

2016 – 2017 ANNUAL REPORT



PEOPLE FIRST!

EMPLOYEES • CUSTOMERS • COMMUNITY



A LETTER FROM OUR PRESIDENT & CEO



REFRESHING OUR CUSTOMER FOCUS THROUGH **OUR PEOPLE FIRST COMMITMENT!**

We proudly power Greater San Antonio – 24 hours a day, every day! We are always there for you. The lights must come on when expected, without question.

It's a tremendous responsibility that we accept today and have accepted year after year, since 1860. Realizing our foundational commitment and dedication to our entire San Antonio metropolitan community, the City of San Antonio decided to purchase CPS Energy in 1942. Now in 2017, we are celebrating 75 years of this direct ownership and strategic alliance!

While we serve more than 804,000 electric and 343,000 gas customers, we value that no two customers are the same. For example, a single parent or business owner may need a multi-faceted array of information or assistance to keep their electricity flowing, as well as stay on top of new energy products and services. Additionally, a school may call us to get the lights back on after a vehicle damages a nearby pole and the attached lines that carry energy to its campus.

In my 12 years with CPS Energy and my first year as permanent CEO, I've seen and heard hundreds of stories like these. I'm proud that for every challenge or problem our team has been through and continues to encounter, our enhanced solutions approach and thoughtful implementation activities keep getting better. Continue reading to learn more about how we have begun to further fine-tune our service through our commitment to keeping **People First!**

MAKING TIME FOR OUR CUSTOMERS...

We are improving our ability to solve issues with our heads, hearts and hands. This starts first with getting better at putting ourselves in your shoes.

We understand that no one wants food in their refrigerator spoiled or to spend valuable time on the phone, addressing an outage or other issues.

Specifically, we are now installing a new network of proven technology that can self-detect outages with pin-point accuracy so service restoration will be faster.

Additionally, you have the option to use a smart device to go online and schedule a convenient time for one of our knowledgeable energy advisors to return your call and offer helpful suggestions and information.

Summarily, we developed numerous improved solutions – online, over the phone and in our service centers – that make doing business with us easier. Through these new initiatives, we are driven by our refreshed commitment to put **People First!**

HELPING OUR CUSTOMERS SAVE...

We follow an interesting business philosophy, believing that there are real benefits to encouraging you to use less of our product and pay you for this reduction. This unusual objective actually serves to defer the expense of hundreds of millions of dollars on new generating plants, while giving us more time to study and implement new and improved energy solutions. Accordingly, today we offer a variety of programs that can save energy and lower the bills for our services at the same time. It's a unique approach for a business, but one that works for you and us.

Examples of this include our energy conservation programs. More specifically, our Smart Thermostats, as well as our Demand Response program, help enrolled

customers scale back energy use on high-temperature days, which in turn, lowers bills. Our energy advisors can explain the various paths to energy-efficient equipment, valuable rebates, and new energy solutions that solve problems and add value, again exemplifying how we strive to keep **People First!**

RESPONDING IN A TIME OF NEED...

While relative to our industry peers, we achieve high marks for reliable power, yet we can't prevent damage to our poles and/or wires caused by:

- Animals (squirrels, for example)
- Unfortunate vehicle accidents
- Bad weather

The factors above, and others, can interrupt power flow to schools, homes and businesses.

Our community was significantly challenged in early 2017 when four tornadoes left more than 84,500 friends and neighbors in our community without power at the peak of the storm. The damage was so highly unusual for San Antonio that Mayor Ivy Taylor declared our community a disaster area.

Devoted CPS Energy team members rallied with the City of San Antonio crew members to get streets functional again and fully restore power less than 51 hours later. This was another major example of how CPS Energy puts our **People First** philosophy into action.

I am fortunate to lead an engineering-analytics firm that has a long, rich history. We are technical experts who serve every day as energy advisors. We work hard to bring innovative solutions from around the globe to our community, because it deserves the best our industry has to offer!

Paula Gold-Williams
President & CEO

Committed to Keeping **People First!**

EMPLOYEES

Our team members are the heart and soul of our company, and the foundation of our *People First* philosophy.

While our company boasts assets of nearly \$10.6 billion, our employees are, by far, our greatest asset. More than 3,100 dedicated and valued employees care for our customers in a business that is 24/7/365. It's imperative that we give our team members the resources, training and learning opportunities they need to be safe, engaged and successful in their jobs. At the same time, we are cultivating a culture to attract and retain new talent.



BUILDING FOR THE FUTURE

In June, we finalized a deal for the acquisition of new corporate headquarters property that will be home to 1,200 of our team members and contractors.

The acquisition means our headquarters will remain in San Antonio's vibrant downtown area.

The 5.3-acre property we purchased will have almost 430,000 square feet of office space including 14 and 11-story towers, as well as a three-story connector building. The larger complex will allow us to consolidate some of our teams for greater efficiency.

Transformation of the buildings began in late 2016 through demolition of the buildings' interiors. The exteriors also will get a complete makeover with a more modern design. Our future headquarters, set to be completed in 2019,

is expected to be a model of energy efficiency, technology and sustainability.

We continue to gauge interest from buyers and developers for our current headquarters located on the San Antonio River Walk.

Our facility master plan calls for all of our team members who are working in aging facilities to be relocated or moved to new buildings by 2024.

We completed construction of two new facilities at our Nacogdoches campus in September, giving our fleet team a garage with specialized equipment to service our full range of vehicles, from bucket trucks to sedans.

Our System Protection Building includes a new lab where our employees' safety gear is tested and examined using new, modern equipment.



DESIGN FOR OUR
FUTURE CORPORATE HEADQUARTERS



*“CPS Energy is an essential partner with the City of San Antonio,
and their choice to keep their headquarters downtown is a testament
to the pride we share in our community!”*

– Roberto Treviño, San Antonio City Councilman



RAISING THE BAR ON SAFETY

The safety of our team members and our customers is our top priority and the reason for our “Zero Harm”

safety culture. Our first Leadership Safety Kick-off in February set the tone for our company for the year. More than 250 team members participated in interactive discussions on the importance of workplace safety. Our leadership presented awards to several of our company’s business areas for their impeccable safety records.

For the past several years, our company’s overall safety record has continued to improve. In 2016, our recordable incident rate reached an all-time low of 0.27 for every 200,000 hours worked, well below our target of 0.66. Our number of recordable incidents dropped from 10 in 2015 to eight in 2016.

One initiative that helped us achieve the outstanding record is our Behavior-Based Safety Observation program. It calls for field and driving observations to be conducted followed by helpful, constructive feedback to our team members. We also developed a Behavior-Based Safety App that allows employees to quickly and easily report safety-related hazards, and recognize colleagues for working safely.

Because our team members collectively drive more than 10 million miles per year, it’s important that they learn and practice safe driving. In April 2016, we deployed a new driving simulator for light-duty and commercial vehicle training. Employees get a feel for changing road, traffic and weather conditions, as well as the risks of using mobile devices while driving. We’re already seeing positive results – our team members were involved in 28 percent fewer preventable motor vehicle accidents in 2016 compared to the previous year.





For the second consecutive year, we're offering onsite biometric screenings so our employees can receive important medical tests – blood pressure, cholesterol, glucose and Body Mass Index – at their work location. We believe that helping our team members achieve healthier lifestyles can reduce their medical-related expenses, resulting in valuable savings as healthcare costs continue to rise.

ENCOURAGING A HEALTHY LIFESTYLE

Safety at work runs parallel with taking care of the health and well-being of our employees. Our team members are offered, and encouraged to use, a variety of programs and resources to help them achieve a healthy lifestyle.

