City Public Service of San Antonio, Texas

Basic Financial Statements
For the Fiscal Years Ended January 31, 2015 and 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") serves as an introduction to the financial statements of City Public Service Board of San Antonio (also referred to as "CPS Energy," "CPS" or the "Company"). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the fiscal year ("FY") ended January 31, 2015, ("FY 2015") compared to the fiscal year ended January 31, 2014 ("FY 2014"). It also provides an overview of CPS Energy's general financial condition and results of operations for FY 2014, compared to the previous fiscal year ended January 31, 2013 ("FY 2013"). This MD&A has been prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and should be read in conjunction with the audited financial statements and accompanying notes that follow.

BASIC FINANCIAL STATEMENTS

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

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

Deferred outflows of resources include unamortized losses related to pension, unrealized pension contributions made in the current year, unrealized losses on fuel hedges and unamortized debt reacquisition costs.

Consistent with the reporting of assets on the Statements of Net Position, liabilities are segregated into current and noncurrent categories. Current liabilities include the current maturities of debt, accounts payable and accrued liabilities. Noncurrent liabilities include net long-term debt, the South Texas Project ("STP") decommissioning liability, STP decommissioning net costs refundable, net pension liability, unearned lease revenue and other noncurrent liabilities.

Deferred inflows of resources include unamortized gains related to pension and deferred revenues associated with the FY 2014 sale of certain assets.

The Statements of Net Position report net position as the difference between (a) the sum of assets and deferred outflows of resources and (b) the sum of liabilities and deferred inflows of resources. The

See accompanying independent auditors' report.

components of net position are classified as net investment in capital assets, restricted or unrestricted. An unrestricted designation indicates the net funds are available for operations.

Within the Statements of Revenues, Expenses and Changes in Net Position, operating results are reported separately from nonoperating results, which primarily relate to financing and investing. Other payments to the City of San Antonio, contributed capital, special items related to the termination of the lease/leaseback transaction and Community Infrastructure and Economic Development ("CIED") distributions, and the effect of STP's defined-benefit plan funding obligations are also reported separately as components of the change in net position. These statements identify revenue generated from sales to cover operating and nonoperating expenses. Operating expenses are presented by major cost categories. Revenues remaining are available to service debt, fulfill city payment commitments, finance capital expenditures and cover contingencies.

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

FINANCIAL HIGHLIGHTS AND SIGNIFICANT ACCOUNTING POLICIES

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

Build America Bonds ("BABs") – The American Recovery and Reinvestment Act ("ARRA") of 2009 provided authority for the issuance of BABs, which were issuable in calendar years 2009 and 2010 as taxable bonds. The ARRA permitted the issuer or the issuer's paying agent to receive subsidy payments equal to 35% of the bond's interest costs directly from the U.S. Department of the Treasury. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government reduced the BABs subsidy by 8.7% for payments made during the period March 1, 2013, through their fiscal year ended September 30, 2013, then subsequently 7.2% for payments made during the period October 1, 2013, through September 30, 2014. The subsidy is being reduced by 7.3% for payments made during the period October 1, 2014, through September 30, 2015. Transaction details for CPS Energy's BABs issuances are provided in Note 6 – Revenue Bonds.

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

Communication Towers Sale – In FY 2014, the Company entered into an agreement for $41.0 million to sell 69 existing communication towers to an independent third party, including provisions for the Company's continued use of select space on those towers, the purchaser's use of space in the Company's communication shelters located near the towers, and the assignment of existing license agreements with other third parties using space on the towers. See Note 4 – Capital Assets, Net and Note 16 – Leases for additional information.

Contributed Capital – Third-party contributions made for construction of capital assets flow through the Statements of Revenues, Expenses and Changes in Net Position and are shown on the Statements of Net

Position as a component of net investment in capital assets. The amount reported for contributed capital was $43.7 million for FY 2015, as compared with $40.1 million for FY 2014. This included donated assets of $4.5 million and $6.5 million for FY 2015 and FY 2014, respectively, and funding for the Light Emitting Diode ("LED") streetlight project of $5.9 million and $5.2 million for FY 2015 and FY 2014, respectively. The remaining portion of these balances, $33.3 million for FY 2015 and $28.4 million for FY 2014, represents contributions received from customers as payments for utility extensions.

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

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

Decommissioning – The Company accounts for decommissioning by recognizing a liability and expense for a pro rata share of projected decommissioning costs as determined by the most recent cost study. A new cost study is performed every five years; and, in years subsequent to the latest study, estimated annual decommissioning expense and an increase in the liability is calculated by applying the effects of inflation and the ratio of years of plant usage to total plant life. See Note 14 – South Texas Project for additional details on the most recent cost study.

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

Currently, a project to develop an independent spent fuel storage installation is under way at STP in order to provide for storage of spent nuclear fuel after the spent fuel pool has reached capacity. CPS Energy's Decommissioning Trusts have separate spent fuel management accounts to pay for those costs. By contract, spent fuel will eventually be removed to final storage by the Department of Energy ("DOE"). The DOE failed to meet the contractual start date to receive spent fuel, and STP and other utilities have reached settlement agreements with the DOE. In the most recent settlement agreement dated January 24, 2014, the DOE committed to reimburse STP for allowable expenditures through 2016.

Ongoing costs for the spent fuel management project are being funded by the STP owners (CPS Energy; the City of Austin; and NRG South Texas LP, a wholly owned subsidiary of NRG Energy, Inc.) as

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

Depreciation Study – CPS Energy engages an independent third-party consulting firm to conduct a depreciation study every five years. The most recent study was completed in FY 2013 and the resulting depreciation rates were applied beginning in that period.

Employee Benefit Plans – The City Public Service Group Health and Group Life Insurance Plans, and the CPS Energy Long Term Disability Income Plan (collectively, "Employee Benefit Plans") are separately audited and reported. The financial results of the Employee Benefit Plans are not included herein except for certain disclosures as provided in Note 10 – Other Postemployment Benefits and in Required Supplementary Information.

ERCOT Nodal Market System – Electric Reliability Council of Texas ("ERCOT") is the independent system operator managing the flow of electric power for about 90% of electric load for the state of Texas. ERCOT schedules power on the electric grid in a nodal market with more than 4,000 pricing nodes. In the nodal market system, generators are required to make their capacity and ancillary services available to ERCOT, and load-serving entities purchase their supply needs from ERCOT in the day-ahead market and true up in the real-time market. As both a generator and load-serving entity, CPS Energy is an active participant in the nodal market system and actively monitors and manages its exposure to the risks inherent in the retail and wholesale markets.

Federal Grant Programs – Periodically, federal grants are made available to CPS Energy as a subrecipient for a portion of grant funds allocated to the state of Texas. Grant funds used for weatherization were exhausted in early FY 2013. Grant receipts are recorded as nonoperating income and generally reimburse CPS Energy for costs, recorded as operating expenses, incurred in the administration of the program. This accounting treatment results in no impact to the Company's net position. Revenues associated with the grant-related programs are exempt from payments of a percentage of gross revenues made to the City. Grant funding received by the Company is subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Flexible Rate Revolving Note ("FRRN") Private Placement Program – On January 20, 2009, CPS Energy's Board of Trustees ("Board") authorized the establishment of a flexible rate revolving note program to provide additional liquidity in support of the Company's electric and gas systems ("Systems"). Under the program, CPS Energy can issue taxable or tax-exempt notes with individual maturities of one year or less at fixed or variable interest rates in an aggregate principal amount at any one time outstanding not to exceed $100 million. The program became effective on April 28, 2009, and through annual renewals authorizes the issuance of such notes through November 1, 2028. The FRRN has been classified as short-term in accordance with the financing terms of the Note Purchase Agreement and is reported on the Statements of Net Position under current maturities of debt. The note outstanding under this program totaled $25.2 million at January 31, 2015, and January 31, 2014. See Note 8 – Flexible Rate Revolving Note.

Hedging Derivative Instruments – CPS Energy accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The primary

derivative instruments currently used by CPS Energy are fuel hedges, which are used to reduce price risk for natural gas purchases. GASB Statement No. 53 requires that hedging derivative instruments be reported at fair value on the Statements of Net Position. In FY 2015, 32% of distribution and 48% of generation natural gas volumes were hedged. In FY 2014, 33% of distribution and 23% of generation natural gas volumes were hedged. See Note 12 – Other Financial Instruments.

Interim Transmission Costs of Service ("TCOS") Filing – On June 3, 2014, CPS Energy filed an Application for Interim Update of Wholesale Transmission Rates, based on FY 2014 data, with the Public Utility Commission of Texas ("PUCT"). This interim TCOS filing was submitted to request an increase in transmission revenue requirements as a result of increased capital investment since FY 2006.

The application was approved on July 23, 2014, and resulted in an annual transmission revenue requirement of $169.5 million. This represents an increase of $74.3 million from the $95.2 million transmission revenue requirement previously approved on January 19, 2007. Interim transmission rates are subject to reevaluation by the PUCT at the time of a transmission service provider's next complete wholesale transmission rate review. CPS Energy management does not expect that any adjustment to the approved interim rates resulting from a future reevaluation would be significant.

Lease/Leaseback Transaction – The City was a party to a transaction, entered into in June 2000, involving its J.K. Spruce Unit 1 ("Spruce 1") coal-fired electric generating unit, pursuant to which the facility was subject to a variety of contractual arrangements, including a lease agreement, with CPS Energy as lessee. The term of the lease was scheduled to expire in March 2032.

In February 2014, the parties executed an agreement terminating the transaction in its entirety. As a result of this termination, CPS Energy was released from all scheduled payment and security obligations under the lease transaction. The termination transaction resulted in a noncash gain of $43.4 million, net of the related City payment on the termination, which was reported as a special item on the Statements of Revenues, Expenses and Changes in Net Position. See Note 13 – Lease/Leaseback for additional discussion of this transaction.

New Generation Assets – In FY 2013, taxable senior lien bonds were issued to purchase the Rio Nogales combined-cycle natural gas electric generating plant in Seguin, Texas. The 800-megawatt ("MW") plant is being utilized to provide a portion of its power to a third party that has executed a multiyear agreement, due to expire in September 2015, for an option to call on power from the plant. Any remaining power is available for CPS Energy to sell into the ERCOT market or to utilize for meeting its commitments. CPS Energy will be integrating the Rio Nogales plant into its rate base to provide generation capacity that will not otherwise be available once J.T. Deely Units 1 and 2 are mothballed. In conjunction with the purchase, CPS Energy entered into a Tax Exemption Settlement Agreement in which CPS Energy agreed to pay $25.5 million to certain parties to compromise, terminate claims and settle any disputes relating to exemption of ad valorem taxes involving the parties to this agreement. This amount is being amortized over the life of the agreement, which runs through December 2041. See Note 4 – Capital Assets, Net for more details on the Rio Nogales plant purchase.

Pension Plan – The financial statements of the City Public Service Pension Plan ("Plan") are separately audited and reported. The financial results of the Plan are not included herein except for certain disclosures as provided in Note 9 – Employee Pension Plan and in Required Supplementary Information. In June 2012, GASB issued a new standard addressing accounting and financial reporting for all government-sponsored pension plans administered as trusts. CPS Energy adopted the new guidance in FY 2015 and concurrently restated its prior fiscal year financial statements to reflect the effects of the guidance for all periods presented. The requirements of the new guidance include significant changes in the measurement and recognition of the Company's liability related to the Plan, recognition of deferred outflows of resources and deferred inflows of resources related to pension, changes in the measurement

of pension expense, as well as comprehensive changes to the disclosures included in the notes to the financial statements and in Required Supplementary Information. The net effect of prior period restatements made to comply with the new guidance was accounted for as a regulatory asset that is being amortized over a 50-year period. Regulatory accounting, in accordance with guidance provided by GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, permits certain costs to be capitalized as regulatory assets until they are recovered through future rates.

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

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

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

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

On February 25, 2013, the PFC executed certain amendments to the Prepaid Natural Gas Sales Agreement entered into with J. Aron in 2007 and other related documents with respect to the 2007 prepayment transaction with J. Aron. Under the resolution and the amendments, Goldman, Sachs & Co. surrendered for cancellation $111.1 million of the SA Energy Acquisition Public Facility Corporation Gas Supply Revenue Bonds, Series 2007 owned by J. Aron; Goldman, Sachs & Co.; or affiliates. In exchange, the PFC agreed to reduce future required natural gas delivery volumes from 104.6 million MMBtu to 81.3 million MMBtu and to adjust the notional amount of its commodities price hedge so that hedged revenue from gas sales will bear at least the same proportion to annual debt service requirements as before the transaction. In conjunction with the transaction, a portion of the savings related to the purchase of natural gas from the PFC that would have been passed on to CPS Energy's distribution gas customers over the 20-year life of the original agreement has been accelerated. Distribution gas customers are benefitting from the accelerated savings beginning March 1, 2013, through June 30, 2015.

