Series A Flex Notes"). As of the date hereof, CPS Energy has an additional $500 million of unutilized borrowing capacity under the hereinafter-defined Series B Flex Notes that could potentially be used as liquidity to pay for any additional conceded or settled natural gas charges.

CPS Energy anticipates sufficient liquidity to accommodate worst-case financial projections (notwithstanding its commitment to determine and pay the portion of those costs that are justified and legitimate, as hereinafter-described) resulting from the 2021 Winter Weather Event and to address its operational and capital needs for the remainder of its current fiscal year.

Long-Term Financing Plan. After utilizing all options to reduce the costs associated with the 2021 Winter Weather Event as described below, CPS Energy is addressing any final amount for the costs of purchased natural gas and power through two or more long-term financing transactions, replenishing cash and capacity under each of the programs related to the Flex Notes (defined herein) as well as the Commercial Paper Program (by refunding such obligations). On April 13, 2021, CPS Energy closed on its $413,720,000 Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022, which represented the first such transaction. Additionally, CPS Energy, on January 13, 2022 obtained approval from City Council for a regulatory asset for the unrecovered costs of purchased natural gas and power, plus legal, interim financing, and other contractual charges. The costs to be recorded in this regulatory asset, which are currently anticipated at $909 million, are expected to be amortized over a period of 25-years and recovered through fuel costs. This figure consists of $520 million in natural gas charges, purchased power in the amount of $314 million, and other charges of $75 million. The estimated average residential electric and gas customer bill impact for the financing of these known costs is anticipated to be $1.26/month for the first ten years, as previously disclosed to the Rate Advisory Committee ("RAC"), Board, and City Council (and excludes the remaining disputed costs). The proceeds from this recovery will be available for payment of the debt service on the long-term debt that has previously been or will be issued to refinance obligations initially issued as short-term or interim financing. In the ordinance approving the regulatory asset, the City exempted CPS Energy from the City payment (as described in the Bond Ordinances as an amount not to exceed 14% of the Systems' gross revenues) (the "City Payment"), on CPS Energy fuel and other 2021 Winter Weather Event costs through the regulatory asset.

On September 16, 2022, the City Council approved a return of $50 million (from the City Payment proceeds paid to the City) to CPS Energy customers. In total, $42.5 million will be credited to all CPS Energy electric customers and appear on December 2022 bills. The range of a customer's credit will be based upon their July 2022 electric usage. The remaining $7.5 million will assist low-income programs and customers who have past due balances, with up to $300 in assistance (which cannot exceed their total past due balance) and who are also, as of July 31, 2022, enrolled in one of CPS Energy's specified assistance programs.

CPS Energy Actions to Address Disputed Charges. Customer affordability remains a key focus area in any cost recovery or long-term financing plan. As such, CPS Energy continues to work to protect customers from costs from the 2021 Winter Weather Event that are unconscionable.

CPS Energy recently submitted a filing to the Federal Emergency Management Agency ("FEMA") of approximately $5.7 million of costs incurred related to the 2021 Winter Weather Event and is seeking reimbursement of 90% of those costs, per FEMA guidelines. As of November 2022, that filing remains under review by FEMA.

On March 12, 2021, CPS Energy filed suit against ERCOT in the Bexar County District Court seeking a declaratory judgment to prevent ERCOT from wrongfully declaring a default by CPS Energy based on a force majeure event and due to ERCOT's prior material breach for short-payments to CPS Energy heretofore described. The requested judgment also seeks to prevent ERCOT from requiring CPS Energy and its customers to pay for other market participants' default (i.e., Uplift) based on excessive prices and to prevent ERCOT from charging CPS Energy for any amounts associated with the Pricing Errors identified in the Potomac report issued by the Independent Market Monitor. In December 2021, the Fourth Court of Appeals (the "Fourth Court") dismissed CPS Energy's petition on procedural grounds, and without addressing the merits of the case, stating that the PUCT has exclusive original jurisdiction over CPS Energy's claims. On January 27, 2022, CPS Energy filed its petition for review with the Texas Supreme Court. On February 15, 2022, the Texas Supreme Court requested that ERCOT file a response, which it did on April 18, 2022. On September 2, 2022, the Texas Supreme Court granted CPS Energy's Petition for Review, and the matter was consolidated with *In re ERCOT and William L. Magness*. The merits are now being briefed, and oral arguments are set for January 9, 2023.

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

CPS Energy has and will continue to timely pay its natural gas suppliers, once properly invoiced, in accordance with the Disputed Payment Provision and other applicable provisions of the natural gas supply contracts. CPS Energy makes no guarantees or predictions regarding the success or failure of its efforts to dispute purported natural gas charges under the Disputed Payment Provision or the reactions of its natural gas suppliers in response to CPS Energy's invoking the Disputed Payment Provision.

CPS Energy is currently engaged in litigation against three of its natural gas suppliers, in which CPS Energy is disputing (under the Disputed Payment Provision) over $350 million in natural gas prices charged by those suppliers for natural gas in the 2021 Winter Weather Event as being unconscionable and violative of public policy in Texas. The pending gas supplier cases have been consolidated into the Multidistrict Litigation ("MDL") Panel and have been assigned to a judge in Bexar County (the "County") for pre-trial proceedings. CPS Energy makes no guarantee or prediction regarding the outcome of these disputes.

Investor and Community Communication and Outreach. Since February 25, 2021, CPS Energy filed voluntary event notices with the MSRB through EMMA concerning matters associated with the 2021 Winter Weather Event and its operational and financing impact on CPS Energy. CPS Energy also provided incurrence of a material financial obligation filings and material event notices concerning resultant rating actions on CPS Energy by Fitch Ratings, Inc. ("Fitch") and S&P Global Ratings ("S&P"), respectively. In addition, CPS Energy issued press releases regarding its position and resultant actions in response to the 2021 Winter Weather Events. These press releases are available at www.cpsenergy.com.

Though the substance of the event notices is included in this Remarketing Memorandum in summarized form, investors are directed to those notices for additional information regarding the covered events. The substance of these event notices, however, is not incorporated herein by reference.

City Committees. The Mayor formed the CEP on 2021 Winter Storm Preparedness and Response consisting of four City Council members and three community stakeholders. The objective of the CEP was to determine what caused the electrical and water outages within the City and its community and what can be done to be better prepared in the future. The CEP's report was presented to the City Council on June 24, 2021 and included recommendations for improvements as it relates to CPS Energy. As of the end of 2021, all items the CEP identified related to the 2021 Winter Weather Event had been addressed to ensure a much better response to any future severe winter event. The delivery of the final report concluded the work of the CEP.

Following the election of several new City Council members and the conclusion of the efforts by the CEP, the Mayor formed the City's Municipal Utilities Committee (the "Utilities Committee"), which first met on August 24, 2021 to discuss the broad challenges faced in the aftermath of the 2021 Winter Weather Event and the COVID-19 pandemic (discussed hereinafter) and continues to meet periodically. Chaired by Councilmember John Courage, the Utilities Committee includes City Councilmembers Adriana Rocha Garcia, Melissa Cabello Havrda, and Ana Sandoval, and oversees the implementation of programs and policies at CPS Energy, including the recommendations from the CEP.

Legal Actions Related to the 2021 Winter Weather Event

After the 2021 Winter Weather Event, the City, acting by and through CPS Energy, was named as a defendant in various lawsuits alleging wrongful death and property damage because of the 2021 Winter Weather Event. CPS Energy is currently analyzing its potential exposure, as well as its defense in these matters. All these lawsuits were transferred to the Texas state-wide MDL Panel in Harris County, Texas. This court is handling all pretrial matters with each case being transferred back to its county of origin for trial if not disposed of at the pre-trial stage. While the court has held several status conferences, all activities in these cases remained stayed until a schedule is entered by the court.* The majority of the plaintiffs in the MDL have amended their pleadings to include all generators across the state including CPS Energy.

* *Jesus Rodriguez v. City of San Antonio by and through City Public Service Board d/b/a CPS Energy* was listed in the Systems Litigation section in prior offering documents. This matter arises from the 2021 Winter Weather Event and thus is included in this section.

These actions significantly increased the number of cases in which CPS Energy is directly named. The MDL Panel selected representative cases that will serve as test cases on several points of law including dispositive motions.

Summary

Except for the ERCOT short-pay and Uplift invoicing process, the results of which CPS Energy cannot predict, CPS Energy is confident that it has identified the upward limit of its exposure to financial and operational impacts of the 2021 Winter Weather Event. As described above, CPS Energy has identified adequate sources of liquidity to accommodate its operational and capital needs, considering the possibility that this worst-case financial consequence is realized. Prior to conceding this worst-case financial scenario, CPS Energy is committed to exploring all options and taking advantage of applicable Texas law and provisions of its contractual arrangements to shield its customers and other stakeholders from paying charges that are unconscionable and violative of public policy in Texas. CPS Energy cannot predict the timing for resolution of these matters or the response of its counterparties but can state that it has taken appropriate action to preserve and ensure that its operations are not interrupted or otherwise compromised as a result of these efforts.

Based on historical performance, CPS Energy believes that its efforts to respond to, mitigate the impacts of, and ultimately accommodate the final financial and operating results of the 2021 Winter Weather Event will prove successful, but success has multiple measures and, in some instances, is dependent on circumstances over which CPS Energy has no control. Accordingly, CPS Energy makes no predictions concerning its future operating results or its ability to accommodate any additional (but currently unknown) consequences of the 2021 Winter Weather Event.

Application of Section to the Remainder of this Remarketing Memorandum

Much of the information and financial data included in this Remarketing Memorandum is based on historical data that does not include the impact of, but will prospectively be impacted by, the result of the 2021 Winter Weather Event and the various responses thereto. Readers are directed to revert to the disclosure written in this section, as all information included herein is qualified by the application of these impacts, and the scope and breath, for the reasons hereinbefore discussed, remain fully unknown.

COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, spread very quickly across the globe. On March 11, 2020, the World Health Organization declared a global pandemic (the "Pandemic"). After several prior actions, including a March 2, 2020 declaration of a local state of disaster and public health emergency and a March 16, 2020 declaration prohibiting mass gatherings, the Mayor and the County Judge issued declarations on March 23, 2020 ordering non-essential businesses to close and residents to remain at home except for limited purposes for a period beginning March 25, 2020. The State began incrementally reopening businesses in mid-May 2020, and the City and the County incorporated that same strategy and approach in their local declarations and orders. City and County officials now primarily rely on the Texas Governor's Executive Orders for reopening and limiting capacity of businesses, though decisions made within the authority of local control (which has ebbed and flowed throughout the duration of the Pandemic) take into account local conditions and impact. The Texas Governor has since issued a series of executive orders related to COVID-19 protocols, prohibitions on mask and vaccine mandates, and the opening of various businesses. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at http://gov.texas.gov/. Neither the information on this website, nor the information accessed through it, is incorporated by reference (expressly or by implication), into this Remarketing Memorandum.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and could potentially continue to negatively affect economic output worldwide and within the City and the County. Future negative impacts may reduce or otherwise negatively affect Net Revenues (as defined and described in the Ordinance) of the Systems which are pledged as security for the Bonds. Neither the City nor CPS Energy, however, can predict the effect of the continued spread of COVID-19 on the finances or operations and maintenance of the City or the Systems, respectively.

CPS Energy continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic on the Systems. As part of its business continuity protocols, CPS Energy has implemented measures to protect the health of its employees, contractors, and customers and to ensure the continuity of its business operations and the delivery of electric and gas services to the community. Many of the Systems' employees who do not work directly in the continuous provision of electric and gas services to CPS Energy customers continue to work remotely from home.

Notwithstanding the foregoing, CPS Energy has conducted updated analyses of impacts to certain of its operations and taken actions in response thereto. A summary of these operational impacts and CPS Energy responses are included herein under the caption "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO" herein.

GENERAL DESCRIPTION OF CPS ENERGY REVENUE DEBT AND PRIORITY OF LIENS

The Junior Lien Obligations are secured by a lien on and pledge of the Net Revenues of the City's Systems junior and inferior to the lien thereon and pledge thereof securing the payment of the Senior Lien Obligations (defined in the Bond Ordinances to mean, generally, those City obligations payable from a first lien on and pledge of the Net Revenues of the Systems). As of the date hereof, the City has Senior Lien Obligations outstanding in an aggregate principal amount of $4,096,790,000. In addition to Additional Senior Lien Obligations (as defined in the Bond Ordinances), the Bond Ordinances permit the issuance of additional obligations of the City payable from a lien on and pledge of the Net Revenues on parity with the lien thereon and pledge thereof securing the then-outstanding Junior Lien Obligations (such additional obligations, the "Additional Junior Lien Obligations"), if certain historical earnings tests and other conditions are satisfied. See "THE BONDS – Bond Provisions" and "JUNIOR LIEN OBLIGATIONS" herein.

The Bond Ordinances also permit the City to issue obligations payable from a lien on and pledge of the Net Revenues that is subordinate and inferior to the lien thereon and pledge thereof securing the payment of the Junior Lien Obligations (such subordinate lien obligations are identified in the Ordinance as the "Commercial Paper Obligations" and the "Inferior Lien Obligations", as such terms are hereinafter defined), but the Bond Ordinances provide that, other than the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued, 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 currently outstanding Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued.

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 (the "Inferior Lien Obligations") and pledges thereof securing the payment of the Senior Lien Obligations, the Junior Lien Obligations, and the Commercial Paper Obligations.

The City maintains a Flexible Rate Revolving Note Private Placement Program, as Inferior Lien Obligations, where it is authorized to issue Series A Flexible Rate Revolving Note Program (the "Series A Flex Notes") and Series B Flexible Rate Revolving Note Program (the "Series B Flex Notes" and together with the Series A Flex Notes, the "Flex Notes"). Series A Flex Notes are authorized to be issued in an aggregate principal amount not to exceed $100,000,000 outstanding at any one time until the November 1, 2028 program expiration date. Series B Flex Notes are authorized to be issued in an aggregate principal amount not to exceed $500,000,000 outstanding at any one time until the April 1, 2031 program expiration date.

The City has entered into a Note Purchase Agreement (dated February 25, 2022) with Wells Fargo Bank, National Association, with a term that expires February 24, 2023, and pursuant to which such bank is obligated to purchase Series A Flex Notes in a principal amount up to the programmatic capacity. As of the date hereof, the City has the full $100,000,000 Series A Flex Rate Notes capacity undrawn and available. On October 31, 2022, the Board authorized the extension of the term of this Note Purchase Agreement related to the Series A Flex Notes, which CPS Energy plans to effectuate prior to the associated expiration date.

The City has entered into additional Note Purchase Agreements (each dated as of April 27, 2021) with JPMorgan Chase Bank, National Association for $225,000,000, Wells Fargo Bank, National Association for $200,000,000, and Frost Bank for $75,000,000, which obligates each bank to purchase Series B Flex Notes when issued in respective principal amounts that, in the aggregate, total the programmatic capacity, with a term that expires on April 26, 2023. As of the date hereof, the full $500,000,000 of Series B Flex Notes programmatic capacity remains undrawn and available. On October 31, 2022, the Board authorized CPS Energy to extend the term of each Note Purchase Agreement described above (or alternatively requested City Council adopt an ordinance authorizing one or more liquidity agreements with other providers). CPS Energy plans to take the necessary steps to ensure the available liquidity under the Series B Flex Notes equals the programmatic capacity.

There follows in this Remarketing Memorandum a description of the City, the City Public Service Board of San Antonio, Texas ("Board", "CPS", or "CPS Energy"), and 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. Copies of such documents may be obtained from the City or the Co-Financial Advisors (defined herein) upon request by electronic mail or upon payment of reasonable copying, handling and delivery charges.

This Remarketing Memorandum describes the Bonds (including the terms of their remarketing and conversion to the New Interest Period, but not the other features of these variable rate Bonds that have no application to such remarketing and conversion or effect thereafter) and certain information regarding the City and the Systems and its finances. This Remarketing Memorandum speaks only as to its date and the information contained herein is subject to change. A copy of the Final Remarketing Memorandum

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.

THE BONDS ARE SUBJECT TO CONVERSION TO OTHER INTEREST MODES AT THE TIMES AND UPON THE CONDITIONS DESCRIBED IN THE ORDINANCE FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH BONDS. THIS REMARKETING MEMORANDUM IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE BONDS AFTER CONVERSION TO ANY NEW INTEREST MODE OR INTEREST PERIOD (INCLUDING ANY SUBSEQUENT TERM MODE INTEREST PERIOD). PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS REMARKETING MEMORANDUM FOR INFORMATION CONCERNING ANY OTHER INTEREST MODE OR INTEREST PERIOD FOR THE BONDS OTHER THAN THE BONDS IN THE CURRENT INTEREST PERIOD.

THE BONDS

DESCRIPTION OF THE BONDS

The Bonds are issued and outstanding pursuant to an ordinance adopted by the City Council of the City (the "City Council") on June 14, 2018 (the "Ordinance"), were dated December 1, 2018, and mature on February 1, 2048 in the amount shown on the table appearing on page ii hereof. Bonds are currently outstanding in the aggregate principal amount of $134,870,000. The Bonds are multi-modal, variable rate bonds, currently outstanding in a Term Mode that concludes on November 30, 2022 (which interest period is referred to herein as the "Current Term Period"). Upon expiration of the Current Term Period, the Bonds will be remarketed into a new interest period where the Bonds bear interest at a SIFMA Index Rate (the "New Interest Period"). Features of and provisions applicable to the Bonds in the New Interest Period are provided in the table appearing on page ii hereof. The remarketing of the Bonds in the New Interest Period is authorized pursuant to the Ordinance and a resolution of the Board adopted on April 25, 2022 (the "Remarketing Resolution").

General. The Bonds are issuable in fully registered form only, without coupons, in denominations of $5,000 and integral multiples of $5,000 while in the New Interest Period. The Bonds are 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 its participants, who in turn distribute such amounts to the Beneficial Owners (defined herein) 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 – Bond Provisions – 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, currently The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, on the Interest Payment Date (defined herein) to the registered owners thereof as shown on the records of the Paying Agent/Registrar, at the close of business on the Record Date (defined herein), 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.

INTEREST DURING THE NEW INTEREST PERIOD

General. Beginning on December 1, 2022 (which is the first date of the New Interest Period), the Bonds will bear interest at a SIFMA Index Rate, as more fully described herein.

Interest on the Bonds will be calculated on the basis of a 365/366 day year for the actual number of days elapsed, payable (i) on the first Business Day of each month, commencing on January 3, 2023, during the New Interest Period and any period during which the Bonds bear interest at a Stepped Rate (defined herein), (ii) on any scheduled mandatory sinking fund redemption date, (iii) on any Purchase Date (as defined in the Ordinance), or (iv) on any other mandatory purchase date or optional redemption date (each, an "Interest Payment Date"). Interest will be payable to the registered owner of the Bonds of record on the day immediately preceding each Interest Payment Date (whether or not a Business Day), which is the "Record Date" for the Bonds bearing interest at the SIFMA Index Rate and the Bonds bearing interest at a Stepped Rate.

During the New Interest Period and while the Bonds bear interest at a Stepped Rate (if at all), the Bonds are not subject to tender for purchase at the option of the Bondholders.

If the day specified for any payment of principal or interest on the Bonds is not a Business Day, then such payment may be made on the next Business Day without additional interest and with the same force and effect as if made on the date specified for payment.

At no time shall interest on the Bonds exceed the Maximum Rate, which (under the Ordinance) means the lesser of the maximum interest rate permitted from time to time under applicable State law and eight percent (8%) per annum.

The Bonds, during the New Interest Period, are not benefitted by a liquidity facility provided by a third party. Accordingly, a failure by the Remarketing Agent to remarket the Bonds on their specified date of mandatory tender will result in the rescission of the notice of mandatory tender therefore, and the City will not have any obligation to purchase such Bonds at that time. The occurrence of the foregoing will not result in an event of default under the Ordinance or Bonds. Until such time as the City redeems or remarkets the Bonds that have been unsuccessfully remarketed as described above, such Bonds shall bear interest at the "Stepped Rate", being the per annum rate of interest then applicable to such unremarketed Bonds as identified in the table appearing on page ii hereof, calculated as described in "THE BONDS – Interest During the New Interest Period" (see also "THE BONDS – Conversion of Interest Modes (Including New Interest Mode Conversion); Mandatory Tender; Purchase of Tendered Bonds – Mandatory Tender" herein).

The City has not acquired a liquidity facility to provide liquidity support for the Bonds nor are any currently contemplated to be acquired in the future.

Determination of SIFMA Index Rates and Calculation of Interest. During the New Interest Period, interest shall accrue from one Interest Payment Date to, but not including, the next Interest Payment Date (or, initially, from the December 1, 2022 commencement of the New Interest Period to, but not including, the first Interest Payment Date), at a rate per annum (not to exceed the Maximum Rate) equal to the SIFMA Index Rate, which is defined in the Ordinance as the sum of the Applicable Spread for such Interest Period during which the Bonds are in a SIFMA Index Mode plus the SIFMA Index, as calculated by the then-acting Calculation Agent as hereinafter-described, rounded upward to the fifth decimal place (all dollar amounts used in or resulting from such calculation of interest on the Bonds bearing interest at the SIFMA Index Rate will be rounded to the nearest cent (with one-half cent being rounded upward)).

The Calculation Agent will calculate the SIFMA Index Rate not later than the Business Day immediately succeeding each Calculation Reset Date, which is the day immediately succeeding the SIFMA Determination Date (as defined in the Ordinance), and shall generally mean each Thursday, or if such day is not a Business Day, the immediately preceding Business Day (being the SIFMA Determination Date). The Bonds will bear interest at each recalculated SIFMA Index Rate from a Calculation Reset Date through the day preceding the next Calculation Reset Date.

The "SIFMA Index" means, for any day, the level of the most recently effective index rate which is issued weekly, and which is compiled from the weekly interest rate resets of tax-exempt variable rate issues. The index is calculated and published by Bloomberg and overseen by the Securities Industry and Financial Markets Association ("SIFMA") and issued on each SIFMA Determination Date. If such index is no longer published, the SIFMA Index for any day will mean the level of the most recently effective *S&P Municipal Bond 7-Day High Grade Rate Index* maintained by S&P Dow Jones Indices LLC (previously Standard & Poor's Securities Evaluations Inc.), or any successor organizations, for a 7-day maturity as published on the day which is one U.S. Government Securities Business Day immediately preceding the effective date of such index. The effective date for each such index is every Thursday (or any other day specified by SIFMA, in the case of the first such index), or if any Thursday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day. If neither the original index or such substitute index is available, the SIFMA Index for a day will be the alternate index for such day identified at the time of the conversion of the Bonds or portion thereof to the SIFMA Index Mode.

The "Applicable Spread" for the Bonds during the New Interest Period is set forth on page ii herein.

The "Calculation Agent" means a banking institution, financial institution, or other entity selected by the City to serve in such capacity under and to perform the duties described in the Ordinance, which may be the Paying Agent/Registrar or the Remarketing Agent.

Initially, the Paying Agent/Registrar will also serve as the Calculation Agent pursuant to applicable provisions included in the Paying Agent/Registrar Agreement.

The Ordinance provides that the Remarketing Agent is also authorized to serve as a Calculation Agent. In the absence of manifest error, the determination by the Calculation Agent of any index component and the SIFMA Index Rate will be conclusive and binding on the Bondholders, the Paying Agent/Registrar, the Calculation Agent, the Remarketing Agent, and the City. If during any SIFMA Index Period, the acting Calculation Agent fails to calculate or recalculate the applicable interest rate by the time requirement specified above, such calculation may instead be made by the Remarketing Agent, the Calculation Agent, or any other banking institution, financial institution, or other entity designated by an Authorized Official (with written notice to the Paying Agent/Registrar and the Remarketing Agent).

RECORD DATE DURING THE NEW INTEREST PERIOD

The record date ("Record Date") for determining the person to whom interest on a Bond is payable on any Interest Payment Date shall be the last Business Day prior to an Interest Payment Date.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "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 ("Special Payment Date", which must be 15 days after the Special Record Date) will 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 of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

CONVERSION OF INTEREST MODES (INCLUDING NEW INTEREST MODE CONVERSION); MANDATORY TENDER; PURCHASE OF TENDERED BONDS

Conversion of Interest Modes. Upon conclusion of the New Interest Period (or prior date of mandatory purchase), the City is permitted to change the mode for all or any portion of the Bonds to one or more different modes or different durations (and, if the new interest rate mode is a Term Mode and/or SIFMA Index Mode, to designate the duration of such interest rate period). The Bonds, at the conclusion of the New Interest Period, are subject to mandatory tender without right of retention.

Remarketing Agent and Remarketing Agreement. Ramirez & Co., Inc. has been appointed to serve as the "Remarketing Agent" for the Bonds. The office of Ramirez & Co., Inc. for purposes of its duties as Remarketing Agent for the Bonds is 61 Broadway, Suite 2900, New York, New York 10006 (Attention: Syndicate Desk).

The Remarketing Agreement. Pursuant to, and subject to the terms and conditions of a Remarketing Agreement, dated as of April 25, 2022 (but effective as of November 15, 2022), between the City and the Remarketing Agent, the Remarketing Agent agreed, on a firm financial arrangements basis, to remarket the Bonds from its Current Term Period to the New Interest Period. For this service, the Remarketing Agent will be compensated as described herein under the subcaption "Settlement of Remarketing".

Subsequent Remarketings; Successor Remarketing Agents. Under the Ordinance, the City is permitted to appoint one or more qualified financial institutions to serve as a substitute Remarketing Agent for the Bonds. Accordingly, there is no guaranty that the Remarketing Agent herein identified will serve in such capacity when and if remarketed at the conclusion of the New Interest Period.

Tender Provisions. *General*. The Bonds are not subject to optional tender during the New Interest Period. The Bonds are, however, subject to mandatory tender (without right of retention) at the times and in the manner described under "Mandatory Tender" below; provided that when there exists no liquidity facility relating to the Bonds, which includes the Bonds in the New Interest Period, a failure to remarket such Bonds subject to mandatory tender will not constitute an event of default under either the Ordinance or the affected Bonds themselves and, in such instance, the mandatory tender is deemed rescinded until the Remarketing Agent is able to remarket or the City redeems the affected Bonds, all in accordance with the Ordinance.

As stated above, the Bonds, during the New Interest Period, are not benefitted by a liquidity facility provided by a third party. Accordingly, a failure by the Remarketing Agent to remarket the Bonds subject to mandatory tender on December 1, 2025 (the "Latest Mandatory Tender Date") will result in the recission of the notice of mandatory tender with respect thereto, and the City will not have any obligation to purchase the Bonds.

The occurrence of the foregoing will not result in an event of default under the Ordinance or the Bonds. Until such time as the City redeems or remarkets such Bonds after the Latest Mandatory Tender Date, the Bonds shall bear interest at the "Stepped Rate", being the per annum rate of interest then applicable to such unremarketed Bonds specified on page ii hereof, calculated on a 365/366-day year and the actual number of days elapsed. A failure to remarket Bonds that are subject to mandatory tender, by election of the City, on a date that occurs prior to the Latest Mandatory Tender Date (such failure to be evidenced by a rescission of the notice of mandatory tender in the manner hereafter described) shall result in those affected Bonds continuing to bear interest at the SIFMA Index Rate until the earlier to occur of redemption, mandatory tender for purchase by their Latest Mandatory Tender Date, or the expiration of such New Interest Period (after which such Bonds, if not remarketed, shall bear interest at the Stepped Rate as described above).

Mandatory Tender. The Bonds are subject to mandatory tender, without right of retention by the owner thereof and at the election of the City, beginning on June 1, 2025 and on any date thereafter (but in no case later than the Latest Mandatory Tender Date); provided, however, if such day is not a business day, actual tender shall occur on the next such business day (though interest will

have ceased to accrue as of the expiration of the New Interest Period). A mandatory tender date for the Bonds, other than their Latest Mandatory Tender Date, shall be determined at the option of the City. On the specified mandatory tender date, each owner of the Bonds will be required to tender, and in any event will be deemed to have tendered, such Bonds (or the applicable portion thereof described below) to the Tender Agent (identified herein) for purchase at a purchase price equal to 100% of the principal amount plus accrued interest, if any (payable from the limited sources of funds described below).

The Tender Agent is required to give notice of mandatory tender to each registered owner of the Bonds affected thereby by mail, first class postage prepaid, not more than 60 nor less than 30 days, while Bonds are in a SIFMA Index Mode (which includes the New Interest Period). Except with respect to a notice of mandatory tender scheduled to occur on the Latest Mandatory Tender Date (recission of which may be "deemed", as described herein), the City may rescind any such notice of mandatory tender so long as such recission occurs at least one Business Day prior to the scheduled date of mandatory tender. While the Bonds are registered in the name of Cede & Co., only Cede & Co. will receive such notice from the Tender Agent. See "THE BONDS – Bond Provisions – Book-Entry-Only System" herein.

However, beneficial owners may register to receive such information directly by contacting the Tender Agent. See "CONTINUING DISCLOSURE OF INFORMATION" herein.

In the event that the Bonds are not converted and remarketed to new purchasers on or prior to the Latest Mandatory Tender Date, the City shall have no obligation to purchase the Bonds tendered on such date, the failed conversion and remarketing shall not constitute an event of default under the Ordinance or the Bonds, the mandatory tender will be deemed to have been rescinded for that date with respect to the Bonds subject to such failed remarketing only, and such Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of such Bonds, (iii) will be subject to redemption on any date during the New Interest Period and subject to mandatory tender for purchase on any date during which interest accrues at the Stepped Rate upon which a conversion to another Interest Mode occurs (which shall occur at the City's discretion upon delivery of at least one day's notice of such redemption or requirement of mandatory tender to the holders of Bonds bearing interest at the Stepped Rate), and (iv) will be deemed to continue in the New Interest Mode for all other purposes of the Ordinance, though bearing interest during such time at the Stepped Rate until remarketed or redeemed in accordance with the terms of the Ordinance.

In the event of a failed conversion and remarketing as described above, the City has covenanted in the Ordinance to cause the Bonds to be converted and remarketed on the earliest reasonably practicable date on which they can be sold at par, in such Interest Mode or Modes as the City directs, at a rate not exceeding the Maximum Rate.

Tender Agent. The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, serves as the tender agent (the "Tender Agent") for the Bonds, pursuant to a Tender Agent Agreement, dated as of June 14, 2018, between the City and the Tender Agent.