We've continued to improve and expand our Employee Wellness Program offerings, incenting team members and spouses to complete required program steps. Nearly 1,100 team members and 300 spouses earned an incentive in 2016, a 58 percent increase over 2015. Claims for employees participating in our Wellness Program decreased by 18 percent compared to employees who did not participate – an indicator of improved health.

Building on the success of the program, we rolled out the Real Appeal Virtual Coaching Weight Loss Program in January. In the first month alone, nearly 600 employees and 50 spouses signed up and lost almost 650 pounds.



INVESTING IN OUR WORKFORCE

An engaged and talented workforce is vital to putting our customers and community first.

To cultivate a **People First** culture, we have thoughtful conversations with employees. As a result, our annual employee engagement survey indicated increases in every category, companywide. We also provide our team members strong talent development opportunities to enhance their careers.

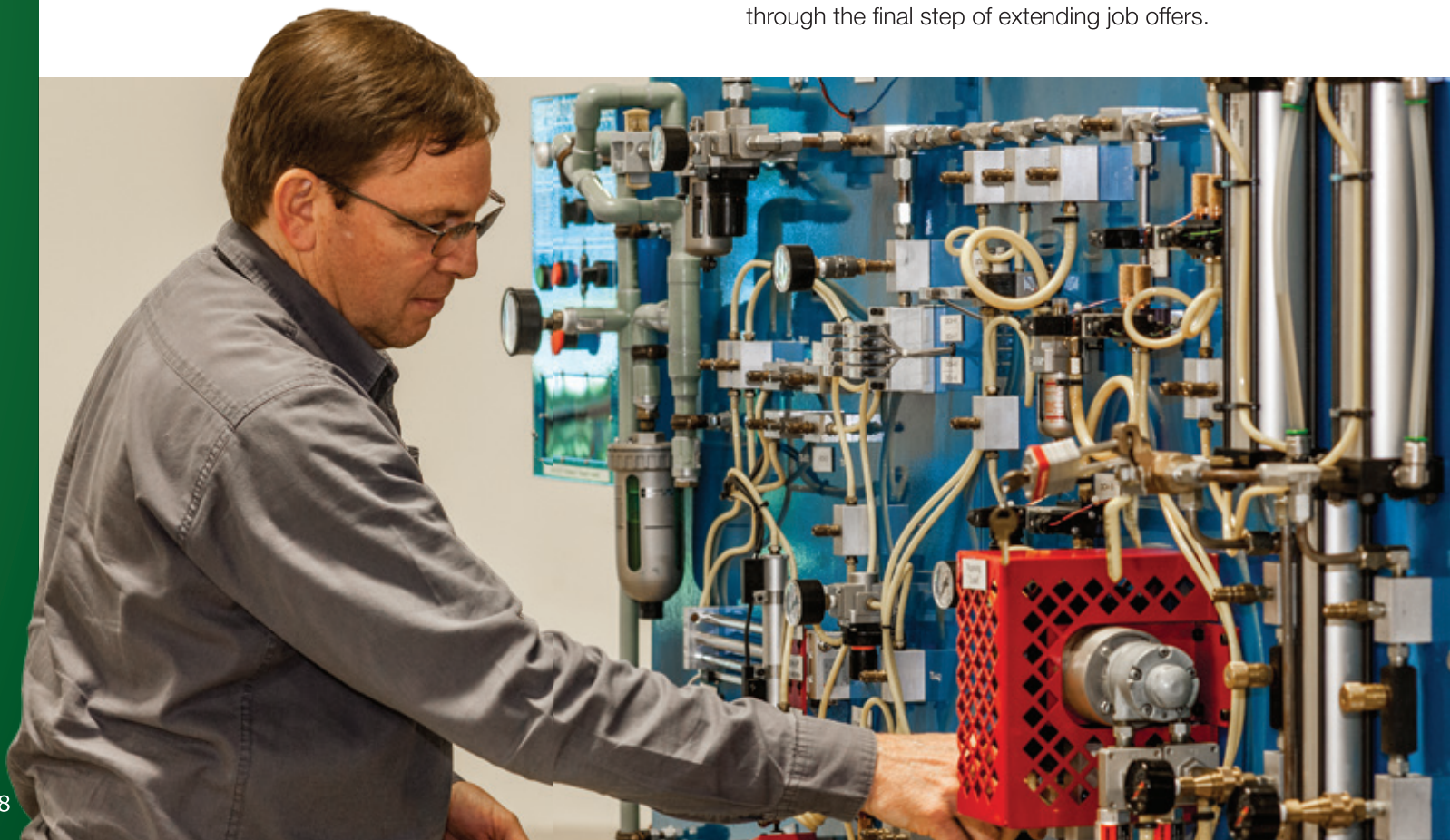
Job rotations provide the unique opportunity for a team member to temporarily work in a different position or area of the company to gain new skills and learn about other facets of our business.

Each year, we host EmpowerU, an internal educational series for our team to learn about our rapidly changing industry. In 2016, we held two of these events with a

focus on digital emergence as an overall theme. Our CEO, Paula Gold-Williams, stressed that our industry changes daily so we can't assume we can solve problems the same way we have in the past.

Our robust in-house training program builds and enhances the skill sets of our team members. During 2016, nearly all of our employees completed both instructor-led and computer-based training courses.

We launched new online platforms last year so employees have training and career information at their fingertips, and can complete various requirements electronically. With a new learning component, team members can access and register for courses and provide feedback. They also can track and maintain their own learning plans. A career component makes it easier for employees to access, view and apply for available positions within our company. For hiring managers, it generates a quicker, smoother process flow, from the initial job creation phase through the final step of extending job offers.



EMPOWER

A CPS ENERGY
EDUCATIONAL
SERIES



*“With the new MDT system, our crews can update maps
and upload work orders wherever they are located.”*

– Patricia Ballard, CPS Energy



EMBRACING CHANGE AND TECHNOLOGY

Innovative technology is changing our daily lives, both at home and at work. We're embracing these changes to deliver better service to our customers while simplifying the way we do our work.

Last year, we upgraded Mobile Data Terminals (MDT) in more than 360 vehicles used by our field crews. The terminals allow crews to access up-to-the-minute information, upload work orders and update maps. This new capability reduces trips our crews make to our service centers for paperwork, saving man-hours and vehicle mileage while increasing productivity.

Creating a more personal service touch for our employees, we opened a Digital Lounge at our main office where employees can get in-person technical assistance with their company-issued devices.

DEVELOPING OUR OWN TOOLS

When our team members know what's needed for a job but can't find it, they get creative. Last year, a team of our employees collaborated with Watson Drill Rigs to design a new digger that our field crews began using. This prototype turned out to be the first of its kind in Texas, incorporating cable-drive technology to reduce the risks of hydraulic fluid leaks.

The new digger, used for drilling holes for utility poles, combines the capabilities and versatility of other diggers into one. We plan to purchase several more in the future,

eventually replacing our entire fleet of diggers with this newly designed model.

PERFORMING WITH EXCELLENCE

In 2016, our team earned Silver designation through the American Public Gas Association's System Operational Achievement Recognition (SOAR) program. To earn this designation, natural gas distribution utilities must demonstrate excellence in four areas: system integrity, system improvement, employee safety and workforce development.

Last year, the American Public Power Association (APPA) gave our company its Reliable Public Power Provider (RP3) designation. Fewer than 30 of the more than 2,000 public power utilities received the honor. APPA recognized our company at the platinum level for our proficiency in reliability, safety, workforce development and system improvement.