Save for Tomorrow Energy Program ("STEP") – CPS Energy has projected it will spend approximately $849 million over a 12-year period, beginning in FY 2010, on energy efficiency and conservation through STEP. Contributing towards its goal to save 771 MW by 2020, CPS Energy's programs include home weatherization, higher efficiency light bulbs, solar rebates, peak saver thermostats, home area networks and other such initiatives.

Annually, approximately $8.0 million of STEP expenses are funded through the electric base rate and reported as CPS Energy O&M expenses. STEP expenses over this initial amount per year are recovered through the fuel adjustment factor over a 12-month period beginning in the subsequent fiscal year after

the costs are incurred and have been independently validated. These STEP recoveries are accrued as a regulatory asset referred to as STEP net costs recoverable.

Securities Lending – CPS Energy and the Decommissioning Trusts were engaged in securities lending transactions under a contract with their lending agent, Frost Bank, a Texas-based financial institution. GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, provides guidance for entities reporting and disclosing securities lending transactions. This guidance requires reporting certain securities lending collateral on the statement of net position as an asset, with a corresponding liability for the obligation to repay the collateral. The securities lending program with Frost Bank was discontinued effective April 1, 2015.

Solar Prepayments – In November 2011, the Company entered into a prepaid agreement with SunEdison for purchased power from San Antonio-area solar energy facilities with a total of 30 MW of capacity. In FY 2013, $77.0 million in prepayments were made for approximately 60% of the anticipated annual output over a period of 25 years. At January 31, 2015, of the remaining prepayment balance, $3.1 million was classified as current and $66.1 million was classified as noncurrent. At January 31, 2014, $3.1 million was classified as current and $69.1 million was classified as noncurrent. The purchase of the balance of the output is on a pay-as-you-go basis. As part of the agreement, CPS Energy has the right to purchase the facilities six years after commencement of commercial operation, which occurred during 2012 for each of the three facilities that underlie the agreement.

STP Units 1 and 2 – Correlating to CPS Energy's 40% interest in STP Units 1 and 2 that have been in operation since 1988 and 1989, respectively, the applicable financial results of the nonprofit special-purpose operations project are combined within these financial statements. These units currently are licensed by the Nuclear Regulatory Commission ("NRC") to operate for a period of 40 years, and an application to extend the license for an additional 20 years is currently under review by the NRC. STP follows guidance provided by the Financial Accounting Standards Board. See Note 14 – South Texas Project.

STP Units 3 and 4 – On October 29, 2007, the Board approved a resolution enabling CPS Energy to participate in development activities related to new nuclear generation units to be constructed near Bay City, Texas, on a site where STP Units 1 and 2 currently operate. The development project is referred to as STP Units 3 and 4. At January 31, 2010, CPS Energy held a 50% interest in the development. As a result of a litigation settlement with Nuclear Innovation North America, Inc., the Company's partner in the project, CPS Energy's ownership in STP Units 3 and 4 was reduced from 50% to 7.625% effective March 1, 2010. Including AFUDC of $21.0 million, project costs incurred by CPS Energy to date of $391.4 million are reported on the Statements of Net Position as construction-in-progress. Effective as of FY 2012, AFUDC is not being recorded for the STP Units 3 and 4 project since efforts have been limited to licensing-related activities. For more detailed information on STP Units 3 and 4, see Note 14 – South Texas Project.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

	Fiscal Year Ended January 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
		Restated	Restated			Restated	
Revenues and nonoperating income							
Electric	**$ 2,401,074**	$ 2,211,568	$ 2,039,422	$ 189,506	8.6%	$ 172,146	8.4%
Gas	**228,603**	212,503	174,064	16,100	7.6%	38,439	22.1%
Total operating revenues	**2,629,677**	2,424,071	2,213,486	205,606	8.5%	210,585	9.5%
Nonoperating income, net	**46,775**	34,194	43,045	12,581	36.8%	(8,851)	-20.6%
Total revenues and nonoperating income	**2,676,452**	2,458,265	2,256,531	218,187	8.9%	201,734	8.9%
Expenses							
Operating expenses							
Fuel, purchased power and distribution gas	**910,136**	868,719	739,165	41,417	4.8%	129,554	17.5%
STP operation and maintenance	**141,538**	156,077	165,919	(14,539)	-9.3%	(9,842)	-5.9%
CPS Energy operation and maintenance	**368,392**	322,176	325,435	46,216	14.3%	(3,259)	-1.0%
Annual OPEB cost	**8,808**	6,961	7,481	1,847	26.5%	(520)	-7.0%
Pension expense	**45,307**	58,021	51,242	(12,714)	-21.9%	6,779	13.2%
Grant program expenditures	**31**	528	1,097	(497)	-94.1%	(569)	-51.9%
Energy efficiency and conservation (STEP)	**58,977**	55,302	51,032	3,675	6.6%	4,270	8.4%
STEP net costs recoverable	**(5,434)**	(11,886)	(25,420)	6,452	54.3%	13,534	53.2%
Regulatory assessments	**79,334**	72,480	57,450	6,854	9.5%	15,030	26.2%
Decommissioning	**22,532**	19,684	24,339	2,848	14.5%	(4,655)	-19.1%
Depreciation and amortization	**395,788**	390,215	375,440	5,573	1.4%	14,775	3.9%
Total operating expenses	**2,025,409**	1,938,277	1,773,180	87,132	4.5%	165,097	9.3%
Nonoperating expenses							
Interest and debt-related	**215,841**	216,110	208,817	(269)	-0.1%	7,293	3.5%
Payments to the City of San Antonio	**320,933**	296,672	271,589	24,261	8.2%	25,083	9.2%
Total nonoperating expenses	**536,774**	512,782	480,406	23,992	4.7%	32,376	6.7%
Total expenses	**2,562,183**	2,451,059	2,253,586	111,124	4.5%	197,473	8.8%
Income before other changes in net position	**114,269**	7,206	2,945	107,063	1485.7%	4,261	144.7%
Other payments to the City of San Antonio	**(15,285)**	(20,833)	(12,197)	5,548	26.6%	(8,636)	-70.8%
Contributed capital	**43,729**	40,116	32,777	3,613	9.0%	7,339	22.4%
Special item – gain on lease/leaseback termination	**50,429**	-	-	50,429	-	-	-
Special item – City payment on lease/leaseback termination	**(7,015)**	-	-	(7,015)	-	-	-
Special item – CIED distributions	**-**	(3,371)	(7,132)	3,371	100.0%	3,761	52.7%
Effect of defined benefit plan funding obligations – STP	**(12,988)**	39,063	(14,164)	(52,051)	-133.2%	53,227	375.8%
Change in net position	**173,139**	62,181	2,229	110,958	178.4%	59,952	2689.6%
Net position – beginning	**3,383,625**	3,321,444	3,319,215	62,181	1.9%	2,229	0.1%
Net position – ending	**$ 3,556,764**	$ 3,383,625	$ 3,321,444	$ 173,139	5.1%	$ 62,181	1.9%

Total Revenues and Nonoperating Income

FY 2015 – Representing 98.2% of total revenues and nonoperating income, electric and gas revenues of $2,629.7 million increased by $205.6 million, or 8.5%, compared to FY 2014.

To meet its combined sales requirements for retail customers within the greater San Antonio certificated area and wholesale customers outside of this area, electric energy is primarily generated by CPS Energy from three sources—coal, nuclear and gas/oil. Approximately 85.8% and 82.7% of its customers' electric energy needs in FY 2015 and FY 2014, respectively, were produced from CPS Energy's generating units. In addition to the energy produced from Company-owned facilities, CPS Energy also purchased power from third parties, including producers of renewable energy, such as solar-generated and wind-generated power.

Representing 89.7% of CPS Energy's total revenues and nonoperating income, electric operating revenue of $2,401.1 million increased $189.5 million from FY 2014. Contributing to this increase were higher wholesale revenues as a result of the colder weather in the first quarter of the year and fewer unplanned

plant outages during the year. Also contributing were higher regulatory recoveries, as well as higher retail nonfuel recoveries as a result of the colder weather and the effect of the 2014 base rate increase, which became effective in February.

Representing 8.5% of total revenues and nonoperating income, gas revenue totaled $228.6 million, a $16.1 million increase from FY 2014. This increase was due to the recovery of higher average unit fuel charges and higher sales volumes, also as a result of the colder weather. Nonfuel recoveries for gas were also higher due to the effect of the 2014 base rate increase, as mentioned above.

Net nonoperating income of $46.8 million increased $12.6 million from FY 2014 primarily due to more favorable market conditions which resulted in an increase in unrealized investment portfolio returns.

FY 2014 – Representing 98.6% of total revenues and nonoperating income, electric and gas revenues of $2,424.1 million increased by $210.6 million, or 9.5%, compared to FY 2013.

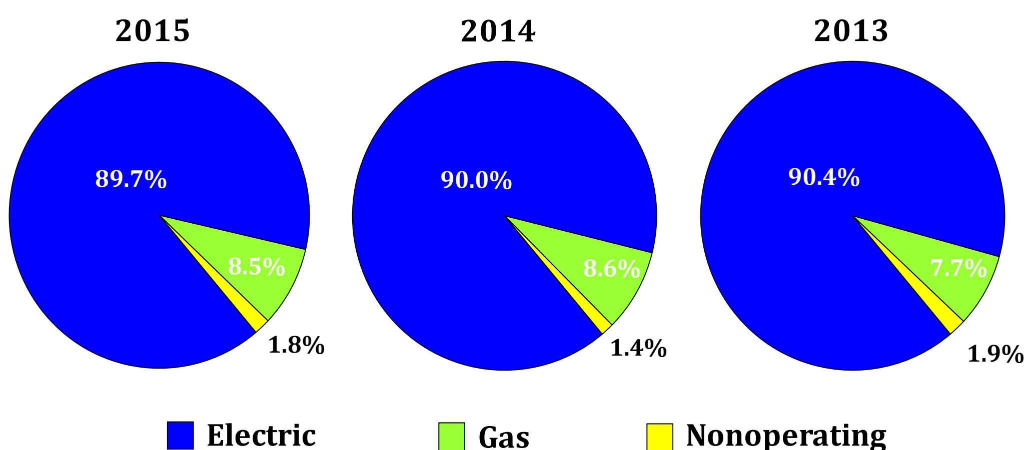
Approximately 82.7% and 87.3% of its customers' electric energy needs in FY 2014 and FY 2013, respectively, were produced from CPS Energy's generating units.

Representing 90.0% of CPS Energy's total revenues and nonoperating income, electric operating revenue of $2,211.6 million increased $172.1 million from FY 2013. Contributing to this increase were higher fuel recoveries, both retail and wholesale, as a result of higher average unit costs. Also contributing were higher regulatory and STEP recoveries and slightly higher sales volumes.

Representing 8.6% of total revenues and nonoperating income, gas revenue totaled $212.5 million, a $38.4 million increase from FY 2013. This increase was due to higher sales volumes and a higher average unit cost of fuel.

Net nonoperating income of $34.2 million decreased $8.9 million from FY 2013 primarily the result of unrealized investment losses recognized in FY 2014. Interest rates increased in FY 2014, contributing to decreased market values for lower-yield investments.

Total Revenues and Nonoperating Income
Fiscal Year Ended January 31,



Operating Expenses

FY 2015 – Operating expenses of $2,025.4 million were $87.1 million, or 4.5%, above the FY 2014 total of $1,938.3 million.

Combined electric and gas fuel costs, which are passed through to customers, totaled $910.1 million and represented 44.9% of total operating expenses. Electric fuel and purchased power costs of $791.2 million increased $35.7 million, or 4.7%, compared to FY 2014 primarily due to higher wholesale sales volumes. Distribution gas costs of $118.9 million increased by $5.7 million, or 5.1%, from FY 2014 due to a higher average unit cost and higher sales volumes.

STP nonfuel O&M expenses of $141.5 million decreased $14.5 million, or 9.3%, compared to FY 2014 primarily due to lower labor and benefit costs, as well as changes in STPNOC's capitalization policy, allowing a portion of administrative and general expenses supporting STPNOC's capital program activities to be capitalized.

CPS Energy's nonfuel O&M expenses (including annual other postemployment benefit ("OPEB") and pension costs) of $422.5 million were $35.3 million, or 9.1%, higher than FY 2014. The increase was primarily due to labor-related expenses and higher costs for materials and outside services. The increases were partially offset by a decrease in pension expense caused primarily by the amortization of FY 2015 deferred inflows related to pension.

Energy efficiency and conservation (STEP) expense was $59.0 million compared to $55.3 million for FY 2014. These amounts represent costs incurred in the current year above the approximately $8.0 million funded through the base rate and recorded as CPS Energy O&M expenses. The related contra expense account, STEP net costs recoverable, reflects the net change during the period in expenses delayed to future periods when they will be recognized concurrent with their recovery through rate adjustments. This contra expense was $5.4 million compared to $11.9 million for FY 2014. The difference from the prior year of the combined STEP expense and STEP net costs recoverable line items is attributable to the planned growth associated with this program.