Tender Procedures. While the Bonds are all registered in the name of Cede & Co., as nominee for DTC, bondholders may tender Bonds for purchase by giving DTC sufficient instructions to transfer beneficial ownership of such Bonds to the account of the Tender Agent against payment. In the event that the Book-Entry-Only System herein is discontinued and registered bonds are issued, all notices and Bonds are required to be delivered to the Tender Agent.

Limitations on Payment of Purchase Price; Untendered Bonds. The Tender Agent will be required to effect purchases of tendered Bonds solely from and to the extent of (1) proceeds of the remarketing of such Bonds pursuant to the Remarketing Agreement, or, to the extent such proceeds are insufficient and (2) payments, if any, elected to be made by the City in its sole discretion. The City will have no obligation and has no intent to purchase tendered Bonds. No purchase right will pertain to Bonds registered in the name or held for the benefit or account of the City or certain affiliates. See discussion above under "Mandatory Tender" for the effects of a failed remarketing of Bonds when there exists no liquidity facility providing liquidity support therefor.

ANY BOND (OR PORTION THEREOF) WHICH IS REQUIRED TO BE TENDERED OR FOLLOWING NOTICE OF TENDER AND FOR WHICH PAYMENT OF THE PURCHASE PRICE IS DULY PROVIDED FOR ON THE PURCHASE DATE WILL BE DEEMED TO HAVE BEEN TENDERED AND SOLD ON SUCH PURCHASE DATE, AND THE HOLDER OF SUCH BOND WILL NOT THEREAFTER BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST ACCRUED SUBSEQUENT TO SUCH PURCHASE DATE) IN RESPECT THEREOF OTHER THAN THE PURCHASE PRICE FOR SUCH BOND OR PORTION OR OTHERWISE BE SECURED BY OR ENTITLED TO ANY BENEFIT UNDER THE ORDINANCE.

REDEMPTION OF BONDS

Optional Redemption. The Bonds are subject to redemption, at the City's option, in whole or in part, beginning on June 1, 2025, prior to the expiration of the New Interest Period, and on any day thereafter through the expiration thereof, and on the first Interest

Payment Date after the conclusion of the New Interest Period. Bonds bearing interest at a Stepped Rate are subject to redemption on any date.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory sinking fund redemption by the City prior to their scheduled maturity (but not during the New Interest Period) at a redemption price equal to 100% of the principal amount thereof, without premium, on the first interest payment date for such Bonds on or after February 1 of the years and in the principal amounts indicated below:

Year	Principal Amount
2043	18,385,000
2044	19,855,000
2045	21,445,000
2046	23,160,000
2047	25,010,000
2048	27,015,000*

* Stated Maturity

General. 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 and 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 herein and not theretofore credited against a mandatory redemption requirement.

Though these mandatory sinking fund redemption payments are not scheduled to occur in a New Interest Period, they are nevertheless included herein to demonstrate that the Bonds are not structured as a "bullet" maturity and to evidence the Bonds as a part of the table appearing under "DEBT SERVICE REQUIREMENTS" herein.

Redemption Procedures. Except with respect to Bonds bearing interest at the Stepped Rate (which may be redeemed on one day's notice to the holders thereof), not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first-class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

If less than all the Bonds are to be redeemed, the City may select the sinking fund installments of the Bonds to be redeemed and shall direct the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) to select by lot, or other customary random method, the sinking fund installments thereof, to be redeemed. If the 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.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

With respect to redemption of Bonds effected on their Mandatory Tender Date, the notice of mandatory tender provided pursuant to the Ordinance shall also serve as notice of any such redemption.

BOND PROVISIONS

Authority for the Bonds. The Bonds were originally issued and are from time to time remarketed under the provisions of applicable laws of the State, including Chapters 1371 and 1207, Texas Government Code, as amended, the City's Home Rule Charter, the Ordinance, and the Remarketing Resolution. In the Remarketing Resolution, the Board delegated to certain authorized officials (being the Designated Financial Officers under the Ordinance) the ability to execute a conversion certificate (the "Conversion Certificate") evidencing final terms relating to the remarketing of the Bonds. The Conversion Certificate was executed by a Designated Financial Officer on November 15, 2022.

Security for the Bonds. 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 lien thereon and pledge thereof securing the outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued, and superior to lien thereon and the pledge thereof securing the currently outstanding Commercial Paper Obligations and Inferior Lien Obligations, all as fully set forth in the Bond 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. See "DEBT SERVICE REQUIREMENTS" and "THE BONDS – Bond Provisions – 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.

For a description of the sources of payment of the purchase price of Bonds tendered for purchase, see "THE BONDS – Conversion of Interest Modes (Including Current Conversion); Mandatory Tender; Purchase of Tendered Bonds" herein.

Perfection of Security for the Bonds. Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the 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 pledge of the Net Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, as amended, in order to preserve to the registered owners of the Bonds a security interest in such pledges, 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 any 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 provide 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 Senior Lien Obligations or Additional Senior Lien Obligations, including the establishment and maintenance of the reserve therefor; (iii) to the payment of the Bonds, the Previously Issued Junior Lien Obligations, and any Additional Junior Lien Obligations, including the establishment and maintenance of a reserve therefor, if any; (iv) to the payment and security of the Notes and the Agreement (as defined in the Commercial Paper Ordinance); (v) to the payment and security of obligations hereinafter issued which are inferior in lien to the Senior Lien Obligations, Additional Senior Lien Obligations, the Junior Lien Obligations (including the Bonds), and the Notes, which obligations are referred to in the Bond Ordinances as Inferior Lien Obligations and which includes the Flex Notes (defined herein); (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; (vii) to the payment of the annual amount due the General Fund of the City, as provided in the Bond 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. Any remaining Net Revenues after making or providing for the foregoing payments and deposits may be used for any other purpose of the Board.

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, any Additional Senior Lien Obligations, the Junior Lien Obligations (including the Bonds), 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, as amended, Texas Government Code, 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 currently 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 (i) at least 1.50 times the maximum annual debt service requirements in any future fiscal year on all outstanding Senior Lien Obligations and the proposed Additional Senior Lien Obligations and (ii) at least 1.00 times the maximum annual debt service requirements

for any future fiscal year for Senior Lien Obligations, Additional Senior Lien Obligations, and Junior Lien Obligations (including the then outstanding Junior Lien Obligations, the Bonds, and any Additional Junior Lien Obligations) to be outstanding, assuming that variable rate interest accrues at *The Bond Buyer's* Revenue Bond Index with respect to the Junior Lien Obligations and adding or subtracting net payments due on or receivable under interest rate hedge agreements, if any.

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 Senior Lien Obligations, Additional Senior Lien Obligations, the Bonds, the other Junior Lien Obligations, and Additional Junior Lien Obligations to be outstanding, assuming that variable rate interest 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.

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 (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 President Barack Obama on December 26, 2013, will not have a material impact on the financial condition of the City or its ability to pay regularly scheduled debt service on its outstanding obligations when and in the amounts due and owing.

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

Amendments. The City may, without the consent of or notice to any Holders, from time to time and at any time, amend any Ordinance in any manner not detrimental to the interest of the Holders, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of Holders 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 Holders of Outstanding Bonds of such series, 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 the redemption price therefor, or in any other way modify the mandatory tender provisions applicable to such Bonds or 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, redemption, 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 specified in the Ordinance. The City has additionally reserved the right in the Ordinance, subject to satisfying the requirements of 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, non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) non-callable 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) non-callable 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 Texas 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 limits such permissible defeasance securities and expressly recognize the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of the 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 shall no longer be regarded to be outstanding or unpaid. After firm banking arrangements have been made, the City shall have no further rights to amend the Ordinance or call Bonds for redemption; provided however, 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 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.

Paying Agent/Registrar. The principal of the Bonds will be paid to the registered owners at stated maturity upon presentation of the Bonds to the Paying Agent/Registrar, which currently is The Bank of New York Mellon Trust Company, N.A., at its offices located in Dallas, Texas (the "Paying Agent/Registrar"). 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 During the New Interest Period" 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.

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 "Wasson 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 Wasson 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 State's immunity is not an efficient way to ensure efficient allocation of State resources". While the Wasson Court recognized that the distinction between government and proprietary functions is not clear, Wasson 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 – Bond Provisions – Authority 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. 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 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 original opinion of Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C., as co-bond counsel to the City at the time of initial delivery of the Bonds ("Original Co-Bond Counsel"), the form of which are attached hereto as APPENDIX D (referred to herein as the "Original Opinion"), notes 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.

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 Remarketing Memorandum. The City, CPS Energy, the Co-Financial Advisors, and the Remarketing Agent 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 Remarketing Memorandum. 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, as amended. 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 Unites 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 rating from S&P Global Ratings 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 MMI 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Direct Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

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, physical 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, physical 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 Remarketing Memorandum. In reading this Remarketing Memorandum, it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Remarketing Memorandum 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

OUTSTANDING SENIOR LIEN OBLIGATIONS AND JUNIOR LIEN OBLIGATIONS

The following schedule is calculated on an accrual (rather than cash) basis and reflects annual debt service requirements on all outstanding Senior Lien Obligations and Junior Lien Obligations (including the Bonds and the current Fiscal Year debt service payments made or accrued through August 1, 2022). Debt service on the obligations issued from time to time under the Commercial Paper Program and Flexible Rate Revolving Note Private Placement Program is excluded.

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]	
2023	$181,793,067	$6,925,101	$32,205,254	$220,923,423
2024	346,451,038	14,494,375	64,410,509	425,355,922
2025	345,653,871	16,474,461	64,410,509	426,538,841
2026	303,029,231	28,400,399	78,720,509	410,150,138
2027	323,093,714	39,999,165	78,720,009	441,812,888
2028	323,095,896	45,919,325	78,718,759	447,733,980
2029	257,266,020	75,320,133	98,255,009	430,841,162
2030	257,275,159	74,427,150	98,255,709	429,958,018
2031	257,429,345	72,677,150	108,913,554	439,020,050
2032	255,971,244	70,933,517	108,736,000	435,640,761
2033	263,724,440	69,170,783	112,130,550	445,025,773
2034	276,093,880	42,427,150	139,149,700	457,670,730
2035	284,597,818	42,427,150	136,006,450	463,031,418
2036	285,147,524	42,433,517	135,451,700	463,032,741
2037	285,741,196	42,420,783	134,853,750	463,015,729
2038	286,354,744	45,357,150	134,242,850	465,954,744
2039	269,089,917	60,822,612	133,597,214	463,509,743
2040	222,768,942	64,745,022	173,983,094	461,497,057
2041	223,501,823	63,785,108	173,256,344	460,543,275
2042	183,600,601	75,261,779	62,784,150	321,646,530
2043	139,455,247	92,634,328	62,785,400	294,874,975
2044	108,934,990	91,594,710	62,786,250	263,315,951
2045	108,933,138	112,252,154	27,363,500	248,548,792
2046	108,936,297	106,297,021	27,361,500	242,594,818
2047	108,936,785	81,053,200	27,366,000	217,355,984
2048	43,847,204	81,062,900	27,364,000	152,274,103
2049	9,754,500	51,884,300	27,363,000	89,001,800
Totals	$6,060,477,631	$1,611,200,443	$2,409,191,272	$10,080,869,346

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(1) Excludes regularly scheduled interest due on the remaining outstanding maturities of the Taxable New Series 2009C Bonds and the remaining outstanding maturities of the Taxable New Series 2010A Bonds 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, considers the effects of Sequestration assuming a 5.7% reduction in tax credits which began in October 2020 and continues through September 2030. See "THE BONDS – Bond Provisions – Refundable Tax Credit Bonds" herein.

(2) Assumes periodic redemptions in accordance with mandatory sinking fund requirements. Debt service calculated on variable rate Junior Lien Obligations in a term interest rate mode on the basis of the actual term interest period and of the applicable "stepped" interest thereafter to Stated Maturity, which rates and periods are as follows: 2015A Bonds – 1.75% term rate through November 30, 2024, and 7.00% "stepped" rate thereafter to February 1, 2033 Stated Maturity; 2015C Bonds – 1.75% term rate through November 30, 2024, and 7.00% "stepped" rate thereafter to December 1, 2045 Stated Maturity; 2015D Bonds – 1.125% term rate through November 30, 2026, and 7.00% "stepped" rate thereafter to December 1, 2045 Stated Maturity; 2020 Bonds – 1.75% term rate through November 30, 2025 and 7.00% "stepped rate" thereafter to February 1, 2049 Stated Maturity; and the variable rate portion of the 2022 Bonds - 2.00% term rate through November 30, 2027 and 7.00% "stepped rate" thereafter to February 1, 2049 Stated Maturity. Debt service on the Bonds is calculated: (a) at 2.75% through the end of the prior interest period that concludes on November 30, 2022; and (b) as remarketed into a SIFMA Index Mode, at an assumed rate of 3.50% through the Latest Mandatory Tender Date and 8.00% "stepped" rate thereafter to February 1, 2048 Stated Maturity.

(3) Excludes regularly scheduled interest due on the Taxable Junior Lien Series 2010A 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, considers the effects of Sequestration assuming a 5.7% reduction in tax credits which began in October 2020 and continues through September 2030.

(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 and any Inferior Lien Obligations. See "COMMERCIAL PAPER PROGRAM" and "INTRODUCTORY STATEMENT – General Description of CPS Energy Revenue Debt and Priority of Liens" herein.

HISTORICAL NET REVENUES AND COVERAGE[1]

(Dollars in thousands)	Fiscal Years Ended January 31,[1]				
	2018	2019	2020	2021	2022
Gross Revenues[2]	$2,624,411	$2,808,260	$2,602,177	$2,511,242	$2,754,975
Maintenance & Operating Expenses	1,587,906	1,608,352	1,497,182	1,555,519	1,743,521
Available For Debt Service	$1,036,505	$1,199,908	$1,104,995	$955,723	$1,011,454
Actual Principal and Interest Requirements:					
Senior Lien Obligations[3], [4], [9], [10]	$270,080	$259,726	$223,292	$327,599	$331,844
Junior Lien Obligations[5], [11]	$120,996	$148,179	$148,806	$61,964	$60,198
ACTUAL COVERAGE – Senior Lien[6]	3.85x	4.63x	4.96x	2.93x	3.05x
ACTUAL COVERAGE – Senior and Junior Liens	2.65x	2.94x	2.97x	2.45x	2.58x
PRO FORMA MADS COVERAGE					
Senior Lien[7]	2.99x	3.46x	3.19x	2.76x	2.92x
Senior and Junior Liens[8]	2.22x	2.58x	2.37x	2.05x	2.17x

[1] Some numbers have been adjusted due to rounding.
[2] Calculated in accordance with the Bond Ordinances.
[3] Net of accrued interest where applicable.
[4] Includes a reduction of $14.5 million, $14.6 million, $14.6 million, $14.3 million, and $12.7 million for fiscal years 2017, 2018, 2019, 2020, and 2021, respectively, related to the direct subsidy for the Build America Bonds. See "THE BONDS – Bond Provisions – Refundable Tax Credit Bonds" herein.
[5] Includes a reduction of $5.7 million for fiscal years 2017-2021, related to the direct subsidy for the Build America Bonds. See "THE BONDS – Bond Provisions – 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.
[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.
[10] Amounts shown for Senior Lien Obligations are higher in FY2021 compared to FY2020 due to bond maturities coming due in FY2021 (Series 2012 and Series 2016 Refunding Bonds)
[11] Amounts shown for Junior Lien Obligations in FY2021 are lower due to bonds that matured in FY2020 (Jr. Lien Revenue Refunding Bonds, Series 2014).

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JUNIOR LIEN OBLIGATIONS

The City's debt obligations are 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"), and 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.

After giving effect to the remarketing of the Bonds into a New Interest Period, the City will have outstanding $2,132,990,000 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. On October 31, 2022, the Board adopted a resolution requesting the City Council approve an ordinance increasing the Commercial Paper Program capacity by $300,000,000 to an aggregate principal amount not to exceed $1,000,000,000. This item is planned to be considered by the City Council on December 1, 2022.

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 19, 2026 (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, 2023 (unless earlier terminated in accordance with its terms), with State Street Bank and Trust Company ("State Street"), serving as liquidity provider thereunder. On October 31, 2022, the Board approved the extension of this agreement with State Street (or alternatively requested the City Council approve one or more agreements with substitute liquidity providers if such extension is not feasible). The Series C Credit Agreement is effective through June 21, 2025 (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 $240,000,000 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:

Name & Position	Profession	Originally Appointed to the Board	Present Term Expires[1]
Dr. Willis Mackey,[2] Chair	Superintendent, Retired Judson Independent School District	April 6, 2018	January 31, 2023
Janie Gonzalez, Vice Chair	President & CEO, Webhead	February 18, 2019	January 31, 2024
John T. Steen, Jr. Trustee	Attorney and Investor,[3] Law Office of John T. Steen	February 1, 2016	January 31, 2026
Dr. Francine Romero, Trustee	Associate Professor & Chair of the Public Administration Department at the University of Texas at San Antonio	February 1, 2022[4]	January 31, 2027
Ron Nirenberg,[5] Ex-Officio Member	Mayor, City of San Antonio	June 21, 2017	May 31, 2023

(1) Dr. Willis Mackey and Janie Gonzalez are serving their first terms. John T. Steen, Jr. is currently serving his second term.
(2) On October 31, 2022, the Board approved an extension to Dr. Mackey's term for a five-year period, which will go before City Council for approval to become effective.
(3) Among other positions in State government, Mr. Steen served as the 108th Secretary of State and as a commissioner of the Texas Department of Public Safety.
(4) During a special Board meeting held on October 4, 2021, Dr. Francine Romero was nominated by majority vote to fill the Board vacancy left by Trustee Edward Kelley. On October 21, 2021, the City Council confirmed Dr. Romero as a new Board Member effective February 1, 2022, for a 5-year term.
(5) Ron Nirenberg was re-elected as Mayor for a third term in 2021.

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 2,962 employees as of January 31, 2022, which included approximately 1,187 wage scale (hourly/field) employees. The average tenure of a CPS Energy employee is more than 15 years. Most of the executive and supervisory personnel have experience in the utility industry, or other related experience required for their career field. CPS Energy provides employees 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, 2021 and January 31, 2022, recorded a turnover rate of 9.2%.

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

Through the fiscal year ended January 31, 2020, CPS Energy salaried and executive employees participate in a discretionary Employee Incentive Plan ("EIP") that rewarded 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 provided direct links between CPS Energy's competitiveness, performance and compensation. In addition to measuring performance on key metrics for CPS Energy, employees' individual performance was linked to their individual incentive payout. The EIP was reviewed annually to ensure overall design, metrics and targets continue to align with CPS Energy's goals and drive employee performance towards organizational goals. As of April 10, 2020, distributions for CPS Energy's EIP program were suspended to preserve cash in the face of reduced revenue and increased customer debt as a result of the Pandemic. The 2020 EIP was paid in March 2022, and no further payments have been made.

Recent reorganizations of the members of the Executive Leadership Team were announced periodically via voluntary event notices filed on EMMA throughout 2021 and 2022. Detailed information related to each of these executive level organizational changes may be obtained by viewing the related voluntary notices. The reorganized Executive Leadership Team and credentials is as follows.

CPS Energy's current principal executives and members of the Executive Leadership Team include: Rudy D. Garza, President & CEO; Shanna Ramirez, Chief Legal & Ethics Officer, General Counsel ("CLEO&GC"), & Board Secretary; Vivian Bouet, Chief Information Officer ("CIO"); Lisa Lewis, Chief Administrative Officer ("CAO"); Cory Kuchinsky, Chief Financial Officer ("CFO") & Treasurer; DeAnna Hardwick, Executive Vice President of Customer Strategy; Benjamin Ethridge, Executive Vice President of Energy Supply; Kathy Garcia, Vice President of Government Relations, Regulatory Affairs & Public Policy; Melissa Sorola, Vice President of Corporate Communications & Marketing; Richard Lujan, Interim Vice President of Gas Solutions; and Richard Medina, Executive Vice President of Energy Delivery Services.

Mr. Rudy D. Garza was named Interim President & CEO, effective November 8, 2021, and on September 6, 2022, the Board approved Mr. Garza as the permanent President & CEO. He is the first Hispanic leader to hold this leadership position. Previously, he served as the Chief Customer & Stakeholder Engagement Officer and oversaw customer experience and engagement initiatives at CPS Energy. He was also responsible for ensuring consistent and exceptional customer experiences across major customer channels and touchpoints. Formerly Senior Vice President of Distribution Service & Operations, he oversaw the electric distribution system maintenance and construction activity as well as the Energy Management Center, which operates and monitors the distribution system. Before arriving at CPS Energy in 2012, Mr. Garza served as Assistant City Manager and as Intergovernmental Relations Director in Corpus Christi. He also worked for TXU Corporation in Dallas for 13 years. Mr. Garza has a Master of Business Administration from the University of North Texas and a Bachelor of Science in Electrical Engineering from the University of Texas in Austin.

Ms. Shanna Ramirez, J.D., CISM is the CLEO&GC and Board Secretary. Ms. Ramirez joined CPS Energy in July 2015 as Director & Senior Counsel and has extensive experience providing business and legal advice. She practiced employment litigation at Haynes and Boone, LLP, and was Vice President & Deputy General Counsel for Fiesta Restaurant Group, Inc. Ms. Ramirez provides oversight for CPS Energy's Legal, Audit, and Integrated Security. She also provides leadership to the Claims and Records Management groups and serves as Secretary to the Board of Trustees. She is responsible for driving strategic initiatives to advance the interests of its customers and community, including environmental, social, and governance (ESG) goals. Ms. Ramirez has a Bachelor of Arts in History and Political Science from Trinity University and a Juris Doctor from the University of Maryland School of Law. She is also a graduate of the Executive Education, Accelerated Development Program at Rice 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. 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. Ms. Bouet intends to leave CPS Energy in 2022 to pursue other opportunities. No further organizational announcements are available at this time.

Mr. Richard Medina, P.E., a 30-year veteran of CPS Energy, succeeded Mr. Paul Barham in the role of Executive Vice President of Energy Delivery Services effective February 1, 2022. He is responsible for the safe, reliable and economical delivery of electrical power to CPS Energy's customers. He oversees the Engineering, Planning, and Field Operation functions for Transmission, Substation and Distribution, along with System Operations, Customer Reliability, and asset management programs associated with electric delivery. Mr. Medina has led many of CPS Energy's grid transformation strategies including CPS Energy's electrification roadmap, optimization of EV infrastructure, and fostering alliances with local and national research leaders. Mr. Medina has served in a variety of leadership positions as well as serving on several external boards and committees such as EPRI, Texas A&M Smart Grid, Advanced Energy Economy, and others. Mr. Medina has a Bachelor of Science in Electrical Engineering from Texas A&M University and is a registered professional engineer in the State of Texas.

Ms. Lisa Lewis is the CAO and oversees People & Culture (Human Resources), Supply Chain; Enterprise Safety, Occupational Health and Fleet Operations; Facilities; and Enterprise Portfolio Business Planning. Ms. Lewis has worked for CPS Energy for over 20 years and previously served as Senior Vice President of People & Culture. Ms. Lewis has focused on enabling the CPS Energy workforce to evolve with the fast-changing utility industry. Before that role, she progressed through Corporate Communications to ultimately become the VP of that area. Before joining CPS Energy, Ms. Lewis worked in marketing communications and advertising for service industry clients ranging from healthcare to public transit. She is an advocate for STEM education and workforce development in San Antonio and serves on the advisory board for San Antonio's CAST public high schools. She also serves on the boards of RMEL, an electric industry organization focused on training and safety, as well as the Alamo Area Council of Governments. Ms. Lewis has a Bachelor of Arts in Communications from Texas State University and is a Certified Professional through the Society of Human Resource Management ("SHRM").

Mr. Cory Kuchinsky, CPA, is the CFO & Treasurer and oversees CPS Energy's Accounting & Finance functions. In this position, he 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. Mr. Kuchinsky joined CPS Energy in 2006 and has served in multiple leadership roles. Prior to joining CPS Energy, he worked for Ernst & Young LLC. He serves on the board of EPIcenter the DoSeum. Mr. Kuchinsky holds a Bachelor of Science in Business Administration and a Master of Science in Accounting degrees from Trinity University.

Ms. DeAnna Hardwick is the Executive Vice President of Customer Strategy and leads the Customer Strategy teams comprising of Community Engagement & Corporate Responsibility; Customer Experience Operations, including Customer Service, Metering Operations, and Customer Revenue; Customer Value Optimization consisting of Customer Design & Delivery, Executive Account Management, and Managed Accounts and Enterprise Customer Experience. Prior to her current role, she served as Vice President of Customer Success. Under her leadership, Customer Success developed innovative approaches to serving customers impacted by the Pandemic, including the Customer Outreach Resource Effort (CORE) team. Ms. Hardwick joined CPS Energy in 2015 when she was hired to be a call center leader. Since then, she has risen through the ranks of CPS Energy as a leader with great compassion for CPS Energy's customers. Prior to joining CPS Energy, Ms. Hardwick spent 15 years working at various Fortune 100 companies, where she was charged with delivering easy and exceptional customer experiences. Ms. Hardwick holds a Bachelor of Science in Business Management from the University of Phoenix.

Mr. Benjamin Ethridge, P.E. is the Executive Vice President of Energy Supply for CPS Energy. He leads generation operations, fuel procurement and energy trading. He is also a member of the STP Nuclear Operating Company Owner's Committee. Mr. Ethridge joined CPS Energy in 2015 with over 30 years of diverse, energy industry experience. He began his career as a construction engineer with Houston Lighting & Power Company. Following industry deregulation, he served in a variety of commercial and operational leadership roles with Reliant Energy, Topaz Power Group, and NRG Energy. Mr. Ethridge holds a

Bachelor of Science in Civil Engineering from Texas A&M University and a Master of Business Administration from Houston Baptist University. He is a registered professional engineer in the State of Texas.

Ms. Kathy Garcia is Vice President of Government Relations, Regulatory Affairs & Public Policy. She has been with CPS Energy for over 20 years and is responsible for leading CPS Energy's policy development and advocacy efforts at the federal, state, and local levels. This includes working with the City and other regulators, recommending legislative and regulatory strategies, and coordinating these activities with other local, public, and private sector entities. She also oversees CPS Energy's energy market policy team responsible for CPS Energy's engagement at ERCOT and the PUCT, and the Climate Strategy and Sustainability team, responsible for aligning CPS Energy's climate and sustainability goals with the City's Climate Action & Adaptation Plan ("CAAP"). Ms. Garcia holds leadership positions on a variety of industry related boards and is an Advisory Council Member for the Annette Strauss Institute for Civic Engagement. She is a recipient of the Texas Public Power Association's Industry Achievement Award for her significant individual contributions to the electric utility industry and to public power. Ms. Garcia holds a Bachelor of Arts in Government and Sociology from the University of Texas at Austin, and is a graduate of the Executive Education, Accelerated Development Program at Rice University.

Ms. Melissa Sorola is Vice President of Corporate Communications & Marketing. She is responsible for leading the teams who strategically work on internal and external communications, marketing, executive brand and stakeholder engagement. Ms. Sorola joined CPS Energy in 2019 and has more than 20 years of experience in media relations, crisis communications, and strategic communications planning and execution. Prior to joining CPS Energy, Ms. Sorola worked for the former Time Warner Cable as Director of Communications for their Texas Region. She has previously served on the boards of the San Antonio chapter of the Public Relations Society of America ("PRSA") and the Boys and Girls Clubs of San Antonio. Ms. Sorola has a Bachelor of Arts in Journalism from Texas A&M University.

Mr. Richard Lujan, P.E., is the Interim Vice President of Gas Solutions. He is responsible for CPS Energy's natural gas delivery strategy to ensure safe and reliable service to more than 373,000 gas customers and servicing an 849 square mile service area. He oversees the design, construction and operation of CPS Energy's natural gas distribution and transmission systems with a strong focus on public safety, customer service, reliability and resiliency. Mr. Lujan was instrumental in leading an innovative Renewable Natural Gas ("RNG") opportunity with an international partnership and VIA Metropolitan Transit Authority to convert biogas generated from a local landfill into pipeline-quality natural gas. Mr. Lujan has been with CPS Energy for over 20 years and has served in a variety of positions in CPS Energy's energy delivery businesses including leadership roles in Distribution Engineering, Underground Construction, Overhead Services and Gas Solutions. Mr. Lujan has a Bachelor of Engineering Science from Trinity University and is a registered professional engineer in the State of Texas

Aligned with senior management's One Team mentality and strong commitment to its customers, community and employees, CPS Energy has increased its internal focus on talent development. Senior management has a robust Succession Planning Program that emphasizes development of talent on a regular basis, year-after-year. These efforts have proven beneficial, especially in instances when CPS Energy executives retire or are sought after by other entities. Accordingly, senior management, under the leadership of CPS Energy's President & CEO, works on robust and effective short-and long-term personnel plans that promptly address departures of talent, whenever applicable. These constructive plans include, but are not limited to, promotions, streamlined team re-assignments, recruiting, and other beneficial activities.

Political Action Committee Petition

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

Under State law, the City Charter may only be amended once every two years and was last amended on November 6, 2018. In order for any action to trigger an election to amend the City Charter, a valid petition consisting of at least 20,000 signatures of registered City voters gathered within 180 days of presentment must be received by the City Clerk for review and certification of the requisite number of signatures. The City Council, upon receipt of a certified petition, is then required to hold a public hearing and has sixty days to take action which (in addition to other actions) may include submitting the issue to the electorate by ordering an election on the next uniform election.