CUSTOMERS

When our customers need a little help, they now have more options than ever.

They can call or come to us, or we can respond to them – on their time. They can pay a bill in person or pay online. They can avoid the unexpected and pay a fixed amount every month, or they can simply choose to let their bank pay their bill for them.

When you have more than one million customers, flexibility is key. In 2016, our commitment to **People First** showed through the creation of a variety of expanded services and more options for our customers.





GIVING OUR CUSTOMERS MORE OPTIONS

Like any business, from time to time customers have questions. Last year, our call center handled more than 3.4 million calls. In the past, a high volume of calls sometimes led to lengthy wait times for our customers. Today, if our lines are busy, customers can go to our website to schedule a call back on a day and time that is convenient for them.

During the same year, more than 920,000 customers visited one of our four walk-in service centers. Now, if a customer prefers to discuss or pay a bill in person, the customer can schedule an appointment at one of the kiosks in our centers or go online to do the same. Again, it's all about making it easier for our customers to conduct business with us.

While technology has helped, human resources may have been our most valuable tool in 2016. We added 68 new employees to our Customer Engagement team and retrained others in customer service roles. Moreover, we transformed our customer solutions philosophy, changing the traditional role of a customer service representative to that of an “energy advisor.” Today, these advisors will not only resolve a billing question, but they also can recommend a payment plan, an assistance program and tips for energy-saving rebates.

In 2014, we began taking customer service to the streets through our Customer Response Unit (CRU). This team, through community events and individual requests, is dedicated to increasing awareness of our customer programs, educating customers about energy





efficiency and safety, addressing individual customer billing issues, and resolving service issues like streetlight repairs and damaged light poles. In 2016, the team celebrated a milestone – 2,000 cases addressed and resolved. CRU continues to be an effective and unique way for us to provide a high level of face-to-face customer engagement. As part of our growing community engagement efforts, our team also provided energy safety and energy efficiency presentations at more than 240 events during the year.

These efforts made a difference. We saw significant increases in satisfaction from our residential, as well as our small and medium-sized business customers.

CREATING NEW ONLINE OPTIONS

More than half of our customers use Manage My Account (MMA), our online customer account system, to track their energy consumption, start or stop service, sign up for outage alerts and more. Many of these customers also receive and pay their bill through MMA. Three out of four customers skip the mailbox or walk-in center and pay their bill electronically whether it is through MMA or through their bank.

In 2016, we also made it possible for our customers to make payment arrangements online through MMA. Today, they can set up AutoPay for automatic bill deductions, or a Budget Payment Plan to designate fixed monthly bill amounts. As another self-service option, customers now can set up a new account in minutes or automatically reconnect their service through MMA following a real-time payment.

MAKING A RELIABLE SYSTEM EVEN BETTER

Our electric distribution system includes more than 7,800 miles of overhead lines, nearly 5,500 miles of underground lines and more than 1,500 miles of transmission lines – not to mention poles, transmission towers and substations. It's a tall order to manage such a complex system. Despite the challenges, our electric reliability remains high – we are in the top decile of peer utilities.

In 2016, our success was attributed to proactive inspections of our power lines, replacement of aging poles, continued maintenance of our overhead equipment, and the replacement of aging, underground infrastructure. As part of our continuing effort to ensure electric and gas reliability, we also are building a smarter distribution grid which already

is improving restoration times and providing many of our customers with real-time consumption information.

In 2016, the second year of our Grid Optimization project, almost 350,000 gas and electric smart devices were installed. Combined with the previous year, more than 700,000 devices, or 65 percent of our project total, had been completed. Smart meters now have become our standard for all new construction installations. The project is ahead of schedule and is expected to be completed in 2018.

MANAGING OUR INFRASTRUCTURE

Our poles and wires distribute reliable power to our customers' homes and businesses. For years, telecommunications providers have attached their devices



to our poles so they could deliver services to their customers. In 2016, we began making comprehensive changes to our pole attachment standards in an effort to respond to the increasing business needs of these companies. We offered workshops and meetings with our stakeholders, drafted new wireless installation agreements, and adopted new pole attachment standards.

With a streamlined pole attachment process, we're dedicated to partnering with companies to assist with speed-to-market processes for future technologies.

As part of the pole attachment process, in late 2016 we began using GPS technology to conduct a system-wide inventory of all of our distribution poles and streetlights. In the first five months of the project, we inventoried more than 213,000 of our 437,000 poles. When complete in 2017, this information will help us minimize power outage restoration times by helping our crews locate poles faster.

We continue to expand our distribution infrastructure to accommodate our growing community. Developers and builders must have electricity and gas to begin their projects, whether their projects are subdivisions or office parks. In 2016, our Energy Delivery and Gas Delivery teams began the Construction Service Improvement Project. We began to improve our technologies and our processes, enterprise-wide, to better meet these customers' unique needs. We believe this will increase transparency, ensure the accuracy of work requests, and improve communication with our customers. This multi-year initiative is already seeing significant progress by improving communication between our team and our customers with the creation of a better customer notification system and the development of a new customer web portal.



"We're already seeing the advantages of smarter energy. Smart grid technology provides our customers with valuable, real-time energy consumption information while it monitors our system and improves service reliability."

– Cory Kuchinsky, CPS Energy



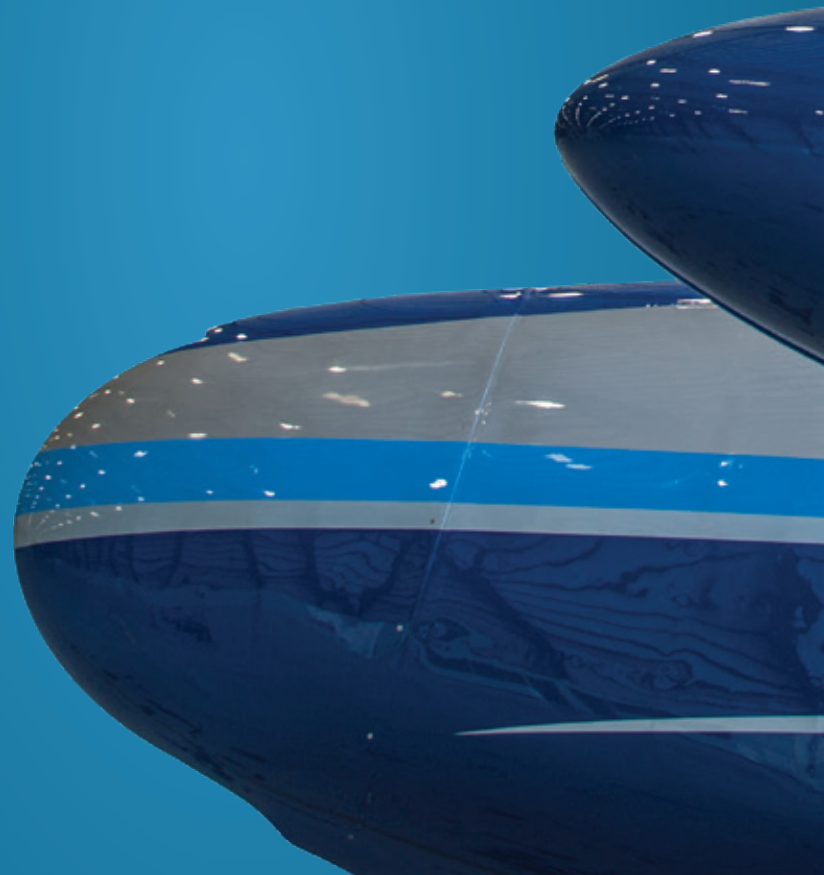
MAKING ENERGY PAY


For years, we have provided customers with an opportunity to save energy and money. Contrary to most business models, we encourage customers to use less of our product. In 2016, they made the most of the opportunity. Our combined commercial and residential efficiency, demand response and solar programs created 59 megawatts (MW) of incremental demand savings for our customers. Since the start of our Save for Tomorrow Energy Plan (STEP) in 2009, we now have partnered with you to save 522 MW of power and moved closer to our 2020 goal of 771 MW of reduced energy demand – the equivalent of a large power plant.