Regulatory assessments, including those charged by the PUCT and ERCOT, of $79.3 million were $6.9 million higher compared to FY 2014 primarily as a result of higher TCOS, which is partially driven by the continued development of transmission infrastructure to bring West Texas wind to the load markets. The increase was partially offset by the impact of CPS Energy's interim TCOS filing.

Decommissioning expense of $22.5 million was $2.8 million, or 14.5%, above the FY 2014 expense of $19.7 million primarily due to a $3.1 million contribution made by CPS Energy to the Decommissioning Trusts in FY 2015 for preshutdown expenditures. In FY 2014 the Company elected not to make a contribution for advance funding of future preshutdown decommissioning costs.

Depreciation and amortization expense of $395.8 million increased slightly by $5.6 million, or 1.4%, compared to FY 2014 as a result of normal increases in total plant-in-service balances.

FY 2014 – Operating expenses of $1,938.3 million were $165.1 million, or 9.3%, above the FY 2013 total of $1,773.2 million.

Combined fuel, purchased power and distribution gas costs of $868.7 million represented 44.8% of total operating expenses. Electric fuel and purchased power costs were $755.6 million, an increase of $102.5 million, due to a higher average unit cost and slightly higher volumes. Distribution gas costs of $113.1 million increased by $27.0 million, or 31.4%, compared to FY 2013 due to higher sales volumes and a higher average unit cost.

STP nonfuel O&M expenses of $156.1 million decreased $9.8 million, or 5.9%, compared to FY 2013 primarily as a result of the cancellation and subsequent write-off of a software development project in FY 2013.

CPS Energy's nonfuel O&M expenses (including annual OPEB and pension costs) of $387.2 million were $3.0 million, or 0.8%, higher compared to FY 2013. Contributing to the increase were higher O&M expenses for the Rio Nogales plant of $5.8 million and increased pension costs. Partially offsetting the increase were O&M reductions resulting from the Company's ongoing expense management initiatives and a lower recorded employee incentive accrual.

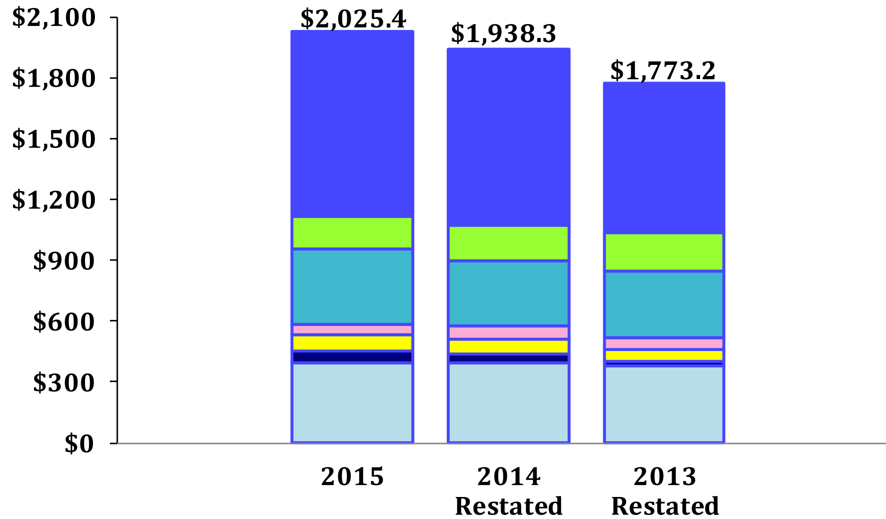
Energy efficiency and conservation (STEP) expense was $55.3 million compared to $51.0 million for FY 2013. For each respective period, these amounts represent costs incurred above the approximately $8.0 million funded through the base rate and recorded as CPS Energy O&M expenses. The related contra expense account, STEP net costs recoverable, was $11.9 million for FY 2014, compared to $25.4 million for FY 2013. The difference from the prior year of the combined STEP expense and STEP net costs recoverable line items is attributable to the planned growth associated with this program.

Regulatory assessments, including those charged by the PUCT and ERCOT, of $72.5 million increased $15.0 million compared to FY 2013 primarily as a result of higher TCOS, which is partially driven by the continued development of transmission infrastructure to bring West Texas wind to the markets where the power is consumed.

Decommissioning expense of $19.7 million decreased $4.6 million, or 19.1%, compared to the FY 2013 expense of $24.3 million partially due to a decrease in the inflation factor used to estimate accrued decommissioning expense. Additionally, in FY 2014 the Company elected not to make a contribution to the Decommissioning Trusts for advance funding of future preshutdown decommissioning costs, while in FY 2013 a $2.2 million contribution was made.

Depreciation and amortization expense of $390.2 million was $14.8 million, or 3.9%, higher than in FY 2013 primarily due to an increase in the level of plant-in-service.

Total Operating Expenses
Fiscal Year Ended January 31,
(In millions)



	2015	2014 Restated	2013 Restated
Fuel, purchased power and distribution gas	**$ 910.1**	$ 868.7	$ 739.2
STP O&M and decommissioning	**164.1**	175.8	190.2
CPS Energy O&M	**368.4**	322.2	325.5
Annual OPEB and pension costs	**54.1**	65.0	58.7
Regulatory assessments	**79.3**	72.5	57.5
Grant program expenditures, energy efficiency and conservation (STEP), and STEP net costs recoverable	**53.6**	43.9	26.7
Depreciation and amortization	**395.8**	390.2	375.4

Nonoperating Expenses

FY 2015 – Interest expense and other debt-related costs of $215.8 million were slightly lower at $0.3 million, or 0.1%, less than in FY 2014. The decrease was due to the interest savings in FY 2015 that resulted from the FY 2014 defeasance of 2003A Bonds and lower interest paid on commercial paper, offset by higher interest and debt-related costs from bond issuances in the current year.

The recorded payments to the City totaled $320.9 million and were $24.3 million, or 8.2%, higher than in FY 2014. This increase was driven primarily by the higher sales volumes and related revenues as a result of the colder weather in the first quarter of the current year and the effect of the 2014 base rate increase, which became effective in February. See Other Changes in Net Position for information on other payments to the City.

FY 2014 – Interest expense and other debt-related costs of $216.1 million were $7.3 million, or 3.5%, higher compared to FY 2013. The increase was due to higher junior lien debt interest, a reduction in the BABs subsidy and the cost to defease the 2003A Bonds.

The recorded payments to the City of $296.7 million increased $25.1 million compared to FY 2013 primarily due to higher recoveries of retail fuel, regulatory and STEP costs.

Other Changes in Net Position

FY 2015 – Net income of $114.3 million was $107.1 million more than the net income in FY 2014 of $7.2 million. Contributing to the variance were higher revenues from increased wholesale and distribution gas volumes as a result of the colder weather in the first quarter of FY 2015. In addition, wholesale margins were strong in FY 2015 and there were fewer unplanned plant outages. FY 2015 revenues also reflect the impact of the 2014 base rate increase that was effective beginning in February. Offsetting the stronger revenues were increases in both CPS Energy O&M costs and City payment.

Other payments to the City totaled $15.3 million in FY 2015. This amount was $5.5 million lower than FY 2014 due to the resolution of a receivable related to the Rio Nogales plant in the prior year that impacted the FY 2014 other payment amounts to the City.

Contributed capital of $43.7 million was $3.6 million higher than in FY 2014. Primarily contributing to the increase were $3.2 million in contributed capital for the portion of the STP Spent Fuel Management Project capital costs to be reimbursed by the DOE, an increase of $1.7 million in completed projects and an increase of $0.7 million in LED streetlight funding. The increases were partially offset by a $2.0 million decrease in donated assets for FY 2015.

The gain on the lease/leaseback termination included $50.4 million from the recognition of the unamortized net lease revenue from the original transaction, with an offsetting reduction of $7.0 million from the recognition of the corresponding unamortized City payment.

Due to the termination of the CIED Fund program, there were no distributions to the suburban cities in FY 2015. CIED distributions to the suburban cities were completed in FY 2014, with $3.4 million in payments made in that period.

The effect of the STP defined benefit plan funding obligations, which represents 40% of the change in the unfunded pension and other post-retirement benefits liability at STP, was $(13.0) million compared to $39.1 million last year, reflecting a net change of $52.1 million resulting from the recalculated funded status of the STP pension and OPEB liabilities, partially offset by the remeasurement of retiree medical benefit obligations.

CPS Energy's change in net position was $173.1 million in FY 2015 compared to $62.2 million in FY 2014, reflecting an increase of $110.9 million. Primarily contributing to the increase were the factors mentioned above for the variance in net income, as well as the noncash net gain on the lease/leaseback termination and the change in the STP pension and OPEB liabilities.

FY 2014 – Net income of $7.2 million increased $4.3 million compared to FY 2013 net income of $2.9 million. Primarily contributing to this variance were higher operating revenues and lower STP O&M expenses, partially offset by increases in depreciation expense, unrealized losses from the change in fair value of investments, higher interest expense and higher payments to the City.

Other payments to the City totaled $20.8 million in FY 2014. This amount was $8.6 million higher than FY 2013 due to an increase in Bexar County CIED funds distributed to the City and the resolution of a receivable related to the Rio Nogales plant. Total payments to the City did not exceed the 14% of gross revenue limitation as required by bond ordinance.

Contributed capital of $40.1 million increased $7.3 million compared to FY 2013. The FY 2014 total included $5.3 million in funding from the City for the LED streetlight project and $6.5 million in donated assets compared to $5.2 million in FY 2013.

See accompanying independent auditors' report.

Due to the termination of the CIED Fund program, CIED distributions to the suburban cities were completed in FY 2014, with $3.4 million in distributions made in that year.

The effect of the STP defined benefit plan funding obligations, which represents 40% of the change in STP's total unfunded pension and other post-retirement benefits liability, was $39.1 million compared to $(14.2) million in FY 2013, reflecting a net change of $53.3 million primarily resulting from a change in the discount rate used by STP to calculate the benefit plan funding obligation in FY 2014.

CPS Energy's change in net position was $62.2 million compared to $2.2 million in FY 2013, reflecting an increase of $60.0 million. Primarily contributing to the increase was the net change in the effect of the STP defined benefit plan funding obligations as described above.

FINANCIAL POSITION

Statements of Net Position Summary

(Dollars in thousands)

	January 31,			Change			
	2015	2014 Restated	2013 Restated	2015 vs. 2014		2014 vs. 2013 Restated	
Assets							
Current assets	**$ 868,093**	$ 890,652	$ 787,990	$ (22,559)	-2.5%	$ 102,662	13.0%
Noncurrent assets							
Restricted	**1,326,136**	1,206,314	943,391	119,822	9.9%	262,923	27.9%
Other noncurrent assets	**450,217**	803,195	797,817	(352,978)	-43.9%	5,378	0.7%
Capital assets, net	**7,952,924**	7,817,280	7,796,040	135,644	1.7%	21,240	0.3%
Total assets	**10,597,370**	10,717,441	10,325,238	(120,071)	-1.1%	392,203	3.8%
Deferred outflows of resources	**168,745**	162,305	199,956	6,440	4.0%	(37,651)	-18.8%
Total assets plus deferred outflows of resources	**$ 10,766,115**	$ 10,879,746	$ 10,525,194	$ (113,631)	-1.0%	$ 354,552	3.4%
Liabilities							
Current liabilities	**$ 551,444**	$ 544,993	$ 520,851	$ 6,451	1.2%	$ 24,142	4.6%
Long-term debt, net	**5,591,381**	5,545,213	5,275,852	46,168	0.8%	269,361	5.1%
Other noncurrent liabilities	**997,456**	1,389,714	1,395,406	(392,258)	-28.2%	(5,692)	-0.4%
Total liabilities	**7,140,281**	7,479,920	7,192,109	(339,639)	-4.5%	287,811	4.0%
Deferred inflows of resources	**69,070**	16,201	11,641	52,869	326.3%	4,560	39.2%
Total liabilities plus deferred inflows of resources	**7,209,351**	7,496,121	7,203,750	(286,770)	-3.8%	292,371	4.1%
Net position							
Net investment in capital assets	**2,187,922**	2,091,074	2,312,369	96,848	4.6%	(221,295)	-9.6%
Restricted	**778,655**	700,489	471,666	78,166	11.2%	228,823	48.5%
Unrestricted	**590,187**	592,062	537,409	(1,875)	-0.3%	54,653	10.2%
Total net position	**3,556,764**	3,383,625	3,321,444	173,139	5.1%	62,181	1.9%
Total liabilities plus deferred inflows of resources plus net position	**$ 10,766,115**	$ 10,879,746	$ 10,525,194	$ (113,631)	-1.0%	$ 354,552	3.4%

Current Assets

FY 2015 – Current assets at January 31, 2015, of $868.1 million were $22.6 million lower than the balance at January 31, 2014. Customer accounts receivable decreased $22.1 million primarily driven by a decrease of $18.3 million in unbilled receivables. Lease prepayments decreased $19.8 million due to the termination of the lease/leaseback transaction related to the Spruce 1 property. Additionally, prepayments decreased $9.0 million and miscellaneous receivables decreased $4.7 million compared to the prior year. These decreases were partially offset by a coal inventory increase of $24.1 million and an increase of $10.0 million in the General Fund.