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

On November 12, 2020, the City, acting by and through CPS Energy, filed a bond validation action under Texas Government Code Chapter 1205 in Travis County, Texas to validate the Bond Ordinances' provisions to further protect CPS Energy from any

effort to modify these contracts outside of the methods described therein. The Travis County District Court heard the matter on December 7, 2020 and issued a Final Judgment and Permanent Injunction. The Court specifically found that the provisions of the Bond Ordinances including the Note Ordinance, that vest management and control of the Systems in the 5-member Board, establish 5-year terms for Trustees subject to one reappointment term, and set exclusive methods for amendment of the Bond Ordinances and each of the foregoing is "legal, valid, enforceable, and binding on the City" "for the entire time period during which the debt obligations of the Public Securities remain outstanding". The Court further declared that any actual or constructive amendment to the Bond Ordinances that failed to follow the exclusive methods set forth in the ordinances, that require a high-level of investor written consent, is invalid and would result in an impairment of contract. The Court also entered a permanent injunction against any person filing proceedings that contest the bond ordinances or the public securities issued thereunder. On February 23, 2021, two individuals filed a motion for new trial under Rule 329b of the Texas Rules of Civil Procedure and subsequently requested a hearing on the matter. At the hearing, the judge overruled the motion for new trial. The matter was appealed, and oral arguments were heard on September 22, 2021 before the Third Court of Appeals in Austin, Texas (the "Third Court"). On November 18, 2021, the Third Court issued a memorandum opinion dismissing the appeal. On December 16, 2021, appellants filed a motion for rehearing *en banc* and a motion for rehearing, which was subsequently denied on April 11, 2022. Subsequently, the opponents filed a Petition for Review with the Texas Supreme Court. CPS Energy's briefing in the matter was due November 16, 2022. The City, acting by and though CPS Energy, intends to defend vigorously itself in this litigation; however, no prediction can be made, as of the date hereof, with respect to the decision regarding the Petition for Review or the outcome of the litigation thereof.

Management continues to communicate facts around its highly effective business strategies that have been thoughtfully designed to balance customer Affordability, Reliability, Resilience, Security, Safety, Environmental Responsibility, and Financial Stability.

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 the County and small portions of the adjacent counties of Atascosa, Bandera, Comal, Gillespie, Gonzales, Guadalupe, Kendall, Kerr, Medina and Wilson. 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 the 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 ("Grey Forest"), dated July 28, 2003, for a term through May 31, 2028. Pursuant to this License Agreement, the City permits Grey Forest to provide, construct, operate, and maintain certain natural gas lines within the boundaries of the City which it originally established in 1967 to provide extensions and other improvements thereto upon compliance with the provisions of the License Agreement and upon the payment to the City of a quarterly license fee of 3.0% of the gross revenues received by Grey Forest from the sale of natural gas within the Licensed Area (as defined in the License Agreement). Thus, in the Licensed Area (which comprises less than 6.2% of the CPS Energy natural gas service area), CPS Energy is in direct competition with Grey Forest, acting by and through Grey Forest Utilities, as a supplier of natural gas.

CPS Energy and the City of Castroville, Texas ("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 September 29, 2023. The City of Lytle, Texas contract has also been extended through October 1, 2023. Both contracts have options to go month to month upon expiration. No further negotiations are in progress.

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. Five of the 31 cities elected to increase franchise fees to 5.5%, two went into effect February 1, 2015; the third went into effect January 1, 2018; the fourth went into effect on May 1, 2020; and the fifth went into effect August 1, 2021. Certain cities retain the ability to seek a 1% increase in their franchise fee under the applicable agreements related thereto. The additional 1% only applies to customers within those five jurisdictional City boundaries.

Customer Base as of August 31, 2022[3]

	ELECTRIC[1]			GAS[1]	
	Number	Percent		Number	Percent
Residential	817,590	89%	Residential	357,949	94%
Commercial & Industrial	80,340	9%	Commercial	17,370	5%
All Night Security Lighting	13,711	1%	-	-	-
Street Lighting, Public Authorities & Other Utilities[2]	10,538	1%	Industrial & Public Authorities	2,859	1%
Total	922,179	100%	Total	378,178	100%

(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 August 31, 2022.

(2) Also includes off-system sales customers.

(3) Amounts are preliminary and unaudited.

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 Executive Vice President of Energy Supply, 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.

Long-term supply agreements were established with Central Texas Electric Cooperative ("CTEC"), the City of Boerne, Texas ("Boerne"), the City of Seguin, Texas ("Seguin"), and the Kerrville Public Utility Board ("KPUB") to provide energy supply for terms that began in June 2013. The CTEC contract ended at the end of calendar year 2021 and the Boerne, Seguin, and KPUB contracts will end at the end of calendar year 2023. In addition, CPS Energy has converted its retail contracts with the City of Hondo, Texas ("Hondo"), Castroville, and Floresville Electric Light and Power System ("FELPS") into wholesale contracts as well. The Hondo and Castroville contracts will conclude at the end of calendar year 2022, and FELPS' contract will conclude at the end of calendar year 2025. The requirements under the wholesale agreements are for firm energy obligations provided by CPS Energy. CPS Energy has no plans to enter into new long-term wholesale power sales agreements with public or private entities in the near future. There is some potential to extend existing agreements with certain counterparties who wish to continue to secure their power supply from CPS Energy. CPS Energy may also agree to provide a variety of supply arrangements on a short-term basis for terms ranging from one month up to one year with a variety of approved counterparties.

CUSTOMERS AND RATES

CUSTOMER RATES

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

Retail Service Rates

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility ("IOU"). Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over electric IOUs primarily encompasses only the transmission and distribution functions. PURA generally excludes Municipal Utilities, 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 "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein.

The 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 Subordinate Lien Obligations, and any Inferior Lien Obligations, and to make all other payments prescribed in the Ordinances.

CPS Energy has periodic rate increases, with the most recent electric and gas base rate increase of 3.85% which was approved by the Board on January 10, 2022 and on January 13, 2022 by City Council. The rate increase, which became effective March 1, 2022, covers the following investments: (1) infrastructure resiliency, including power generation and distribution projects; such as: enhanced customer communications, improved control outages, and upgraded freeze protection, to support operations during extreme weather as well as procuring alternative fuel sources; (2) assessment of needs and design of a future technology platform to replace current end-of-life platform; (3) additional metering and wire infrastructure, expansion of existing substations, construction of new substations as well as re-routing of some existing electric lines; all to serve the area's fast growing community; and (4) stabilization of CPS Energy's workforce, including hiring of qualified employees and employee retention, in preparation for continuous retirements as well as raising of minimum wage. The rate increase is expected to generate an additional $73 million annually. For the average residential customer, the rate increase is expected to add $3.84 or 2.5% (includes base plus fuel and regulatory revenue) to the monthly bill. In addition to the rate increase, costs associated with the 2021 Winter Weather Event and recorded in the regulatory asset, are to be recovered on customer bills through the fuel cost adjustment as discussed in the "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein. When combined with the $1.26 or 0.8% (for paid 2021 Winter Weather Event costs of approximately $414 million) per month in the fuel adjustment portion of a customer's bill related to the regulatory asset, the total average bill increase is expected be $5.10 or 3.3% for the average electric and natural gas residential customer. A 4.25% base rate increase was last 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 it will continue to periodically seek electric and gas base rate increases as required 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 discussed the need for potential future rate increases with the Board on January 10, 2022, and City Council on January 13, 2022 of 5.50% in fiscal years 2025 and 2027, which is preliminary and subject to change.

In addition to standard service rates, CPS Energy also provides several rates and riders for a variety of programs and products. Since May 2000, under Rider E15, CPS Energy has offered a monthly contract for renewable energy service (currently wind-generated electricity). The High Load Factor ("HLF") rate, first offered in February 2014, is available to customers with new or added load of 10 MW or greater. The HLF rate requires eligible customers to maintain an annual billing load factor of 90 percent or more and meet the requirements of Rider E16. Rider E16 offers discounts off the Super Large Power ("SLP") and HLF demand charge for a period up to four years for new or added load of at least 10 MW. Under certain conditions, the discount may be extended for up to an additional six years. Eligible customers that qualify for Rider E16 discounts must also meet City employment targets or other related performance metrics and targets for purchases of goods or services from local businesses. 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 cost recovery requirements while 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 is currently recovered each year through existing base rates, the additional costs for the STEP program will be recovered through a STEP charge applied to the electric fuel adjustment as stated above. Through Fiscal Year 2022, the accumulated cost for the STEP program was $837 million. As of January 31, 2022, CPS Energy quantified a cumulative reduction of 980 MW. Over the lifetime of STEP, the benefits of the program have exceeded the implementation costs to achieve energy savings. As the STEP goal was achieved a year early, in January 2020, the Board and City Council voted to extend the existing STEP program. The extended program, known as "STEP Bridge", was approved to spend $70 million to reach a targeted, additional reduction of 75 MW. CPS Energy envisions STEP Bridge delivering a diverse portfolio of programs to assist customers to save energy. Seeking feedback from a broad array of customers and key stakeholders, CPS Energy is using the information that it gathers to update, design, and create programs and services that meet the needs of its diverse set of customers. Due to COVID-19 and delays in achieving the STEP Bridge goals, CPS Energy sought and received City Council approval in January 2021 to again extend the STEP Bridge program. The City Council authorized CPS Energy to expend up to an additional $70 million on energy efficiency and conservation programs to be completed by July 2022. On August 30, 2021, the Board requested staff to perform an analysis of the STEP program to determine whether to continue the program. The analysis was prepared by the Brattle Group and presented to the Board at its February 2022 meeting. On June 16, 2022, the City Council approved a plan for the STEP program to be funded as a $350 million initiative over the next five years. This average impact will continue to be $3.50 per month to an energy bill. The program goals include 410 MW of demand reduction, 1% energy savings per year, 16,000 weatherized homes, and 1.85 million tons of avoided carbon. For additional information on CPS Energy's STEP energy efficiency, conservation programs, and other strategic initiatives, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Strategic Initiatives" herein.

Green Tariff

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

Resiliency Tariff

In September 2020, CPS Energy converted a limited Resiliency Service pilot into a permanent tariff for its commercial customers. Under the Resiliency Service offering, CPS Energy will provide on-site backup generators capable of providing electricity to retail customers during outages of the electric system in exchange for a monthly Resiliency Service capacity fee. The natural gas backup generators are owned and operated by one of CPS Energy's suppliers. As of January 31, 2022, Resiliency Service has been enabled at 27 customer sites with a total capacity of 30.4 MW.

Fuel and Gas Cost Adjustment

The Systems' tariffs feature a fuel cost adjustment provision in the electric rates and a gas cost adjustment provision in the gas rates, which allow CPS Energy to reconcile fuel and gas cost variances above or below levels included in base rates. CPS Energy's electric rates are subject to a positive or negative monthly adjustment equal to the variance in the price of fuel above or below a base cost of $0.01416 per kilowatt-hour ("kWh"). Similarly, CPS Energy's base gas rates are subject to an adjustment equal to the variance in the price of natural gas above or below a base cost of $0.220 per 100 cubic feet ("CCF"), approximately equivalent to $2.167 per one million 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. However, the foregoing is qualified by the 2021 Winter Weather Event, which may alter these costs. The Board approved the regulatory asset at a special meeting on January 10, 2022 and on January 13, 2022 City Council approved the Regulatory Asset that enables CPS Energy to amortize the 2021 Winter Weather Event fuel and power related costs over a period not to exceed 25-years and recover the associated debt service through the monthly fuel and gas cost adjustment factors under the oversight of the City.

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 2022) adds $0.01204 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.

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TEN-YEAR ELECTRIC CUSTOMER STATISTICS[1]

	Fiscal Years Ended January 31,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
RESIDENTIAL										
Average Monthly kWh/ Customer	1,187	1,170	1,182	1,149	1,119	1,117	1,122	1,111	1,119	1,059
Average Monthly Bill/ Customer	$109.74	$115.20	$120.17	$122.81	$120.25	$122.70	$124.14	$118.28	$119.04	$116.71
Average Monthly Revenue/kWh	$0.0924	$0.0985	$0.1017	$0.1069	$0.1075	$0.1098	$0.1106	$0.1065	$0.1063	$0.1102
COMMERCIAL AND INDUSTRIAL										
Average Monthly kWh/ Customer	11,059	10,967	10,848	10,888	11,049	10,967	10,874	10,810	10,048	10,293
Average Monthly Bill/ Customer	$853.02	$905.84	$922.86	$961.12	$978.60	$1,009.75	$1,003.04	$951.02	$908.91	$981.38
Average Monthly Revenue/kWh	$0.0771	$0.0826	$0.0851	$0.0883	$0.0886	$0.0921	$0.0922	$0.0880	$0.0905	$0.0953
ALL CUSTOMERS										
Average Monthly kWh/ Customer	2,421	2,389	2,381	2,342	2,326	2,299	2,284	2,251	2,158	2,096
Average Monthly Bill/ Customer	$200.22	$211.25	$217.35	$223.24	$221.98	$226.11	$226.20	$214.08	$209.09	$212.77
Average Monthly Revenue/kWh	$0.0827	$0.0884	$0.0913	$0.0953	$0.0954	$0.0983	$0.0990	$0.0951	$0.0969	$0.1015

[1] Excludes unbilled revenues and off-system sales.

TEN-YEAR GAS CUSTOMER STATISTICS[1]

	Fiscal Years Ended January 31,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
RESIDENTIAL										
Average Monthly MCF/ Customer	2	3	3	3	2	2	3	3	2	2
Average Monthly Bill/ Customer	$24.53	$29.18	$33.36	$25.23	$22.81	$23.86	$23.59	$20.55	$20.15	$23.36
Average Monthly Revenue/MCF	$10.5754	$10.1081	$10.7768	$9.3094	$10.2985	$10.1782	$8.9054	$7.8460	$8.2550	$9.8188
COMMERCIAL										
Average Monthly MCF/ Customer	44	49	50	49	49	49	53	55	48	52
Average Monthly Bill/ Customer	$288.86	$338.46	$385.16	$283.81	$294.04	$304.61	$269.58	$206.59	$227.92	$347.36
Average Monthly Revenue/MCF	$6.4954	$6.8928	$7.6501	$5.8097	$5.9732	$6.1779	$5.0714	$3.7454	$4.7392	$6.6912
ALL CUSTOMERS										
Average Monthly MCF/ Customer	5	6	6	6	5	6	6	6	6	6
Average Monthly Bill/ Customer	$43.19	$50.75	$57.97	$42.67	$40.68	$43.10	$40.25	$32.94	$34.59	$43.90
Average Monthly Revenue/MCF	$8.1098	$8.2315	$8.9725	$7.2329	$7.5618	$7.5895	$6.6121	$5.2299	$5.9401	$7.8199

[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,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Payments To City[1], [2]	$271,589	$296,672	$320,933	$320,454	$324,469	$338,455	$361,351	$342,989	$330,564	$352,558

[1] Payments to the City, by ordinance, are not to exceed 14% of CPS Energy's gross revenue (includes wholesale revenues) and includes cash payments and refund of charges for furnishing the City electricity and gas services, and for a street light replacement program.

[2] Excludes additional payments to the City. See "CAPITAL PROGRAM" herein.

FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY

	Fiscal Years Ended January 31,				
	2018	2019	2020	2021	2022
ELECTRIC SYSTEM					
SALES IN kWh[1]					
Residential	$9,634,693,060	$9,913,513,494	$10,038,080,665	$10,394,483,601	$10,100,166,676
Commercial & Industrial	9,416,835,850	9,584,259,393	9,714,043,700	9,228,300,394	9,700,763,781
Street lighting	71,894,810	69,500,510	67,702,803	65,828,289	65,694,823
Public authorities	2,813,558,496	2,792,584,406	2,781,803,288	2,571,430,547	2,684,302,829
Other utilities[2]	5,957,173,759	8,997,699,166	6,058,856,975	5,159,615,281	6,874,115,210
ANSL[3]	21,313,293	20,959,056	19,767,424	18,786,088	18,566,941
Total sales in kWh	27,915,469,268	31,378,516,025	28,680,254,855	27,438,444,200	29,443,610,260
AVERAGE NUMBER OF CUSTOMERS					
Residential	718,703	736,281	752,952	773,847	794,899
Commercial & Industrial	71,554	73,447	74,884	76,533	78,540
Street lighting	2,503	2,552	2,627	2,667	2,655
Public authorities	7,040	7,146	7,328	7,313	7,439
Other utilities[2]	17	16	13	15	12
ANSL[3]	12,785	13,080	13,233	13,348	13,646
Total customers	812,602	832,522	851,037	873,723	897,191
kWh SALES PER CUSTOMER					
Residential	13,406	13,464	13,332	13,432	12,706
Commercial & Industrial	131,605	130,492	129,721	120,579	123,514
GAS SYSTEM					
SALES IN MCF[1]					
Residential	9,125,654	10,487,800	10,532,808	10,038,333	10,005,049
Commercial	10,300,019	11,235,038	11,593,503	10,076,850	10,793,246
Industrial	1,014,176	982,251	1,438,925	2,307,116	1,009,329
Public authorities	3,049,253	2,885,133	3,306,480	2,942,548	3,150,485
Total sales in MCF	23,489,012	25,590,222	26,871,716	25,364,847	24,958,109
AVERAGE NUMBER OF CUSTOMERS					
Residential	324,456	329,928	335,154	342,737	350,393
Commercial	17,408	17,613	17,515	17,461	17,326
Industrial	42	38	35	33	30
Public authorities	2,744	2,759	2,787	2,722	2,760
Total customers	344,650	350,338	355,491	362,953	370,509
MCF SALES PER CUSTOMER					
Residential	28	32	31	29	29
Commercial	592	638	662	577	623
Industrial	24,147	25,849	41,112	69,913	33,644

[1] Excludes unbilled revenues.

[2] Includes off-system sales.

[3] All Night Security Lighting.

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

	Fiscal Years Ended January 31,				
	2018	2019	2020	2021	2022
ELECTRIC SYSTEM					
BILLED REVENUES					
Residential	$1,058,223,884	$1,096,861,931	$1,068,738,092	$1,105,408,857	$1,113,300,881
Commercial & Industrial	867,020,589	884,042,765	854,607,500	834,735,595	924,935,424
Street lighting	16,308,397	16,528,500	16,505,845	16,778,793	17,280,260
Public authorities	229,644,538	229,522,828	219,309,619	208,989,919	229,381,492
Other utilities[2]	226,938,193	353,349,317	239,305,653	155,205,351	216,872,471
ANSL[3]	5,569,333	5,653,745	5,621,729	5,700,175	5,873,985
Other	16,794,130	16,653,465	20,825,911	22,103,166	21,278,198
Total revenues	2,420,499,064	2,602,612,551	2,424,914,349	2,348,921,856	2,528,922,711
OPERATION & MAINTENANCE EXPENSE					
Production	982,142,687	1,015,016,433	915,986,314	943,620,735	1,144,465,210
Transmission	20,502,981	20,434,054	21,172,017	20,315,099	18,170,779
Distribution	106,083,499	105,647,643	107,540,953	122,353,589	107,182,854
Regulatory assessments	84,082,545	86,202,067	82,622,243	94,648,457	79,468,880
Energy efficiency	88,544,058	89,036,212	73,049,721	71,385,502	67,148,014
Customer accounts & information	28,068,874	25,329,711	24,475,716	24,694,002	21,873,797
Administrative & general	135,585,175	143,630,674	164,909,958	163,467,605	128,520,655
Payroll taxes[4]	6,518,951	6,864,209	6,884,451	7,014,656	6,925,500
STP decommissioning expense	-	-	-	-	-
Total expenses	1,451,528,770	1,492,161,003	1,396,641,373	1,447,499,645	1,573,755,689
Operating income - electric	968,970,294	1,110,451,548	1,028,272,976	901,422,211	955,167,022
GAS SYSTEM					
BILLED REVENUES					
Residential	92,882,226	93,397,594	82,640,922	82,866,247	98,237,598
Commercial & Industrial	68,726,158	61,288,254	47,371,294	55,742,548	78,221,757
Public authorities	16,661,794	14,518,732	10,524,742	12,062,039	18,710,961
Other	1,531,804	1,533,592	2,402,972	2,972,077	2,928,389
Total revenues	179,801,982	170,738,172	142,939,930	153,642,911	198,098,705
OPERATION & MAINTENANCE EXPENSE					
Gas purchased	82,997,836	63,797,135	43,669,989	54,103,096	115,380,880
Distribution	27,769,265	27,882,646	30,290,497	31,083,602	34,385,725
Customer accounts & information	13,360,533	12,008,808	12,055,201	11,733,014	10,389,629
Administrative & general	9,696,966	10,684,768	12,319,422	6,348,042	8,404,528
Payroll taxes[4]	320,354	348,486	371,084	410,523	381,045
Total expenses	134,144,954	114,721,843	98,706,193	103,678,277	168,941,807
Operating income - gas	45,657,028	56,016,329	44,233,737	49,964,634	29,156,898
Combined operating income - Electric and gas	1,014,627,322	1,166,467,877	1,072,506,713	951,386,845	984,323,920
Nonoperating income[5]	24,109,514	34,909,386	34,322,842	8,678,487	27,953,413
Net revenues, per ordinances	$1,038,736,836	$1,201,377,263	$1,106,829,555	$960,065,332	$1,012,277,333
DEBT SERVICE[6]					
Senior lien obligations - Principal and interest	$270,079,605	$259,725,621	$223,291,750	$327,598,903	$331,844,436
Junior lien obligations - Principal and interest	120,996,491	148,178,685	148,805,700	61,964,047	60,198,470
Other interest & debt-related costs[7]	6,074,018	11,113,767	20,634,735	3,857,826	3,685,672
Total debt service	$397,150,114	$419,018,073	$392,732,185	$393,420,775	$395,728,578
DEBT SERVICE COVERAGE					
Senior & junior lien obligations, commercial paper, FRRN[8]	2.62x	2.87x	2.82x	2.44x	2.56x
Senior lien obligations	3.85x	4.63x	4.96x	2.93x	3.05x

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

[2] The higher wholesale sales revenues and related volumes for FY2018 and FY2019 were primarily a result of increased market opportunities. The decreased wholesale sales revenues and related volumes in FY2020 and FY2021 were primarily a result of decreased market opportunities. The increased wholesale sales revenues in FY2022 were primarily a result of increased market opportunities.

[3] All Night Security Lighting.

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

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

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

[7] Amounts shown in FY2019 and FY2020 include cash defeasance costs of $3.1 million and $12.5 million, respectively.

[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" herein for a description of the City's current authorization to issue additional Inferior Lien Obligations prospectively.

OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO

CPS Energy, on an ongoing basis, conducts internal reviews and prepares forecasts and models to project immediate and intermediate operational and financial impacts attributable to the Pandemic. These forecasts and projections are presented periodically to the Board at its meetings and are available to the general public online at www.cpsenergy.com. See "INTRODUCTORY STATEMENT" and "FORWARD-LOOKING STATEMENTS" herein.

Because of the relative unknown of the total impact of the Pandemic, CPS Energy's analyses related to budgeted versus actual performance provides both "medium" and "high" impact assessment scenarios.

The majority of past due balances over 90 days have been fully reserved. In addition to closely monitoring the customer receivable balances, CPS Energy also provides customers in need with information about assistance programs, including connecting them with partner organizations that can also provide help during this trying time. CPS Energy also raises funds for the Residential Energy Assistance Partnership (also known as "REAP") to help customers pay their bills. CPS Energy received recognition from the energy industry for its efforts in serving the community during the Pandemic. These measures, though socially responsible, may not be enough to prevent potential notable increases in future bad debt expenses, which could be financially unfavorable. At the City's Utilities Committee meeting on October 26, 2021, the City outlined a plan to provide CPS Energy $20 million of its American Rescue Plan Act ("ARPA") funds to assist customers with outstanding balances resulting from the Pandemic. Customers who meet the poverty level for CPS Energy's Affordability Discount Program could have all their balance from March 1, 2020 to September 30, 2021 paid. Additionally, anyone above the poverty line could receive up to $1,000 credit on their bills. The eligibility requirements associated with this program include being a San Antonio resident and providing proof of hardship during that timeframe. City Council approved the plan at its November 18, 2021 meeting. In February 2022, CPS Energy began efforts to apply credits to qualifying customer bills using the designated ARPA funds. The application of the $20 million of ARPA funds to customer bills is currently at $18.8 million as of the date of this Remarketing Memorandum.

CPS Energy continues to analyze actual operational results to understand demand patterns, monitor accounts receivable and provide customers with information on assistance programs, focus on cash flow to ensure liquidity, prioritize ongoing spending for additional cost reductions and cash savings (including renegotiating contracts with financially favorable terms), and identify emerging risks, while regularly providing updates to the Board and broader community as appropriate. CPS Energy expects to continue its financial managerial approach to proactively address budget challenges and continue to preserve flexibility so that CPS Energy can adapt as conditions change and positioning itself for recovery effort. The assumptions related to the foregoing projections are based upon the expectation that conditions experienced because of the COVID-19 pandemic (remote work policies, closing or limited hours of high-energy usage businesses) will continue in the immediate term.

Investors are directed to the CPS Energy website below for future, publicly available updates regarding operations, results and projections concerning financial performance.

https://www.cpsenergy.com/en/about-us/who-we-are/financial-information/financial-disclaimer.html?linkvar=sidenavigation.

Application of Section to the Remainder of this Remarketing Memorandum

The entirety of this Remarketing Memorandum is qualified by the evolving impact on CPS Energy's operations and financial condition resulting from the potential effects of the COVID-19 pandemic. Within this Remarketing Memorandum, CPS Energy has described this event, its impact on CPS Energy's operations and financial condition, and CPS Energy's initial responses to these impacts. CPS Energy has not attempted to update the descriptions included herein to account for the effects of COVID-19, as the specific impacts of this event are evolving and their extent is unknown.

FINANCIAL MANAGEMENT OF THE SYSTEMS

MANAGEMENT DISCUSSION

CPS Energy's Basic Financial Statements for the fiscal years ended January 31, 2022 and 2021, 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, 2022. 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 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 Remarketing Memorandum in table format was derived from CPS Energy's annual audited financial reports, though the presentation format itself was not separately audited. Where indicated, certain information presented herein is unaudited.

The operating results of the Systems reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and other operating costs, utility industry regulation and deregulation, environmental regulation, economic growth of the community, population, weather, and other matters; the nature and effect of which cannot at present be determined. See "FORWARD-LOOKING STATEMENTS" and "INTRODUCTORY STATEMENT" 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 2022 financial reporting, see CPS Energy's fiscal year 2022 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 2022 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, 2022. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2022. 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 2022 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 balancing the mix of financing tools available through the prudent employment of variable rate debt. CPS Energy does not currently use interest rate swaps but continues to assess them as potential debt management tools that could be incorporated into the CPS Energy debt portfolio in the future. The Debt Management Program also focuses on the use of unencumbered cash and available cash flow, when available, to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to lower interest costs, fund strategic initiatives and increase net cash flow. CPS Energy has a Debt Management Policy, providing guidelines under which financing, and debt transactions are managed. These guidelines focus on financial options intended to lower debt service costs on outstanding debt, including exercising options to refund higher interest debt, facilitate alternative financing methods to capitalize on the present market conditions, optimize capital structure, and maintain favorable financial ratios. Under these guidelines, CPS Energy's gross variable rate debt exposure cannot exceed 25.0% of total outstanding debt. Gross variable rate comprises approximately 14.7% of CPS Energy's debt portfolio, including various variable rate bonds and the Notes outstanding (subject to any additional Notes issued from time to time).

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 INTERNAL AND EXTERNAL REPORTING

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

process allows CPS Energy staff to remain vigilant, continuously learning from experience and strengthening the internal control environment that targets protection of CPS Energy's assets and its operations.

CAPITAL PROGRAM

Comprehensive programs for planning and construction to meet current and future electric and gas systems needs are continually being reviewed and updated and are aligned with the strategic plan. CPS Energy utilizes computer-based mathematical models for its forecasting processes. CPS Energy bases its near-term construction and operating needs on a five-year forecast. This short-term annual forecast is supported by a 25-year electric resource plan and is integrated into the long-term financial plan. These assumptions are subject to substantial change and are revised as necessary to 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. Over the 25-year horizon, the energy sales and peak demand compound annual growth rate is approximately 2%, 0.6% growth rate for gas sales, and the gas peak demand growth rate is approximately 2%. CPS Energy has continued to expand its electric customer extensions, with ongoing construction growth in this area. The capital projects are funded with transfers from internally generated funds, debt proceeds, and other sources.

A capital improvement plan is reviewed annually for planning purposes and may identify projects that may be deferred or omitted entirely in future years. 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. Considering the 2021 Winter Weather Event and the Pandemic (together, the "Events"), discussed elsewhere in this Remarketing Memorandum, CPS Energy's five-year capital improvement plan, including the FY2023 approved capital budget, is forecast to be $4.304 billion from February 1, 2022 to January 31, 2027. In accordance with the capital improvement plan, the Board approved a resolution on October 31, 2022 requesting the City Council authorize the issuance of refunding obligations in an amount not to exceed $800,000,000. City Council consideration of the foregoing is planned for December 1, 2022.

A significant portion will be investments required to meet the expected customer growth within CPS Energy's service area and to keep up with the refresh and modernization of an aging infrastructure. Construction projects include electric transmission, electric generation, electric distribution, general properties, and gas facilities. A continued focused investment in reliability and resiliency and efforts to improve CPS Energy's operational resiliency, controls, and communication in emergency situations remains at the forefront of the capital improvement plan. Additional projects include those to maintain regulatory standards. CPS Energy is currently updating its annual budget for FY2024 and will include a five-year capital improvement plan through January 31, 2028.

Over the five-year period covered by the capital plan, construction funding from debt proceeds is expected to average approximately $394.8 million per year. Due to the 2021 Winter Weather Event, these plans have been modified and continue to be subject to change. See "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein for current finance plans (which are subject to change as CPS Energy receives additional information).

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 $2 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 September 30, 2022, totaled $27.9 million to cover losses under the self-insurance portion of the insurance program.

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

ENTERPRISE RISK MANAGEMENT AND SOLUTIONS

The Enterprise Risk Management and Solutions ("ERMS") Division is under the direction of the Vice President of Enterprise Risk & Development and is responsible for enterprise risk assessments, insurance services, internal controls program and commodity related middle office activities. As part of these responsibilities, each business day ERMS monitors counterparty credit related exposure.