In 2016, commercial and industrial companies again were able to see a tremendous return on their investment in energy efficiency. Our award-winning Commercial Demand Response Program made the biggest mark. Hospitals, hotels, schools and other large customers banded together to scale back power consumption on high energy-demand days. Through this voluntary reduction, 104 MW of power was spared on peak days and made available for all of our customers, while our partners received financial incentives for this valuable demand-reducing endeavor.

Businesses also had the opportunity to replace outdated, energy-consuming equipment with more efficient upgrades. In 2016, companies scored with advanced, commercial-grade, light-emitting diode (LED) lighting. LEDs use less energy and reduce cooling costs. Local partners made the most of this technology in hospital and hotel rooms, classrooms, aircraft hangars, warehouses, parking lots and more.

Lighting accounted for more than 80 percent of the savings in our commercial rebate program, which also includes HVAC improvements, new construction incentives and other custom programs.



A large blue and white commercial airplane is shown in a hangar. The aircraft is the central focus, with its fuselage and wing visible. The hangar's interior is characterized by a complex network of dark metal trusses and beams, with several long, rectangular LED light fixtures mounted on the ceiling. The lighting is bright, reflecting off the polished surfaces of the plane. A teal-colored rectangular box with a white border is positioned in the upper right quadrant of the image, containing a quote and attribution.

“From aircraft hangars to parking lots, Port San Antonio has partnered with CPS Energy, Texal Energy and our tenants to replace thousands of old lights with new, energy-saving LED lighting retrofits.”

— Stephanie Sanchez, Port San Antonio



SAVING STARTS AT HOME

Homeowners, like business owners, see the value short-term investments can have in creating long-term energy savings. Heating and cooling system upgrades again were the most preferred solution for savings. However, in 2016, we introduced new programs that offer small tools to help homeowners, as well as apartment owners and residents, save big.

Our Home Energy Assessment

Program helps homeowners stretch their dollars through free, do-it-yourself energy-saving products.

Customers can request a home energy assessment kit that includes LED lights, water-efficient showerheads and faucet aerators.

If homeowners aren't keen on the DIY idea, they can have one of our energy experts visit their home to evaluate their home's energy use, recommend cost-effective energy upgrades, and install energy-saving tools.

Another new program, the Multi-Family Energy Efficiency Program, allows owners of multi-family properties to help renters save dollars each month through the installation of LED lights and water-saving products in apartments.

We also continued the Casa Verde program, which provides qualified homeowners with up to \$5,000 of free energy-saving measures such as insulation, solar screens and more. In 2016, the program improved more than 3,900 homes, resulting in a savings of almost 16 MW for our community and more than half of the 25 MW saved through residential efficiency programs. Since the program's inception in 2009, more than 15,000 homes have been improved.

CONTROLLING COSTS THROUGH TECHNOLOGY

A heating and cooling system is the largest energy consumer in a home. So a thermostat can be a valuable tool for our customers to control costs.

Through our My Thermostat Rewards Program, more than 130,000 programmable thermostats have been installed in our customers' homes. This program provides customers with a free, installed programmable thermostat. Or they can purchase their own qualified model, install it themselves, enroll in our Residential Demand Response Program, and get a valuable bill credit. Through a one-time incentive last year, we added another 5,000 devices and offered customers yet another opportunity to save. In 2016, the savings achieved through My Thermostat Rewards reduced our need for power by an additional 2.5 MW.

COMMUNITY

“I know we’re going to have a good day and get things done when I see CPS Energy volunteers come in the door with those orange shirts. They are one of my favorite volunteer groups.”

– Jana Griffin, Salvation Army



SUPPORTING OUR NEIGHBORS

Caring for our community is central to putting *People*

First! We live here, we work here, and we take pride in supporting our neighbors. Our employees work hard to provide quality service to our customers, and dedicate time and money year-round to benefit our community.

Last year, more than 1,100 employees teamed up with family members and friends to provide local charities and non-profit organizations with more than 20,000 hours of service. Volunteer hours increased 20 percent compared to the previous year.

As a United Way Pacesetter organization, we raised more than \$1.1 million through employee and retiree donations, agency sponsorships, and proceeds from events like our annual campaign golf tournament. The tournament raised more than \$126,000 for the Residential Energy Assistance Partnership (REAP). Through our collaboration with the City of San Antonio and Bexar County, REAP continues to provide more than 7,300 customers with financial assistance to pay their utility bills each year.

We not only provide bill assistance, but we also create family fun through events like GrillsGiving. Our third annual celebration of meat and music raised another \$42,000 for REAP to help our neighbors in need.

In May, more than 100 employees and their families reeled in a good time with Children Association for Maximum Potential (CAMP) and other agencies at our annual Kids Fish Day. This event is a company tradition that provides

a day of fishing and fun for youngsters at our Calaveras Lake Park.

STEPPING UP AND GIVING BACK

In 2016, we were recognized as the top company in the SA Step Up Blood Drive Business Challenge.

During the summer months, our employees donated more than 200 units of blood, helping the South Texas Blood and Tissue Center when our community was in need. Altogether, we donated more than 850 units of blood last year.

We received Corporate Partner of the Year awards for two of our valuable education programs – InspireU and Reading Buddies. InspireU provides students with workplace exposure, career awareness, and guidance with preparing a post-high school plan. Through Reading Buddies, we boost literacy as our employees read with students at area elementary schools.

Employees made sure more students started the school year equipped to learn by donating more than 3,000 pounds of school supplies during our annual Stuff the Bus drive. The record-breaking donations topped our last two years combined.

Team members displayed the spirit of the holidays by donating gifts to 1,000 local children through Salvation Army's Angel Tree program. More than 130 volunteers also rolled up their sleeves to organize and distribute the gifts to local families.

“CPS Energy has done a remarkable job in bringing more solar power to all parts of our community. They have carried out their vision with the New Energy Economy and have become the leader for solar PV in Texas.”

– Dr. Les Shephard, University of Texas at San Antonio



LEADING THE WAY WITH RENEWABLE POWER

Our investment in clean, renewable power spans more than a decade. In 2016, we moved closer to our goal of making renewable energy 20 percent of our generation resources by 2020.

An agreement with OCI Solar Power that calls for 450 MW of renewable sun power neared completion with the development of two more solar farms. Alamo 7, a 106-MW solar installation in Haskell, Texas, went online in late September. Alamo 6, a 110-MW solar farm near Bakersfield, Texas, went into commercial operation in early 2017. They joined the first five farms already online as part of our agreement with OCI Solar Power. Locally manufactured components such as panels, inverters and trackers, produced by our New Energy Economy partners, make sun power possible at most of the farms.

We continue to lead the state in solar power generation, and we are among the top wind energy buyers in the nation for municipally owned utilities. In late 2016, our renewable energy portfolio consisted of more than 500 MW of solar power (including commercial and residential-scale power), more than one gigawatt of

wind power, and 14 MW of landfill gas. Our total renewable capacity serves approximately 240,000 homes. Last year was a big year for wind power generation. In March, we hit a 24-hour wind generation record of 20,560 megawatt hours.