See accompanying independent auditors' report.

FY 2014 – Current assets at January 31, 2014, of $890.7 million were $102.7 million higher than the balance at January 31, 2013. Customer accounts receivable increased $58.6 million, of which retail customer accounts receivable contributed $42.4 million, unbilled receivables were $10.1 million higher, energy conservation accounts receivable increased $7.0 million and wholesale receivables increased $1.3 million. The General Fund increased by $44.7 million primarily due to proceeds from the sale of communication infrastructure. Current miscellaneous receivables increased $7.4 million, including increases of $2.7 million for ERCOT receivables, $2.3 million for STP insurance recoverable and $2.3 million for STP operating receivables. In addition, insurance cash reserves increased $3.8 million and gas inventories increased $2.8 million. These increases were partially offset by decreases of $7.6 million in coal inventories, $7.0 million for material and supply inventories, and $1.5 million in fuel oil inventories.

Noncurrent Restricted Assets

FY 2015 – Noncurrent restricted assets totaled $1,326.1 million at January 31, 2015, an increase of $119.8 million, compared to January 31, 2014. The overall variance was largely attributable to increases of $77.2 million in the Repair and Replacement Account primarily due to higher revenues and an increase of $42.7 million in the Decommissioning Trusts balances resulting from investment earnings.

FY 2014 – Noncurrent restricted assets totaled $1,206.3 million at January 31, 2014, an increase of $262.9 million compared to January 31, 2013. The overall variance was largely attributable to the increase of $137.1 million in the Capital Projects Fund due to proceeds received from a $375.0 million bond issuance in July 2013, an increase of $103.4 million in the Repair and Replacement Account and a $34.1 million increase in the Decommissioning Trusts balances. Partially offsetting the increases were an $11.5 million decrease in the CIED Fund primarily due to distributions to the City and suburban cities.

Other Noncurrent Assets

FY 2015 – Other noncurrent assets decreased to $450.2 million at January 31, 2015, from $803.2 million at January 31, 2014. The $353.0 million change reflects a decrease of $338.1 million in prepaid lease expense and a decrease of $6.6 million for related advanced City payment due to the termination of the Spruce 1 lease/leaseback transaction, and decreases of $5.4 million in the net OPEB obligation, $5.3 million in the net pension regulatory asset, and $2.6 million in noncurrent prepayments. These decreases were partially offset by an increase of $3.6 million in STEP net costs recoverable.

FY 2014 – Other noncurrent assets increased to $803.2 million at January 31, 2014, from $797.8 million at January 31, 2013. The $5.4 million increase resulted from the recognition of an $18.7 million communication towers lease prepayment, an $11.0 million increase in the pension regulatory asset and a $5.0 million increase in STEP net costs recoverable. Partially offsetting these increases were a $19.8 million decrease for amortization of prepayments from the Spruce 1 lease/leaseback, a $5.5 million decrease in the net OPEB obligation, a $3.1 million decrease in SunEdison prepaid costs and a $0.9 million decrease in other unamortized costs.

Deferred Outflows of Resources

FY 2015 – Deferred outflows of resources increased $6.4 million, from $162.3 million at January 31, 2014, to $168.7 million at January 31, 2015, primarily due to a $28.8 million increase in unrealized losses on fuel hedges, partially offset by a $14.6 million decrease in unamortized debt reacquisition costs and a $7.8 million decrease in deferred outflows related to pensions. For more information on deferred outflows of resources, see Note 1 – Summary of Significant Accounting Policies.

FY 2014 – Deferred outflows of resources decreased $37.7 million, from $200.0 million at January 31, 2013, to $162.3 million at January 31, 2014, primarily due to a $16.4 million decrease in unrealized losses on fuel hedges and a $14.8 million decrease resulting from the FY 2014 amortization of unamortized debt reacquisition costs. Additionally, there was a $6.5 million decrease in deferred outflows related to pensions.

Capital Assets, Net

Summary of Capital Assets
Net of Accumulated Depreciation and Amortization

(Dollars in thousands)

	January 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
Nondepreciable assets							
Land	**$ 71,154**	$ 69,279	$ 60,674	$ 1,875	2.7%	$ 8,605	14.2%
Land easements	**88,699**	88,633	88,193	66	0.1%	440	0.5%
Construction-in-progress	**785,333**	668,985	591,725	116,348	17.4%	77,260	13.1%
Total nondepreciable assets	**945,186**	826,897	740,592	118,289	14.3%	86,305	11.7%
Depreciable/amortizable assets							
Electric plant							
Buildings and structures	**625,286**	652,067	684,652	(26,781)	-4.1%	(32,585)	-4.8%
Systems and improvements	**5,279,217**	5,260,481	5,264,215	18,736	0.4%	(3,734)	-0.1%
Total electric plant	**5,904,503**	5,912,548	5,948,867	(8,045)	-0.1%	(36,319)	-0.6%
Gas plant							
Buildings and structures	**96**	99	99	(3)	-3.0%	-	-
Systems and improvements	**494,073**	472,097	458,031	21,976	4.7%	14,066	3.1%
Total gas plant	**494,169**	472,196	458,130	21,973	4.7%	14,066	3.1%
General plant							
Buildings and structures	**147,199**	146,349	145,423	850	0.6%	926	0.6%
Machinery and equipment	**236,001**	222,775	277,533	13,226	5.9%	(54,758)	-19.7%
Other	**4,253**	4,438	4,023	(185)	-4.2%	415	10.3%
Total general plant	**387,453**	373,562	426,979	13,891	3.7%	(53,417)	-12.5%
Intangibles							
Software	**87,005**	91,563	90,690	(4,558)	-5.0%	873	1.0%
Other	**25,414**	26,433	27,453	(1,019)	-3.9%	(1,020)	-3.7%
Total intangibles	**112,419**	117,996	118,143	(5,577)	-4.7%	(147)	-0.1%
Nuclear fuel	**109,194**	114,081	103,329	(4,887)	-4.3%	10,752	10.4%
Total depreciable/ amortizable assets	**7,007,738**	6,990,383	7,055,448	17,355	0.2%	(65,065)	-0.9%
Total capital assets, net	**$7,952,924**	$7,817,280	$7,796,040	$ 135,644	1.7%	$ 21,240	0.3%

FY 2015 – At January 31, 2015, net capital assets of $7,952.9 million increased $135.6 million from $7,817.3 million at January 31, 2014. The increase was primarily due to a $116.3 million increase in the construction-in progress component of total nondepreciable assets. Total depreciable/amortizable assets increased $17.4 million.

Of the total plant-in-service and construction-in-progress additions, $532.2 million related to new construction and net removal costs. These additions were funded with $232.0 million of debt, $0.1 million from the CIED Fund, $39.2 million from contributed capital, and $260.9 million from the Repair and Replacement Account. Included in capital assets are CPS Energy's 40% interest in STP Units 1 and 2 and a 7.625% interest in STP Units 3 and 4.

FY 2014 – At January 31, 2014, net capital assets of $7,817.3 million increased $21.2 million from $7,796.0 million at January 31, 2013. Of the total increase, $86.3 million related to total nondepreciable assets, and of that, $77.3 million was from an increase in construction-in-progress. Partially offsetting the $86.3 million increase was a $65.1 million decrease in total depreciable/amortizable assets.

Of the total plant-in-service and construction-in-progress additions, $437.1 million related to new construction and net removal costs. These additions were funded with $315.2 million of debt, $0.7 million from the CIED Fund, $33.6 million from contributed capital, and $87.6 million from the Repair and Replacement Account.

Current Liabilities

FY 2015 – Excluding current maturities of debt of $174.5 million, current liabilities increased $14.2 million, from $362.8 million at January 31, 2014, to $377.0 million at January 31, 2015. The higher balance was primarily due to increases of $18.8 million in accounts payable and accrued liabilities. This increase was partially offset by a $5.5 million decrease in the current decommissioning liability.

FY 2014 – Excluding current maturities of debt of $182.2 million, current liabilities increased $50.7 million, from $312.0 million at January 31, 2013, to $362.8 million at January 31, 2014. The higher balance was partially due to a $25.2 million increase in accounts payable, a $13.7 million increase in STP operating, maintenance and construction payables, an $8.6 million increase in the payable to the City, and a $4.1 million increase in the current decommissioning liability. The increases were partially offset by a $0.7 million lower balance for pollution remediation liabilities and a $0.2 million decrease in current customer deposits.

Other Noncurrent Liabilities

FY 2015 – Excluding the noncurrent portion of debt of $5,591.4 million, noncurrent liabilities decreased $392.3 million to $997.5 million at January 31, 2015, primarily due to decreases of $385.4 million in noncurrent lease unearned revenue resulting from the termination of the lease/leaseback transaction related to the Spruce 1 property and $77.7 million in the net pension liability. These decreases were partially offset by increases of $27.4 million in the noncurrent decommissioning liability, $19.7 million in STP decommissioning net costs refundable and $14.9 million in other noncurrent liabilities.

FY 2014 – Excluding the noncurrent portion of debt of $5,545.2 million, noncurrent liabilities decreased $5.7 million to $1,389.7 million at January 31, 2014, primarily due to a $36.7 million decrease in STP OPEB and pension liabilities and a decrease of $22.6 million in unearned lease revenue. In addition, noncurrent pollution remediation decreased $0.7 million and customer advances were $0.4 million lower. Offsetting the decreases were increases of $30.7 million in the noncurrent decommissioning liability, $9.1 million for the net pension liability, $6.3 million for unearned communication shelter lease revenue, $4.5 million for operating reserves, $3.0 million for other liabilities and $1.3 million for a security deposit liability.

Deferred Inflows of Resources

FY 2015 – Deferred inflows of resources increased $52.9 million, from $16.2 million at January 31, 2014, to $69.1 million at January 31, 2015, primarily due to an increase of $54.1 million in deferred inflows related to pension. Partially offsetting this increase was a decrease of $1.2 million in the deferred income recognized as part of the FY 2014 communication towers sale transaction. For more information on deferred inflows of resources, see Note 1 – Summary of Significant Accounting Policies.

FY 2014 – Deferred inflows of resources increased $4.6 million, from $11.6 million at January 31, 2013, to $16.2 million at January 31, 2014, primarily due to the addition of $6.5 million in deferred income related to the sale of future revenues associated with the communication towers sold in FY 2014, partially offset by a decrease of $1.9 million in deferred inflows related to pension.

FINANCING AND DEBT COVENANTS COMPLIANCE

Long-Term Debt (Excluding Commercial Paper)

FY 2015 – At January 31, 2015, CPS Energy's total debt was $5,141.8 million, excluding commercial paper, the FRRN, discounts and premiums. This long-term debt was composed of $4,749.2 million in fixed-interest-rate instruments and $392.6 million in variable-interest-rate instruments. All fixed-interest-rate long-term debt had an overall weighted-average yield of 4.3%. Separately, the variable-rate bonds had a weighted-average yield of 1.0%.

Issuances – On July 3, 2014, CPS Energy issued $200.0 million of Series 2014 Junior Lien Revenue Bonds. The true interest cost for this issue, which has maturities in 2026 through 2044, is 4.14%. Bond proceeds are primarily being used to fund construction projects.

On November 5, 2014, CPS Energy issued $262.5 million of Series 2014 Junior Lien Revenue Refunding Bonds. Proceeds, including the $37.3 million premium associated with the bonds, were used to refund the $294.6 million par value of the 2005 Revenue Bonds. The refunding transaction resulted in a net present value debt service savings of $36.0 million, or 12.21% of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in 2016 through 2020, is 1.22%.

On December 1, 2014, CPS Energy remarketed $47.1 million of the Series 2012A Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of a $1.3 million premium in conjunction with the remarketing resulted in a principal paydown for the remarketed bonds of approximately $1.0 million. The bonds have maturities in 2024 through 2027. The coupon rate for these bonds is 2.0%, with a current yield of 1.27%.

On January 7, 2015, CPS Energy issued $125.0 million in Series 2015A Variable-Rate Junior Lien Revenue Refunding Bonds and $125.0 million in Series 2015B Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds were used to refund the $250.0 million par value of the 2003 Junior Lien Variable-Rate Demand Obligations. The bonds were issued as multi-modal variable-rate instruments issued initially in a Securities Industry and Financial Markets Association ("SIFMA") Index Mode with an applicable spread of 0.28% and 0.38% through their term rate periods of 2017 and 2018, and at a stepped rate of 8.0% for each series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed before their respective expiration dates.