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. Title VII of the Dodd-Frank Act, known as the "Wall Street Transparency and Accountability Act of 2010", substantially modified portions of the Commodity Exchange Act with respect to swaps and swap transactions. The law was designed to reduce systemic risk, establish new business conduct rules, increase transparency, and promote market integrity within the financial system. The Dodd-Frank Act gave both the Commodity Futures Trading Commission ("CFTC") and the SEC statutory authority to directly regulate the "Over the Counter" ("OTC") derivatives market, which include commodities currently being utilized by CPS Energy to hedge price risk in accordance with its own policies and procedures. CPS Energy operations are principally affected by the regulations promulgated under the Dodd-Frank Act by the CFTC. Development of regulations implementing the legislation has progressed, but the overall impact on CPS Energy remains uncertain pending completion of certain CFTC rulemakings. Exemptions intended to minimize the regulatory burden on commercial end-users and governmental entities have pared back obligations initially bearing upon CPS Energy. Certain CFTC rules and policy statements made necessary the modification of CPS Energy's contract arrangements with hedging counterparties, bringing in various representations, elections and commitments as to reporting obligations and other matters, and must be covered in new relationships. Similarly, filings with government authorities, relationships with third party services providers, and additional internal controls and responsibilities have been made necessary. On May 24, 2018, the U.S. President signed into law the *Economic Growth, Regulatory Relief and Consumer Protection Act*, which is designed to roll back or eliminate key parts of the Dodd-Frank Act and would provide smaller banking institutions with relief from the strenuous requirements originally imposed in 2010. On October 31, 2018, the Federal Reserve unveiled its plan for significantly paring back rules for regional and community banks, in direct response to 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 so that they 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 October 25, 2021 and effective as of January 31, 2022, CPS Energy may invest its funds in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations, having a stated final maturity of 10 years or less, directly issued and guaranteed by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States or their agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by the

explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated not less than "A" category or its equivalent; (6) interest-bearing banking deposits that are guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor; (7) interest-bearing banking deposits as described by Section 2256.009(a)(8) of the Investment Act; (8) a certificate of deposit ("CDs") or share certificate issued by a depository institution or a broker that has its main office or branch in the State of Texas, which is fully secured and/or federally insured; (9) securities lending programs that are 100-102% collateralized; (10) fully collateralized repurchase agreements; (11) certain bankers' acceptances; (12) commercial paper rated not less than "A-1" or "P-1" or equivalent by at least two nationally recognized credit rating agencies and that have a stated maturity of 365 days or fewer from the date of issuance; (13) no-load money market mutual funds that comply with Rule 2a-7; (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years; and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) certain guaranteed investment contracts that are funded by bond proceeds if authorized in the order, ordinance, or resolution authorizing the issuance of the bonds; (16) investment pools that stabilize at a $1 NAV to the extent reasonably possible and are rated no lower than "AAA" or "AAA-m" or equivalent and meet all other requirements as stipulated in Section 2256.016 of the Investment Act; (17) in connection with a transaction authorized by Section 272.004 of the Texas Local Government Code, one or more of the investments, securities, guarantees, and/or insurance contracts or other contracts and agreements described in Section 452.108(d) of the Texas Transportation Code, including, but not limited to the following: payment agreements, financial guarantees or insurance contracts with counterparties having either a corporate credit or debt rating in any form, a claims-paying ability, or a rating for financial strength of "AA" or better; and (18) for the General Account only, hedging instruments authorized by Section 2256.0201 of the Investment Act and in accordance with CPS Energy's Energy Price Risk Management Policy for the purpose of managing risks of financial uncertainty or loss associated with adverse volatility in the pricing of CPS Energy's energy and fuel assets, to include energy based futures contracts, option contracts, swap contracts, insurance contracts, and structured contracts composed of combinations of hedging instruments.

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

The weighted term to maturity of investments on August 31, 2022, was 1.86 years for CPS Energy's funds. CPS Energy's funds, as of August 31, 2022, were invested entirely in government agency obligations, collateralized mortgage obligations directly issued by and guaranteed by a Federal agency, U.S. Treasury securities, money market mutual funds, investment pools, high quality municipal bonds, and Investment Act-compliant money market deposit funds. The market value of the investments held as of August 31, 2022 totaled approximately $1,026 million. Based on market value, 47% of the portfolio was invested in money market mutual funds/investment pools, 27% in United States government agency obligations, 7% in collateralized mortgage obligations and other pass through securities whose principal and interest are backed by Federal Agencies, 17% in high-quality municipal bonds, and 2% in U.S. Treasury securities. CPS Energy determines the market value of non-cash investments primarily through Interactive Data Corporation, a reputable third-party data provider, as well as by reference to Bloomberg's financial terminal, published quotations and other comparable information. No CPS Energy funds are invested currently in reverse repurchase agreements or derivative securities, securities whose rate of return is determined by reference to some other instrument, index, or commodity, except for certain natural gas options held under the Energy Price Risk Management Policy. See "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 Investors Service, Inc. ("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 June 30, 2022, consisted of fixed income securities, equity securities, Real Estate Investment Trusts of the United States ("US REITs") and cash equivalents. The market value of cash, cash equivalents and investments (including accrued interest) held as of June 30, 2022, totaled approximately $479 million and was comprised of fixed income securities totaling approximately $298 million, equity securities (domestic and international) having a market value of approximately $124 million, US REITs in the amount of approximately $43 million, and the remaining $14 million being invested in cash and cash equivalents. Based upon market values, 57% of fixed income securities were invested in United States Government and Government Agency obligations, 35% were invested in corporate bonds and municipal bonds, 3% were invested in foreign bonds and other, and 3% 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-" by both S&P and Fitch, respectively, or "Baa3" by Moody's) at the time that the securities are purchased and the appropriateness of continuing to hold a particular debt security must be reexamined if the debt rating of the company in question falls below investment grade at some time after the debt security has been purchased; (4) from investing in equity securities where the issuer has a capitalization of less than $100 million; and (5) from investing in securities issued by the electric utility collecting the funds or any of its affiliates; however, investments may include commingled funds that contain securities issued by the electric utility if the securities of the utility constitute no more than 5% of the fair market value of the assets of such commingled funds at the time of the investment.

As of June 30, 2022, 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 June 30, 2022, totaled approximately $177 million and was comprised of fixed income securities totaling approximately $112 million, equity securities having a market value of approximately $43 million, US REITs in the amount of approximately $15 million and the remaining $7 million being invested in cash and cash equivalents. Based upon market values, 62% of fixed income securities were invested in United States Government and Government Agency obligations, 35% were invested in corporate and municipal bonds, 2% were invested in foreign bonds and other, and 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, they are also included as fiduciary component units in CPS Energy's financial statements and required information related thereto is disclosed in the financial statements, related Notes and RSI. See "Basic Financial Statements – Note 11 – Employee Pension Plan" and "– Note 12 – Other Postemployment Benefits" in CPS Energy's Basic Financial Statements attached hereto as APPENDIX B ("Notes 11, 12, 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 & CEO, the CFO & Treasurer, and the Audit & Finance Committee members of the Board. Among other functions, the EBOC approves all changes to the plans, engages external auditors, appoints members of an Administrative Committee (which manages daily operations and makes investment decisions), 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 a result of the annualized valuation methodology related to pensions, interim reporting period valuations of CPS Energy's Pension and Benefits Plans are difficult to forecast and can vary greatly from quarterly or annual results under normal operating conditions. These efforts are further exacerbated by the unprecedented (and still unknown) impact of the Events, discussed elsewhere in this Remarketing Memorandum under the captions "INTRODUCTORY STATEMENT – COVID-19", "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event", and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO". The specific impacts of the Events continue to evolve and their extent remains unknown; accordingly, CPS Energy has not attempted to update the descriptions and calculations included in this section in an attempt to account for the possible effects of the Events (though CPS Energy can communicate that the funding status and projected funding contribution requirements relating to the Pension and Benefits Plans have been negatively impacted by the local, national, and global results of the Events). As a result of the foregoing, the entirety of this section is qualified by the expected negative impacts of the Events, the full extent of which on the CPS Energy Pension and Benefits Plans' funding status and prospective contribution funding requirements will not be known until completion of the next scheduled annual actuarial valuation of the Pension and Benefit Plans, to be performed by qualified actuaries trained to determine such complex valuations. Investors are directed to the Events' disclosures identified above for additional descriptions concerning the Events and their initially identified, unaudited impacts on CPS Energy's operations and financial condition.

As set forth herein and in Notes 11 and 12 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 11, 12, 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 were communicated to the Administrative Committee in June 2017. CPS Energy engaged a third party to evaluate the experience study, 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, 2018, actuarial reports that were used to determine liability, contributions, and expense for CPS Energy's fiscal year 2020 financial statements, and formally approved the assumptions during a meeting held in August 2018. The impact of the changed assumptions is reflected in the information provided in CPS Energy's Basic Financial Statements attached hereto as APPENDIX B, as further described in Notes 11, 12, and RSI. An experience study was conducted during 2020 and changes to both demographic and economic assumptions were recommended for consideration based on the study results. The most impactful recommendation was a reduction to the expected rate of return on assets from 7.25% to 7.00%. The change resulted in an increase in the liability, recommended contributions and expenses. The Administrative Committee authorized the actuary to use the recommended assumptions to prepare the January 1, 2021 actuarial reports that will be used to determine liability, contributions, and expense for CPS Energy's fiscal year 2023 financial statements.

PENSION PLAN

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

In 2015, in conjunction with the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was later updated by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (described herein), CPS Energy elected to use regulatory accounting to capitalize the associated costs to recover through future rates. GASB Statement No. 68 required the immediate recognition of CPS Energy's previously unrecognized pension liability. For governmental entities other than those whose operations are rate regulated, the GASB Statement No. 68 adoption accounting required a charge to net position (equity) for the net effect of the restatements required to recognize the net pension liability. CPS Energy elected to use regulatory accounting, as allowed under GASB Statement No. 62, *Codification of Accounting*

and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement, to create a regulatory asset representing the net effect of the prior period restatement that is being amortized over a 50-year period.

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 11 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	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, 2022	$2,164,873	$1,916,698	$248,175	88.5%
January 31, 2021	$2,060,241	$1,766,519	$293,722	85.7%
January 31, 2020	$1,988,962	$1,610,834	$378,128	81.0%
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%

OPEB PLANS

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

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

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

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

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

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

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, 2022	$240,024	$297,828	$(57,804)	124.1%
January 31, 2021	$250,115	$284,986	$(34,871)	113.9%
January 31, 2020	$263,922	$267,509	$(3,587)	101.4%
January 31, 2019	$253,241	$289,822	$(36,581)	114.4%
January 31, 2018	$234,808	$260,648	$(25,840)	111.0%

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, 2022	$55,999	$53,686	$2,313	95.9%
January 31, 2021	$47,261	$52,591	$(5,330)	111.3%
January 31, 2020	$46,186	$49,759	$(3,573)	107.7%
January 31, 2019	$46,800	$54,921	$(8,121)	117.4%
January 31, 2018	$47,289	$49,698	$(2,409)	105.1%

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, 2022	$7,092	$6,504	$588	91.7%
January 31, 2021	$5,457	$6,238	$(781)	114.3%
January 31, 2020	$6,114	$5,566	$548	91.0%
January 31, 2019	$6,366	$5,396	$970	84.8%
January 31, 2018	$6,295	$4,234	$2,061	67.3%

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, 2022	$303,115	$358,018	$(54,903)	118.1%
January 31, 2021	$302,833	$343,815	$(40,982)	113.5%
January 31, 2020	$316,222	$322,834	$(6,612)	102.1%
January 31, 2019	$306,407	$350,139	$(43,732)	114.3%
January 31, 2018	$288,392	$314,580	$(26,188)	109.1%

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 projected, by 2020, its generation mix would 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. As of January 31, 2021, CPS Energy met or exceeded these projections with an annual generation mix being 20.1% coal, 30.6% nuclear, 31.3% natural gas, 10.6% wind, 4.2% solar, 2.8% purchased power, and 0.4% landfill gas. CPS Energy also exceeded its goal of 4.0% as part of its generation projection to be met through the STEP program by reaching approximately 6% of what its generation needs would have been without STEP. A new STEP program has been approved with funding for a five-year period beginning in August 2022. CPS Energy is now focused on implementing and achieving its new STEP goals and Vision 2027, as more fully described herein.

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 objectives, key results, 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 Board approves all members of the CAC and each member can serve up to three two-year terms. CPS Energy recently solicited applicants for the vacancies on the CAC.

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

The RAC is currently working with CPS Energy to evaluate various combinations of generation portfolios to identify the combination of generation resources that will allow CPS Energy to continue to provide reliable, affordable, and environmentally sustainable power to the community as it replaces retiring generation units over the next few years. The Board is expected to determine a path forward to replace generation units retiring between the date hereof and 2029.

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.

CPS Energy Strategies

Historical Programs

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

CPS Energy executed an agreement with Consolidated Edison Development, Inc., a subsidiary of Con Edison Clean Energy Businesses, Inc., for a 300 MW solar project to be located in Goliad County, Texas, representing the first initiative of CPS Energy's *Flex*POWER Bundle℠. For the second agreement tied to its *Flex*POWER Bundle℠ initiative, on September 21, 2022, CPS Energy reached an agreement with Kenlov Ashtrom Renewable Energy LLC, a subsidiary of Kenlov Renewable Energy and Ashtrom Renewable Energy ("KARE"), for the purchase of 180 MW of solar energy. The project developed and originated by KARE's U.S. development partner, OnPeak Power, is expected to provide CPS Energy with 180 MW of the full 305 MW from the Tierra Bonita solar farm once completed. Tierra Bonita will be located in Pecos County, Texas. The KARE agreement is a 20-year contract with construction anticipated to begin in 2023, with a completion date of 2025.

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

Vision 2027

Vision 2027 – An Evolving Utility, CPS Energy's newest initiative, focuses on strategic objectives to meet CPS Energy's mission through the lenses of equity and security, enabled by technology and innovation. These strategic objectives include operational evolution, financial stability, customer experience, a culture of service, and community partnerships and growth. With these initiatives, CPS Energy seeks to support community growth through the modernization of the grid, investing in generation sources, providing customers with enhanced experiences and options, balancing fiscal responsibility and community equity, ensuring a safe and service-driven culture, and continuing to support customer and operational needs.

BUSINESS AND ECONOMIC DEVELOPMENT

CPS Energy works independently, as well as with the Greater: SATX 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 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.

CPS Energy, through its partnership with Greater: SATX, assists in the recruitment of 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, Navistar, DeLorean Motor Company Headquarters, Pabst Brewing Co., OKIN BPS, Ernst & Young, Cuisine Solutions, AMERIVET, The Hut Group, JPSECURE, Grunt Style, and Cell Right Technologies. All these companies represent new megawatt growth for CPS Energy, as these companies alone provide over 2,400 jobs and more than $380 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 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.

All the New Energy Economy partners are fully committed to reaching their respective economic milestones. Nevertheless, some partners have experienced economic setbacks related to the COVID-19 pandemic and may experience additional setbacks due to the 2021 Winter Weather Event. As a result, these partners are restructuring their business models which is temporarily preventing them from attaining some of their economic commitments.

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

- An NEE average, since its 2011 inception, of more than 200 new jobs annually along with a cumulative economic impact to the City 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 completed the development of 500 MW of solar power through the combined use of multiple solar farms in San Antonio and throughout Texas. All 500 MW became operational in December 2018. OCI has exercised its option to sell five of its solar farms to third parties approved by CPS Energy. All 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.

Siemens Corporation: In 2019, Siemens Corporation acquired KACO New Energy and plans to continue production of solar inverters which serve to 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.

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 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 residential and 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 provides 5 MW of community solar capacity for CPS Energy customers from installed solar carports around the City of San Antonio.

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

On September 28, 2017, CPS Energy entered into a 50-year Utilities Privatization Contract ("Contract") with the Defense Logistics Agency ("DLA") to own, operate and maintain the natural gas and the electric distribution systems at the JBSA sites. On July 1, 2019, CPS Energy and the DLA executed the Bill of Sale for the systems covered by the Contract, valued at $87.1 million and, in doing so, the Air Force transferred ownership of these systems to CPS Energy. The DLA provided immediate cost recovery for the transfer of assets, which began in Fiscal Year 2020 and as a result, there are no cash outlays for this transaction. The advanced recovery payment will be amortized to revenue over 50 years, the life of the JBSA Contract, on a straight-line basis. Additionally, the DLA will reimburse CPS Energy for the costs to operate, maintain and upgrade these systems throughout the contract term. These payments will be adjusted annually based on changes to the Consumer Price Index. As of July 1, 2021, the overall net-present value of the fifty-year JBSA Contract was $299 million.

The Alamo Area Council of Governments will manage a $5 million grant from the Governor's office to enhance energy resiliency at JBSA, in partnership with CPS Energy. To support the grant, CPS Energy is supplying matching funds and an in-kind contribution and will be executing the projects to specifically harden 10 CPS Energy substations supporting JBSA from external threats as well as converting a section of overhead system to underground in a clear zone of JBSA Randolph.

In addition, the City will manage another $5 million grant from the Governor's office to enhance flight line safety at JBSA, in partnership with CPS Energy. To support the grant, CPS Energy is supplying matching funds and an in-kind contribution and will be executing the projects to convers a section of overhead system to underground in a clear zone of JBSA Randolph.

On August 31, 2020, the Board approved a Resolution of support for a partnership with SAWS and Itron to expand the intelligence of the SAWS' water distribution system to promote cost management and improve information and services to customers. Since then, a successful 6-month pilot was conducted during which 2,500 meters were installed utilizing CPS Energy's technology from the smart grid initiative. After the successful pilot, SAWS and CPS Energy moved into City-wide rollout, which is expected throughout 2022. Upon completion of the City-wide deployment, CPS Energy will have approximately 600,000 SAWS' meters utilizing the smart grid network.

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

DESCRIPTION OF FACILITIES

ELECTRIC SYSTEM

Power Generation Sources

CPS Energy currently operates 20 non-nuclear electric generating units, two of which are coal-fired, 15 of which are gas-fired, 2 solar photovoltaic ("PV") sites, and 1 Battery Energy Storage System ("BESS"). 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 27.1% of the electric system's native load for the twelve months ending January 31, 2022. 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.

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Generating Capability[1]

Plant	Unit	Fuel	Year Installed	Summer Net Max Capability MW[2]	Total Summer Capability MW	
STP (40% interest)[3]	Unit 1	Nuclear	1988	517.0		
	Unit 2	Nuclear	1989	512.0	1,029.0	Nuclear
Spruce Plant	Unit 1	Coal	1992	560.0		
	Unit 2	Coal	2010	785.0	1,345.0	Coal
Arthur Von Rosenberg (NGCC 2x1)	Unit 1	Gas	2000	518.0		
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[4]	Gas	2004	46.0		
	MBLCT 2[4]	Gas	2004	46.0		
	MBLCT 3[4]	Gas	2004	46.0		
	MBLCT 4[4]	Gas	2004	46.0		
Milton B. Lee East Plant	MBLCT 5[4]	Gas/Oil	2010	48.0		
	MBLCT 6[4]	Gas/Oil	2010	48.0		
	MBLCT 7[4]	Gas/Oil	2010	48.0		
	MBLCT 8[4]	Gas/Oil	2010	47.0		
Rio Nogales Plant[5] (NGCC 3x1)	Unit 1	Gas	2012	777.0	3,359.0	Gas/Oil
Commerce BESS[10]	Unit 1	Solar PV	2019	10.0	10.0	BESS
Total Capability Owned by CPS Energy					5,743.0	
Renewable Purchased Power Nameplate Capability:						
Desert Sky Wind Farm[7]		Wind	2002	63.4		
Cottonwood Creek Wind Farm (Sweetwater3)[8]		Wind	2005	82.6		
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	944.1	Wind
Covel Gardens		Landfill Gas	2005	9.6		
Nelson Gardens		Landfill Gas	2014	4.2	13.8	Landfill Gas
Blue Wing		Solar PV[6]	2010	13.9		
Sinkin 1		Solar PV[6]	2012	9.9		
Sinkin 2		Solar PV[6]	2012	9.9		
Somerset		Solar PV[6]	2012	10.6		
Alamo 1		Solar PV[6]	2013	39.2		
St. Hedwig (Alamo 2)		Solar PV[6]	2014	4.4		
Eclipse (Alamo 4)		Solar PV[6]	2014	39.6		
Walzem (Alamo 3)		Solar PV[6]	2015	5.5		
Helios (Alamo 5)		Solar PV[6]	2015	95.0		
Solara (Alamo 7)		Solar PV[6]	2016	106.4		
CEC Beck (Community Solar)[9]		Solar PV[6]	2016	1.0		
Sirius 1 (Alamo 6)		Solar PV[6]	2017	110.2		
Sirius 2 (Pearl)		Solar PV[6]	2017	50.0		
Lamesa II (Ivory)		Solar PV[6]	2018	50.0		
Commerce PV		Solar PV[6]	2019	5.0	550.6	Solar PV
Total Renewable Purchased Power Nameplate Capability					1,508.5	
Total Capability including Renewable Purchased Power					7,251.5	

[1] Data as of January 31, 2022.
[2] Summer net max capability reflects net summer rating for CPS Energy owned plants.
[3] Current net summer electric rating (MWe) for CPS Energy's share of STP1 and 2. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Nuclear" herein.
[4] "CT" stands for "Combustion Turbine". Plants renamed MBL (Milton B. Lee) CT as of March 6, 2014.
[5] 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.
[6] Solar PV capacity is reported on an alternating current ("AC") nameplate basis.
[7] Desert Sky Wind Farm capacity updated to reflect contracted nameplate capacity after contract renegotiation and turbine uprate.
[8] Capacity updated to reflect contracted nameplate capacity after contract renegotiation and turbine uprate.
[9] Community Solar pilot project "CEC Beck" added to CPS Energy renewable portfolio table to align with other corporate reporting.
[10] BESS – Battery Energy Storage System.

Nuclear

Nuclear is one of CPS Energy's base energy options, providing about 27.1% of CPS Energy's total net annual generation for the twelve months ending January 31, 2022. STP is a two-unit nuclear power plant with Unit 1 and Unit 2 (or "STP1" and "STP2") having a combined nominal output of approximately 2633.1 MW. STP is located on a 12,220-acre site in Matagorda County, 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]	
Participants	%	Nominal Output MW (approximate)
NRG Energy, Inc. ("NRG")	44.0	1,158.6
CPS Energy	40.0	1,053.3
City of Austin-Austin Energy	16.0	421.2
	100.0	2,633.1

[1] 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, 2021, STP1 and STP2 operated at approximately 94.9% and 95.9% of net capacities, respectively. Due to the 2021 Winter Weather Event (see "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event"), STP1 automatically shut down on February 15, 2021 amid bitter cold. The unit, located in Bay City, Texas, was operating at 36% of capacity in the early morning of February 18, 2021 and then ascended back toward 100% capacity. STP2 remained online at full generating capacity.

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

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***Five-Year South Texas Project Capacity Factor*[(1)]**

	Calendar Years Ended December 31,				
	2017[(2)]	2018	2019[(2)]	2020[(2)]	2021
Unit 1	92.3%	94.1%	105.1%	95.1%	94.9%
Unit 2	105.0%	95.2%	96.0%	105.1%	95.9%
Average	98.7%	94.7%	100.6%	100.1%	95.4%

(1) Capacity Factor based on nameplate rating of 1250.6 MW per unit.
(2) Greater than 100% due to plant upgrades.

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 2017, STP's annual Total Generation Cost ($/MWh) ranked in the top decile nationally compared to the other United States nuclear generation stations and from 2017 to 2019, STP's three-year Total Generation Cost ($/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 23.8% of CPS Energy's total net annual generation in Fiscal Year 2022 and 1,345 MW of reliable capacity in the ERCOT market.

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 units, Deely1 and Deely2, which 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 can provide 560 net MW of capacity to the BES. Spruce2 can provide 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. 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.

CPS Energy has committed to examining the future of the Spruce Plants over the course of the next year. On February 28, 2022, the Board approved spending $50 million on a three-acre pond at Spruce to remain compliant with applicable environmental laws. The pond, which must be completed by September 2023, has been within CPS Energy's budget since the new rule related to handling these wastes was announced in 2014.

Gas/Fuel Oil Plants

The Sommers Plant, located at the Calaveras Power Station, comprises two large steam units operating on natural gas. Sommers1 and Sommers2 were installed in 1972 and 1974 respectively. Sommers1 can provide 420 net MW of intermediate/peaking capacity to the BES. Sommers2 can provide 410 net MW of intermediate/peaking capacity to the BES. Both units are offered to the ERCOT Energy Market and are selected to operate as the market economics and load demand dictates. The units are typically cycled during peak load months in the summer and winter based on the load demand and market pricing for the day. During the shoulder

months of fall and spring, the units typically operate in a standby mode available to cover CPS Energy native load obligations as well as to take advantage of ERCOT market opportunities.

The Braunig Plant and Arthur Von Rosenberg Plant ("AVR Plant") are located at the Braunig Power Station southeast of the City and share Braunig Lake's cooling capacity. The Braunig Plant has three steam units which operate on natural gas. Braunig1, Braunig2, and Braunig3 were installed in 1966, 1968, and 1970 respectively. Braunig1, Braunig2, and Braunig3 can provide 217, 230, and 412 net MW, respectively, of capacity to the BES. All three units are typically cycled 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. CPS Energy is evaluating the need to mothball the nature gas fired Braunig plant, but no known timeline, cost, or risks are available at this time.

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 online in an outage situation. The Milton B. Lee East Plant was installed in 2010. Three of the four units can provide 48 MWs, and one of the units provides 47 MWs net capacity to the BES. Each unit consists of a generator driven by a General Electric (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's three generators combine to provide 518 net MW of reliable competitive capacity to the BES. The plant consists of two GE 7FA Frame Combustion Turbines driving one generator each and a GE D11 Steam Turbine driving another generator. The exhaust heat from both turbines is used to generate steam to drive the steam turbine generator. The plant can operate in a 1x1 configuration with one combustion turbine and the steam turbine, or a 2x1 configuration with both combustion turbines in service along with the steam turbine giving it the flexibility to maximize its value.

The Milton B. Lee West Power Station located in the southwest portion of the County has four additional quick-start natural gas simple cycle combustion turbines that include Black Start capability to ensure CPS Energy's generation assets can expeditiously come on line in an outage situation and provide 184 net MW of flexible capacity for CPS Energy. The Milton B. Lee West Plant was installed in 2004. Each of the four units can provide approximately 46 net MW of capacity to the BES. Each unit consists of a generator driven by a GE LM6000 Combustion Turbine 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.

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 777 MW (net summer rating with duct firing) plant was purchased from Tenaska Capital Management, LLC and provides CPS Energy with reliable, efficient generation capacity. Natural gas is supplied to the plant through a pipeline lateral that accesses the Oasis pipeline, a DCP Midstream pipeline, and a Kinder Morgan/Houston pipeline joint venture pipeline. Water sources for the plant consist of treated sewage effluent from 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 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, 2022, CPS Energy's renewable energy capacity totals 1,508.5 MW. CPS Energy has one of the strongest and most diverse renewable energy programs in Texas, 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 renegotiated into one single contract, with a termination date of December 31, 2021, in response to a request from the

developer to repower the project with improved equipment. The plant capacity factor improved, providing CPS Energy with additional MWh at a lower cost per MWh than the original contracts. The term of the new contract remained the same as the original contracts. The repower was completed in August 2018 and added approximately 8 MW of nameplate capacity. The Desert Sky Wind contract has since been renegotiated to extend through December 31, 2027 and now provides a total of 63.4 MW. The Cottonwood Creek Wind Farm (Sweetwater 3) was also repowered and the contract renegotiated to provide 82.6 MW of capacity to CPS Energy. CPS Energy also has a 20-year contract for 240.8 MW from the Sweetwater 4 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, located at Southwest Research Institute and is the first co-located solar and storage project interconnected at the distribution level within ERCOT. This project broke ground on October 9, 2018 and went online February 2020. This project has 17,752 solar panels that produce about 5 MW of solar, enough to power approximately 1,000 homes. The project also includes a Battery Energy Storage System, with 10 MW of storage capacity, which provides flexibility to store energy by charging when market prices are low and discharge the stored energy when market prices are high.

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 39.2 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. Currently, 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 previously sold to D.E. Shaw Renewable Investments, began commercial operation on December 20, 2018. On September 1, 2019, Commerce PV consisting of 5.0 MW, became operational. 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.

In September 2021, OCI, CPS Energy, and Hyundai Motor Group executed a memorandum of understanding to test recycled electric vehicle batteries for solar energy storage. These parties have installed the energy storage system in which CPS Energy serves as operator.

CPS Energy receives energy from 944.1 MW of wind, 550.6 MW of solar and 13.8 MW of landfill gas generated energy for a total renewable energy capacity in operation of 1,508.5 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 1,508.5 MW. Only CEC Beck is included in the "Generating Capability" table, since it is owned and operated by CPS Energy and to align with other corporate reporting.

As further described herein, CPS Energy executed an agreement with Consolidated Edison Development, Inc. for a 300 MW solar project in Goliad County, Texas.

Peak Demand and Native Load

In the CPS Energy service territory, a previous record system peak demand of 5,159 MW was set on August 26, 2019, on hour ending 7 p.m. In the summer of 2022, a new all-time high system peak was reached on July 11, 2022, of 5,159 441 MW on hour ending 4 p.m, surpassing the previous 2019 record. The demand-response programs effectively shaved 220 MW off the peak demand. During the 2021 Winter Weather Event (see "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein), peak demand was 4,935 MW. CPS Energy continues to provide innovative and growing conservation and demand-response programs, such as automatically adjusting participating customers' thermostats served to keep CPS Energy's peak demand lower than it otherwise would have been. See "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. CPS Energy makes no representation as to the costs of replacement power and qualifies the foregoing in response to the 2021 Winter Weather Event (see "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein.)

Assets Supporting Generation

Braunig and Calaveras Lakes are CPS Energy-owned man-made lakes that provide cooling for most 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.

CPS Energy has contracted with 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 in order to reduce operational costs and improve reliability. A new energy portal was implemented to give customers the opportunity to better track and manage their energy usage. The project was completed in the summer of 2018. The combined cost of the network, electric and gas upgrades was $264 million. Operational savings, accurate reads, and distribution automation are all factored in the program. Savings are expected to cover the cost in approximately 13 years. As of March 2022, approximately 1.3 million smart grid devices have been installed pursuant to this program. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs – Energy Conservation" herein. In addition, CPS Energy is utilizing smart grid technologies to ensure grid resilience and reduce impacts of power events during natural disasters such as flooding and hurricanes.

Smart Streetlights

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

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

CPS Energy and the City selected two solution providers to pilot smart streetlight control and smart city applications within the City's three Innovation Zones (Downtown, Medical Center, and Brooks City Base) over a 6-month period. The pilot period concluded on October 15, 2021. Results from the streetlight pilot are being evaluated. Initiation of a potential City-wide implementation is targeted in 2023.