GIVING CUSTOMERS THEIR SHARE OF THE SUN

Our new Simply Solar programs – SolarHostSA and Roofless Solar – allow homeowners to produce more renewable energy for their homes and our community. In the first year, these programs combined to produce nearly two MW of clean energy.

Through the SolarHostSA program, qualified homeowners lease their rooftops for the installation of solar panels. Energy created by the solar array feeds back into the electrical grid while homeowners receive credits on their monthly bills.

Our Roofless Solar program allows customers who rent or may not meet rooftop solar qualifications to purchase a portion of the power produced at a centralized solar farm in exchange for bill credits. Last year, more than 230 customers bought panels of a one-MW solar farm that became operational last fall.



BANKING ON BATTERY STORAGE

We are working to capture the sun's rays and store them for use later. Last year, we were selected to receive a \$3 million grant from the Texas Commission on Environmental Quality for the development of a 10-MW energy storage system. The system will be charged by a solar farm and will be used for solar shifting and ancillary services. The innovative project is expected to go online in early 2018.

Another battery storage project – the one MW Astro Energy Storage System – went online in August at a local solar farm. This system, operated through a mutual cooperation agreement with OCI Solar Power, supplements state electric grid resources and helps us gain real-world experience operating a battery in the Electric Reliability Council of Texas (ERCOT) market.



INCREASING OPERATIONAL EXCELLENCE

We operate and maintain a fuel-diverse fleet of power plants that use a variety of technologies to produce power. This diversity provides price and reliability protection by limiting the impact of fuel price spikes and technology problems. While we continue to lead with renewables and nuclear as part of our generation mix, coal and natural gas plants remain an essential part of our fleet.

In 2016, our generation fleet moved to a “plant-centric” operating model. Through dedicated leaders and subject-matter experts, teams are positioned at each plant to optimize performance while maintaining important business controls. New performance management and financial reporting systems provide plant teams with timely, accurate performance feedback and improved generation forecasting. Plant teams also initiated an operations excellence program to update core operating and maintenance procedures, implement a plant condition-based maintenance program, and expand work management practices.

Our plants achieved 96 percent availability during Summer 2016. These plants also improved annual availability by more than six percent and reduced forced outage rates by more than seven percent – all while managing costs below budget.

SHOWCASING OUR INNOVATION

Our New Energy Economy (NEE) is built through partnerships with businesses that share our vision for clean energy, innovation and energy efficiency.

In March 2016, NEE partners hired Kimberly Britton to be President and CEO of the Energy Partnership Innovation Center, or EPIcenter. OCI Solar Power, Silver Spring Networks and Landis+Gyr support the non-profit innovation hub formed in 2015.



Britton is leading the effort to transform our historic Mission Road Power Plant into a center for clean technology education, research and innovation, economic revitalization and business development. NEE partners also have committed more than \$23 million for local education programs focused on science, technology, engineering and math.



IMPROVING OUR ENVIRONMENT

Our commitment to care for our environment is

unwavering. Since 2011, we have taken an aggressive path to further diversify our generation fleet to benefit our customers and reduce environmental, technological and fuel risks.

Carbon and other emissions remained low in 2016 due to affordable natural gas prices, increased use of gas versus coal for baseload generation, greater use of renewables, and a continued strong performance from our energy efficiency programs.

In 2016, we recycled more than 295,000 tons of material, including: fly ash and other combustion residuals; metal and wood utility poles; and office materials.

Recycled water from Braunig and Calaveras lakes has efficiently cooled our plant equipment for decades.

This saves drinking water from the Edwards Aquifer, our community's primary source of water.

On average, an estimated 10 billion gallons of aquifer water are saved annually. The lakes also provide recreational opportunities for more than 250,000 visitors every year.

Trees help our environment and provide energy savings for customers. Last year, we gave away more than 2,400 native

trees to our customers through various events, including more than 100 trees to families who received a new home from Habitat for Humanity.

Our seasonal Green Shade Tree Rebate program aims to branch out our local tree canopy. Last year, the annual rebate program provided almost 650 rebates to residential and commercial customers who purchased and planted qualified trees.

MORE THAN 2,400 TREES DONATED TO CUSTOMERS



295,323 TONS OF MATERIAL RECYCLED



INCLUDING:



240,348 TONS OF
**COAL COMBUSTION
BYPRODUCTS**



13,264 TONS OF
**ASPHALT, CONCRETE
& MASONRY**



10,226 TONS OF
RECYCLED METALS



999 TONS OF
UTILITY POLES

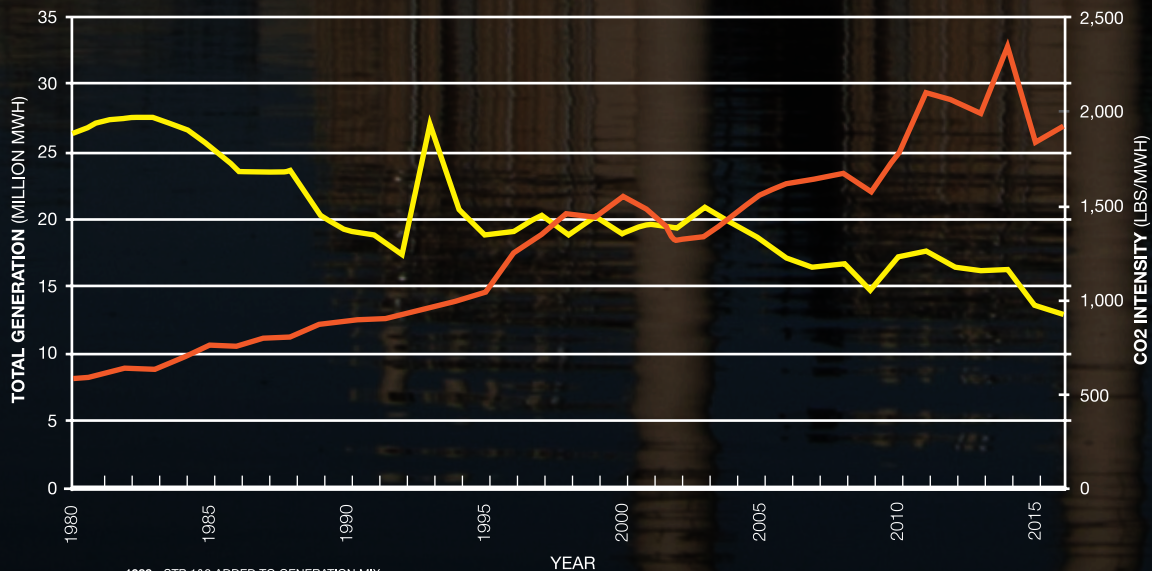


548 TONS OF
**OFFICE PAPER,
ALUMINUM CANS
& PLASTIC BOTTLES**



HISTORICAL CO₂ INTENSITY FOR CPS ENERGY

(LBS OF CO₂ EMISSIONS PER NET MWH OF GENERATION FROM ALL SOURCES OF POWER INCLUDING GAS, COAL, SOLAR, WIND AND NUCLEAR)