Reductions – CPS Energy made principal payments of $157.0 million in FY 2015.

Summary of Debt Rollforward Activity[1]

(In thousands)

Balance Outstanding February 1, 2014	Additions During Year	Decreases During Year	**Balance Outstanding January 31, 2015**
$ 5,131,925	$ 759,665	$ (749,830)	**$ 5,141,760**

[1]Excludes commercial paper, the FRRN, discounts and premiums.

FY 2014 – At January 31, 2014, CPS Energy's total debt was $5,131.9 million, excluding commercial paper, the FRRN, discounts and premiums. This long-term debt was composed of $4,738.3 million in fixed-interest-rate instruments and $393.6 million in variable-interest-rate instruments. All fixed-interest-rate long-term debt had an overall weighted-average yield of 4.3%. Separately, the variable-rate bonds had a weighted-average yield of 0.8%.

Issuances – On July 25, 2013, CPS Energy issued $375.0 million of Series 2013 Junior Lien Revenue Bonds. The true interest cost for this issue, which has maturities in 2034 through 2048, is 4.75%. Bond proceeds are primarily being used to fund construction projects.

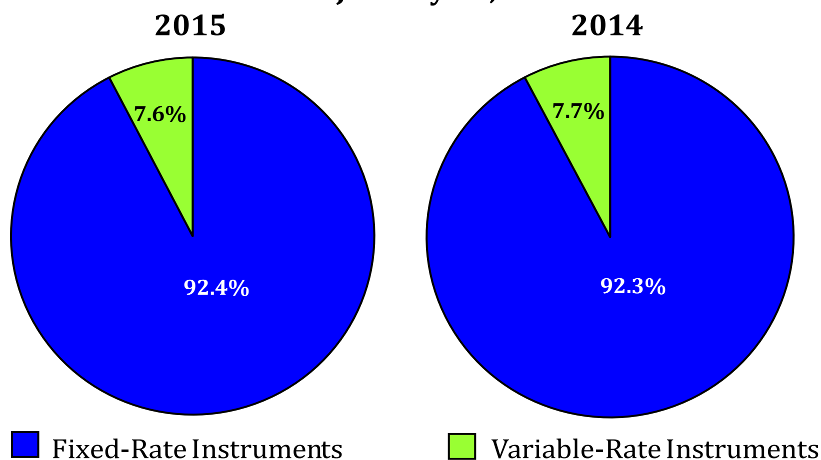
Reductions – On June 7, 2013, $63.5 million of New Series 2003A Revenue Refunding Bonds were legally defeased with cash. Under this defeasance, the debt obligations were technically voided, as the cash was escrowed with a third party to service the debt. As a result, an accounting loss of $2.2 million was recorded. The accounting loss resulted from the additional cash put into escrow to defease the bonds. This additional cash was for the interest that would have been incurred through FY 2014 had the cash defeasance not occurred.

CPS Energy made principal payments and a cash defeasance totaling $183.6 million in FY 2014.

Summary of Debt Rollforward Activity[1]
(In thousands)

Balance Outstanding February 1, 2013	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2014
$ 4,940,535	$ 375,000	$ (183,610)	$ 5,131,925

[1]Excludes commercial paper, the FRRN, discounts and premiums.



Note: Graphs exclude commercial paper and the FRRN.

Commercial Paper

CPS Energy maintains a commercial paper program to provide taxable and tax-exempt financing for various purposes. In 1988, the San Antonio City Council adopted an ordinance authorizing the issuance of up to $300 million in tax-exempt commercial paper. The current ordinances allow for the issuance of three separate series of commercial paper to provide funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed $600 million to the extent of support from liquidity facilities. Effective June 26, 2013, there was a total of $600 million in liquidity support. The ordinances allow for the issuance of taxable commercial paper, as well as tax-exempt, commercial paper. Eligible projects include fuel acquisition, capital improvements to the Systems, and refinancing or refunding any outstanding obligations, which are secured by and payable from a lien and/or a pledge of net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds (senior lien obligations) and Series Bonds (junior lien obligations). Scheduled maximum maturities cannot extend beyond November 1, 2042.

The commercial paper has been classified as long-term in accordance with the refinancing terms under three revolving credit agreements with a consortium of banks, which support the commercial paper program. The Series A agreement, which provides $150 million in liquidity support for the Series A Notes, is effective February 7, 2014, through February 6, 2017. The Series B agreement, which provides $225 million in liquidity support for the Series B Notes, is effective June 26, 2013, through June 24, 2016. The Series C agreement, which provides $225 million in liquidity support for the Series C Notes, is effective June 26, 2013, through June 23, 2017. Under the terms of these revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed $600 million for the purpose of paying principal due under the commercial paper program. At January 31, 2015, there was no amount outstanding under the revolving credit agreements. Further, there have been no borrowings under the agreements since inception of the program.

FY 2015 – *Issuances* – There were no commercial paper issuances in FY 2015.

Reductions – There were no commercial paper reductions during FY 2015.

At January 31, 2015, the outstanding commercial paper balance was $360.0 million, all of which was issued as tax-exempt.

Summary of Commercial Paper Rollforward Activity

(In thousands)

Balance Outstanding February 1, 2014	Additions During Year	Decreases During Year	**Balance Outstanding January 31, 2015**
$ 360,000	$ -	$ -	**$ 360,000**

FY 2014 – *Issuances* – CPS Energy issued a total of $63.5 million in commercial paper in FY 2014 to help fund construction costs.

Reductions – There were no reductions in commercial paper in FY 2014.

Summary of Commercial Paper Rollforward Activity
(In thousands)

Balance Outstanding February 1, 2013	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2014
$ 296,500	$ 63,500	$ -	$ 360,000

The weighted-average interest rate on outstanding commercial paper was 0.1% at January 31, 2015, and January 31, 2014. The weighted-average maturity of commercial paper at January 31, 2015, and January 31, 2014, was 90 and 71 days, respectively.

Flexible Rate Revolving Note

CPS Energy maintains an FRRN private placement program to provide taxable and tax-exempt financing to assist in the interim funding of eligible projects in an aggregate amount not to exceed $100 million. The FRRN has been classified as short-term in accordance with the financing terms under the Note Purchase Agreements. See Note 8 – Flexible Rate Revolving Note.

FY 2015 – There were no note issuances or reductions under the FRRN program during FY 2015. At January 31, 2015, the outstanding FRRN balance was $25.2 million.

FY 2014 – There were no note issuances or reductions under the FRRN program in FY 2014. At January 31, 2014, the outstanding FRRN balance was $25.2 million.

Compliance

With respect to all New Series Bonds outstanding at January 31, 2015, the net revenues of the Systems are pledged to the payment of principal and interest thereon. All New Series Bonds are issued as senior lien obligations, and the principal and interest thereon have a first lien upon the net revenues of CPS Energy's Systems.

The Series 2014 and Series 2013 Junior Lien Revenue Bonds; the Series 2012A, 2012B and 2012C Variable-Rate Junior Lien Revenue Refunding Bonds; the Series 2010A and 2010B Junior Lien BABs; and the Series 2015A and 2015B Variable-Rate Junior Lien Revenue Refunding Bonds were issued as junior lien obligations. The borrowings from the junior lien obligations are equally and ratably secured by and payable from the net revenues of CPS Energy's Systems. The pledge is subordinate and inferior to the pledge of net revenues securing the senior lien obligations, but prior and superior to the lien on, and pledge of, the net revenues securing the payment of the commercial paper notes.

The commercial paper revolving credit agreements permit CPS Energy to borrow up to an aggregate amount, not to exceed $600 million, for the purpose of paying amounts due under the commercial paper program. The commercial paper outstanding is also secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of senior lien and junior lien obligations.

Under the terms of the current FRRN purchase agreement, $100 million of the credit facility is taxable. The outstanding notes are secured by collateral pledged in the form of investments and a limited, subordinate and inferior lien on and pledge of net revenues in the amount of $0.1 million.

At January 31, 2015, and January 31, 2014, CPS Energy was in compliance with the terms and provisions of the documents related to the senior and junior lien obligations, and the commercial paper and FRRN programs.

Debt Service

CPS Energy has taken the position that the BABs direct subsidy should be deducted from debt service when calculating the debt service coverage ratio since the subsidy is received directly by the trustee and is to be used solely for debt service. Therefore, at January 31, 2015, the debt service coverage calculations included a BABs direct subsidy deduction of $14.5 million for the senior lien debt and $24.2 million for both the senior and junior lien debt. At January 31, 2014, the debt service coverage calculations included a BABs direct subsidy deduction of $14.4 million for the senior lien debt and $24.1 million for both the senior and junior lien debt.

BABs Subsidy Sequestration – Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government reduced the BABs subsidy by 8.7% for payments made during the period beginning March 1, 2013, through the end of their fiscal year ended September 30, 2013. The federal government reduced the BABs subsidy by 7.2% for payments made during the period beginning October 1, 2013, through September 30, 2014. The subsidy is being reduced by 7.3% for payments made during the period October 1, 2014, through September 30, 2015. The subsidy reductions resulted in an increase in CPS Energy's debt-related interest expense of approximately $1.9 million in FY 2015.

The following table illustrates the debt service coverage ratios in accordance with the bond ordinances and also provides the ratios without the direct subsidy deduction:

Debt Service Coverage Ratios
at January 31, 2015

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	3.15x	3.02x
Senior and junior lien debt	2.73x	2.57x

Debt Service Coverage Ratios
at January 31, 2014

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	2.72x	2.60x
Senior and junior lien debt	2.47x	2.32x

The ratio of debt to debt and net position was 60.8% at January 31, 2015, and 62.0% at January 31, 2014.

Summary of CPS Energy's Bond and Commercial Paper Ratings

	Ratings at January 31, 2015		
	Senior Lien Debt	Junior Lien Debt[1]	Commercial Paper
Fitch Ratings	AA+	AA+ / F1+	F1+
Moody's Investors Service, Inc.	Aa1	Aa2	P-1
Standard & Poor's Ratings Services	AA	AA-	A-1+

[1] The junior lien short-term bond credit ratings from Moody's and Standard & Poor's of "VMIG 1" and "A-1+," respectively, are no longer applicable at January 31, 2015, as a result of the FY 2015 refunding of junior lien variable-rate bonds. Fitch's "F1+" short-term credit rating is assigned to Series 2012B Junior Lien Bonds.

CURRENTLY KNOWN FACTS

GASB Implementations – The following guidance issued by the GASB will be effective for FY 2016:

- GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. Statement No. 72 requires that investments should generally be measured at fair value, with certain investments, such as short-term money market instruments, being specifically excluded from the requirement. Disclosures required by the standard include a description of the inputs and methods used to measure fair value. CPS Energy is currently evaluating the impact that adoption of this Statement will have on its financial statements.

Legislation and Regulations – The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") was signed into law on July 21, 2010. Title VII of the Dodd-Frank Act, known as the "Wall Street Transparency and Accountability Act of 2010," substantially modified portions of the Commodity Exchange Act with respect to swap transactions. The law is designed to reduce risk, establish new business conduct rules, increase transparency and promote market integrity within the financial system. The Dodd-Frank Act gives the Commodity Futures Trading Commission ("CFTC") and the Securities and Exchange Commission ("SEC") statutory authority to regulate the over-the-counter derivatives market, including many of the commodities that are currently being traded or hedged by CPS Energy in accordance with its own policies and procedures. CPS Energy is subject to some of the CFTC and SEC rules, including swap transaction reporting and recordkeeping, in addition to other administrative rules and regulations, such as the Independent Registered Municipal Advisor rule that impacts capital market participants. As an "end-user," CPS Energy is exempt from clearing and margining its positions.

In September 2014, the CFTC issued a final rule, making permanent provisions contained in a "no-action" letter issued in March 2014, which exempts swap dealing activity for operations-related swaps with special entities, including public utilities, from a sub-threshold measurement used to determine when an entity is required to register as a swap dealer. The CFTC and SEC remain in the process of proposing new rules pursuant to the legislation. Other key elements of the Dodd-Frank Act, including new rules pertaining to capital requirements and public funds collateralization, pertinent to CPS Energy's situation remain unresolved. Consequently, the overall impact on CPS Energy continues to remain uncertain at this time.

The Patient Protection and Affordable Healthcare Act ("PPACA") was signed into law on March 23, 2010. CPS Energy has analyzed the regulations as they currently exist and has developed a long-term strategy to address potential increases in costs associated with the health plan benefits it provides to its employees. The Company will continue to monitor the PPACA regulations as they evolve, as well as the status of the CPS Energy employee health plans, to ensure compliance with all PPACA regulations while maintaining manageable plan costs for the Company and its employees.