New Products and Services

CPS Energy continually evaluates its entire portfolio of electric and gas products and services to more fully meet customers' needs. To that end, in the latter half of calendar year 2020, CPS Energy received approval from the Board and City Council for three new offerings now available to commercial customers. First, CPS Energy developed a tariff that provides large commercial customers with improved access to renewable energy sources. Under this optional Green Tariff (as described under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Green Tariff"), CPS Energy procures renewable energy from a source chosen by the customer, and then sells it to the customer through the Green Tariff. Second, CPS Energy converted a limited Resiliency Service pilot into a permanent tariff for its commercial customers. Under the Resiliency Service offering, CPS Energy will provide on-site backup generators capable of providing electricity to retail customers during outages of the electric system in exchange for a monthly Resiliency Service capacity fee. The natural gas backup generators are owned and operated by one of CPS Energy's suppliers. As of January 31, 2022, Resiliency Service has been enabled at 27 customer sites with a total capacity of 30.4 MW. The Green Tariff and Resiliency Service offerings have both been fully approved.

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

Qualified Scheduling Entity

CPS Energy operates as an ERCOT Level 4 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 96 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 8,165 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 734 miles of three-phase equivalent distribution lines, 87 miles of three-phase downtown network distribution lines, and 6,015 miles of single-phase underground residential distribution lines.

Interconnected System

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

American Electric Power Service Corporation	Austin Energy
Brazos Electric Power Co-op Inc.[(1)]	CenterPoint Energy
LCRA Transmission Services Corp.	Oncor Electric Delivery Company LLC
South Texas Electric Co-op Inc.	Texas-New Mexico Power Co.

(1) Filed bankruptcy on March 1, 2021 and is currently in bankruptcy proceedings. Brazos plans to exit bankruptcy by the end of 2022.

The transmission facilities of CPS Energy, the eight above entities, and those of other transmission facility owners have been integrated into a single control area, which is operated by ERCOT acting as the Independent System Operator ("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 the City of Lubbock, Texas) ("LP&L") to join ERCOT. LP&L 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. LP&L previously announced it will pay ERCOT $110 million for infrastructure needed to connect Lubbock to the State's grid. Approximately 70% of its customers were transferred to ERCOT by May 30, 2021. The City of Lubbock can now seek approval from the PUCT to transfer the remaining 30% of its customers to ERCOT. The transfer is scheduled for May 2023.

On July 20, 2022, ERCOT set a peak record of 80,038 MW compared to the grid's previous all-time high demand of 74,820 MW on August 12, 2019. The winter peak record was set on February 14, 2021, reaching 69,150 MW. Increased power usage in response to weather conditions has impacted and may continue to impact the grid's ability to prospectively operate effectively and efficiently and both the Texas Legislature and the PUCT are actively making changes by focusing on improving the safety and reliability of the electric system.

Pursuant to the PUCT's open access transmission rule, discussed under "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, the Nodal market ERCOT optimizes the dispatch of all generating units in the RTM using Security Constrained Economic Dispatch ("SCED"). Resource operators submit offer curves to ERCOT and load serving entities submit bid curves to ERCOT. The SCED engine optimizes deployment of generation assets (constrained by the limits of the transmission system) to meet demand through an electronic auction run every five minutes. To provide predictability in the RTM, ERCOT also operates a financial DAM. This voluntary market allows market participants to sell resources and buy load one day prior to the operating day, securing positions and adding predictability to their revenues and costs. The DAM is conducted by ERCOT itself, and each participant must show adequate creditworthiness to participate. CPS Energy participates in both the DAM and the RTM daily. ERCOT's costs of converting to a single control area and of administering system operations for the competitive retail market are recovered through an administrative fee assessed to system participants, including CPS Energy, allocated on an energy basis. CPS Energy recovers the fee through the billing adjustment discussed above under "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 NERC, including the Critical Infrastructure Protection standards. CPS Energy must comply with these standards as a Transmission Planner, Transmission Owner, Transmission Operator, Distribution Provider, Generator Owner and Generator Operator. CPS Energy is continually monitoring proposed new reliability standards, new versions of existing standards, and the potential of violations related to the standards. CPS Energy does not anticipate any violations that would have a material financial impact. CPS Energy is currently in the process of preparing for the regularly scheduled NERC audit in mid-2023

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 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 considering 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 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 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 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, 2019, and 2018, CPS Energy had accumulated approximately $473 million and $413 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, 2019, and 2018, 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 $173 million and $152 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. ("NWPA"), the Department of Energy ("DOE") has an obligation to provide for the permanent disposal of high-level radioactive waste, which includes used nuclear fuel at United States commercial nuclear power plants such as STP. To fund that obligation, all owners or operators of commercial nuclear power plants have entered into a standard contract under which the owner(s) pay a fee to the DOE of 1.0 mill per kilowatt hour (1M/kWh) electricity generated and sold from the power plant along with additional assessments. In exchange for collecting this fee and the assessments, DOE undertook the obligation to develop a high-level waste repository for safe long-term storage of the fuel and, no later than January 31, 1998, to transport, and dispose of the used fuel. To date, no high-level waste repository has been licensed to accept used fuel. The National Association of Regulatory Utility Commissioners ("NARUC") has challenged further collection of this fee. On November 19, 2013, the U.S. Court of Appeals for the District of Columbia (the "D.C. Circuit Court") ruled in favor of NARUC and ordered DOE to submit to Congress a proposal to reduce the fee to zero until certain conditions are met. While the reporting of volumes will continue, effective May 16, 2014, the rate changed to 0.0 mill per kilowatt hour (0/M/kWh), or no fee.

To date, the DOE has not accepted used fuel from any domestic commercial nuclear power plant. According to the filings in one recent suit brought against the DOE, at least 66 cases have been filed in the Court of Federal Claims against the DOE related to its failure to meet its obligations under the NWPA by the existing owners or operators of nuclear facilities seeking damages related to ongoing used nuclear fuel storage costs. In early 2016, a federal district court in Washington, D.C. ruled against the

DOE, ordering the government to clean up the Hanford Nuclear Reservation in response to NWPA violations. Entergy Nuclear Generation Company ("Entergy") and Boston Edison Company ("Boston Edison") filed suits alleging a $40 million claim before the Court of Federal Claims regarding allegations that the DOE failed to compensate a nuclear energy company for nuclear waste storage fees incurred. In an opinion and order addressing both companies' claims, dated February 14, 2017, the court dismissed Boston Edison's complaint (based on the rationale that such claim was not yet ripe) and dismissed the government's motion to stay discovery related to the Entergy case due to Boston Edison's claim resolution by the court.

On August 31, 2000, in *Maine Yankee Atomic Power Company, et al. v. US*, the United States Court of Appeals for the Federal Circuit affirmed that the DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. After that decision, the DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while the DOE continues to develop a permanent high-level waste repository. In early February 2013, STPNOC, on behalf of the owners of STP, entered a similar settlement with the DOE. Under the terms of the settlement, the DOE will reimburse STP for certain costs that will be incurred in continuing onsite storage of all its used nuclear fuel. As with similar settlements throughout the nuclear industry, the terms of the agreement call for the DOE to reimburse for certain costs incurred through December 2013. In early November 2013, STPNOC and its outside counsel received notice from the Department of Justice ("DOJ") that the DOE was offering to extend the terms of the settlement to allow for the DOE to reimburse for costs incurred through December 2016. The settlement extension (addendum) was executed on January 24, 2014 and extended the term of the Spent Fuel Settlement Agreement with the DOE through December 31, 2016. In November 2016, STPNOC and its outside counsel received notice from the DOJ that the DOE extended the terms of the settlement through December 31, 2019. On June 25, 2020 STPNOC and its outside counsel received notice from the DOJ that the DOE extended the terms of the settlement through December 31, 2022. Additionally, *In re Aiken County*, 725 F.3d 255 (D.C. Cir. 2013), the court ordered the NRC to comply with the NWPA and use available funds to resume consideration of the DOE's Yucca Mountain application as a possible depository. NRC staff concluded the Yucca Mountain to be a safe location, but the DOE must still obtain acquisition rights and complete licensing requirements. On May 6, 2016, NRC issued its final supplement to the environmental impact statement examining the use of the Yucca Mountain as a permanent repository for used nuclear fuel and high-level radioactive waste. After analyzing the potential impacts on groundwater and surface groundwater discharge, the NRC determined all impacts would be "small". The adjudicatory hearing, which must be completed before a licensing decision can be made, remains suspended. On December 16, 2016, the DOE released its "Draft Plan for a Defense Waste Repository", evaluating the possibility of a separate disposal repository (other than the Yucca Mountain). The preliminary plan describes the technical, regulatory, risk management, cost, and schedule consideration thereof and remained open for comment until March 20, 2017. In January 2017, the Government Accountability Office issued a report that assessed DOE's analysis of the defense-only repository as excluding major costs "that could add tens of billions of dollars" and including a schedule that "appears optimistic", in light of "past repository siting experiences". On September 20, 2022 Nevada Governor Steve Sisolak and the Nevada Agency for Nuclear Projects announced the filing of a new legal motion to bring an end to failed federal plans to construct a repository for the Yucca Mountain. As of the date hereof, no funding for the Yucca Mountain repository is pending before the Congress.

Until the DOE fulfills its responsibilities under the NWPA (which includes a permanent underground disposal facility), the NWPA has provisions directing the NRC to create procedures to provide for interim storage of used nuclear fuel at the site of a commercial nuclear reactor. Pursuant to STPNOC analysis of NRC guidance, STPNOC constructed an on-site independent spent fuel storage installation ("ISFSI" also known as "Dry Cask Storage") and commenced dry cask loading operations of spent nuclear fuel in January 2019. 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. The eighth claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2019 for the period of August 1, 2018 to July 31, 2019. On June 24, 2020, CPS Energy received its share of the allowable reimbursement costs from the DOE. The ninth claim under the Spent Fuel Settlement Agreement with the DOE was submitted in was submitted in late October 2020 for the period of August 1, 2019 to July 31, 2020. On April 19, 2021, CPS Energy received its share of the allowable reimbursement costs from the DOE. The most recent claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2021 for the period of August 1, 2020 to July 31, 2021. On April 19, 2022, CPS Energy received its share of the allowable reimbursement costs from the DOE.

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

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

Additional Generation Opportunities

One of CPS Energy's strongest aspects of operational and financial effectiveness has been the benefit it has derived from its diverse and low-cost generation portfolio. Continued diversification is a primary objective of the CPS Energy management team.

Accordingly, this team periodically assesses future generation options that would be viable for future decades. This extensive assessment of various options involves projections of customer growth and demand; technological viability; financial investment requirements; annual asset operation and maintenance costs; environmental impacts; and other factors.

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, CPS Energy is expanding its efforts towards community-wide energy efficiency and conservation. These mitigation efforts are very important to CPS Energy's strategic energy plans and specifically to its new generation needs. See "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 assesses generation resource options to meet its expected future electric requirements. This assessment includes updates to fuel prices, wholesale electric market forecasts and its electric peak demand forecast which incorporates the most recent economic, demographic and historical demand data for the CPS Energy service territory. Additionally, this assessment includes updated demand reductions due to the STEP energy efficiency and conservation program.

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

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 an Exelon-proposed new two-unit facility at a proposed location in Victoria County, Texas.

In August 2012, Exelon announced they had notified the NRC they intended to withdraw the Early Site Permit application for the Victoria County Station Project. This action effectively ended development of the project. Subsequently, CPS Energy wrote-off the $2.7 million in capital funds invested in the project. This write-off was reflected in September 2012.

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"), an 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 the 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 on 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 of 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 were 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 recently and during past years. Certain unplanned events that had potential financial impact to CPS Energy greater than $1 million (including costs to address loss of revenue and costs of replacement load) are hereafter described. In addition, CPS Energy's generation facilities were impacted by the 2021 Winter Weather Event, and CPS Energy continues to analyze the effects thereof.

AvR

On September 6, 2021, AvR Combustion Turbine ("CT")1 tripped offline due to a high exhaust temperature spread. Plant personnel investigated the issue and determined that extensive compressor damage had occurred. Plant personnel have engaged with the Original Equipment Manufacturer (OEM) to further analyze the event. The damaged compressor was repaired and reassembled by the OEM. The unit was returned to service on November 4, 2021. The AvR steam turbine was derated during the duration of the CT1 outage.

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

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

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

Braunig

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

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

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

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

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

During a start-up of Braunig2 on August 10, 2020, a cooling water regulator valve was stuck closed, which caused an exciter temperature excursion. The unit was brought off-line as a precaution to perform inspections and testing of the exciter. No damages were found during inspection and the unit was released to dispatch on August 26, 2020.

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.

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 $186 million on January 31, 2019, CPS Energy recorded $182.7 million 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 June 11, 2022, Rio Nogales tripped offline and was unable to restart due to mechanical issues associated with the HP/IP steam turbine that was installed in November 2021. The cause was associated with manufacturing and field assembly errors that have since been corrected. The unit returned to service on July 16, 2022, following a 35-day outage to perform the repairs.

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

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

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

On February 17, 2020, Rio Nogales entered an unplanned outage due to cracks discovered on the High Pressure ("HP") Steam system isolation valve seat on three HRSG. The damage was discovered during the planned maintenance outage earlier that month. The valves were repaired, and the unit was returned to service in a 2x1 configuration on March 6, 2020, while CT301 remained off-line for a planned overhaul.

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

On February 16, 2021, MBLCT8 was operating on natural gas when dispatch requested to switch fuel sources. It was cycled off in attempt to restart with fuel oil. During the initial start attempt, operations suspected that a fuel oil leak was present. The initial startup attempt was suspended to allow for additional inspections. After confirming that no leaks were present, another startup attempt was performed, and the unit was released to dispatch on fuel oil later that day.

Beginning February 15, 2021, the MBL West site incoming gas supply pressure was limited during the 2021 Winter Weather Event. MBLWCT1, CT2, CT3 and CT4 all experienced multiple derates between February 15 and February 19, 2021, due to the reduced gas pressure. Once gas supply pressures returned to normal levels, the plants were released to full operation dispatch.

On February 14, 2021, MBLCT5 failed to start due to Compressor Discharge Pressure ("CDP") purge solenoid valve issues. A replacement CDP purge valve solenoid was ordered, and expedited shipping was requested. However, due to travel restrictions during the 2021 Winter Weather Event, the arrival was delayed. The solenoid was replaced, and the unit restored to operation on February 23, 2021.

Sommers

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

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

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

On July 31, 2019, Sommers1 was derated from 420 MW to 290 MWs net due to issues with the #1 turbine control valve. On August 31, 2019, Sommers1 was further derated to 235 MWs net due to issues with the #4 turbine control valve. The unit entered a maintenance outage on September 7, 2019, to inspect and repair the turbine control valves, and the unit was released to full load capability on October 10, 2019.

Spruce

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

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

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

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

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

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

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

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

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

On January 2, 2020, during start-up of the unit following a planned overhaul at the end of 2019, Spruce1 experienced high vibration on the #8 turbine-generator bearing. Plant maintenance and engineering teams worked with a consultant to analyze the vibration and determined a balance shot was required to reduce vibration. A balance shot was installed on the turbine-generator, and the unit was returned to service on January 15, 2020.

On April 21, 2020, Spruce1 was derated to 275 MW net due to a coupling insert failure on the 1A Induced Draft Fan. The coupling insert was replaced, and the unit was restored to full capacity on June 1, 2020.

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 were being managed by adjusting reactive power to remain below the OEM recommended temperature values. MD&A submitted a repair plan which CPS Energy implemented in the first quarter of 2020. As a result, the Spruce2 generator was able to operate without any real or reactive power capability restrictions.

STP1

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

On February 15, 2021 an automatic reactor trip occurred in Unit 1. The trip resulted from a loss of feedwater attributed to extreme cold weather-related failure of a pressure sensing line to the feedwater pumps. STP staff validated the issue did not exist in Unit 2. Unit 1 was repaired, and the Unit was returned to service on February 17, 2021. Unit 1 reached 100% power on February 18, 2021.

STP2

None.

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.

In response to the 2021 Winter Weather Event, CPS Energy has taken several measures to provide additional certainty of fuel supply and additional operational flexibility. These steps are:

- Increased total natural gas storage capacity by 20%
- Increased daily natural gas storage withdrawal capability by approximately 25%
- Increased both baseload purchases and financial hedges
- Increased volume of fuel oil stored onsite to double the number of days of on-hand inventory
- Added new natural gas suppliers to CPS Energy's portfolio

CPS Energy's coal units are designed to use Powder River Basin ("PRB") coal from Wyoming. Coal is secured through contracts providing prices that reflect current market conditions. Delivery of PRB coal to CPS Energy occurs on the Union Pacific ("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. This amended contract, that was extended through December 31, 2021, has been terminated. There is a new contract in its place that is effective through December 31, 2026, which provides significantly more favorable rates and similar delivery flexibility than the previous contract.

CPS Energy owns 1,193 and leases 106 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 for local gas distribution and generation and to serve the Rio Nogales Plant, with limited ability to share services between CPS Energy facilities.

CPS Energy also owns and operates natural gas transmission facilities, consisting of two larger systems and some short segments connected to power plants. The North Gate Pipeline and the South Gate Pipeline are the two larger systems. The North Gate Pipeline is a 24-inch steel pipeline which extends 17.2 miles from southern Comal County into the northern portion of the County. Natural gas can be supplied to the pipeline through 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, for more reliable operation. CPS Energy utilizes its diverse natural gas supply portfolio and interconnects with these pipelines for its power plant and distribution system natural gas requirements.

Periods of prolonged cold weather, during which natural gas supply has previously and may prospectively fall short of demand (see "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein), 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 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 plants. At these plants, CPS Energy maintains fuel oil inventory and fuel oil receipt capability by truck. Inventory and receipt capability at these plants are options to support operation during natural gas supply disruptions or price events.

An Energy Price Risk Management Policy was implemented in 2002 to reduce the effects of energy price volatility consistent with the policy. At times, financial derivative instruments are utilized to hedge natural gas prices. Natural gas prices remain subject to volatility in the market. See "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 (the "PFC Transaction"). CPS Energy has contracted to purchase this gas for use in its gas distribution system under a take-and-pay gas purchase agreement, obligating CPS Energy to pay a monthly index-based price less a fixed discount for delivered gas. See "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 offering document relating to such PFC bonds, in which the transaction and related risks were disclosed. On February 25, 2013, and June 30, 2016, SAEA executed certain amendments to the Prepaid Gas Agreement and related documents. Under the 2013 amendments, Goldman Sachs & Co. LLC ("Goldman") surrendered for cancellation $111,060,000 of the SAEA bonds which were owned by J. Aron, Goldman, or affiliates. In exchange, SAEA agreed to reduce future required natural gas delivery volumes from 104.6 million MMBtu to 81.3 million MMBtu, reflecting a reduction in required volumes to be delivered that corresponds to the par value of the bonds that were surrendered. Under the 2016 amendments, the investment contract for the debt service fund for the bonds was novated from DEPFA Bank, PLC to J. Aron. The amendments contain provisions in the event of a downgrade in the credit rating on the guaranteed investment contract ("GIC") provider. If the higher rating between J. Aron and its guarantor, Goldman, falls below "BB+" by S&P, or "Ba1" by Moody's, which results in a ratings event, J. Aron is required to provide collateral equal to 100% of the invested balance held by J. Aron plus any accrued interest. At January 31, 2019, no collateral balances were posted.

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

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

Nuclear fuel procurement for STP is managed by the STPNOC staff with oversight and guidance provided by the Participants. STP fuel supply requires uranium oxide, conversion of uranium oxide to uranium hexafluoride, enrichment of fissile uranium 235 isotope from 0.7% to about 4.5%, design and fabrication of fuel assemblies. Prior to May 2014, fuel supply also provided for disposal of spent fuel assemblies. In May of 2014, the DOE suspended the collection of the spent fuel disposal fee pending identification of an alternative disposal facility. No plan to reinstitute the fee has been identified; however, some sources indicate there is a possibility of the fee being reinstated no earlier than 2025. Uranium supply is typically provided by primary producers,

either through long-term contracts or through favorable short-term and/or spot market purchases. Uranium conversion services are obtained under contracts with primary producers, spanning several years of duration, covering STP's initial operating license term (2027 and 2028, STP1 and STP2, respectively). Enrichment requirements are contracted with Urenco USA through STP's initial operating license term. Fabrication requirements are contracted with Westinghouse through STP's renewed 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.

Distribution System

The gas distribution system consists of 19 gate/tap and 347 pressure regulating stations within a network of approximately 5,869 miles of mains. The system consists of 2 to 30-inch steel mains and 1-1/4 to 10-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 several years, and it has been successful in significantly reducing system leak rates and mains and services as well as lost and unaccounted for gas. These plans will continue to strengthen CPS Energy's renewal processes and support the continued safe operation of the gas system.

RRCT Annual Audit Results

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

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

The RRCT 2022 Annual Distribution Audit conducted in May of 2022 resulted in four alleged violations involving various pipeline deficiencies relating to cathodic protection system deficiencies, pipeline marker condition, and pressure regulation station operational matters. The alleged violations cited are being addressed with the plan of correction that was submitted to the RRCT on June 22, 2022. The approved plan of correction will be completed by December 30, 2022.

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

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

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

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

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

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 near 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 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.

RRCT Subsequent Audit Results

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

The RRCT conducted an evaluation of a reportable incident that took place on April 1, 2019. The evaluation transpired over multiple months and involved the review of operations records and the incident investigation reports which resulted in two alleged violations. The first alleged violation involved leak survey records pertaining to calibration of equipment used during the activity. The RRCT found that records were not maintained to show calibrated equipment used during past surveys of this area. The RRCT assessed an administrative penalty for this finding and it was settled on May 28, 2020. The second alleged violation involved the auditor witnessing the use of improperly maintained equipment during the incident investigation. In its response to this item, CPS Energy provided proof of compliance supporting equipment being maintained as required and the alleged violation was dismissed. CPS Energy also modified its equipment calibration schedule to coincide with manufacturer's recommendations and controls to remove the functionality of the equipment past the re-calibration due dates.

RRCT Damage Prevention

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

Prevention Docket. CPS Energy responded to 84,558 locate requests during the 2022 calendar year; the RRCT has assessed CPS Energy penalties on 7 dockets in 2021 totaling $14,500. In comparison, CPS Energy responded to 240,972 locate requests and had $63,500 assessed in penalties in calendar year 2021 and 228,273 locate requests with $110,000 assessed in penalties in calendar year 2020.

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	17[2]	96	-		
Miles of Lines	1,555	8,165	6,749[3]		
Miles of Lines			87[4]		
Kilovolts	138/345	13.2/34.5	13.2/34.5		
Miles of Main				89	5,705
Main Sizes (inches)				8 – 30	1 1/4 – 30
Main Pressures (psig)				135 – 1,100	9 – 485[5]

(1) As of January 31, 2022.
(2) Includes switchyards.
(3) Underground single phase, includes 734 miles three-phase commercial, industrial lines.
(4) Downtown Network three-phase.
(5) Maximum allowable operating pressure.

GENERAL PROPERTIES

Operation Control System

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

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

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

CPS Energy makes a concerted effort to maintain its geographical information mapping system ("GIS"), which supports its gas, electric transmission and distribution system activities. This system is used to maintain information on 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 GIS.

Support Facilities

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

General Offices and Customer Service Centers

The Main Office Complex ("Complex"), located at 500 McCullough Avenue in San Antonio, Texas, is the headquarters site for CPS Energy. CPS Energy's General Offices are located at the intersection of McCullough and Avenue B. Executive, administrative, financial, information technology and engineering functions are located at the Complex. The building has 494,000 square feet of space and consists of 11-story and 14-story towers joined by a 3-story section. This building permits

consolidation of all headquarters' functions in a single campus to improve operational efficiency. An adjacent 6 story garage has been constructed to accommodate employee and company vehicle parking, as well as housing amenities available to employees and the community in the area. 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 complete, and the Certificate of Occupancy has been received. CPS Energy moved into the new headquarters during the fall of 2020.

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

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

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 utilized for 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 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 in downtown San Antonio at 401 Villita Street near the CPS Energy old 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. CPS Energy intends to sell the property and currently has the property listed for sale.

Vehicles and Work Equipment

CPS Energy operates and maintains a diversified vehicle and equipment fleet of 2,700 units. These units range from light to heavy duty vehicles and construction equipment that are specific to maintaining natural gas and electric infrastructure and large coal moving equipment to support generation. A total of eight garages, including five located at various construction centers, one located at the Coal Yard, one at the Nacogdoches facility, and one primary central garage, are staffed with skilled technicians. CPS Energy technicians use manufacturers' diagnostics software to perform in-house, proactive maintenance and repairs. A new Fleet Management Software and vehicle GPS tracking system (Telematics) was implemented in 2021. In 2022, a total of 13 electric vehicles will be incorporated in CPS Energy's fleet. Enterprise Fleet's mission is to provide the safest and most reliable fleet through environmental stewardship, efficient repair and maintenance, employee development, and cost-conscious asset management aligned with industry best practices. This group provides solutions from vehicle and equipment acquisition to decommissioning, which drives efficient, effective, and expedient service to CPS Energy's customers. Furthermore, Enterprise Fleet is environmentally responsible, participating in CPS Energy's recycling program that includes tires, batteries, oil, and other material. CPS Energy's procurement strategy includes plans to continue acquiring a range of alternative-fueled fleet and to electrify units throughout the company where possible.

Real Estate Holdings

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

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

CPS Energy owned approximately eight (8) acres of land and a newly constructed shell building in northwest San Antonio. This property was declared surplus and was sold in early 2020.

COMPLIANCE AND REGULATION

GENERAL REGULATORY CLIMATE

The election of President Biden in November 2020 resulted and will continue to result in a host of newly appointed administrators to top government agencies, especially those positions affecting the environment. Since inauguration, officials began to amend and enact provisions promulgated through the Environmental Protection Agency (the "EPA") and other environmental agencies to increase regulation. Consistent with the Biden Administration's enhanced focus on environmental regulation, on September 24, 2022, the EPA announced that it is establishing the new Office of Environmental Justice and External Civil Rights that will be charged with advancing environmental justice and civil rights concerns. It is too early to determine how active this new office will be and what impact it may have on the System.

ENVIRONMENTAL MATTERS

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

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

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 the 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 sued in early 2015, asserting the EPA's approval was "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law".

In a notice dated April 17, 2015, the EPA extended public comment on the TFPP to May 18, 2015. The Fifth Circuit issued an opinion in July 2015 affirming the EPA's original approval of the TFPP. The EPA officials stated they would continue to work with the TCEQ to implement the TFPP as approved. In early February 2017, the EPA gave final approval of the TFPP. On July 3, 2017, the D.C. Circuit Court held in *Clean Air Council v. Pruitt* that the EPA's decision to stay implementation of portions of a final rule concerning methane and other greenhouse gas emissions lacked authority, and the court vacated the stay. Subsequently on July 10, 2017, the EPA asked the court to recall its mandate vacating the stay, to gain additional time for consideration of further appeal. On August 10, 2017, the court rejected a request by states and industry groups to reconsider the July panel ruling that lifted the EPA's stay of portions of the rule intended to curb methane emissions from new oil and gas infrastructure. On December 2, 2019, the EPA Administrator Andrew Wheeler signed the "Revised Policy on Exclusions from 'Ambient Air'", which modifies the definition to allow for exclusions of certain areas of a source's property from ambient air. On May 29, 2020, the U.S. Court of Appeals for the Fifth Circuit ruled unanimously in *Environmental Integrity Program v. EPA* that the EPA does not need to second guess states' Clean Air Act permitting decisions. The court denied a subsequent petition for rehearing and substituted its opinion stating that Title V permitting is not the appropriate vehicle for examining the substantive validity of permits. The Environmental Integrity Program subsequently filed suit in the D.C. Circuit Court asking that the Court order the EPA to undertake certain actions related to the air permits issued by the TCEQ related to 8 Texas facilities.

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

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

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

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

On October 23, 2014, the D.C. Circuit Court lifted its stay of the EPA's CSAPR. Compliance options under the rule began on January 1, 2015. Phase 1 emission budgets began to apply on January 1, 2015, for the annual programs and applied in 2016. On June 1, 2015, the EPA published a proposed rule providing notice of the availability of preliminary calculations of emission allocations to certain units under CSAPR, specifically regarding the first round of new unit set-aside allowance allocations for the 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 SO_2 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 the EPA to reconsider them. Some Texas units received additional allowances. Phase 2 emission budgets began January 1, 2017. As stated above, with the use of ultra-low sulfur coal at the now-deactivated Deely units, CPS Energy met the SO_2 targets for CSAPR. On September 21, 2017, the EPA signed a rule finalizing withdrawal of the 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 SO_2 and NO_x Texas will stay in the most stringent NO_x Ozone Season Program.

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

The 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 several 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 ("HAPs"), but stated it planned to leave the underlying MATS rule in place. CPS Energy follows 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. On May 22, 2020, the EPA published in the Federal Register a reconsideration of the appropriate and necessary finding for the MATS, correcting flaws in the 2016 supplemental cost finding while ensuring that power plants will emit no more mercury to the air than before. After primarily considering compliance costs relative to the HAPs benefits of MATS, the EPA is concluding that it is not "appropriate and necessary" to regulate electric utility steam generating units under section 112 of the Clean Air Act. On July 17, 2020, the EPA finalized revisions to the electronic reporting requirements for MATS.

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

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

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

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

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

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

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

On February 28, 2022, the EPA signed a proposal to disapprove SIP submittals from Arkansas, Louisiana, Oklahoma and Texas, along with 15 other states, regarding interstate transport for the 2015 8-hour Ozone Standard. Comments on the proposed disapprovals are due April 25, 2022. In accordance with a Consent Decree finalized in January 2022, if the EPA signs a proposed disapproval of a SIP submission and proposes a FIP by February 28, 2022, which the EPA has done for 19 states, the EPA must sign a final action to approve or disapprove the SIP submissions by December 15, 2022.

Mercury: In early 2004, the EPA published a proposed rule to reduce mercury to a level of 21 X 10-6 lb/MWh (pounds per MW hour) 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 on January 1, 2010. The final rule had a less stringent mercury limit for new units; however, CPS Energy agreed to the previously proposed level and the final Spruce2 unit permit has a mercury limit (2.0 X 10-5 lb/MWh), which is currently being met.