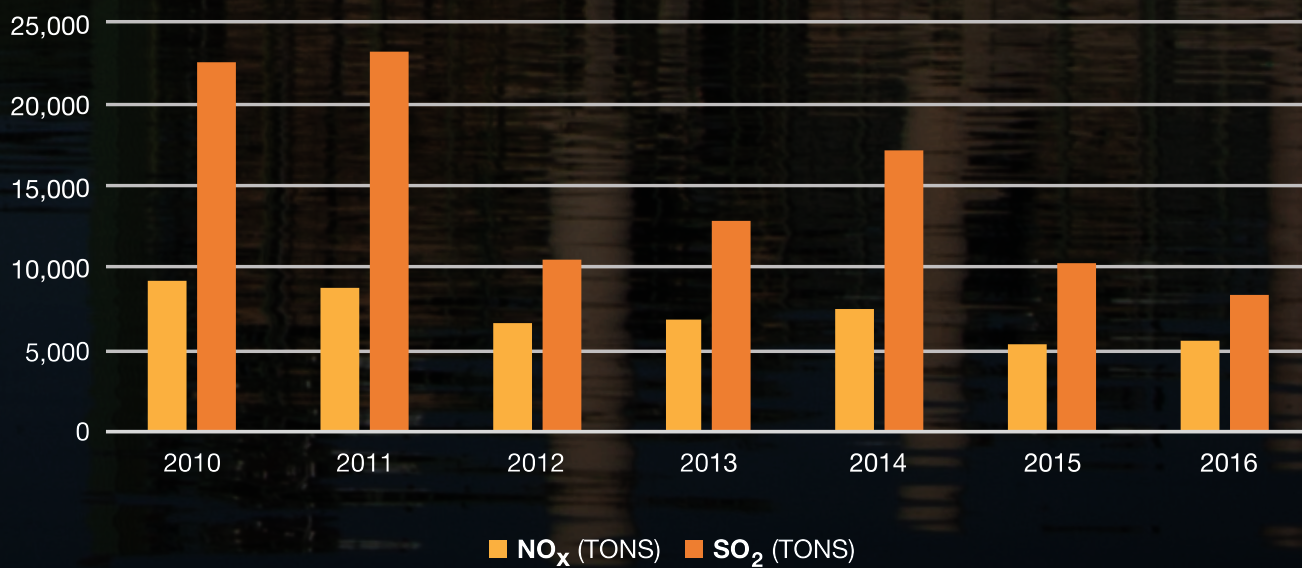


1988 - STP 1&2 ADDED TO GENERATION MIX
 1993 - STP SHUTDOWN FOR YEAR
 2005 - INCREASE STP FROM 28% TO 40% OWNERSHIP
 2009 - INCREASE DUE TO SPRUCE 2

— TOTAL GENERATION — CO2 INTENSITY



TOTAL NITROGEN OXIDE AND SULFUR DIOXIDE EMISSIONS (TONS PER YEAR)



EXECUTIVE LEADERSHIP TEAM



Paula Gold-Williams
President &
Chief Executive Officer

Fred Bonewell
Chief Safety &
Security Officer

Felecia Etheridge
Chief Customer
Engagement Officer

Cris Eugster
Chief Operating
Officer

Edward Fleming Jr.
Chief Financial
Officer & Treasurer

Carolyn Shellman
Chief Legal &
Administrative Officer



Edward Fleming Jr.
Chief Financial
Officer & Treasurer

Carolyn Shellman
Chief Legal &
Administrative Officer

Cris Eugster
Chief Operating
Officer

Felecia Etheridge
Chief Customer
Engagement Officer

Fred Bonewell
Chief Safety &
Security Officer

Paula Gold-Williams
President &
Chief Executive Officer

BOARD OF TRUSTEES



Edward Kelley

Northwest Quadrant, Board Chair



Derrick Howard

Southeast Quadrant, Vice Chair



Dr. Homer Guevara

Southwest Quadrant, Trustee



John Steen

Northeast Quadrant, Trustee



Ivy R. Taylor

Mayor & Ex-Officio Member

CITIZENS ADVISORY COMMITTEE

Alvaro "Al" Rodriguez

Chair and District 6
Representative

Klaus Weiswurm

Vice Chair
& Member at Large

Robert A. Romeo

Secretary and District 8
Representative

Corina Castillo-Johnson

Past Chair
& Member at Large

Luisa Casso

District 1 Representative

William B. Johnson

District 2 Representative

Lulu Avitua

District 3 Representative

George L. Britton Jr.

District 4 Representative

Andy Castillo

District 5 Representative

Roger Plasse

District 7 Representative

Matthew Pribble

District 9 Representative

Allie Watters

District 10 Representative

Bill Day

Member at Large

Mary Dennis

Member at Large

David Walter

Member at Large

FINANCIALS

REPORT OF MANAGEMENT

The Fiscal Year 2017 (Feb. 1, 2016 through Jan. 31, 2017) financial audit was successful. Based on procedures they conducted, our external auditors, Baker Tilly Virchow Krause, LLP; Garza, Preis & Co., LLC; and Robert J. Williams, CPA, issued an unmodified opinion, indicating that our financial statements were found to be free of reporting deficiencies.

The audited basic financial statements were prepared by our Management Team in conformity with accounting principles generally accepted in the United States of America, and the statements are presented fairly in all material respects. We have also prepared other financial information presented in the annual report and have ensured that it is consistent with information in the audited financial statements.

Our Management Team maintains accounting, financial reporting and administrative internal controls designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that assets are appropriately accounted for and adequately safeguarded. These controls are supported by formal policies and procedures readily communicated throughout our company. Additionally, CPS Energy has an internal audit function that assists in evaluating the adequacy and effectiveness of our control environment.

CPS Energy's independent Board of Trustees is responsible for reviewing and accepting both the audited financial statements and Management's

Discussion and Analysis (MD&A). The Board of Trustees, primarily through two of their members who comprise the Audit & Finance Committee, ensures our Management Team fulfills our responsibilities for financial reporting. The Board of Trustees also approves the engagement or reappointment of the external auditors.

The Audit & Finance Committee meets regularly with our Management Team, and with the internal and external auditors, to discuss internal control and financial reporting issues and to ensure each party is properly discharging its responsibilities. The Audit & Finance Committee reviews the audited financial statements and the external auditors' report, and considers the statements for review and acceptance by all members of the Board.

CPS Energy's external auditors have audited the financial statements in accordance with auditing standards generally accepted in the United States of America. They performed procedures to obtain audit evidence deemed sufficient and appropriate to provide a basis for their opinion on the fairness of the audited financial statements. In support of the external auditors' procedures, our Management Team provided them full and free access to our accounting records.



Paula Gold-Williams
President & CEO



Edward Fleming Jr.
CFO & Treasurer

THREE-YEAR HIGHLIGHTS — UNAUDITED

FISCAL YEAR ENDED JANUARY 31

DOLLARS

(In Thousands)

FINANCIAL SUMMARY

Revenue

	2017	2016	2015
Electric	\$ 2,299,504	\$ 2,320,005	\$ 2,401,074
Gas	165,814	175,300	228,603
Nonoperating	38,754	36,041	46,775
Total revenue	<u>\$ 2,504,072</u>	<u>\$ 2,531,346</u>	<u>\$ 2,676,452</u>

Operation and maintenance expenses¹

\$ 1,514,494

\$ 1,500,886

\$ 1,629,621

Total payments to City of San Antonio

336,082

332,055

336,218

OTHER FINANCIAL DATA

Decommissioning Trusts	\$ 546,703	\$ 531,470	\$ 548,119
Repair and Replacement Account	514,907	544,258	537,432
Total assets	10,599,158	10,597,033	10,597,370
Net position	3,382,256	3,302,343	3,556,764

DEBT

Outstanding

Bonds	\$ 5,182,985	\$ 5,408,365	\$ 5,141,760
Commercial paper	360,000	360,000	360,000
Flexible rate revolving note	25,200	25,200	25,200