There are several pending federal environmental regulations which could affect CPS Energy – a future replacement for the Cross-State Air Pollution Rule, the National Ambient Air Quality Standards for Ozone, Clean Air Act New Source Performance Standards for Carbon, and the Generation Sector Industrial Effluent Guidelines. While many of these rules are still being defined, CPS Energy is continually monitoring the requirements of each to assess the impact to the Company and is making plans for maintaining compliance with each of the pending regulations. The Clean Water Act 316b rules and the Coal Combustion Residual Rule were finalized in 2014. CPS Energy is evaluating the regulations and is formulating its plan for maintaining compliance with the rules.

Federal Budget Developments – As Congressional lawmakers continue to look for ways to reduce the federal deficit, elimination or capping the tax exemption on municipal bond interest has been one item under consideration. CPS Energy's management continues to assess the multiple versions of proposals on the subject and to offer commentary and information to the national discussion on this issue. Uncertainty remains regarding the impact any resulting legislation might ultimately have on the tax-exempt status of CPS Energy's bonds.

STP Units 3 and 4 – In FY 2015, CPS Energy performed a re-evaluation of its investment in the STP Units 3 and 4 project 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. The Company again reached the conclusion that its investment in the project remains valuable and that the most appropriate treatment is to continue to report this investment on the Statements of Net Position at full historical cost. If it is determined at some point in the future that a full or partial write-down is appropriate, due to the unusual and/or infrequent nature of the circumstances that have to be considered, the impact of writing down the project is expected to be treated as an extraordinary or special item on its Statements of Revenues, Expenses and Changes in Net Position. The write-down would be a noncash transaction that would have no impact on the Company's debt service coverage ratio; however, it would affect the debt to debt and net position ratio. At January 31, 2015, the impact of a write-down would have been an increase in the debt to debt and net position ratio from 60.8% to 63.6%. The Company continues to maintain regular communication with all stakeholders regarding ongoing assessment of the viability of the project and the impact to its financial position.

Including AFUDC of $21.0 million, STP Units 3 and 4 project costs incurred by CPS Energy to date of $391.4 million are included on the Statements of Net Position as construction-in-progress. Effective as of FY 2012, AFUDC is not being recorded for the STP Units 3 and 4 project since efforts have been limited to licensing-related activities. For more detailed information, refer to Note 14 – South Texas Project.

REQUESTS FOR INFORMATION

For more information about CPS Energy, contact Public Affairs & Brand Management at 210-353-2344 or at P.O. Box 1771, San Antonio, Texas 78296-1771.

GARZA, PREIS & CO., L.L.C.
Certified Public Accountants

BAKER TILLY

RJW

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
City Public Service of San Antonio, Texas
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of City Public Service of San Antonio, Texas ("CPS Energy"), a component unit of the City of San Antonio, Texas as of and for the years ended January 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise CPS Energy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of City Public Service Group Health, Group Life Insurance and CPS Energy Long Term Disability Income Plans ("Employee Plans") as of December 31, 2014 or 2013. The financial information related to the Employee Plans is included in Note 10 of the notes to the financial statements. Those financial statements were audited by other auditors, for the years indicated, whose reports thereon have been furnished to us, and our opinion, on CPS Energy's financial statements, insofar as it relates to the amounts and disclosures included for Employee Plans is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CPS Energy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CPS Energy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Trustees
City Public Service of San Antonio, Texas

Opinion

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of CPS Energy as of January 31, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 of the notes to the financial statements, CPS Energy adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68,* effective February 1, 2014. Accordingly, the accounting changes have been retroactively applied to prior periods presented. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedules of Changes in CPS Energy Net Pension Liability and Related Ratios, Schedules of Employer Contributions to CPS Energy Pension Plan and Schedules of Funding Progress information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Garza, Preis & Co., LLC   Baker Tilly Virchow Krause, LLP   Robert J. Williams CPA

San Antonio, Texas
Madison, Wisconsin
April 22, 2015

STATEMENTS OF NET POSITION

	January 31, 2015	January 31, 2014 Restated
	(In thousands)	
Assets		
Current assets		
Cash and cash equivalents	**$ 213,070**	$ 287,833
Investments	**145,150**	61,797
Interest and other accounts receivable	**35,250**	39,824
Customer accounts receivable, less allowance for doubtful accounts of $20.7 million at January 31, 2015, and $15.9 million at January 31, 2014	**235,476**	257,615
Inventories, at average costs		
Materials and supplies	**101,709**	102,337
Fossil fuels	**94,961**	70,007
Prepayments and other	**42,477**	71,239
Total current assets	**868,093**	890,652
Noncurrent assets		
Restricted		
Cash and cash equivalents	**285,180**	211,703
Investments	**1,027,391**	981,542
Interest and other accounts receivable	**13,565**	13,069
Prepaid rent – leaseback	**-**	338,075
Pension regulatory asset	**261,122**	266,452
Other noncurrent assets	**189,095**	198,668
Capital assets, STP Units 3 and 4, construction-in-progress	**391,417**	391,354
Capital assets (excluding STP Units 3 and 4), net	**7,561,507**	7,425,926
Total noncurrent assets	**9,729,277**	9,826,789
Total assets	**10,597,370**	10,717,441
Deferred outflows of resources		
Unrealized contributions and losses related to Pension	**73,770**	81,556
Unrealized losses on fuel hedges	**29,793**	1,004
Unamortized debt reacquisition costs	**65,182**	79,745
Total deferred outflows of resources	**168,745**	162,305
Total assets plus deferred outflows of resources	**$ 10,766,115**	$ 10,879,746
Liabilities		
Current liabilities		
Current maturities of debt	**$ 174,470**	$ 182,235
Accounts payable and accrued liabilities	**376,974**	362,758
Total current liabilities	**551,444**	544,993
Noncurrent liabilities		
Long-term debt, net	**5,591,381**	5,545,213
STP decommissioning	**420,587**	393,211
STP decommissioning net costs refundable	**124,907**	105,167
Net pension liability	**266,760**	344,450
Unearned lease revenue	**-**	385,409
Other noncurrent liabilities	**185,202**	161,477
Total noncurrent liabilities	**6,588,837**	6,934,927
Total liabilities	**7,140,281**	7,479,920
Deferred inflows of resources		
Unrealized gains related to pension	**63,783**	9,701
Sale of future revenue	**5,287**	6,500
Total deferred inflows of resources	**69,070**	16,201
Total liabilities plus deferred inflows of resources	**7,209,351**	7,496,121
Net position		
Net investment in capital assets	**2,187,922**	2,091,074
Restricted		
Debt service	**12,736**	769
Ordinance	**765,919**	699,720
Unrestricted	**590,187**	592,062
Total net position	**3,556,764**	3,383,625
Total liabilities plus deferred inflows of resources plus net position	**$ 10,766,115**	$ 10,879,746

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended January 31,	
	2015	2014 Restated
	(In thousands)	
Operating revenues		
Electric		
Retail	**$ 1,991,068**	$ 1,916,273
Wholesale	**410,006**	295,295
Total electric operating revenues	**2,401,074**	2,211,568
Gas	**228,603**	212,503
Total operating revenues	**2,629,677**	2,424,071
Operating expenses		
Fuel, purchased power and distribution gas	**910,136**	868,719
STP operation and maintenance	**141,538**	156,077
CPS Energy operation and maintenance	**368,392**	322,176
Annual OPEB and pension costs	**54,115**	64,982
Grant program expenditures	**31**	528
Energy efficiency and conservation (STEP)	**58,977**	55,302
STEP net costs recoverable	**(5,434)**	(11,886)
Regulatory assessments	**79,334**	72,480
STP decommissioning	**22,532**	19,684
Depreciation and amortization	**395,788**	390,215
Total operating expenses	**2,025,409**	1,938,277
Operating income	**604,268**	485,794
Nonoperating income (expense)		
Interest and other income, net	**27,331**	13,982
Grant programs	**31**	528
Decommissioning Trusts investment income and change in fair market value	**39,152**	33,277
STP decommissioning net costs recoverable (refundable)	**(19,739)**	(13,593)
Interest and other expense	**(236,602)**	(231,426)
Amortization of debt-related costs	**14,257**	10,618
Allowance for funds used during construction	**6,504**	4,698
Payments to the City of San Antonio	**(320,933)**	(296,672)
Total nonoperating income (expense)	**(489,999)**	(478,588)
Income before other changes in net position	**114,269**	7,206
Other payments to the City of San Antonio	**(15,285)**	(20,833)
Contributed capital	**43,729**	40,116
Special item – gain on lease/leaseback termination	**50,429**	-
Special item – City payment on lease/leaseback termination	**(7,015)**	-
Special item – CIED distributions	**-**	(3,371)
Effect of defined benefit plan funding obligations – STP	**(12,988)**	39,063
Change in net position	**173,139**	62,181
Net position – beginning	**3,383,625**	3,321,444
Net position – ending	**$ 3,556,764**	$ 3,383,625

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 31,	
	2015	2014
	(In thousands)	
Cash flows from operating activities		
Cash received from customers	**$ 2,657,287**	$ 2,358,096
Cash payments to suppliers for goods and services	**(1,375,223)**	(1,220,650)
Cash payments to employees for service	**(197,591)**	(191,702)
Net cash provided (used) by operating activities	**1,084,473**	945,744
Cash flows from capital and related financing activities		
Cash paid for additions to utility plant and net removal costs	**(522,793)**	(389,875)
Cash paid for nuclear fuel purchases	**(36,801)**	(44,777)
Contributed capital	**39,235**	33,647
Proceeds from issuance of revenue bonds	**226,978**	391,139
Proceeds from issuance of commercial paper	**-**	63,500
Principal payments on revenue bonds and cash defeasance of debt	**(157,035)**	(183,610)
Interest paid	**(236,332)**	(229,248)
Debt issue and cash defeasance costs paid	**(4,582)**	(4,862)
Net cash provided (used) by capital and related financing activities	**(691,330)**	(364,086)
Cash flows from noncapital financing activities		
Cash payments to the City of San Antonio	**(337,402)**	(308,285)
CIED distributions	**-**	(3,371)
Grant programs	**31**	528
Net cash provided (used) by noncapital financing activities	**(337,371)**	(311,128)
Cash flows from investing activities		
Purchases of investments	**(670,959)**	(612,534)
Proceeds from sales and maturities of investments	**579,380**	374,146
Interest and other income	**34,521**	25,440
Net cash provided (used) by investing activities	**(57,058)**	(212,948)
Net increase (decrease) in cash and cash equivalents	**(1,286)**	57,582
Cash and cash equivalents at beginning of period	**499,536**	441,954
Cash and cash equivalents at end of period	**$ 498,250**	$ 499,536

Reconciliation of operating income to net cash provided by operating activities	2015	2014
Cash flows from operating activities		
Operating income	**$ 604,268**	$ 485,794
Noncash items included		
Depreciation and amortization	**395,788**	390,215
Nuclear fuel amortization	**41,688**	34,025
Provision for doubtful accounts	**14,646**	10,143
Changes in current assets and liabilities		
(Increase) decrease in customer accounts receivable, net	**7,493**	(68,698)
(Increase) decrease in other receivables	**4,282**	(7,426)
(Increase) decrease in materials and supplies	**628**	6,976
(Increase) decrease in fossil fuels	**(24,954)**	6,327
(Increase) decrease in prepayments and other	**8,779**	(805)
Increase (decrease) in accounts payable and accrued liabilities	**24,049**	49,352
Changes in noncurrent and other assets and liabilities		
(Increase) decrease in other noncurrent assets and prepaid costs	**7,534**	8,659
Increase (decrease) in customer service deposits payable	**1,189**	617
Increase (decrease) in STP decommissioning liability	**12,704**	26,481
Increase (decrease) in noncurrent liabilities	**(75,489)**	(431)
Changes in deferred outflows of resources	**7,786**	6,455
Changes in deferred inflows of resources	**54,082**	(1,940)
Net cash provided (used) by operating activities	**$ 1,084,473**	$ 945,744

Noncash financing activities	2015	2014
Bond proceeds deposited into an escrow account for purposes of refunding long-term debt	**$ 596,415**	$ -
Gain on lease/leaseback termination, net	**$ 43,414**	$ -
Donated assets received and recorded	**$ 4,494**	$ 6,469

Noncash investing activities	2015	2014
Securities lending cash collateral (increase) decrease – Decommissioning Trusts	**$ (9,193)**	$ 3,104

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS
January 31, 2015 and 2014

1. Summary of Significant Accounting Policies

Reporting Entity – City Public Service Board of San Antonio (also referred to as "CPS Energy," "CPS" or the "Company") has been owned by the City of San Antonio, Texas ("City") since 1942. CPS Energy provides electricity and natural gas to San Antonio and surrounding areas. As a municipally owned utility, CPS Energy is exempt from the payment of income taxes, state franchise taxes, use taxes, and real and personal property taxes. CPS Energy provides certain payments and benefits to the City as permitted by bond ordinances. CPS Energy's financial results are also included within the comprehensive annual financial report of the City.