On February 8, 2008, the D.C. Circuit Court vacated the Clean Air Mercury Rule. Since the procurement and installation of continuous mercury monitors was already in process, CPS Energy decided to complete the installation. The EPA proposed a rule in March 2011 for all HAPs including mercury, commonly referred to as the MATS rule. The limits are very stringent, and all four CPS Energy coal units will need mercury specific reduction technologies added in order to comply. The rule allows three years for compliance from the final rule date. The rule was finalized on December 16, 2011. The rule also included limits for HAPs such as non-mercury metals (measured as particulate matter and acid gases measured as hydrochloric acid or sulfur dioxide). The rule requires continuous monitoring of mercury, particulate matter and acid gases by March 2015, and CPS Energy complies with such requirements. On April 21, 2015, the EPA completed review of requests to reconsider certain aspects of MATS, denying all such requests. The 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 Court granted the EPA's request to pause the MATS litigation. Since the coal units already have technologies to control particulate matter and acid gases, the only additional technology required was mercury reduction technology. CPS Energy installed activated carbon injection (a mercury reduction technology) on Spruce1 and Spruce2 in early 2013 and Deely1 and 2 in July 2014 to meet the April 2015 compliance deadline. On April 14, 2016, the EPA issued a final finding that it is appropriate and necessary to set standards for emissions of air toxics from coal- and oil-fired power plants. This finding responds to a decision by the 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 and further proposed additional revisions in April 2020 identifying certain data elements to be reported by power plants. The EPA's goal was that emissions of mercury from power plants be reduced 70% from 1999 levels, resulting in a 15-ton cap nationwide in 2018. The EPA submitted its pre-publication proposal to reconsider the MATS rule for power plants to the White House Office of Management & Budget ("OMB") for interagency review. On April 17, 2019, 21 state attorney generals and other regulators, urged the EPA not to revise its 2016 final findings. In April 16, 2020, the EPA completed a reconsideration of the appropriate and necessary finding for the MATS, correcting flaws in the approach to considering costs and benefits while ensuring that HAPs emissions from power plants continue to be appropriately controlled. The EPA is maintaining its MATs emissions standards as Administrator Wheeler previously announced. The EPA is not removing coal- and oil-fired power plants from the list of affected source categories for regulation under section 112 of the Clean Air Act, so MATS remains in effect. The foregoing actions have been the subject of litigation. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Sulfur Dioxide" herein.

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

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

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

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

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

The Clean Air Act requires the EPA to designate areas as "attainment" (meeting the standards), "nonattainment" (not meeting the standards), or "unclassifiable" (insufficient data to classify). As a result of the revisions to the NAAQS, states were required to make recommendations to the EPA no later than March 12, 2009 for areas to be classified attainment, nonattainment, or unclassifiable. In 2009 former Texas Governor Rick Perry submitted a list of 27 counties in Texas, including the 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 the County and submitted that recommendation to the Texas Governor for consideration. The Texas Governor's recommendations of area designations within the State were due to the EPA by October 1, 2016. The EPA was expected to make final designations by October 1, 2017. On June 6, 2017, the EPA sent a letter to each state Governor stating that designations will be delayed by one year, which would have made October 2018 the new deadline; however, on August 11, 2017, the EPA stated it would provide designations by the original October 1, 2017 date. 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 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 the EPA designations made in 2018.) On December 19, 2017, the D.C. Circuit Court issued an order requiring the EPA to file a report describing when it 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 the County has been designated as marginal Nonattainment. Because the marginal Nonattainment classification is closest to meeting the federal ozone standard, achieving Attainment will require fewer mandatory planning and control requirements. The TCEQ issued a response stating that it disagreed with the EPA's decision to designate the County as Nonattainment but that it would work with local stakeholders to address the Nonattainment designation. Because the City has been designated as a marginal Nonattainment area, a SIP is not required. In response to this designation, City leaders appointed the San Antonio Metropolitan Health District Director to develop an Ozone Action Plan and lead efforts to improve the area's air quality. On August 28, 2018, the State (including the Governor and the TCEQ) sued the EPA in the Fifth Circuit disputing the Nonattainment designation, stating EPA's decision would impose an unwarranted financial burden on the State's economy with minimal public health benefit. CPS Energy remains committed to improvement of the area's air quality by helping to develop constructive air quality improvement solutions and is working with the City and the Alamo Area Council of Governments in identifying community mitigation strategies to reduce ozone in the region. On October 17, 2018, a nationally recognized ozone expert presented his findings to City Council regarding the San Antonio Area, which noted rotating wind patterns, industrial chemical compounds, and the current placement of air quality monitors as contributors to the current air quality. On March 20, 2019, the City of San Antonio Metropolitan Health District (the "Metropolitan Health District") issued an Ozone Attainment Master Plan. The plan called for evaluation of targeted ozone reduction efforts as of December 31, 2020. The City sought feedback on the Ozone Attainment Master Plan to reduce ozone levels as the program's 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 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, the 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 the applicable Nonattainment area requirements. These differences could discourage new business investments in Nonattainment areas compared with moving to an Attainment area.

6. **Greater EPA involvement and oversight in permit decisions.**
   The EPA may intervene and require permit revisions, even after the state and company seeking the permit have negotiated the terms of a final permit. This causes tremendous uncertainty, delays, and increased costs in the permitting process.

7. **Continuing oversight by the EPA even after the Nonattainment area meets the standard.**
   Before a Nonattainment area can be re-designated as an Attainment area, the EPA must determine that: 1) the area has met the standard (for ozone, this means it must be in Attainment for three full years); 2) the improvement in the area's air quality is due to permanent and enforceable emissions reductions; and 3) the area has an approved maintenance plan and an approved contingency plan that contain enforceable requirements to keep the area from lapsing into Nonattainment.

8. **Technical and formula changes for commercial and consumer products.**
   In order to meet the NAAQS standard, some SIPs may include regulations that would reduce the pollutant or its chemical "precursors" (e.g., for ozone, certain types of VOCs), by requiring changes to operating processes, to a product's technical design, or to the actual chemical formulation of commercial or consumer products, such as paint, which may result in increased costs to users or differences in performance.

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

On December 6, 2018, the EPA issued final requirements that apply to state, local, and tribal air agencies for implementing the 2015 NAAQS for ground-level ozone. The EPA revised both the health-based and welfare-based standards for ozone on October 1, 2015 to 70 ppb. This final rule is largely an update to 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 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 the County. The City has developed an Ozone Attainment Master Plan to establish a strategic and technical review of current local ozone levels and provides recommendations for reducing emissions of ozone-forming compounds (NO_x and VOCs) into the atmosphere.

On June 10, 2020, the TCEQ adopted the 2015 Eight-Hour Ozone NAAQS Emissions Inventory ("EI") SIP Revision for the Houston-Galveston-Brazoria ("HGB"), Dallas-Fort Worth ("DFW"), and the County Nonattainment Areas ("Non-Rule Project No. 2019-111-SIP-NR"). The SIP revision satisfies Federal Clean Air Act, § 172(c)(3) and § 182(a)(1) EI reporting requirements for areas designated nonattainment for the 2015 eight-hour ozone NAAQS. The revision also includes certification statements to confirm that the emissions statement and nonattainment new source review requirements have been met for the HGB, DFW, and the County 2015 eight-hour ozone nonattainment areas.

On July 13, 2020, the EPA issued its proposed rule to retain the 70-ppb ozone NAAQS. The proposal responds to a Clean Air Act mandate to review NAAQS every five years. The EPA's staff has recommended keeping the primary, or health-based, ozone NAAQS unchanged at the level of 70 ppb over eight hours set in 2015. The EPA has also proposed to retain the secondary, or welfare-based, NAAQS at the same level of 70 ppb. Public hearings related to the foregoing were held on August 31 and September 1, 2020. The EPA on December 23, 2020, announced its decision to retain, without changes, the 2015 ozone NAAQS set by the Obama Administration. The rule was finalized on December 31, 2020.

On January 29, 2021, the D.C. Circuit Court vacated three of four challenged provisions of EPA's rule implementing the 2015 Ozone NAAQS. See *Sierra Club v. EPA*, No. 15-1465 (D.C. Circuit). One of the challenged provisions was the rule's inter-precursor trading program. The future use of NO_x emission reduction credits ("ERCs") to satisfy VOC offset requirements, and vice versa, is likely in question. TCEQ may continue to allow permit holders in the County, as a marginal nonattainment area, to buy ERCs generated in marginal, moderate, serious, severe, or extreme nonattainment areas that are contributing to the

County's violation of the NAAQS to satisfy offset requirements. However, TCEQ could not allow permit holders in the County to sell ERCs for use as offsets in moderate, serious, severe, or extreme nonattainment areas that do not contribute to the County's violation of the ozone standard, such as Houston or Dallas.

The County's nonattainment compliance deadline was September 24, 2021. The County did not maintain a design value for ozone below 70 ppm. On April 13, 2022, the EPA proposed to change the County's status from "marginal" to "moderate attainment", which was followed by a 60-day comment period. On September 15, 2022, the EPA announced that the City and County are designated as "moderate".

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. However, on May 19, 2020, the D.C. Circuit Court clarified the Provision by finding the EPA acted arbitrarily and capriciously by refusing to consider data from air quality monitors located outside of one state but within an attainment region the state shares with other states. The three-judge panel agreed that a state can use data from another state if that data shows nonattainment in a multi-state nonattainment area.

Challengers, comprised of state and local governments as well as industry leaders, filed suit to overturn the CSAPR and to allow states the ability to submit an amended SIP after the EPA's determination of inadequacy. On April 29, 2014, the Supreme Court rendered a decision in *EPA 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 SO_2 regarding four states and NO_x regarding 11 states were invalid, and the EPA overregulated emissions beyond the statute. Therefore, the D.C. Circuit Court remanded to the EPA for reconsideration of the invalid emissions budgets and subsequent compliance. The CSAPR remained valid. In response to this court decision, on November 16, 2015, the EPA issued a press release regarding proposed updates to CSAPR, which would reduce summertime emissions of NO_x from power plants that contribute to downwind ozone problems. Specifically, the proposed updates identify cuts in power plant NO_x emissions in 22 states in the eastern half of the country that contribute significantly to downwind ozone air quality problems. The EPA held a public hearing on this matter on December 17, 2015 and received public comments until February 1, 2016. To assist some Downwind States, 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 SO_2 and NO_x. Texas will stay in the most stringent NO_x Ozone Season Program. On October 27, 2017, the EPA issued a memo providing supplemental information to states regarding the development and review of SIPs addressing the Provision as it relates to the 2008 NAAQS, including future year ozone design values and contributions, modeling outputs based on updated data. On June 29, 2018, the EPA proposed to close-out the Provision based on data indicating the 2008 NAAQS were fully addressed. A public hearing was held August 1, 2018 and a final ruling that the CSAPR update addresses the requirements of the Provision was issued on February 19, 2019. See "Ozone" above. In an opinion dated October 1, 2019, the D.C. Circuit Court vacated the close-out Provision.

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

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

(1) On or after May 1, 2026, CPS Energy must hold sufficient allowances for the actual NO_x emissions from Spruce1 for the ozone season. Based on the EPA's illustrative budget, Spruce1 would receive an allocation of 304 tons in 2026;

(2) On or after May 1, 2026, CPS Energy must hold sufficient allowances for the actual NO_x emissions from gas- or oil-fired steam units for the ozone season; and

(3) On or after May 1, 2027, CPS Energy must hold sufficient allowances for actual NO_x emissions from Spruce1 above an emission rate of 0.14 lb NO_x/MMBtu on a daily

Starting in 2023, the proposed emissions budgets would initially be set at the level of reductions achievable through immediately available measures, including consistently operating emissions controls already installed at power plants, specifically SCR and SNCR. While the proposed emissions budgets are based on these measures, because the proposed FIP establishes a trading program and not direct control, these control measures are not necessarily required. Rather, EPA expects that facilities will utilize these controls to achieve required reductions.

- The EPA identified 0.08 lb/MMBtu as a reasonable level of performance for coal steam units with optimized SCR.

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

Starting in 2026, the budgets would be set at levels achieved by the installation of modern and cost-effective SCR controls on large coal-fired power plants (100 MW or more) and older natural gas and oil-fired steam generator in the covered states that do not currently have them. By 2026, EPA projects that the program would result in a 29 percent reduction in ozone-season NO_x emissions from power plants in the 25 states covered by the Group 3 ozone season NO_x trading program.

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

- A daily emissions rate limit for large coal-fired units (100 MW or more) set at 0.14 lb/MMBtu, which would take effect in 2024 for units with existing controls and in 2027 for units installing new controls, to ensure those controls are operated effectively and consistently at these plants throughout the ozone season. Units that exceed the daily rate would be subject to increased allowance surrender requirements;

- Limiting the size of the emissions allowance bank to maintain strong long-term incentives to reduce NO_x emissions; and

- Starting in 2025, annually updating budgets to account for new retirements, new units, and changing operations.

On May 12, 2022, the EPA extended the comment period on the proposed rule to June 21, 2022. CPS Energy submitted comments on June 17, 2022 to the EPA regarding the rule. CPS Energy was also a part of a Texas Interstate Group formed to comment on the modeling conducted by the EPA and the effect of grid reliability from the proposed rule. CPS Energy was also active in reviewing comments submitted by trade associations such as APPA and LPPC.

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

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

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

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

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

On October 3, 2017, the EPA proposed a FIP for BART units in Texas. This was expected as the TCEQ/Governor's Office requested an extension for time to complete a SIP was refused. The FIP proposes to use CSAPR allowances and make a trading program for Texas rather than having to install scrubbers on effected units. The SIP would have requested the same, just with a longer timeframe. The impact 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 SO_2 Trading Program, the EPA requested additional public input on the program as it appears in the Federal Register dated August 27, 2018. The EPA noted that several units in Texas have recently or will soon be retired, including the 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.

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

The proposed rule for particle matter ("PM") (particles of dust) was published on April 30, 2020 with subsequent virtual public hearings held thereafter. The EPA is required to review the NAAQS every five years. Based on the EPA's review of the PM NAAQS, the EPA is proposing to retain the current standard without changes to the NAAQS for PM including both fine particles (PM2.5) and course particles (PM10). As of June 8, 2020, the EPA developed ambient air quality trends for PM. The final rule was published on December 7, 2020 in the federal register, which stated that the EPA will retain without revision the existing primary ("health based") and secondary ("welfare based") NAAQS for PM.

Carbon Dioxide ("CO_2") 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 CO_2 and other greenhouse gases from motor vehicles are "air pollutants" and are subject to regulation under the Clean Air Act. There have also been several bills introduced in Congress that propose to regulate GHG through a cap and trade and/or quasi-carbon tax program.

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

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

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

The first rule, referred to as the "policy package", determines that the EPA's previous addition of the transmission and storage segment was improper and removes it from the regulation while also rescinding emissions standards for that segment. In addition,

the policy package establishes the EPA's position that the Clean Air Act requires the EPA to make a finding that a pollutant contributes significantly to air pollution before setting NSPS requirements. The second rule, referred to as the "technical package" includes changes to the NSPS that will directly benefit smaller oil and gas operators who rely on regulatory policy to run their businesses.

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

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

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

The EPA issued a final endangerment finding on December 7, 2009, that GHGs pose a danger to human health and the environment, clearing the way for a Clean Air Act regulation limiting CO_2 emissions from power plants, vehicles and other major sources. Power plants and other large stationary sources of CO_2 are now required to use BACT to reduce emissions when they modify or construct plants. The next time CPS Energy constructs or modifies a plant, its permits will have to include CO_2 limits, and it will have to meet those limits using the traditional BACT process. Acquisition of the Rio Nogales Plant, acquired with proceeds of certain Senior Lien Obligations on April 9, 2012, did not result in the application of these limitations to such facility. Currently, there is no commercially available technology to reduce CO_2 emissions. The EPA may push for BACT determinations for coal and gas fired generation (new and existing fleet) to meet 50-80% reduction in CO_2 through carbon capture and sequestration ("CCS"). Possibly as an alternative to reducing CO_2 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 CO_2 limit to meet. Based on the NSPS, the EPA is also in the process of creating limits for existing units. Standards of Performance for New Stationary Sources, 40 C.F.R. § 60 (2015) contains the existing standards, which are continually updated, and it remains unforeseen what compliance measures will need to be taken.

On June 24, 2013, President Obama announced his Climate Change Action Plan. In the plan, he called for a 17% reduction in GHG emissions by 2020 from 2005 levels. He asked the EPA to revise and re-propose the new unit standard by September 30, 2013. On September 20, 2013, the EPA re-proposed the standard, but it did not differ drastically from the previous March 2012 proposal. They did separate coal and natural gas combined cycle into separate categories with the rates of 1,000 and 1,100 lb/MWh, respectively. An EGU can either meet a 1,100 CO_2/MWh-gross standard over a 12-operating month period or meet a slightly tighter 1,000-1,050 CO_2/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. EPA*, 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 considering the UARG Decision, including revisions to the EPA's PSD regulations. In early 2016, the EPA began approving rescission requests for PSD permits.

On August 3, 2015, the EPA released the final rule for the CPP.

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

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

In April 2019, the EPA submitted its final rule, "Emission Guidelines for Greenhouse Gas Emissions from Existing Electric Utility Generating Units; Revisions to Emission Guideline Implementing Regulations; Revisions to New Source Review Program" to the White House OMB's Office of Information and Regulatory Affairs for interagency review. The EPA issued the final Affordable Clean Energy ("ACE") rule on June 19, 2019 and was effective on September 6, 2019. The final ACE rule included three actions: (1) the repeal of the CPP; (2) the promulgation of a new set of emission guidelines for regulations of GHG emissions under section 111(d) of the Clean Air Act; and (3) the promulgation of amended section 111(d) implementation regulations governing submission and review of state plans under these and future emission guidelines. The ACE rule grants authority to the states in setting performance standards on a case-by-case review of existing coal-fired power plants. The EPA provides states with a list of "candidate technologies" that can be used to establish standards of performance for CO_2 emission and incorporate into their state plans. The ACE rule defined the best system of emission reductions ("BSER") for CO_2 emissions from an existing power plant is by heat-rate improvements ("HRIs"). CPS Energy has already implemented most of the HRI projects listed in the ACE rule. On February 25, 2020, TCEQ issued an Information Collection Request ("ICR") to owners of existing coal fired generators in Texas that are subject to the rule. The ICR was due October 30, 2020. CPS Energy formed an internal team to respond to the ICR. On January 19, 2021, the D.C. Circuit Court issued its opinion in *American Lung*

Association et al. v. EPA (No. 19-1140) vacating and remanding to the EPA the ACE rule while also vacating the EPA's separate action extending compliance timelines for all rules issued under section 111(d) of the Clean Air Act. In 2017, during the Trump Administration, the EPA repealed the Obama Administration's CPP and promulgated the ACE rule as a replacement under section 111(d) of the Clean Air Act. Both the CPP and the ACE rule mark the EPA's attempts to regulate CO_2 emissions from existing fossil fuel-fired power plants. The vacatur includes all efforts conducted by the EPA under section 111(d), including both the CPP and the ACE rule. The Biden Administration will be able to draft a new rule, but it will take time to get through the regulatory process. A lawsuit was filed in the D.C. Circuit Court that seeks repeal of the ACE rule. On January 19, 2021, the D.C. Circuit Court vacated the ACE rule governing emissions controls for power plants and its embedded repeal of the Obama-era CPP. On February 12, 2021, the EPA issued a memorandum that clarified that because the court vacated the ACE rule and did not expressly reinstate the CPP, the EPA understands the court's decision as leaving neither rule in effect. The Biden administration and the EPA stated that a revised CPP would be forthcoming but major elements of the plan were lost in negotiations over the 2021 federal budget. On October 29, 2021, the Supreme Court agreed to hear an appeal of the decision made by the D.C. Circuit Court in January 2021. The appeal was filed by Republican-led states and coal companies seeking to limit the EPA's authority to regulate carbon emissions under the Clean Air Act. The case was argued on February 28, 2022, and a Supreme Court decision was issued on June 30, 2022, holding that Section 111(d) of the Clean Air Act did not give the EPA the authority to use "generation-shifting" measures to set CO_2 emission limits for power plants. In doing so, the Supreme Court reversed the D.C. Circuit Court's January 2021 decision. CPS Energy is evaluating the potential effects of the case on its operations.

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

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

The City has also established working groups within the community to provide feedback on potential client mitigation and adaptation strategies. The City Council adopted the City-led 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 GHG emissions by 2050 and further states the City, in partnership with CPS Energy, will focus on a transition from fossil fuel energy sources to a less carbon intensive portfolio. Further information related to the CAAP can be found on the City's website at https://www.sanantonio.gov/sustainability/SAClimateReady. Neither the information on this website nor any links from that website is a part of this Remarketing Memorandum. On July 27, 2020, the Board sought proposals for new zero emission technologies to transition aging power plants, in accordance and alignment with CAAP. In August 2021, two CAAP subcommittees were formed. The first is the Benchmarking Energy Use Subcommittee. The second is the Energy Subcommittee. The Benchmarking Energy Use subcommittee met on a regular basis for a year and drafted a potential ordinance that, after input from stakeholders, is expected to be proposed to the City Council. The Energy Subcommittee has only had one meeting, and the committee decided to get updates from the RAC members on the progress of CPS Energy's future power generation plans and designate a member from the Energy Subcommittee to share committee feedback with the RAC during the public comment portion of the RAC meetings. Two of the metrics for the power generation planning process are Environmental Sustainability and Climate Resiliency, which includes meeting CAAP goals. The power generation plans will be measured against the two milestone targets in the CAAP, a 41% reduction in carbon emissions by 2030 and a 71% reduction in carbon emissions compared to a baseline year of 2016. CPS Energy continues to participate in the process and monitor the CAAP's progress.

On August 16, 2022, President Biden signed the Inflation Reduction Act (the "IRA") which adds a section to the Clean Air Act called "Methane Emissions and Waste Reduction Incentive Program for Petroleum and Natural Gas". It is meant to assist companies, organizations, and individuals reduce their methane emissions through grants, rebates, contracts, and loans. The

legislation also introduced a new methane tax, but natural gas distribution is excluded from the methane tax. CPS Energy is therefore not affected by the new methane tax, as the activities performed by CPS Energy fall under the distribution industry segment. Additionally, the IRA grants a number of tax credits that CPS Energy may be eligible for if the requirements are met. Those include: a hydrogen production tax credit, a biogas and energy storage credit, enhancements to the credit for carbon capture, and credits for energy efficiency of residential and commercial properties.

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

Federal Clean Water Act

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

CPS Energy currently has individual TPDES permits for the discharge of industrial wastewater 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. 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.

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. On November 6, 2019, the Supreme Court heard oral arguments on the issue, and issued its opinion on April 23, 2020, holding that the Clean Water Act, which forbids "any addition" of any pollutant from "any point source" to "navigable waters" without the appropriate EPA permit, requires a permit when there is a direct discharge from a point source into navigable waters or when there is the functional equivalent of a direct discharge. On January 14, 2021, the EPA issued a memorandum on the application of the *Maui* decision for guidance to the regulated community and permitting authorities, including the EPA, on applying the recent decision on a case-by-case basis, in the Clean Water Act NPDES.

New Effluent Standards: Effluent standards for the steam electric category were last revised in 1982. The EPA completed a multi-year study of the electric power industry and concluded that power plant discharges have changed significantly over time and that regulations have not kept up with the changes in industry, in particular, waste water discharges resulting from air pollution controls installed at coal-fired power plants. The EPA conducted an Information Collection Request ("ICR") from over 750 power plant owners to provide information regarding power plant effluent, available treatment technologies, and the impact on industry of changes in water quality standards. CPS Energy participated in this ICR by completing questionnaires for the Calaveras Power Station units. On November 3, 2015, the EPA finalized the Effluent Limits Guidelines ("ELG") rule, which became effective on January 4, 2016. The final rule sets the first federal limits on the amount of toxic metals and other harmful pollutants that steam electric power plants are allowed to discharge in several of their largest sources of wastewater, based on technology improvements in the steam electric power industry over the last three decades. Rule compliance will be phased in based on the facility permitting cycle. In the new rule, effective September 28, 2020, the EPA set forth the deadlines, ranging from April 11, 2021 to October 17, 2028 for cease of receipt of waste and completion of closure, as applicable. CPS Energy requested an applicability of the rule extension from the TCEQ to allow discharges from the Deely bottom ash ponds

for pond closure and dewatering through December 31, 2023. Studies were performed to evaluate the best technology to treat flue-gas desulfurization ("FGD") discharges from the J.K. Spruce coal units to meet the new standards that will be applied in the 2019 wastewater permitting cycle. The TCEQ had indicated they are amenable to an extension of the compliance date if adequate justification is provided. In April 2017, the EPA announced it was preparing a proposed rule and sought input from industry groups to discuss options that were included in a new proposed rule.

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

On August 31, 2020, the EPA finalized the rule revising the requirements for FGD, which provides additional compliance options for FGD wastewater. The EPA proposed to extend the final compliance deadlines to December 31, 2025 or to December 31, 2028 if a Voluntary Incentive Program ("VIP") treatment is chosen for compliance. The proposed rule was issued November 22, 2019 and was finalized in October 2020. CPS Energy is planning to install Zero Liquid Discharge ("ZLD") evaporation ponds for its scrubber FGD wastewater if Spruce1 and Spruce2 continue to burn coal. The ZLD option for FGD waste is considered one of the VIP treatment options. On July 26, 2021 the EPA announced their intent to strengthen permit limits on wastewater discharges from coal power plants; specifically, FGD discharges; however, there will not be a discharge of FGD water from the Spruce units so this potential rulemaking is not expected to have an impact.

Waters of the U.S. ("WOTUS"): On November 22, 2017, the EPA and the U.S. Department of the Army (the "Army") published a proposed rule in the Federal Register to postpone the effective date of the 2015 rule defining WOTUS for two years, to allow the agencies for new rulemaking. The rule proposed to repeal the 2015 Clean Water Rule: Definition of Waters of the U.S. and recodify the regulatory text defining WOTUS that was in place prior to the 2015 rule. On July 12, 2018, the EPA and the United States Army Corps of Engineers published a supplemental proposed rule to repeal the June 29, 2015 final WOTUS rule in its entirety, which aimed to clarify the scope of the definition of "WOTUS" subject to the CWA and proposes to reinstate the definition that existed prior to the 2015 rule. The agencies found that the 2015 rule exceed the agencies' authority under the CWA. On August 16, 2018, a court ruling impacting WOTUS modified its nationwide application. However, on September 12, 2018, a Texas federal district court issued a preliminary injunction preventing the 2015 WOTUS rule taking effect in Texas, Mississippi, and Louisiana. See "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 clarified federal authority under the CWA. Under this new proposal, WOTUS included traditional navigable waters, tributaries to those waters, impoundments of jurisdictional waters, wetland adjacent to jurisdictional waters, and certain ditches. The proposal also identified which bodies of water would be excluded from the rule such as groundwater and certain ditches. The public comment period for this proposed rule closed on April 15, 2019. In late August 2019, a Georgia federal court ruled WOTUS is unlawful under the CWA due to its vast expansion of jurisdiction over water and lands that typically fall within a state's regulatory authority. The case was remanded back to the EPA and Army for further consideration. CPS Energy

continues to monitor the status of this proposed rule to determine impact on future electric transmission and gas construction projects.

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

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

On December 7, 2021, a proposed rule was published in the Federal Register to revise the definition of WOTUS by replacing the Navigable Waters Protection Rule ("NWPR") with a revised version of the 1986 WOTUS regulations. The proposed rule would assert a broader geographic scope of WOTUS jurisdiction than either the NWPR or the 1986 regulations.

Clean Water Act Section 316(b): The power plants at Braunig and Calaveras Lakes use the lakes as the source for once-through cooling water. Section 316(b) of the CWA requires that adverse environmental impacts by cooling water intake structures on aquatic species be minimized, a requirement that was recently upheld by the United States Court of Appeals for the Second Circuit. Numerous lawsuits from both environmental and industry groups have resulted in the previously issued regulations being suspended and remanded; after contentious litigations and consent decree agreements with environmental groups, the EPA issued the final rule for existing facilities on August 1, 2014, effective 60 days later. Both Braunig and Calaveras plants are affected by the rule. The final rule allows some flexibility for permitting authorities to determine best technology available for protecting fish and shellfish from impingement and entrainment and based on site–specific conditions, cost-benefit analysis, and best professional judgment. The final rule provided waivers of some requirements for surface impoundments that were originally built for cooling, are managed fisheries, and with minimized water use, which apply to both Braunig and Calaveras lakes. Since most Texas reservoirs are man-made and meet the waiver criteria provided under the final rule, CPS Energy requested 316(b) waivers for both Braunig and Calaveras during the 2014 TPDES permit renewal applications submitted to the TCEQ. TCEQ granted exemptions and waivers for both Braunig and Calaveras in the TPDES permits issued in 2016.

Discharge of Hazardous Substances ("HS"): The EPA did not establish new requirements for hazardous substances under CWA section 311 but directed the President to establish procedures, methods, and equipment and other requirements for equipment to prevent discharges of oil and HS from vessels and from onshore facilities and offshore facilities, and to contain such discharges. The EPA has been delegated and/or redelegated authority for certain facilities as identified below. On July 21, 2015, a lawsuit was filed against the EPA for failing to comply with the alleged duty to issue regulations to prevent and contain CWA hazardous substance discharges under CWA section 311. On February 16, 2016, the United States District Court for the Southern District of New York entered a Consent Decree between the EPA and the litigants that required a notice of proposed rulemaking pertaining to the issuance of hazardous substance regulations, and a final action after notice and comment. After seeking public comment and based on an analysis of the frequency and impacts of reported CWA HS discharges, as well as the existing framework of the EPA regulatory requirements, the EPA decided not to take action to add new discharge prevention and containment regulatory requirements under CWA section 311. This final action was effective on October 3, 2019.

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. Considering 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.

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

Lawsuits have been filed in several jurisdictions challenging the repeal of the rule. Other lawsuits have been threatened against the substantive provisions of the rule.

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

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

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

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

Multiple suits have been filed and likely will continue to be filed over the Clean Water Rule's provisions. Lawsuits and comments will likely shape the proposed rule establishing a definition of WOTUS which specifies the waters entitled to receive federal

protection. It is premature to speculate on the outcome of lawsuits or the potential effects of these lawsuits, and any comments and revisions that may develop during the finalization of the definition of WOTUS.

Water Resources Planning

Legislation 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, 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. Most 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 EAA 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.