Weighted-average interest rate

Senior lien fixed-rate bonds	3.992%	4.172%	4.290%
Senior and junior lien fixed-rate bonds	4.132%	4.245%	4.322%
Variable-rate instruments ²	1.640%	1.046%	0.542%

Debt service³

Senior lien bonds	\$ 290,264	\$ 280,520	\$ 335,440
Junior lien bonds	98,996	94,724	52,026
Other interest and debt-related costs ⁴	5,443	4,145	4,519

Debt service coverage⁵

Senior lien bonds	3.46x	3.67x	3.15x
Senior and junior lien bonds	2.58x	2.74x	2.73x

RATINGS - Bonds and Commercial Paper⁶

Fitch	- Senior lien bonds	AA+	AA+	AA+
	- Junior lien bonds	AA+	AA+	AA+/F1+
	- Commercial paper	F1+	F1+	F1+
Moody's	- Senior lien bonds	Aa1	Aa1	Aa1
	- Junior lien bonds	Aa2	Aa2	Aa2
	- Commercial paper	P-1	P-1	P-1
S&P Global Ratings	- Senior lien bonds	AA	AA	AA
	- Junior lien bonds	AA-	AA-	AA-
	- Commercial paper	A-1+	A-1+	A-1+

¹ Excludes depreciation and amortization expenses.

² Variable-rate instruments include commercial paper, flexible rate revolving note and floating rate bonds at January 31, 2017 and 2016. The rates presented for FY 2015 also include the 2003 VRDOs.

³ Debt service on senior and junior lien bonds is calculated net of the Build America Bonds ("BABs") direct subsidy.

⁴ Other interest and debt-related costs includes interest on commercial paper and the flexible rate revolving note.

⁵ Debt service coverage is calculated net of the BABs direct subsidy.

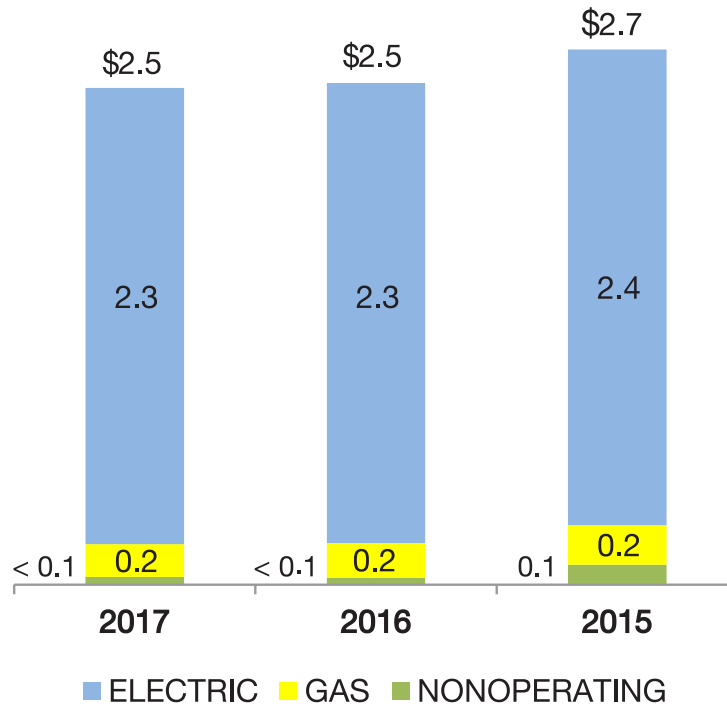
⁶ The Series 2012B Junior Lien Bonds are included in the "AA+" rating assigned by Fitch for FY 2017 and FY 2016. These bonds received an "F1+" short-term credit rating from Fitch for FY 2015.

THREE-YEAR HIGHLIGHTS — UNAUDITED

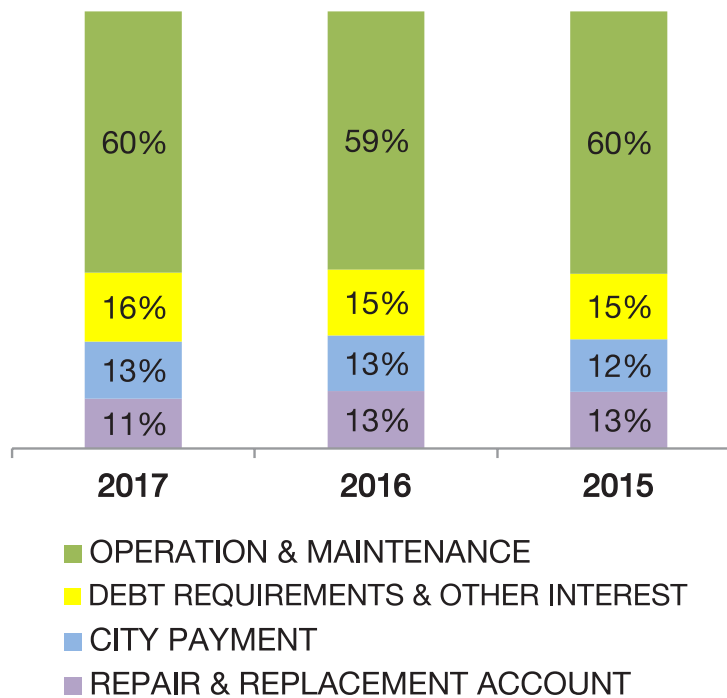
FISCAL YEAR ENDED JANUARY 31

TOTAL REVENUE

(In Billions)



APPLICATION OF REVENUE



THREE-YEAR HIGHLIGHTS — UNAUDITED

FISCAL YEAR ENDED JANUARY 31

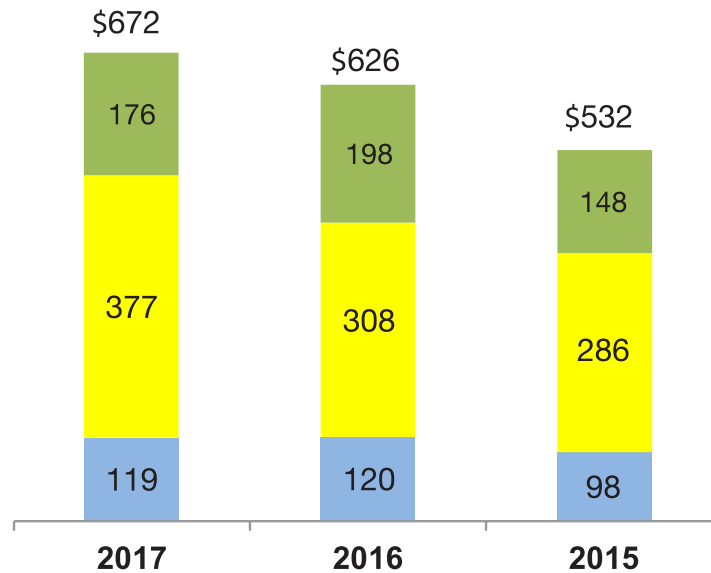
CAPITAL ASSETS (In Thousands)	2017	2016	2015
Capital assets, net	\$ 8,053,304	\$ 7,777,505	\$ 7,952,924
Depreciation and amortization	426,760	410,228	395,788
New construction and net removal costs	672,077	625,804	532,258
FUNDING FOR NEW CONSTRUCTION and NET REMOVAL COSTS (in thousands)			
Debt	\$ 326,888	\$ 274,749	\$ 232,022
Repair and Replacement Account	291,577	308,497	260,931
Contributed capital and other	53,612	42,558	39,305
ELECTRIC GENERATION (MWh)			
Generation	23,459,310	22,194,480	28,556,254
Renewables and other energy purchases	4,914,085	6,929,625	4,696,700
Total generation and other power	28,373,395	29,124,105	33,252,954
Capacity (MW)			
Gas	3,316	3,296	3,306
Coal	2,185	2,002	2,180
Nuclear	1,064	1,064	1,080
Wind	1,059	1,059	1,059
Solar	446	230	134
Landfill gas	14	14	14
Total capacity	8,084	7,665	7,773
ELECTRIC PEAK DEMAND (MW)	5,017	4,848	4,858
DISTRIBUTION GAS PURCHASES (MMCF)	21,820	23,907	25,824
RESIDENTIAL AVERAGES (unbilled revenue not included)			
Electric			
Revenue per customer	\$ 1,443.05	\$ 1,474.33	\$ 1,442.07
kWh per customer (average)	13,425	13,791	14,182
Revenue per kWh	10.75¢	10.69¢	10.17¢
Gas			
Revenue per customer	\$ 273.74	\$ 302.71	\$ 400.28
MCF per customer	26.6	32.5	37.1
Revenue per MCF	\$ 10.30	\$ 9.31	\$ 10.78
RELIABILITY INDICES			
System Average Interruption Duration Index (SAIDI) (in hours)	0.957	0.910	0.792
System Average Interruption Frequency Index (SAIFI)	0.802	0.763	0.734