The decision to include applicable component units in CPS Energy's financial statements was made by applying the criteria set forth in Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. The following legally separate entities, for which CPS Energy is financially accountable and with which a financial benefit/burden relationship exists, meet those criteria for inclusion in CPS Energy's financial statements as component units; therefore, their financial statements are blended with those of CPS Energy:

- The City Public Service Restated Decommissioning Master Trust for the South Texas Project ("28% Decommissioning Trust"), and
- The City Public Service Decommissioning Master Trust (TCC Funded) ("12% Decommissioning Trust").

These two component units are collectively referred to herein as the Decommissioning Trusts or the Trusts.

The financial statements of the City Public Service Pension Plan ("Plan") are separately audited and reported. The financial results of the Plan are not included herein except for certain disclosures as provided in Note 9 – Employee Pension Plan and in the Required Supplementary Information ("RSI") following the financial statement notes.

The City Public Service Group Health and Group Life Insurance Plans, and CPS Energy Long Term Disability Income Plan (collectively, "Employee Benefit Plans") are separately audited and reported. The financial results of the Employee Benefit Plans are not included herein except for certain disclosures as provided in Note 10 – Other Postemployment Benefits and in the RSI following the financial statement notes.

Included in CPS Energy's financial statements are the applicable financial results for 40% of the South Texas Project ("STP") Units 1 and 2.

STP is a nonprofit special-purpose entity that reports under the guidance issued by the Financial Accounting Standards Board ("FASB"), including Topic 958 of the FASB Accounting Standards Codification, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to STP's financial information within CPS Energy's financial statements for these differences.

Fiscal Year ("FY") – The fiscal years ended January 31, 2015, and January 31, 2014, are referred to herein as FY 2015 and FY 2014, respectively.

Basis of Accounting – The financial statements of CPS Energy are presented in accordance with U.S. generally accepted accounting principles ("GAAP") for proprietary funds of governmental entities. CPS Energy, including the Decommissioning Trusts, complies with all applicable pronouncements of GASB.

In accordance with the utility systems' revenue bond ordinances, CPS Energy has adopted the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners ("NARUC"). The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

FY 2014 GASB pronouncement implementations:

- GASB Statement No. 65*, Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Additionally, this Statement provides reporting guidance related to deferred outflows of resources and deferred inflows of resources. Adoption of this Statement resulted in the reclassification of certain items previously reported as assets or liabilities. Additionally, a regulatory asset was established for the debt issuance costs that would otherwise have been expensed upon implementation of GASB Statement No. 65.

- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, removes from GASB Statement No. 10 certain provisions pertaining to fund-based reporting and modifies specific guidance in GASB Statement No. 62 on accounting for (1) certain types of lease payments, (2) certain elements of purchased loan transactions, and (3) certain fees related to mortgage loans that are sold. There was no impact to CPS Energy's financial statements from implementation of this guidance.

- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantee Transactions*, provides accounting and disclosure guidance for transactions in which a government has extended or received a financial guarantee without directly receiving equal-value consideration in exchange. This guidance requires a government that has extended or received a nonexchange financial guarantee to recognize a liability in certain circumstances involving the likelihood or actuality of payments being made on those guarantees. There was no impact from the implementation of this guidance, as the Company is currently neither the grantor nor the beneficiary of any nonexchange financial guarantees.

FY 2015 GASB pronouncement implementations:

- GASB Statement No. 67, *Financial Reporting for Pension Plans*, amends the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts, or equivalent arrangements. This Statement enhances note disclosures and RSI. It also 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. This Statement was implemented by the CPS Energy-sponsored pension benefit trust in its fiscal year ended December 31, 2014.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, amends the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they

relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements. Refer below to description of effects of implementation of this standard.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting guidance related to government combinations and disposals of government operations. The term *government combinations* refers to a variety of transactions and may be mergers, acquisitions or transfers of operations. This standard sets forth definitions of each of these transaction types and prescribes the specific accounting and reporting treatment to be given for each. The Statement also provides accounting and reporting guidance for disposals of government operations that have been sold or transferred. The requirements of this Statement will be applied, beginning in FY 2015, to applicable combination and disposal transactions into which the Company may enter. In FY 2015, CPS Energy was not a party to any transaction types within the scope of this guidance.

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, provides guidance for amounts associated with contributions, if any, made by a contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. A beginning deferred outflow of resources is required for pension contributions made subsequent to the measurement date of the beginning net pension liability. The effect of this guidance on the Company resulted in the recognition of a deferred outflow of resources for contributions made subsequent to the measurement date of the Company's beginning net pension liability.

The following guidance issued by GASB will be implemented by CPS Energy in FY 2016:

- GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. Statement No. 72 requires that investments should generally be measured at fair value, with certain investments, such as short-term money market instruments, being specifically excluded from the requirement. Disclosures required by the standard include a description of the inputs and methods used to measure fair value. CPS Energy is currently evaluating the impact that adoption of this Statement will have on its financial statements.

Implementation of GASB Statement No. 68 – CPS Energy adopted the requirements of GASB Statement No. 68 in FY 2015. This statement provides guidance for the measurement and recognition of a net pension liability and pension expense, and includes instruction for balances to be recognized as deferred outflows of resources and deferred inflows of resources. The impact for CPS Energy is as follows:

Net pension liability – The net pension liability reported under GASB Statement No. 68 is the difference between the actuarial present value of projected pension benefit payments attributable to employees' past service and the Plan's fiduciary net position. Previous to this new guidance, a liability was recognized only to the extent that contributions made to the plan were exceeded by the actuarially calculated contributions.

Deferred outflows of resources and deferred inflows of resources – GASB Statement No. 68 requires recognition of deferred outflows and inflows of resources associated with the difference between projected and actual earnings on Plan investments, to be amortized to pension expense over a closed five-year period. Also to be recognized as deferred outflows and inflows of resources are differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability, to be amortized to pension

expense over a closed period equal to the average of the expected remaining service lives of all employees receiving pension benefits. Employer contributions to the pension trust made between the net pension liability measurement date and the employer's fiscal year end are recognized as deferred outflows of resources, to be included in pension expense in the subsequent fiscal year.

GASB Statement No. 68 is effective for financial statement periods beginning after June 15, 2014, with the effects of accounting change to be applied retroactively by restating the financial statements. The Company used regulatory accounting, as permitted under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and recorded a regulatory asset as of January 31, 2014, in the amount of $266.5 million to account for the net effect of required prior period restatements. CPS Energy adopted GASB Statement No. 68 in FY 2015 and, accordingly, has restated amounts of the affected balances within the financial statements for the period ended January 31, 2014, as follows:

(In thousands)	As Originally Reported	As Restated	Effect of Change
Statement of Net Position			
Noncurrent assets			
Pension regulatory asset	$ -	$ 266,452	$ 266,452
Deferred outflows of resources			
Unamortized loss on pension resources	-	37,156	37,156
Employer pension contributions	-	44,400	44,400
Total deferred outflows of resources	-	81,556	81,556
Noncurrent liabilities			
Other noncurrent liabilities - net pension obligation	(6,143)	-	6,143
Net pension liability	-	(344,450)	(344,450)
Deferred inflows of resources			
Unamortized gain on pension resources	-	(9,701)	(9,701)
Net position	3,383,625	3,383,625	-
Statement of Revenues, Expenses and Changes in Net Position			
Operating expenses			
CPS Energy operation and maintenance	333,148	322,176	(10,972)
Annual OPEB and pension costs	54,010	64,982	10,972

The following information is presented alphabetically:

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

Build America Bonds ("BABs") – The American Recovery and Reinvestment Act ("ARRA") of 2009 provided authority for the issuance of BABs, which were issuable in calendar years 2009 and 2010 as taxable bonds. The ARRA permitted the issuer or the issuer's paying agent to receive subsidy payments equal to 35% of the bond's interest costs directly from the U.S. Department of the Treasury. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government reduced the BABs subsidy by 8.7% for payments made during the period March 1, 2013, through their fiscal year ended September 30, 2013. The federal government reduced the BABs subsidy by 7.2% for payments made during the period October 1, 2013, through their fiscal year ended September 30, 2014. The subsidy is being reduced by 7.3% for payments made during the period

October 1, 2014, through their fiscal year ended September 30, 2015. Transaction details for CPS Energy's BABs issuances are provided in Note 6 – Revenue Bonds.

Capital Assets – The costs of additions and replacements of assets identified as major components or property units are capitalized. Maintenance and replacement of minor items are charged to operating expense. Except for certain assets that may become impaired, the cost of a depreciable asset that is retired, plus removal costs and less salvage, is charged to accumulated depreciation. Per the financial reporting requirements of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, any losses associated with capital asset impairments will be charged to operations, not to accumulated depreciation.

A constructed utility plant is stated at the cost of construction, including expenditures for contracted services; equipment, material and labor; indirect costs, including general engineering, labor, equipment and material overheads; and AFUDC, or capitalized interest. AFUDC is applied to projects that require 30 days or more to complete.

Proceeds from customers to partially fund construction expenditures are reported as contributed capital in the Statements of Revenues, Expenses and Changes in Net Position as increases in net position in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The amount reported for contributed capital was $43.7 million for FY 2015 and $40.1 million for FY 2014. This included donated assets of $4.5 million and $6.5 million, respectively. The remaining portion of these balances, $39.2 million for FY 2015 and $33.6 million for FY 2014, represents contributions received from customers as payments for utility extensions and services, as well as funding for the Light Emitting Diode ("LED") streetlight project.

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.3% for both FY 2015 and FY 2014.

The estimated useful lives of depreciable capital assets for both FY 2015 and FY 2014 were as follows:

Depreciable Capital Asset	Estimated Useful Life
Buildings and structures	20–60 years
Systems and improvements	
Generation	18–60 years
Transmission and distribution	20–55 years
Gas	50–65 years
Intangibles - software	10 years
Intangibles - other	30 years
Machinery and equipment	4–30 years
Mineral rights and other	20–40 years
Nuclear fuel	Units of Production

Thresholds contained in the Company's capitalization policy for both FY 2015 and FY 2014 were as follows:

Asset Class	Threshold
Land, land improvements and certain easements	Capitalize all
Buildings and building improvements	$10,000
Computer software – purchased	50,000
Computer software – internally developed	50,000
Computer software – enhancements/upgrades	50,000
Computer hardware	3,000
All other assets	3,000

Cash Equivalents and Investments, Unrestricted and Restricted – CPS Energy's investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments. CPS Energy's investments with a maturity date longer than one year from the purchase date are accounted for at fair value. As available, fair values are determined by using generally accepted financial reporting services, publications and broker-dealer information. The specific identification method is used to determine costs in computing gains or losses on sales of securities. CPS Energy also reports all investments of the Decommissioning Trusts at fair value.

Restricted funds are generally for uses other than current operations. They are designated by law, ordinance or contract and are often used to acquire or construct noncurrent assets. Restricted funds consist primarily of unspent bond or commercial paper proceeds, debt service required for the New Series Bonds (senior lien obligations), Series Bonds (junior lien obligations), commercial paper, the flexible rate revolving note ("FRRN") and funds for future construction or contingencies. This category also includes customer assistance programs where proceeds are received from outside parties. The assets of the Decommissioning Trusts are also considered restricted.

The Repair and Replacement Account is restricted in accordance with the Company's bond ordinances. Prior to FY 2014, in compliance with a bond ordinance and as authorized by the Board, a portion of the Repair and Replacement Account was designated a Community Infrastructure and Economic Development ("CIED") Fund. Historically, on an annual basis, 1% of the prior fiscal year's electric base rate revenue, which excluded applicable fuel adjustments and regulatory fees, was redesignated from the Repair and Replacement Account to the CIED Fund. In general, the restricted CIED Fund was used to support qualified capital projects that provided economic benefit within the communities served. All such appropriated funds were included with the assets restricted by bond ordinance. Effective February 1, 2012, the Board found that the objectives underlying the establishment of the CIED Fund had been successfully accomplished and authorized the termination of the policy providing for annual contributions to the fund. Balances remaining in the CIED Fund at January 31, 2012, could continue to be earmarked to support qualified capital projects for up to three years. Any funds designated for use by a suburban city that were not used for approved projects were paid to the suburban city following execution of an Agreement Incident to Termination. CIED distributions to the suburban cities were completed in FY 2014, with $3.4 million in distributions made in that year.

Prior to FY 2014, in lieu of CIED funding, the City requested an equivalent amount of general funds to be transferred for its use. In such cases, the amount previously designated for CIED funding was returned to the Repair and Replacement Account and general funds were transferred to the City. In accordance with bond ordinances, the combined total of all payments to the City may not exceed 14% of gross revenues.

Until early FY 2016, CPS Energy and the Decommissioning Trusts had agreements with Frost Bank, a Texas-based financial institution, for the purpose of securities lending. Any cash collateral received for

CPS Energy's or the Decommissioning Trusts' securities lending transactions was reported as a current asset on the Statements of Net Position and the corresponding obligation to repay the cash collateral was reported on the Statements of Net Position as a current liability that directly offsets the amount received from broker-dealers in exchange for securities loaned. The securities lending program with Frost Bank was discontinued effective April 1, 2015. . See Note 12 – Other Financial Instruments for details regarding securities lending.