The Rio Nogales Power Plant located in nearby Seguin, Texas, has water supplied via a contractual agreement with the City of Seguin, Texas. For more information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Gas/Fuel Oil Plants" herein.

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 wastewater 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 the Steven M. Clouse Water Recycling Center 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. By using this strategy, CPS Energy has saved millions of gallons of water. Additionally, recognizing energy saved is water saved, CPS Energy implemented demand reduction and conservation programs for its customers to derive energy savings. The foregoing also translated to water consumption savings. Additional information on CPS Energy's sustainability programs can be found in "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. 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. The EPA issued a proposed rule expanding the available options for extraction and determinative methods used to characterize and verify the clean-up of PCBs. Additional amendments to the PCB regulations, such as the amendment of performance-based disposal option for PCB remediation waste; the removal of the provision allowing PCB bulk product waste to be disposed as roadbed material; the addition of flexible provisions for cleanup and disposal of waste generated by spills that occur during emergency situations (e.g., hurricanes or floods); the harmonization of the general disposal requirements for PCB remediation waste are also included in the proposed changes. The comment period ended on January 20, 2022 but has not been finalized.

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 its CCRs and will continue to do so. CPS Energy is currently in full compliance with the CCR self-implementing rule requirements. On December 16, 2016, the President signed into law water infrastructure legislation that contained coal ash provisions that enable states to implement and enforce the requirements of the final CCR rule through state permitting programs. The coal ash legislation is necessary because the EPA and states lack the statutory authority to implement and enforce the current requirements of the federal CCR rule through permit programs. This legislation fills a major regulatory gap and will provide greater regulatory certainty and flexibility while ensuring the protection of the environment.

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

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

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

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

On September 18, 2018, the United States Court of Appeals for the Fourth Circuit issued an opinion that coal ash settling ponds are not considered a "point source" of pollution under the CWA, thereby limiting environmentalists from bringing similar suits to

control pollution. The court held that such coal ponds are not subject to the CWA because they do not convey a measurable amount of pollutant.

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

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

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

On August 28, 2020, the EPA published a new final coal ash rule revising the final version of the rule proposed in December 2019. The rule was effective on September 28, 2020. The revised rule changed the compliance dates, as the date to stop placing CCR into the impoundments and initiate closure was moved from August 31, 2020 to April 11, 2021. The latest date allowed to complete site-specific alternate closure moved from October 15, 2023 to October 15, 2024. CPS Energy plans to build new CCR impoundments, while continuing to operate the sludge recycling holding and evaporation impoundments. The cost estimate for the new impoundments is $35 million. In November 2020, CPS Energy submitted applications to the EPA requesting extended use of these two CCR impoundments. The applications are currently under review by the EPA. The extensions must be approved and granted by the EPA to become effective.

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

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

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

On July 12, 2022, the EPA proposed to conditionally approve CPS Energy's extension request to operate the CCR pond that supports the Spruce plants until September 1, 2023. The extension date requested for the other CCR unit passed prior to the EPA rendering a final decision. This unit is no longer receiving waste, so the final decision is moot. CPS Energy submitted response on September 26, 2022 in support of the proposed approval and are awaiting the EPA's final decision.

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. The last of the four boilers at the former Tuttle Plant have since been demolished. Remediation work occurred at the site, including filling in the cooling tower basins, and leveling and reseeding the property's grounds. Additional assessment and remediation of the remaining powerhouse slab, soil, cooling tower vault and solid waste management units are planned for completion by the end of 2023. CPS Energy plans to put the property on the market in the next two to fourteen months. See "DESCRIPTION OF FACILITIES – General Properties – Real Estate Holdings" herein for further information regarding this project.

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: 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 if 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.

On August 31, 2020, CPS Energy received written notification from the EPA for a Notice of Violation for the Braunig Power Station for: 1) exceeding the monthly waste volume threshold of 220 lb/month as a Small Quantity Generator ("SQG") in April 2016, and 2) for not making advanced notification of the change in generator status, for a drum of unused chemical product that was left behind by a contractor. CPS Energy manifested and properly disposed of the unused chemical product; therefore, there was no harm to the environment. The EPA conducted a 5-year waste management records review for the Braunig Plant. CPS Energy operated in compliance during the remaining 5-year time period. Under the EPA's Enforcement Response Policy, CPS Energy

is considered a Secondary Violator SV, in which violators pose no actual threat or a low potential threat of exposure to hazardous waste or constituents. CPS Energy has no history of recalcitrant or non-compliant conduct and promptly returned to compliance with all applicable rules and regulations. No penalty was assessed.

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

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

ENERGY CONSERVATION AND PUBLIC SAFETY PROGRAMS

Energy Conservation

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

- comprehensive suite of energy efficiency programs offering rebates and incentives for residential, commercial and industrial customers;
- maintaining a secure web site, Manage My Account at https://www.cpsenergy.com/mma. Using an Internet connection to log in, CPS Energy customers can: access My Energy Portal; view their current bill; view current balance due; view past bills; pay by check or credit card; start/stop/transfer service; sign up for a payment plan; view payment history; view energy usage; update mailing address; update phone number; authorize contacts; set up alert preferences; and manage their profile;
- maintaining a secure web site, named My Energy Portal, at https://www.cpsenergy.com/myenergyportal. The portal is available through Manage My Account. With a smart meter and the My Energy Portal, customers can see energy usage (both gas and electric) as recently as the day before. Customers are able to: see their monthly bill, 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 approximately 1.4 million smart meters as of January 2022;
- 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 programs fairs, community pop-ups, special events and trade shows;
- conducting utility-related presentations for schools, community service organizations, business and professional groups, and homeowner associations; and
- Launching a free, new virtual home energy assessment that began in April 2022.

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. The rebate is a flat incentive

of $2,500 for residential systems with an additional $500 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 July 31, 2022, 30,340 customers have installed rooftop solar with 258 MW of capacity. 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"), to bring the first "Roofless" community solar pilot project to the City. CEC 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.

In connection with CPS Energy's development of a Strategic Energy Plan that includes energy efficiency and conservation as well as generation, CPS Energy committed to the STEP program in 2009. The goal of the STEP program was to save 771 MW of demand reduction between 2009 and 2020 which was achieved. The 771 MW is equivalent to the amount of energy produced by a large-sized power plant on an annual basis. To put this into perspective, the CPS Energy Spruce1 power plant generates 555 MW and the newest Spruce2 generates 785 MW of electricity. Cumulatively, the STEP program has, since its implementation, saved approximately 980 MW through fiscal year 2022. As the STEP goal was achieved a year early, in January 2020, the Board and City Council voted to extend over one year the existing STEP program by $70 million, an amount that would allow an additional reduction of 75 MW. Considering COVID-19 and delays in achieving the STEP Bridge goals, CPS Energy sought and received City Council approval to extend the STEP Bridge program. In January 2021, the City Council authorized CPS Energy to expend up to an additional $70 million on energy efficiency and conservation programs to be completed by July 2022. On August 30, 2021, the Board requested staff to conduct an analysis on whether to continue the STEP program beyond the current end date of July 2022. The analysis was prepared by the Brattle Group and presented to the Board at its February 2022 meeting. On June 16, 2022, the City Council approved a plan for a new STEP program to be funded over the next five years.

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 May 29, 2019, CPS Energy approved an extension of the CLEAResult and Franklin Energy contracts for delivery of services. On June 29, 2020, the Board approved an additional expenditure of up to $31 million from the authorized $70 million STEP Bridge budget for the continued delivery of services. On August 30, 2021, the Board awarded a new contract for the delivery of residential and commercial energy efficiency programs to CLEAResult and extended the weatherization contract with Franklin Energy through July 31, 2022. On July 25, 2022, the Board awarded a three-year contract to CLEAResult to continue delivering the residential and commercial energy efficiency programs. On September 6, 2022, the Board awarded a one-year contract to Franklin Energy to continue delivering weatherization services.

See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein. In line with CPS Energy's strategic initiatives, the next round of the STEP program is referred to as "*Flex*STEP[SM]".

Public Safety Programs

CPS Energy's Public Safety Awareness ("PSA") program provides natural gas safety messaging, in accordance with the API's RP 1162 guidance (which requires pipeline operators to develop and implement public awareness programs that follow the guidance provided by the American Petroleum Institute), to public officials, emergency officials, excavators and the general public within 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 and the general public 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, tree trimmer/landscaper events, and at public gatherings like community fairs, homeowner association meetings, etc.

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.

PSA information is also available in Spanish.

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, as of the City's Fiscal Year ended September 30, 2021, the amount of $26,914,109 (unaudited) is included as a component of the reserve for claims liability. 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:

Rogelio Carlos III, et al. v. Carlos Chavez, et al. San Antonio Police Department ("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 the Plaintiff and was assisted by SAPD SWAT officers. The 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, the 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 completed. Motions for summary judgment were filed on behalf of the City and all officers. In April 2020, the Court entered its order dismissing all claims against the City and two officers. Claims against the three remaining officers are pending trial. This case is not currently 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. The trial court denied the City and the officer's motions for summary judgments in part. The City and the officer are filing interlocutory appeals to the Fifth Circuit.

Marlo Ondrej, et al. v. City of San Antonio and David Perry. San Antonio Police received a call reporting a female at a local shopping center with an automatic weapon. SAPD officer David Perry arrived on the scene and saw plaintiff's decedent, Hannah Westall, in the parking lot. Officer Perry exited his vehicle and drew his weapon instructing Westall to raise her hands. Westall initially complied, then turned her body to show what appeared to be an automatic weapon in the back waistband of her pants. As Westall turned back, she lowered her hands towards her back waist. Officer Perry discharged his weapon, fatally striking Westall. Subsequent examination of the weapon revealed that it was a toy. 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.

Angelic Barron, et al. v. City of San Antonio, et al. San Antonio Police received a burglary call from an apartment, and when they arrived at the residence, there was no answer. Upon leaving the scene, the officers heard a gunshot and a woman scream. They returned to the apartment where they discovered decedent Victor Sanchez armed in the apartment with one of the Plaintiffs and her children. One of the Plaintiffs and her children were allowed to leave the apartment. Officers entered the apartment and attempted to calm Sanchez. Sanchez gestured with his weapon and shots were fired. Sanchez was fatally shot. Plaintiffs have filed suit in federal court against the City and several officers individually, alleging use of excessive force in violation of 42 U.S.C. § 1983. This case has recently been filed and no trial date has been set.

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. Texas Organizing Project ("TOPS") and MOVE Texas intervened in the suit in support of the ordinance. In August 2019, the court approved an order submitted by the parties delaying the effective date to December 1, 2019 and abating injunction proceedings until the City amended the ordinance. On October 3, 2019, City Council approved amendments recommended by the Paid Sick Leave Commission. Plaintiff's application for injunction was heard on November 7, 2019 and was granted on November 22, 2019. MOVE Texas filed a notice of appeal of that decision and the City joined in the appeal. Plaintiffs/Appellees filed a motion with the Fourth Court to abate the matter until the Texas Supreme Court issues a decision in the pending appeal concerning a similar Austin Paid Sick Leave ordinance. On March 4, 2020, the Fourth Court granted the abatement. On June 5, 2020, the Texas Supreme Court refused to review an order from the Third Court of Appeals finding that the Austin Paid Sick Leave Ordinance was unconstitutional and preempted by the Texas Minimum Wage Act. On June 12, 2020, Intervenors/Appellants in the San Antonio matter filed an opposed motion to lift the abatement. On June 26, 2020, the Fourth Court entered an order reinstating the case to the docket. Intervenor/Appellant filed a brief with the Fourth Court on July 16, 2020. On July 16, 2020, the City filed a letter notifying the Fourth Court it was adopting Intervenor/Appellant's brief and requesting that the court reverse the December 12, 2019 temporary injunction. On September 4, 2020, Plaintiffs/Appellees filed responsive briefs and a partially opposed motion to dismiss for want of jurisdiction and motion to strike. On March 10, 2021, the Fourth Court issued its opinion affirming the temporary injunction. On May 19, 2021, the Fourth Court issued a mandate affirming the trial court's order and assessing court costs for appeal against the Intervenor/Appellant.

San Antonio Park Police Officers Association Lawsuit

On September 3, 2019, the San Antonio Park Police Officers Association ("PPOA"), the union representing the park and airport officers, sued the City alleging that State law requires that PPOA receive the same pay and benefits as City police officers. PPOA seeks a declaratory judgment that park and airport officers are entitled to both civil service and collective bargaining rights and benefits bargained for by the SAPOA. The City filed pleadings seeking the dismissal of the suit in November 2019. On February 21, 2020, the court heard the City's and SAPOA's pleas to the jurisdiction. The court denied the motions. The City appealed to the Fourth Court. The Fourth Court reversed in part and affirmed in part. The City filed a petition for review to the Texas Supreme Court. The Texas Supreme Court has requested full briefing on the merits.

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 May 12, 2022, which provides for a term through September 30, 2026.

Collective Bargaining Agreement between the City of San Antonio and the International Association of Fire Fighters, Local 624 (Local 624). On February 13, 2020, a collective bargaining agreement was awarded pursuant to arbitration. The new contract took effect immediately and concludes on December 31, 2024.

Airport Concession

Background. On March 21, 2019, the City Council considered a recommendation to award a concession contract for the San Antonio International Airport to Paradies Lagadere ("Paradies"). The Paradies proposal included a Chick-fil-A fast food concept as part of the overall package. After deliberation the City Council approved a motion to award the contract to Paradies, with the further instruction to replace the Chick-fil-A concept with a different national fast food concept.

Patrick Von Dohlen, et al. v. City of San Antonio, et al. On September 26, 2019, the City was served with a lawsuit brought by five individuals (Patrick Von Dohlen, Brian Greco, Kevin Jason Khattar, Michael Knuffke, and Daniel Petri) against the City and Paradies. The lawsuit alleges that the City Council vote taken on March 21, 2019 concerning food vendors at the City's airport, violated a newly enacted law by the Texas Legislature in the Texas Government Code, Section 2400.002. The law became effective on September 1, 2019 after the City Council action and states: "[A] governmental entity may not take any adverse action against any person based wholly or partly on the person's membership in, affiliation with, or contribution, donation, or other support provided to a religious organization." The City filed a motion to dismiss and plea to the jurisdiction, challenging the ex post facto application of the law. The motion to dismiss and plea to the jurisdiction were denied. The City filed an interlocutory appeal to the Fourth Court, which reversed the denial and rendered judgment in favor of the City. Plaintiffs appealed to the Texas Supreme Court. The Texas Supreme Court issued an opinion on April 1, 2022, finding the Plaintiffs failed to plead facts to overcome immunity but reversing and remanding to the trial court to allow the Plaintiffs an opportunity to amend.

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. See "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" for litigation arising out of the 2021 Winter Weather Event. Subject to the foregoing, CPS Energy separately discloses certain pending litigation and potential claims, as follows:

Austin McElroy v. Donahue Electrical Services, LLC, City of San Antonio by and through City Public Service Board d/b/a CPS Energy, TRC Engineers, Inc., TRC Companies, Inc., TRC Environmental Corporation, McCoy Tree Surgery Co., Scott Patrick Donahue, and Robert F. Donahue. CPS Energy has been sued by Austin McElroy for injuries he alleges were due to an electrical shock he received that caused him to fall from a ladder while working on a customer's pole. Mr. McElroy is also suing Donahue Electrical Services, LLC and TRC Engineers, Inc., among others. He has incurred significant medical expenses and similar future expenses are expected in the future. No demand has been made at this stage of the suit. With discovery ongoing, CPS Energy is currently analyzing its potential exposure as well as its defensibility in the matter. The original trial date was passed by agreement, and trial has not been reset.

Time Warner Cable San Antonio, L.P. v. City Public Service of San Antonio; CPS Energy v. AT&T. Subject to certain exceptions, 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. Although CPS Energy considers the discrimination prohibition inapplicable for the relevant times, because the nondiscrimination law is not retroactive, beginning with its 2007 invoices, CPS Energy started charging all CTPs the same pole attachment rate.

For its part, AT&T contended that notwithstanding the terms of the nondiscrimination provisions of Texas law, it was entitled under the terms of its 1987 joint use pole attachment agreement with CPS Energy to pay a lower contractual rate. The 1987 joint use contract was terminated March 23, 2010. 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 the County, now styled *Spectrum Gulf Coast LLC v. City Public Service of*

San Antonio, Cause No. 2008-CI-21150 (*Spectrum v. CPS Energy*), claiming CPS Energy's failure to collect the same pole attachment rate from AT&T as it collected from TWC was a 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, plus interest and attorney's fees. 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 uniform rate CPS Energy began to uniformly charge all pole attaching entities in 2007. 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 final Order in part regarding a finding of discrimination 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 Travis County 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. The Third Court of Appeals' rulings were based on a substantial evidence review and limited to the PUCT's jurisdiction, which excludes interpretation of private pole attachment contracts.

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. Again, the Texas Supreme Court's ruling was limited to the PUCT's jurisdiction, which excludes interpretation of private contracts.

On June 17, 2019, CPS Energy filed a motion for rehearing with the Texas Supreme Court. On October 4, 2019, the motion for rehearing was denied. On October 8, 2019, the Texas Supreme Court remanded the case back to the Travis County District Court, which issued a Final Judgment of Remand on March 13, 2020. The PUCT opened Docket No. 50665 on March 16, 2020 for the purpose of issuing an Order on Remand incorporating the findings and rulings on appeal as reflected in the Final Judgment on Remand. The PUCT issued its Final Order on Remand on April 7, 2021 but failed to fully incorporate into several of its Findings of Fact ("FOF") and Conclusions of Law ("COL") certain appellate holdings of the Final Order on Rehearing related to Docket

No. 36633. After denial of its motion for rehearing, CPS Energy filed an appeal of the PUCT's Final Order on Remand on June 11, 2021 in Travis County pursuant to the Texas Administrative Procedure Act. CPS Energy claims that the PUCT erred in adopting a Final Order on Remand that contains narrative descriptions but failed to incorporate into certain FOF and COL appropriate underlying appellate holdings as instructed on appeal. The Texas Attorney General filed an Original Answer on behalf of the PUCT on July 23, 2021 and requests for intervention were subsequently filed by Spectrum and AT&T. The lawsuit is styled as *CPS Energy's Original Petition for Judicial Review*, Case No. D-1-GN-21-002743, in the Travis County 459th Judicial District Court.

There remains pending two lawsuits arising generally out of this subject matter. The more-recent, City of San Antonio, acting by and through *City Public Service Board v. Southwestern Bell Telephone Company*, doing business as AT&T, Cause No. CI-2010-19757 (CPS Energy v. AT&T), consists of CPS Energy's claims against AT&T relating to pole sharing, attachments, and make-ready construction arising out of a 1987 joint-use agreement (the "1987 Agreement") and 1988 pole setting agreement (the "1988 Agreement"). AT&T has not asserted any counterclaims at this time. The case was unabated in 2021 when CPS Energy filed a Third Amended Original Petition (the "TAOP") that articulates in some detail CPS Energy's pole-ratio claims under the 1988 Agreement and modifies rental claims, essentially abandoning claims for rentals before termination of the 1987 Agreement on March 23, 2010, but states additional rental claims under the post-termination, "evergreen," at-will era for rates as modified. The more significant pole-ratio claims were first brought generally in 2010 in the original petition and were more distinctly articulated in a 2016 demand letter (triggering potential recovery of attorney's fees). AT&T has pleaded several defenses based primarily on issues related on the time it has taken CPS Energy to articulate the claims, including laches and waiver. The case is in the early stages of discovery and no depositions have been scheduled. CPS Energy has provided under a Rule 408 confidentiality agreement a schedule of damages based upon (1) CPS Energy's excess investment in poles; and (2) the excess costs of ownership incurred (maintenance, repair, depreciation, etc.). CPS Energy anticipates at least some efforts at settlement discussions in the near term.

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* 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*.

No Litigation Certificate

On the date of delivery of the Bonds to the Remarketing Agent, the City will execute and deliver to the Remarketing Agent 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 cybersecurity, 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 Vice President of Compliance & Ethics. The STPNOC also has a strong compliance program which CPS Energy monitors closely. On occasion, violations are found either through internal review processes or during a regulatory agency compliance audit. In these instances, CPS Energy is fully cooperative with regulators in ensuring that steps are taken to identify the cause of the compliance gap and to implement a mitigation plan to prevent a recurrence. The violations that do occur are typically minor and do not reflect serious lapses in business processes or attention to regulatory requirements. Violations involving significant monetary penalties 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 several factors which could impact the business affairs, financial condition and competitiveness of an electric utility, and the level of utilization of generating facilities, such as those of the Systems. One of the most significant of these factors has been the effort on national, state, and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on wholesale and retail level. For a description of the competition in the electric utility industry in Texas and the response of CPS Energy thereto, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 influence the financial condition of any given electric utility and likely will affect individual utilities in different ways. CPS Energy cannot predict what future effects these factors may or will have on its business operations and financial condition, but the effects could be significant. The following is a brief discussion of several factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change after the date of this Remarketing Memorandum. 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

On January 20, 2021, President Biden issued executive orders directing federal agencies to consider revising vehicle fuel economy and emissions standards, methane emissions standards, and appliance and building efficiency standards to "ensure that such standards cut pollution, save consumers money, and create good union jobs". Additionally, the executive orders re-established the Interagency Working Group on the Social Cost of GHG and directing the issuance of an interim social cost of GHG schedule to "ensure that agencies account for the full costs of GHG emissions, including climate risk, environmental justice and intergenerational equity". Additionally, President Biden signed paperwork to rejoin the Paris Climate Agreement on January 20, 2021.

On January 27, 2021, President Biden signed executive actions that make climate change both a domestic and foreign policy goal for the United States. These actions followed the President's initial actions of rejoining the Paris Climate Agreement by addressing domestic climate policies that seek to create jobs and sustainable infrastructure and address environmental justice. The executive actions direct the Secretary of the Interior to pause on entering new oil and natural gas leases on public lands or offshore waters, create a new civilian conservation corps and deliver economic help to coal-producing regions. The executive actions also establish a commission that is focused on environmental justice and green jobs, direct federal agencies to rely on science in their rulemakings and convene a climate summit of world leaders on Earth Day, April 22nd. Additionally, the President pledged to use the purchasing power of the federal government to buy a fleet of zero-emissions vehicles that are manufactured in the United States.

President Biden elevated climate change to a national security priority and instructed his Administration to prepare a national intelligence estimate on the security implications of the climate crisis and directed all agencies to develop strategies for integrating climate considerations into their international work. The President announced the reestablishment of the President's Council of Advisors on Science and Technology, and formation of the National Climate Task Force, which will be composed of leaders across 21 federal agencies and departments.

On August 5, 2021, President Joe Biden issued an additional executive order setting a new target to make half of all new vehicle sales by 2030 to be zero-emissions vehicles, including battery electric, plug-in hybrid electric, or fuel cell electric vehicles. The executive order extends to light-, medium-, and heavy-duty vehicles. This executive order is part of a series of actions the President will announce focused at jump-starting a shift toward electric vehicles as part of the administration's broader agenda to address climate change. The executive order also directs agencies to (1) consult with the Secretaries of Commerce, Labor, and Energy on ways to accelerate innovation and manufacturing in the automotive sector, to strengthen the domestic supply chain for that

sector, and to grow jobs that provide good pay and benefits; (2) engage with California and other states "leading the way in reducing vehicle emissions"; and (3) secure input from a diverse range of stakeholders, including representatives from labor unions, industry, environmental justice organizations, and public health experts.

On December 8, 2021, President Biden signed the Catalyzing America's Clean Energy Industries and Jobs through Federal Sustainability Executive Order directing the federal government to use its $650 billion in annual purchasing power to achieve net-zero emissions by 2050. The executive order includes a series of interim goals and guiding principles the various federal agencies are required to follow.

On November 15, 2021, President Biden signed into law the "Infrastructure Investment and Jobs Act", an infrastructure and surface transaction bill that includes $1.2 trillion in funding for transportation, energy, and water infrastructure. The measure includes numerous grant programs (which utilities providing energy, water, wastewater, or broadband may be able to access, depending on specific circumstances).

On December 8, 2021, President Biden signed an executive order directing the federal government to become carbon neutral by 2050 and to procure more than 10 gigawatts of renewable energy by 2030.

REFORM GENERALLY

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

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

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

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

CYBERSECURITY

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. On June 18, 2020, the Federal Energy Regulatory Commission ("FERC") issued its Cybersecurity Incentives Policy White Paper Docket No. AD20-19-000 discussing a potential new framework for providing transmission incentives to utilities for cybersecurity investments. The Congress continues to make cybersecurity and grid security a priority regarding preparedness of the electric utility sector for cybersecurity threats.

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

On 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 and is compliant to the CIP-014-1 standard requirements.

The FERC acted in July 2016 to improve the cybersecurity of the bulk electric system ("BES") through 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 was effective on January 1, 2021. CPS Energy is compliant with this new CIP standard CIP-013.

On June 24, 2020, FERC issued public statements seeking comment on whether the CIP Reliability Standards adequately address the following topics: (i) cybersecurity risks pertaining to data security, (ii) detection of anomalies and events, and (iii) mitigation of cybersecurity events. In addition, the Commission seeks comment on the potential risk of a coordinated cyberattack on geographically distributed targets and whether Commission action including potential modifications to the CIP Reliability Standards would be appropriate to address such risk.

On October 8, 2021, FERC released a report offering recommendations to assist professionals in the bulk-power system improve their compliance with the CIP Reliability Standards and their overall cybersecurity posture.

On July 26, 2021, the Transportation Security Administration ("TSA") issued Security Directive Pipeline 2021-02 as an effort to improve the cybersecurity of the nation's critical natural gas pipelines or liquefied natural gas facilities. In this effort the TSA has mandated that all identified pipeline owners and operators must implement specific critically important mitigation measures aimed to reduce the risk of compromise from a cyberattack. All owners/operators were required to adhere to the directive and implement the controls by January 24, 2022. On July 21, 2022, the TSA introduced a revision to the security directive titled "Security Directive Pipeline-2021-02C (SD02C)" which supersedes all previous revisions of the directive. This revision requires gas pipeline owner/operators to establish and implement a Cybersecurity Implementation Plan, an Incident Response Plan, and an Assessment Plan that will allow the owner/operators to test the effectiveness of the measures outlined in the Security Directive. CPS Energy provides periodic reporting to the TSA related to mitigation and implementation of ongoing controls.

It is essential that CPS Energy aligns with industry standards such as the NIST Cybersecurity Framework and applies cybersecurity controls that are robust enough to stay ahead of the latest threats facing the energy sector. CPS Energy has implemented a 5-year strategic vision that ensures core cybersecurity capabilities (identification, detection, and protection) are met and advances those capabilities with the utilization of intelligence, advanced analytics, and machine learning algorithms.

CPS Energy participates in a variety of cyber initiatives and continues to analyze vulnerabilities and update its security, monitoring, and alerting technology to prevent cybersecurity incidents. CPS Energy withstands hundreds of attempted cyberattacks a day and previously brought in specialists from the National Security Agency and Secret Service to assist in preventing attacks and identifying vulnerabilities. Officials with the Department of Homeland Security regularly test and review CPS Energy's computer and security systems.

In addition, CPS Energy uses multiple security measures to protect its physical assets. In-house and third-party physical security audits and analysis are routinely performed. Access control/card reader systems are located throughout CPS Energy facilities, including at substation fences and control houses. Other technologies, such as cameras and lighting, are also employed to deter security threats. As portions of the CPS Energy teams have continued to work from home amid the Events, CPS Energy continues to provide and implement cybersecurity measures to prevent incidents.

CPS Energy also participates with community and federal partners to ensure cybersecurity remains a focal point. CPS Energy has an established Cooperative Research & Development Agreement ("CRADA") with the Department of Defense ("DoD") units at Joint Base San Antonio. This CRADA allows CPS Energy to work side by side with DoD partners and perform tactical and strategic exercises to further secure the City. CPS Energy has also established a working relationship with the Texas Air National Guard cyber protection unit that allows for expedited incident response measure during emergency situations.

Part of the funding associated with CPS Energy's most recent rate case, approved in January 2022, is planned for technology upgrades to ensure cybersecurity protections remain in place.

TAX CREDITS, REPORTING, AND OTHER MATTERS

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 ("CO_2") 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. Circuit Court heard oral arguments. In early 2017, President Trump directed the Justice Department to ask the court to postpone or forego consideration of the CPP. On October 16, 2017, the EPA proposed to repeal the CPP, citing the plan's inconsistency with the Clean Air Act. A decision by the D.C. Circuit Court vacated the ACE rule, likely requiring a new framework prospectively for regulating GHG.

The Energy Policy Act of 2005 ("2005 Energy Act") extended limited FERC jurisdiction, known as "FERC-Lite", over public power entities within ERCOT, such as CPS Energy that own transmission lines, and gave FERC authority to delegate certain transmission reliability standard-setting responsibilities to the Energy Reliability Organization ("ERO") and to establish mandatory reliability standards for operation of the nation's transmission system. CPS Energy has operated its electric system under compatible ERCOT reliability standards for many years, so CPS Energy does not anticipate any problems with FERC's reliability standards. CPS Energy's Transmission Owner ("TO"), Transmission Operator ("TOP"), Distribution Owner ("DO"), Generator Owner ("GO"), and Generator Operator ("GOP") functions have all undergone periodic audits. Any findings discovered during the audits were quickly mitigated. Additional information on FERC's authority over CPS Energy can be found in "FERC Authority" below.

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 October 2019, FERC proposed to modernize its regulations governing small power producers under PURPA to better address consumer concerns and market changes.

In December 2007, the President signed the Energy Independence and Security Act ("EISA") requiring utilities to consider, for adoption, rejection, or modification by December 19, 2009, the implementation of (1) integrated resource planning; (2) rate design modifications to promote energy efficiency investments; (3) smart grid investments; and (4) smart grid information. CPS Energy studied technologies that would allow implementation of the standards, as modified to fit its needs, and has completed the regulatory assessment as required under the EISA. 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.

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

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 after the 1992 Energy Act, FERC further expanded open access wholesale transmission by requiring public utilities operating in interstate commerce to file open access non-discriminatory transmission tariffs. Because the interconnected ERCOT grid operates outside interstate commerce and because PURA95 and SB 7, State laws discussed below, provide comparable wholesale transmission authority to the PUCT for utilities in ERCOT pursuant to which the PUCT has required open access of transmission facilities in ERCOT, the exercise of FERC authority relating to open access transmission has not been a major factor in the operation of the wholesale market in ERCOT. The 2005 Energy Act authorizes FERC to encourage and approve the

voluntary formation of regional transmission organizations to promote fair and open access to electric transmission service and facilitate wholesale competition. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – 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 D.C. Circuit Court on June 20, 2017, the court denied Advanced Energy Management Alliance's petition to vacate FERC's approval as to capacity performance program changes.