THREE-YEAR HIGHLIGHTS — UNAUDITED

FISCAL YEAR ENDED JANUARY 31

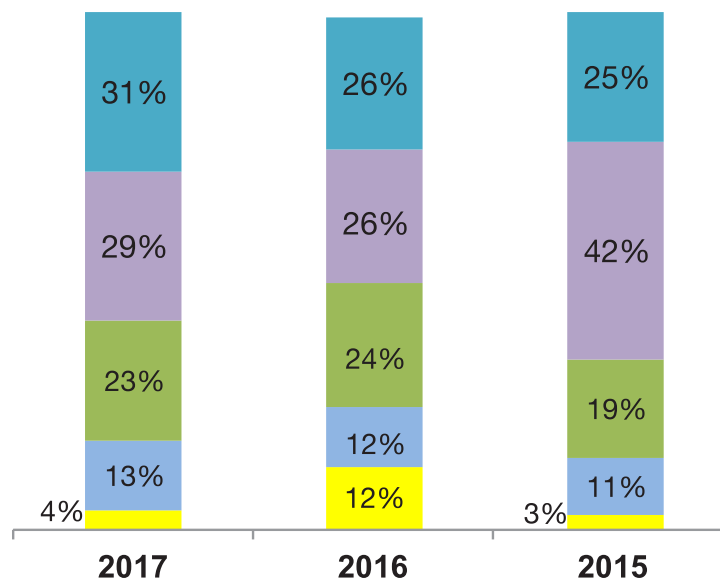
NEW CONSTRUCTION EXPENDITURES

(In Millions)



■ GENERATION & STRATEGY ■ TRANSMISSION & DISTRIBUTION ■ ALL OTHER

ELECTRIC GENERATION & OTHER POWER



■ NUCLEAR
 ■ COAL
 ■ GAS
 ■ PURCHASED POWER — RENEWABLES
 ■ PURCHASED POWER — OTHER

THREE-YEAR HIGHLIGHTS – UNAUDITED

FISCAL YEAR ENDED JANUARY 31

OPERATING REVENUE ¹ (In Thousands)	2017	2016	2015
Electric			
Residential	\$ 1,015,038	\$ 1,012,381	\$ 970,413
Commercial and industrial	831,662	805,609	765,026
Public authorities	220,861	213,046	204,233
Sales for resale	32,404	32,601	31,838
Street lighting and ANSL	21,101	20,762	20,271
Unbilled revenue	(6,170)	(1,446)	(12,381)
Other	17,751	13,616	11,668
Subtotal Retail	2,132,647	2,096,569	1,991,068
Wholesale	166,857	223,436	410,006
Total	\$ 2,299,504	\$ 2,320,005	\$ 2,401,074
Gas			
Residential	\$ 87,877	\$ 95,958	\$ 125,798
Commercial and industrial	65,788	63,531	87,311
Public authorities	13,010	13,273	19,836
Unbilled revenue	(2,702)	860	(5,943)
Other	1,841	1,678	1,601
Total	\$ 165,814	\$ 175,300	\$ 228,603
SALES			
Electric (MWh)			
Residential	9,442,880	9,469,946	9,543,648
Commercial and industrial	9,389,924	9,126,056	8,992,774
Public authorities	2,832,861	2,710,034	2,709,140
Sales for resale	462,027	464,790	472,834
Street lighting and ANSL	95,806	95,927	97,044
Unbilled	(62,124)	(16,867)	(84,247)
Subtotal Retail	22,161,374	21,849,886	21,731,193
Wholesale	4,942,094	5,978,458	10,163,267
Total	27,103,468	27,828,344	31,894,460
Gas (thousands of MCF)			
Residential	8,533	10,308	11,672
Commercial and industrial	11,119	11,024	11,535
Public authorities	2,390	2,553	2,755
Unbilled	(540)	30	(309)
Total	21,502	23,915	25,653
NUMBER OF CUSTOMERS (at year-end)			
Electric	804,675	786,455	771,603
Gas	343,754	338,951	336,645

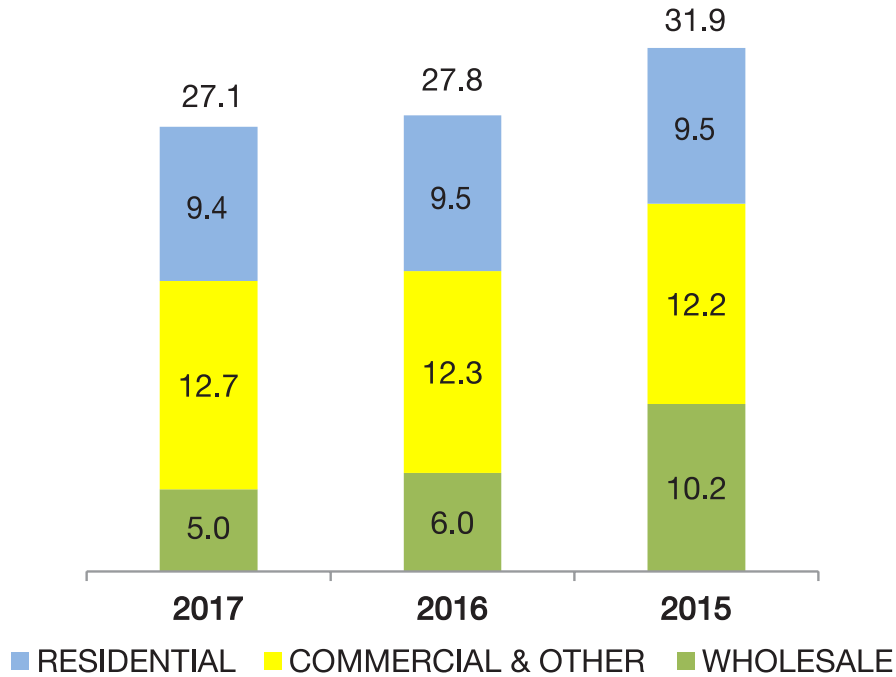
¹Includes unbilled electric and gas revenues.

THREE-YEAR HIGHLIGHTS — UNAUDITED

FISCAL YEAR ENDED JANUARY 31

ELECTRIC SALES

(In Million MWh)



GAS SALES

(In Million MCF)