On February 22, 2021, FERC announced it would investigate whether any natural gas or electricity market violations occurred during the 2021 Winter Weather Event. FERC's announcement follows its earlier decision, in partnership with NERC, to investigate the mass outages across ERCOT. On November 16, 2021, FERC and NERC issued a final report examining the 2021 Winter Weather Event. The final report includes additional details regarding the need to strengthen rules for cold weather preparedness and coordination to prevent a reoccurrence of blackouts.

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

The PUCT exercises regulatory authority over the retail and wholesale markets of Texas. During the 87th Texas Legislature in 2021, Senate Bill No. 2154 passed relating to the membership of the PUCT. Now the PUCT is comprised of four commissioners plus a chair appointed by the 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 Texas Legislature in 2015, the PUCT requires 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.

On March 26, 2020, PUCT Commissioners approved a relief order establishing the COVID-19 Electricity Relief Program, which created a fund to enable a temporary exemption from disconnections for non-payment for eligible residential customers in competitive retail areas in ERCOT. The intention of this relief order was to protect affected residential customers and reduce the exposure of the competitive market from excessive COVID-19-related bad debt that could lead to industry upheaval and bankruptcies. On June 16, 2020, PUCT Commissioners directed PUCT Staff to make final modifications to the COVID-19 Electricity Relief Program as the PUCT ended self-enrollment in the program on August 31, 2020. The foregoing relief order does not apply to CPS Energy, but CPS Energy has taken steps to assist customers as further described under "OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO". Due to the 2021 Winter Weather Event, the PUCT halted power disconnections due to non-payments and restricted electric companies from sending "skyrocketing" invoices. The PUCT stated it is investigating the factors that, combined with the 2021 Winter Weather Event, disrupted the flow of power to millions of Texas homes. On June 18, 2021, the PUCT lifted a moratorium on electricity disconnections allowing private electricity companies to shut off power to customers at the end of June 2021. CPS Energy resumed disconnections for customers with past due accounts in September 2021, but briefly paused disconnections during the 2021-2022 holiday season until January 4, 2022.

The funding mechanism created within the program was used for one month and was later revisited by the PUCT. The fund was established by a $0.33 per MWh rider implemented by Transmission and Distribution Utilities ("TDUs") in competitive territories

of the State, after an initial loan of $15 million by ERCOT from its project funds. The rider was applied to all customer classes and implemented within ten days of the order being approved. Residential customers unable to pay bills due to unemployment were referred by their Retail Electric Provider to the relief program and were relieved from disconnection. Retail Electric Providers ("REPs") were compensated from the fund at $0.04 per kWh for service to those customers. Also, for those customers, TDUs were compensated directly from the fund instead of compensated through the REPs collections. Commissioners acknowledged and commended the efforts taken by MOUs, Electric Cooperatives, and other vertically integrated utilities to provide these protections to their customers.

TEXAS RELIABILITY ENTITY, INC. (TEXAS RE)

Headquartered in Austin, Texas, Texas Reliability Entity, Inc. ("Texas RE") performs the regional entity functions described in the 2005 Energy Act, which created Section 215 of the Federal Power Act, for the ERCOT region, as mandated by the delegation agreement with the NERC. The delegation agreement was approved by FERC. Texas RE is authorized by NERC to develop, monitor, assess, and enforce compliance with NERC Reliability Standards within the geographic boundaries of the ERCOT region, as well as to assess and periodically report on the reliability and adequacy of the bulk power system. Texas RE is independent of all users, owners, and operators of the bulk power system. The regional entity functions and protocol compliance were previously performed by Texas Regional Entity, a functionally independent division of ERCOT. Texas RE took over all responsibilities of Texas Regional Entity on July 1, 2010. Effective November 16, 2020, Texas RE will no longer monitor protocol compliance. Currently, the PUCT is working with ERCOT to evaluate compliance with ERCOT protocols.

ERCOT

ERCOT is one of eight Regional Reliability Councils in NERC. The ERCOT bulk electric system is located entirely within the State and serves more than 26 million customers, representing approximately 90% of the State's electrical load. The ERCOT service region covers 75%, or 200,000 square miles, of the State and contains over 52,700 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, 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 chair 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 ("PGC") shall observe all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines, and procedures established by the ISO.

Under the PUCT's transmission open access rules, each transmission service provider in ERCOT is required to provide transmission service to transmission customers in ERCOT. As compensation for this service, each transmission service provider annually recovers, through ERCOT-wide transmission charges, its Transmission Cost of Service ("TCOS"), which is set by the PUCT. The PUCT 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. In compliance with the scheduling rule, CPS Energy submitted an interim TCOS filing on November 23, 2020. The PUCT approved CPS Energy's requested transmission access fee of approximately $3.08 per kW on January 15, 2021. The rule also requires periodic interim or comprehensive filings every 48 months for entities, including CPS Energy, with a wholesale transmission cost of service greater than one percent of the total ERCOT wholesale transmission costs. Therefore, CPS Energy submitted a new interim filing, which is currently pending at the PUCT. Smaller non-investor owned TSPs with charges less than one percent of the total ERCOT wholesale transmission charges must file every 96 months. There is not an expectation for a mandated full filing soon. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein.

On September 6, 2022, ERCOT released the final Seasonal Assessment of Resource Adequacy ("SARA") for the ERCOT Region for Fall 2022. The SARA report indicated the ERCOT region is expected to have sufficient installed generating capacity to serve peak demands in the upcoming fall season, October-November 2022, under normal system conditions. Based on expected fall peak weather conditions, the final winter SARA anticipates a seasonal peak demand of 64,928 MW. Planned resource capacity totaling 93,492 MW is expected to be available to meet the fall peak demand. On May 16, 2022, the Report on the Capacity Demand and Reserves ("CDR") in the ERCOT Region for 2023-2032 was released. The CDR Report, which provides a 10-year forecasted planning reserve margin for the ERCOT summer and winter peak load seasons, highlights a forecasted peak demand for summer 2023 of 79,857 MW. The winter 2023-2024 peak demand forecast is 66,454 MW. The planning reserve margin expected for summer 2023 is forecasted to be 36.2%. This is 3.2% points lower than the 39.4% margin for summer 2023 reported in the December 2021 CDR Report. This decrease is mainly due to delays for planned projects that were previously expected to be in service. CPS Energy proactively monitors the ERCOT market closely to ensure it is mitigating risk of exposure to high and volatile prices.

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 PGCs, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell electricity at market prices. IOU owners of Transmission and Distribution Utilities ("TDUs") are fully regulated by the PUCT. REPs which are the only entities authorized to sell electricity to retail customers (other than 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 PGCs, power marketers, and/or other parties and may resell that electricity to retail customers at any location in ERCOT (other than within service areas of 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. Former CPS Energy President & CEO Paula Gold-Williams provided invited testimony on a panel of MOUs. The MOU panelists addressed the competitive nature of the retail electric market and the contributions offered by MOUs in the ERCOT market. No senators overtly advocated that MOUs and Electric Co-ops be forced to opt-in to retail competition, but a general preference for competitive markets was evident through all phases of the hearing. The 86th Texas Legislature did not consider legislation adversely impacting the MOU business model.

In February 2022, the City Council of the City of Lubbock, Texas voted to deregulate and enter into retail competition. In August 2022, LP&L officially notified ERCOT of its intention to join the retail competitive electric market. In the fall of 2023, LP&L intends to become a transmission service provider following the transition. Currently, 70% of LP&L's customers completed the transition to ERCOT and the remaining 30% will transition to ERCOT in the summer of 2023 (before LP&L enters the competitive retail market). LP&L plans to become a transmission service provider, which will represent the first MOU to enter retail competition since the passage of SB 7. However, the City of Lubbock is unique in that it was previously open to a form of retail competition until 2020, when the city purchased distribution assets from South Plains Services LLC to become the sole electric provider for the majority of the city's residents.

ADDITIONAL IMPACTS OF SENATE BILL 7 DEREGULATION

MOUs and Electric Co-ops are largely exempt from the requirements of SB 7 that apply to IOUs. While IOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of MOUs and Electric Co-ops have the sole discretion to determine whether and when to opt-in to retail competition. However, if a MOU or Electric Co-op has not voted to opt-in, it will not be able to compete for retail energy customers at unregulated rates outside its traditional electric service area or territory.

SB 7 preserves the PUCT's regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for an independent transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 (as amended by the Texas Legislature after 1999) directs the PUCT to determine electric wholesale transmission open access rates on a 100% "postage stamp" pricing methodology.

The greatest potential impact on CPS Energy's electric system from SB 7 could result from a decision by the Board and the City Council to participate in a fully competitive market, particularly in light of the fact that CPS Energy is among the lowest cost producers of electric energy in Texas. On April 26, 2001, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002. However, CPS Energy currently believes that it is taking all steps necessary to prepare for possible competition in the unregulated energy market, should the Board and the City Council make a decision to opt-in, or if future legislation forces MOUs and Electric Co-ops into retail competition.

Any future decision of the Board and the City Council to participate in full retail competition would permit CPS Energy to offer electric energy service to customers located in areas participating in retail choice that are not presently within the certificated

service area of CPS Energy. The Board and the City Council could likewise choose to open the CPS Energy service area to competition from other suppliers while choosing not to have CPS Energy compete for retail customers outside its certified service area.

As discussed above, MOUs and Electric Co-ops will also determine the rates for retail use of their distribution systems after they open their territories to retail competition, although the PUCT has established by rule the terms and conditions applicable to have access to those systems. SB 7 also permits MOUs and Electric Co-ops to recover their stranded costs through collection of a non-bypassable transition charge from their customers if so, determined by such entities through procedures that have the effect of procedures available to IOUs under SB 7. Unlike IOUs, the governing body of an MOU determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. MOUs and Electric Co-ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by CPS Energy as to the magnitude of its stranded costs, if any, would be made in conjunction with the decision as to whether or not to participate in retail competition.

An MOU that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate relationships and anti-competitive practices. The PUCT has established by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the distribution facilities of MOUs electing to compete in the retail market.

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants that may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities. The bill also improves the competitive position of MOUs by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of MOUs are made exempt from disclosure under the open meetings and open records acts and the right of 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 and Solutions" herein for discussion of the Energy Price Risk Management Program in use at CPS Energy.

TEXAS LEGISLATIVE IMPACT ON THE ELECTRIC INDUSTRY

Recent and Future Legislative Sessions

The 87th Texas Legislature convened its regular session January 12, 2021 through May 31, 2021. The Governor previously called three subsequent special sessions beginning on July 8th, August 7th, and September 20, 2021. Following the 2021 Winter Weather Event, the Legislature began its most comprehensive policy discussion in more than 20 years on addressing the State's power grid and its oversight. See "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event".

The 88th Texas Legislature will convene in regular session on January 10, 2023 and is scheduled to continue through May 29, 2023.

Neither CPS Energy nor the City make any representation regarding any actions the Texas Legislature previously took or may take in the future but analyzes recent legislation and prospectively monitors proposed legislation for any developments applicable thereto.

Prior Legislative Sessions

From January 8, 2019 to May 27, 2019, the 86th Texas Legislature convened its regular session. The most notable proposal on which CPS Energy worked was House Bill 61 ("HB 61") which adds its electric and gas utility vehicles to the protections of the Texas Move Over/Slow Down Law. The new law took effect on September 1, 2019.

An additional bill of direct operational impact on CPS Energy was House Bill 4150 ("HB 4150"), which adds comprehensive reporting regarding transmission line inspections and safety incidents for all electric utilities. All utilities (MOUs, IOUs, and Electric Co-ops) are now required to report what percentage of transmission infrastructure, defined as over 60 KV, was inspected during the preceding five-year period, and what percentage is expected to be inspected in the upcoming five-year period. The bill also contains annual reporting requirements on safety education and training taking place or changed/appended, any known noncompliant maintenance issues and incidents, fatalities, and injuries with a corrective action plan. Lastly, the bill requires utilities to inspect lines over public recreational lakes in their service territory for compliance with National Electric Safety Code

height requirements. The rulemaking at the PUCT to implement HB 4150 was approved on February 14, 2020 and the first round of reports were due on May 1, 2020.

Other bills of impact to CPS Energy included House Bill 864 ("HB 864") and House Bill 866 ("HB 866"), which pertain to gas infrastructure safety and reporting. The RRCT initiated a comprehensive rulemaking in July 2019 to implement these bills, as well as make other updates to Chapter 8 and Chapter 3.70 of Title 16 of the Texas Administrative Code, as amended, to bring the RRCT rules, definitions, and procedures in line with federal Pipeline and Hazardous Materials Safety Administration ("PHMSA") requirements and sections of State law that relate to the provisions. The RRCT adopted final amendments to its Pipeline Safety & Permit Renewal Rules on December 17, 2019. The amendments to Chapter 8 pertain to pipeline safety, maintenance, incident reporting and changes to the annual risk-based programs that operators like CPS Energy files annually to the RRCT. The proposed amendments to § 3.70 pertain to required pipeline permits. The rulemaking also made changes to the annual schedule by which CPS Energy pays its permit fees.

Two additional bills of note are Senate Bill 1012 ("SB 1012") and Senate Bill 1938 ("SB 1938"). SB 1012, filed at the request of the PUCT, clarifies and reaffirms the current ability of MOUs and Electric Co-ops to own battery storage without having to register as PGCs. SB 1938 codifies within State law certain ERCOT protocols as they pertain to transmission owners' ability to construct off existing transmission endpoints.

Regarding cyber and grid security, three bills passed relevant to the electric utility industry. All these bills were implemented on May 14, 2020 by the PUCT with further action pending at ERCOT. Senate Bill 64 ("SB 64") establishes a program for the PUCT to coordinate and share with utilities best practices on several cyber-related items, including guidance for cybersecurity controls for supply chain risk management. The bill also directs ERCOT to conduct an internal cybersecurity risk assessment and submit an annual confidential report to the PUCT. Senate Bill 475 ("SB 475") creates the "Texas Electric Grid Security Council", an advisory body that will coordinate the sharing of information and implementation of best security practices in the electric industry. This council is comprised of representatives from the PUCT, ERCOT and the Governor's office, and coordinate with industry and specific State and federal entities. Lastly, Senate Bill 936 ("SB 936") requires the PUCT and ERCOT to contract with an entity to act as PUCT's cybersecurity monitor. This bill was also filed at the request of the PUCT.

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 Senate Bill 619 ("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 Senate Bill 776 ("SB 776"), requiring an 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 are required to get PUCT-approved CCNs to construct outside their city limits. MOUs can make payments in lieu of taxes on external transmission. An 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. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – THE ELECTRIC UTILITY NDUSTRY GENERALLY – The Public Utility Commission of Texas".

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 Senate Bill 758 ("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 that passed during the 2017 session was the passage of House Bill 1818 ("HB 1818"), the RRCT 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 and regulatory fee to fill a budget shortfall in its pipeline safety and 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 the fee determined that it would be absorbed with 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 "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. Because of the Spruce2 air permitting process, CPS Energy committed to tighter NO_x emission limitations than what is required under Chapter 117 at the Calaveras Power Station upon the Spruce2 unit coming online.

Changes to environmental emission controls may have the greatest effect on coal plants. See "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 ("SB 20"), enacted by the Texas Legislature in 2005, authorized the PUCT to regulate in this area, and specifically authorized the PUCT to identify areas with sufficient renewable energy potential, known as competitive renewable energy zones ("CREZs") and pre-designate the need for transmission facilities serving the area even if no specific renewable generation projects exist or are under construction. The designation of CREZs in regions with developable renewable resources would be partially based on financial commitments of wind project developers desirous of building in the CREZ. In July 2008, the PUCT voted to create five CREZs in west Texas and the Panhandle. In August 2008, the PUCT further decided that an additional 18,456 MW of wind energy from the five CREZs would be delivered into ERCOT via transmission lines estimated to cost ERCOT rate payers a minimum of $4.93 billion. The PUCT awarded the construction of those transmission lines to transmission service providers ("TSPs") in whose service areas the lines will be located and new entrants seeking to become TSPs. The PUCT's decision was appealed by the City of Garland, and a State District Court has determined that the PUCT should have given municipally owned utilities consideration in the CREZ award process. The PUCT reconsidered and awarded a CREZ line for the City of Garland to construct. CPS Energy does not plan to renew its request for authority to construct any part of the CREZ lines. Under the statewide transmission costs allocation process, CPS Energy will pay approximately 7% of these construction costs. Payments will not start until the lines are constructed and placed into service. In the PUCT's January 2017 "Report to the 85th Texas Legislature – Scope of Competition in Electric Markets in Texas", the PUCT determined that the CREZ project established in 2008 was complete following the installation of a second circuit on a Sharyland line.

The Texas Legislature increased the State's renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUCT 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, 23.66% of the electricity generated in Texas from January 1, 2021 through November 30, 2021 came from wind energy resources, down from 27.75% for 2020. The total capacity of renewable facilities in Texas as of November 2021, is approximately 35,832 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 November 16, 2021, wind generation in ERCOT produced a new record of 23,702 MW. ERCOT's wind penetration record was set on March 22, 2021, at 66% of load.

Looking to the future, CPS Energy plans to continue to focus on providing low-cost power from a variety of generation sources including sustainable and lower carbon emitting sources. CPS Energy will continue to focus on high levels of reliability to the communities it serves, while working on customer retention and loyalty.

WHOLESALE MARKET DESIGN DEVELOPMENTS

In May 2017, Calpine and NRG filed an informational report in PUCT Docket 40000 recommending changes to the energy markets with a goal of improving price formation. The report, "Priorities for the Evolution of an Energy-Only Market Design in ERCOT", which was written by Susan Pope and William Hogan of FTI Consulting and Harvard University respectively, critiques the performance of ERCOT's energy-only market and makes numerous suggestions for how the market might perform more efficiently. The PUCT responded by opening Docket 47199 in order to explore market changes including adjusting of the ORDC (defined below) parameters, implementation of Real Time Co-Optimization ("RTC"), and implementation of Marginal Line Losses. At the June 28, 2021, Technical Advisory Committee ("TAC") meeting, ERCOT announced an RTC initiative, which is a three-and-a-half-year project and has been delayed for a minimum of one year. This allows ERCOT room for other work to proceed and for longer-term policy decisions to be made before potentially resuming work.

To improve scarcity price signals, the PUCT instructed ERCOT to implement an Operating Reserve Demand Curve ("ORDC") in June 2014. In June 2018, because of arguments in PUCT Docket 47199 coupled with shrinking reserve margins, the PUCT instructed ERCOT to modify the ORDC to remove out-of-market capacity from the capacity used to calculate reserves. This was a minor adjustment prior to summer 2018. In early 2019, the PUCT endorsed the RTC proposal as well as a two phase ORDC modification that would result in an increase in the reserve adder pricing. Both phases of the ORDC modification were successfully implemented. The first was implemented in the spring of 2019, with the second phase in the spring of 2020. The ORDC is currently operational as an energy price enhancement mechanism that adds to the energy price based on system conditions. ERCOT calculates the adder based on the probability of a loss of load and the cost of a loss of load. Therefore, as system reserves drop, the adder calculated by ERCOT increases and the price of energy increases.

In April 2019, ERCOT formed the Real-Time Co-Optimization Task Force ("RTCTF"), reporting to the ERCOT TAC, to formulate and vet the policies needed to implement the RTO market change. In February 2020, the ERCOT Board voted to approve a list of Key Principles. These Key Principles were developed by the RTCTF and were the basis for the protocol changes adopted by the ERCOT Board in December 2020 with an estimated implementation in late 2024. At the October 2021 ERCOT TAC meeting, the RTCTF presented completion of its charter deliverables. As a result, the ERCOT group dissolved the task force.

In August 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 SWOC of $9,000 per MWh, as is also required by ERCOT protocols.

During the 2021 Winter Weather Event, Texas experienced record-setting low temperatures for a sustained period. It is estimated that over 3 million customers lost electricity for days. ERCOT directed controlled outages to stabilize the grid. On February 13, 2021, ERCOT issued an Emergency Notice for the extreme cold weather event impacting the ERCOT region. On February 15, 2021, ERCOT declared Levels 1, 2, and 3 Energy Emergency Alerts ("EEA1, EEA2, EEA3") and implemented rotating outages at 1:20 AM. On February 17, 2021, at 11:55 PM ERCOT concluded rotating outages but remained in EEA3 due to the large number of customers who had yet to be reconnected. During the event, the PUCT convened an emergency meeting to address price inconsistencies observed in the market. PUCT Commissioners approved an order in Project 51617 that resulted in market clearing prices being set to the SWOC of $9,000/MWh during load shed events. The basis for their decision was to reinforce the market design principle that anytime load is shed, prices should reflect the value of the load.

Several lawsuits have been filed against ERCOT and wholesale market design changes were implemented as a result of legislation enacted in the aftermath of the 2021Winter Weather Event.

On June 24, 2021, the PUCT modified the value of the LCAP by eliminating a provision that ties its value to the natural gas price index and replaces it with a provision that ensures resource entities are able to recover their actual marginal costs when the LCAP is in effect. On December 2, 2021 the PUCT modified the value of the HCAP by lowering it from the current $9,000 to $5,000/MWh.

The PUCT opened a Project (No. 52373) where several wholesale market design developments are under consideration. In December 2021, the PUCT issued a two-phase blueprint for the ERCOT market redesign. Proposed phase-one concepts include reform to the ORDC, increase in demand response, reform to emergency response services ("ERS"), implementation of ERCOT

contingency reserve services as a ramping ancillary service, implementation of fast frequency response, development of a voltage support ancillary service product, and development of firm fuel supply service ("FFSS").

In December of 2021, in response to a PUCT Order, ERCOT implemented changes to the formulation of the ORDC which offset the new lower HCAP by allowing scarcity price adders to materialize during times of lower scarcity. In August 2022, in response to a PUCT Order, ERCOT also increased the procurement of ERS by increasing the overall program budget to $75,000,000, an increase of $25,000,000. The PUCT also authorized ERCOT to procure an additional $25,000,000 in ERS capacity if the program is exhausted in an emergency event. In March 2022, in response to Senate Bill 3, 87(R), ERCOT established the rules to implement the new FFSS. In July 2022, ERCOT issued a request for proposal for the new service and announced in October 2022 that it had procured 2,940MW of capacity with an on-site backup fuel source to be used during fuel supply emergencies. The remaining phase-one changes are pending ERCOT protocol changes and system implementation.

Phase-two concepts include development of a Load Serving Entity obligation mechanism based on several principles that are still being discussed with Commissioners and stakeholders, development of a Dispatchable Energy Credit system, development of a backstop reserve mechanism, and development of a centrally cleared capacity market. In February 2022, the PUCT issued a request for proposal to assist the commission in evaluating the various phase-two proposals, and in May 2022, the consulting firm Energy and Environmental Economics ("E3") was awarded the consulting contract. E3, PUCT staff, and ERCOT staff completed the analysis, and a report was published in November 2022.

In late September 2022, the PUCT voted in favor of expanding weather preparation rules governing weatherization of electric generation equipment and transmission equipment The rule expansion heightens the seasonal standards, first deployed by PUCT in November 2021 for winter weather, and now include equipment requirements for summer weather conditions. The winter weather preparation requirements will be effective in December 2022 and summer weather preparation requirements are set to begin in June 2023.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City, acting by and through the Board (who has accepted such responsibility by a resolution of the Board adopted on May 21, 2018) made the agreements described below for the benefit of the owners and Beneficial Owners of the Bonds. These agreements were supplemented by the Remarketing Resolution. The Board, on behalf of the City, is required to observe the agreements for so long as it remains obligated to advance funds to pay the Bonds. Under the agreements, 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 Remarketing Memorandum 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, 2022"; "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 IRS 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 Remarketing Resolution, 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, credit enhancement, or debt service reserves. 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 a remarketing agent 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 a remarketing agent 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

At the time of the initial issuance of the Bonds, the City furnished a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the issuance of the Bonds is a valid and legally binding obligation of the City, and based upon examination of the transcript of proceedings, the approving Original Opinion of Original Co-Bond Counsel (as defined on the cover page of this Remarketing Memorandum) with respect to the Bonds, issued in compliance with the provisions of the Ordinance, which Original Opinion is attached to this Remarketing Memorandum as APPENDIX D hereto.

Though they represent the Co-Financial Advisors and the Remarketing Agent from time to time in connection with matters unrelated to the Bonds, McCall, Parkhurst & Horton L.L.P. and Escamilla & Poneck, LLP as Co-Bond Counsel to the City in connection with the remarketing of the Bonds that is the subject of this Remarketing Memorandum ("Co-Bond Counsel"), was engaged by and only represents the City with respect to the remarketing of the Bonds. Co-Bond Counsel did not take part in the preparation of the Remarketing Memorandum and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Co-Bond Counsel, such firms have reviewed the information describing the Bonds in this Remarketing Memorandum to verify that such description conforms to the provision of the Ordinance. The legal fee to be paid Co-Bond Counsel for services rendered in connection with this remarketing of the Bonds is contingent upon the settlement of the remarketing of the Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of Bonds was also furnished. In connection with the remarketing of the Bonds, certain legal matters will be passed upon for the Remarketing Agent by its co-counsel, Locke Lord LLP, Austin, Texas and Cantu Harden LLP, San Antonio, Texas.

TAX MATTERS

GENERAL

Opinion

At the time of the original delivery of the Bonds, Original Co-Bond Counsel to the City rendered their opinion that, as of the date thereof, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds is excludable from the "gross income" of the owners thereof for federal income tax purposes and (2) the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code. As a condition to conversion and remarketing of the Bonds on the conversion date, Co-Bond Counsel will render an opinion to the effect that the conversion will not adversely affect any exclusion of interest on any Bond from gross income of the owner for federal income tax purposes. Except as stated above, Co-Bond Counsel to the City has expressed and will express no opinion as to any other federal, state, or local tax consequences of the purchase, ownership, or disposition of the Bonds, including any opinion relating to the status of the Bonds, as of the conversion date, as obligations described in section 103 of the Code.

In rendering their opinion, Co-Bond Counsel to the City relied upon (i) information furnished by the City and a sufficiency certificate related thereto, and particularly written representations of officers and agents of the City with respect to certain material facts that are solely within their knowledge relating to the use of the proceeds of the Bonds, the construction, use, and management of the proceeds and (in the case of the opinion to be rendered on the conversion date) the use of proceeds of and the property to be financed by the Bonds, and (ii) covenants of the City and CPS Energy with respect to arbitrage, the application of the proceeds received from the remarketing and sale of the Bonds and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of original issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Co-Bond Counsel to the City is conditioned on compliance by the City with the covenants and the requirements described in the preceding paragraph, and Co-Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Co-Bond Counsel's opinion represents their legal judgment based upon their review of Existing Law and the reliance on the aforementioned information, representations, and covenants. Co-Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership, or disposition of the Bonds.

A ruling was not sought from the IRS by the City with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Co-Bond Counsel's opinion represents their legal judgment based upon its review of Existing Law and the representations of the City that they deem relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether or not the IRS will commence an audit of the Bonds, or as to whether the IRS would agree with the opinion of Co-Bond Counsel. If an audit is commenced, under current procedures the IRS is likely to treat the City as the taxpayer, and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership, or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSIONS CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds may be includable in a corporation's "adjusted financial statement income" imposed by section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount Bonds" to the extent such gain does not exceed the accrued market discount of such Bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local, and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership, or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates, and trusts, and in certain circumstances, and in respect of foreign investors, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

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.

It is the obligation of the Remarketing Agent to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Remarketing Agent's written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the City shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

RATINGS

At the time of initial issuance, the Bonds were rated "AA+", "Aa2", and "AA-" by Fitch, Moody's, and S&P, respectively. The Bonds are currently rated "AA-", "Aa3", and "A+" by Fitch, Moody's, and S&P, respectively. 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. A securities rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time.

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 Remarketing Memorandum, they have not independently verified any of the information set forth herein. The information contained in this Remarketing Memorandum 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 Remarketing Memorandum. 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.

INDEPENDENT AUDITORS

This Remarketing Memorandum includes the basic financial statements of CPS Energy for the fiscal years ended January 31, 2022 and 2021. These financial statements included in this Remarketing Memorandum as APPENDIX B have been audited by KPMG 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 the provision of annual financial audit and related services, and on July 26, 2021, the Board approved the external auditing firm KPMG LLP as CPS Energy's external auditors, for a term to expire on July 25, 2025, with an option to renew for one additional year.

USE OF INFORMATION IN REMARKETING MEMORANDUM

No person has been authorized to give any information or to make any representations other than those contained in this Remarketing Memorandum, 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 Remarketing Memorandum 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 Remarketing Memorandum for purposes of, and as that term is defined in, the Rule.

FORWARD-LOOKING STATEMENTS

This Remarketing Memorandum, 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 Remarketing Memorandum 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.

SETTLEMENT OF REMARKETING

Ramirez & Co., Inc., has agreed, subject to certain conditions, to remarket the Bonds, at the price and interest rate indicated on the inside cover page hereof, in exchange for compensation in the amount of $397,444.89.

The Remarketing Agent will be obligated to remarket all of the Bonds if any Bonds are remarketed. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Remarketing Agent and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Remarketing Agent.

The Remarketing Agent provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agent reviewed the information in this Remarketing Memorandum in accordance with, and as part of, its responsibility to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

MISCELLANEOUS

The description of the Bonds contained in this Remarketing Memorandum 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 Remarketing Memorandum 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 Remarketing Memorandum has been approved by the authorized representatives of the Board.

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO, TEXAS

By: /s/ Dr. Willis Mackey
Chair, Board of Trustees
City Public Service Board of San Antonio, Texas

APPENDIX A

CITY OF SAN ANTONIO, TEXAS –
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX B

CITY PUBLIC SERVICE –
BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED JANUARY 31, 2022 AND 2021 AND INDEPENDENT AUDITORS' REPORT

APPENDIX C

CERTAIN PROVISIONS OF THE ORDINANCE

APPENDIX D

ORIGINAL OPINION OF ORIGINAL CO-BOND COUNSEL