For additional disclosures provided in accordance with GASB Statement No. 40, Deposit and Investment Risk Disclosures, see Note 2 – Cash, Cash Equivalents and Investments. These disclosures address investment exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, as applicable.

Communication Towers Sale – In FY 2014, the Company entered into an agreement for $41.0 million to sell 69 existing communication towers to an independent third party, including provisions for the Company's continued use of select space on those towers, the purchaser's use of space in the Company's communication shelters located near the towers, and the assignment of existing license agreements with other third parties using space on the towers. See Note 4 – Capital Assets, Net and Note 16 – Leases for additional information.

Compensated Absences – Employees earn vacation benefits based upon their employment status and years of service. As of January 31, 2015, and January 31, 2014, the accrued liabilities for those vested benefits were $16.1 million and $17.8 million, respectively.

Decommissioning – The Company accounts for decommissioning by recognizing a liability and an expense for a pro rata share of projected decommissioning costs as determined by the most recent cost study. A new cost study is performed every five years; and, in years subsequent to the latest study, estimated annual decommissioning expense and an increase in the liability is calculated by applying the effects of inflation and the ratio of years of plant usage to total plant life. See Note 14 – South Texas Project for additional details on the most recent cost study.

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

Currently, a project to develop an independent spent fuel storage installation is under way at STP in order to provide for storage of spent nuclear fuel after the spent fuel pool has reached capacity. CPS Energy's Decommissioning Trusts have separate spent fuel management accounts to pay for those costs. By contract, spent fuel will eventually be removed to final storage by the Department of Energy ("DOE"). The DOE failed to meet the contractual start date to receive spent fuel, and STP and other utilities have reached settlement agreements with the DOE. In the most recent settlement agreement dated January 24, 2014, the DOE committed to reimburse STP for allowable spent fuel management expenditures through 2016.

Ongoing costs for the spent fuel management project are being funded by the STP owners (CPS Energy; the City of Austin; and NRG South Texas LP, a wholly owned subsidiary of NRG Energy, Inc.) as

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

Deferred Inflows of Resources – Deferred inflows of resources related to the sale of future revenue associated with the sale of the communication towers totaled $5.3 million at January 31, 2015, and $6.5 million at January 31, 2014.

Pursuant to GASB Statement No. 68 accounting methodologies adopted beginning in FY 2015, recognition of deferred inflows of resources related to pension amounted to $63.8 million as of January 31, 2015, and $9.7 million as of January 31, 2014.

Deferred Outflows of Resources – Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred outflows or deferred inflows of resources on the Statements of Net Position until the expiration of the contract underlying the hedged expected fuel purchase transaction. When fuel hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel expense. Deferred outflows of resources related to fuel hedges totaled $29.8 million at January 31, 2015, and $1.0 million at January 31, 2014.

For current and advance refundings of debt, the difference between the reacquisition price and the net carrying amount of the old debt is recorded as unamortized reacquisition costs and reported as deferred outflows of resources. These amounts are amortized as components of interest expense over the shorter of the remaining life of the refunding or the refunded debt. At January 31, 2015, and January 31, 2014, reacquisition costs totaled $65.2 million and $79.7 million, respectively.

Pursuant to GASB Statement No. 68 accounting methodologies adopted beginning in FY 2015, recognition of deferred outflows of resources related to pension amounted to $73.8 million as of January 31, 2015, and $81.6 million at January 31, 2014.

Federal Grant Programs – Periodically, federal grants are made available to CPS Energy as a subrecipient for a portion of grant funds allocated to the state of Texas. Grant funds used for weatherization were exhausted in early FY 2013. Grant receipts are recorded as nonoperating income and generally reimburse CPS Energy for costs, recorded as operating expenses, incurred in the administration of the program. This accounting treatment results in no impact to the Company's net position. Revenues associated with the grant-related programs are exempt from payments of a percentage of gross revenues made to the City. Grant funding received by the Company is subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Flexible Rate Revolving Note Private Placement Program – On January 20, 2009, the CPS Energy Board of Trustees ("Board") authorized the establishment of an FRRN program to provide additional liquidity in support of the Systems. Under the program, the Company can issue taxable or tax-exempt notes with individual maturities of one year or less at fixed or variable interest rates in an aggregate principal amount at any one time outstanding not to exceed $100 million. The program became effective on April 28, 2009, and through annual renewals authorizes the issuance of such notes through November 1, 2028. The FRRN has been classified as short-term in accordance with the financing terms

under the Note Purchase Agreement and is reported on the Statements of Net Position under current maturities of debt. The note outstanding under this program totaled $25.2 million at January 31, 2015, and at January 31, 2014. See Note 8 – Flexible Rate Revolving Note.

Interim Transmission Costs of Service ("TCOS") Filing – On June 3, 2014, CPS Energy filed an Application for Interim Update of Wholesale Transmission Rates, based on FY 2014 data, with the Public Utility Commission of Texas ("PUCT"). This interim TCOS filing was submitted to request an increase in transmission revenue requirements as a result of increased capital investment since FY 2006. The application was approved on July 23, 2014, and resulted in an annual transmission revenue requirement of $169.5 million. This represents an increase of $74.3 million from the $95.2 million transmission revenue requirement previously approved on January 19, 2007. Interim transmission rates are subject to reevaluation by the PUCT at the time of a transmission service provider's next complete wholesale transmission rate review. CPS Energy management does not expect that any adjustment to the approved interim rates resulting from a future reevaluation would be significant.

Inventories – CPS Energy maintains inventories for its materials and supplies and fossil fuels. In total, CPS Energy reported ending inventories of $196.7 million and $172.3 million at January 31, 2015, and January 31, 2014, respectively. Included in these amounts was CPS Energy's portion of STP inventories valued at $46.6 million at January 31, 2015, and $45.5 million at January 31, 2014. STP values its inventories at the lower of average cost or net realizable value. CPS Energy's directly managed inventories are valued using an average costing approach.

Lease/Leaseback Transaction – The City was a party to a transaction, entered into in June 2000, involving its J.K. Spruce Unit 1 ("Spruce 1") coal-fired electric generating unit, pursuant to which such facility was subject to a variety of contractual arrangements, including a lease agreement, with CPS Energy as lessee. The term of the lease was scheduled to expire in March 2032.

In February 2014, the parties executed an agreement terminating the transaction in its entirety. As a result of this termination, CPS Energy was released from all scheduled payment and security obligations under the lease transaction. The termination transaction resulted in a noncash gain of $43.4 million, net of the related City payment on the termination, which was reported as a special item on the Statements of Revenues, Expenses and Changes in Net Position. See Note 13 – Lease/Leaseback for additional discussion of this transaction.

Long-Term Debt – To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2015, and January 31, 2014, these included fixed-rate and variable-rate bonds, as well as commercial paper. Relative to the bond instruments, provisions may be included that allow for refunding after specified time periods during the bond term.

Subject to applicable timing restrictions that may prevent early payoff, CPS Energy also has the option to defease or extinguish debt. A defeasance occurs when funds are placed in an irrevocable trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, which fully discharges the bond issuer's obligation. At the time of an extinguishment, since the issuer no longer has the legal obligation, the defeased debt is removed from the Statements of Net Position, the related unamortized costs are expensed, and the gain or loss is immediately recognized.

Current refundings involve issuing new debt (refunding bonds) to redeem existing debt (refunded bonds) that can be called within 90 days of the call date of the refunded bonds. Advance refunding of bonds involves issuing new debt to redeem existing debt that cannot be called within 90 days of issuing the refunding bonds. In these circumstances, the refunding bond proceeds are irrevocably escrowed with a third party. These proceeds, and income thereon, are used to pay the debt service on the refunded bonds

until the refunded bonds can be called. Refunding bonds are generally issued to achieve debt service savings. See Note 6 – Revenue Bonds for information on current-year debt refundings.

Net Pension Liability – A net pension liability is recorded in accordance with GASB Statement No. 68. The liability is the difference between the actuarial total pension liability and the Plan's fiduciary net position as of the measurement date. The net pension liability was $266.8 million at January 31, 2015, and $344.5 million at January 31, 2014. For additional information, see Note 9 – Employee Pension Plan.

New Generation Assets – In FY 2013, taxable senior lien bonds were issued to purchase the Rio Nogales combined-cycle natural gas electric generating plant in Seguin, Texas. The 800-megawatt ("MW") plant is being utilized to provide a portion of its power to a third party that has executed a multiyear agreement, due to expire in September 2015, for an option to call on power from the plant. Any remaining power is available for CPS Energy to sell into the Electric Reliability Council of Texas ("ERCOT") market or to utilize for meeting its commitments. CPS Energy will be integrating the Rio Nogales plant into its rate base to provide generation capacity that will not otherwise be available once J.T. Deely Units 1 and 2 are mothballed. In conjunction with the purchase, CPS Energy entered into a Tax Exemption Settlement Agreement pursuant to which CPS Energy paid $25.5 million to certain parties to compromise, terminate claims and settle any disputes relating to exemption of ad valorem taxes involving the parties to this agreement. This amount is being amortized over the life of the agreement, which runs through December 2041. See Note 4 – Capital Assets, Net for more details on the Rio Nogales plant purchase.

Other Noncurrent Assets and Prepaid Costs – Other noncurrent assets include prepayments, Save for Tomorrow Energy Program ("STEP") net costs recoverable, pension regulatory asset, net other postemployment benefits ("OPEB") obligation and unamortized bond expense.

Prepayments – Included in prepayments is the balance related to an agreement entered into in November 2011, between the Company and SunEdison, for purchased power from San Antonio-area solar energy facilities with a total of 30 MW of capacity. In FY 2013, $77.0 million in prepayments were made for approximately 60% of the anticipated annual output over a period of 25 years. At January 31, 2015, of the remaining prepayment balance, $3.1 million was classified as current and $66.1 million was classified as noncurrent. At January 31, 2014, $3.1 million was classified as current and $69.1 million was classified as noncurrent. The purchase of the balance of the output is on a pay-as-you-go basis. As part of the agreement, CPS Energy has the right to purchase the facilities six years after commencement of commercial operation.

Save for Tomorrow Energy Program – Through STEP**,** CPS Energy has projected to spend approximately $849 million over a 12-year period, beginning in FY 2010, on energy efficiency and conservation. Contributing towards its goal to save 771 MW by 2020, CPS Energy's programs include home weatherization, higher efficiency light bulbs, solar rebates, peak saver thermostats, home area networks and other such initiatives.

Annually, approximately $8.0 million of the STEP expenses are funded through the electric base rate and reported as CPS Energy O&M expenses. STEP expenses over this initial amount per year are recovered through the fuel adjustment factor over a 12-month period beginning in the subsequent fiscal year after they are incurred and have been independently validated. These STEP recoveries are accrued as a regulatory asset referred to as STEP net costs recoverable in accordance with guidance provided by GASB Statement No. 62. This guidance permits certain costs to be capitalized as a regulatory asset until they are recovered through future rates.

Net OPEB obligation – An OPEB obligation is recorded in accordance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension. The obligation represents the cumulative difference between the annual OPEB cost and the employer's

contributions to the Employee Benefit Plans. At January 31, 2015, and January 31, 2014, the net OPEB obligation was $(6.9) million and $(12.4) million, respectively. For additional information, see Note 10 – Other Postemployment Benefits and Required Supplementary Information.

Other Noncurrent Liabilities – Other noncurrent liabilities include the obligation for Project Warm resources held by the Company, the unrealized change in fair market value of fuel hedges, unearned communication shelter revenue, miscellaneous unearned credits, and other liabilities for balances payable and deposits received.

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

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

Regulatory Accounting – Regulatory accounting applies to governmental entities with rate-regulated operations, such as CPS Energy, that fall within the scope of GASB Statement No. 62. Regulatory accounting may be applied by entities to activities that have regulated operations that meet all required criteria. By establishing a regulatory asset, an entity seeks to recognize a cost over a future period of time and match recovery of those costs from its ratepayers to the amortization of the asset. An entity must demonstrate that adequate future revenue will result from inclusion of that cost in allowable costs for rate-making purposes.

Beginning in FY 2014, with the implementation of GASB Statement No. 65, CPS Energy adopted the use of regulatory accounting to account for debt issuance costs. Prior to FY 2014, the Company had historically reported debt issuance costs as assets and amortized them over the life of the related debt. Under GASB Statement No. 65, debt issuance costs no longer meet the definition of an asset, nor do they meet the definition of a deferred outflow of resources; therefore, they must be expensed in the period incurred. CPS Energy, as a rate-regulated entity and in accordance with guidance found in GASB Statement No. 62, received approval from the San Antonio City Council in FY 2014 to establish a regulatory asset for the debt issuance costs that would otherwise have been expensed upon implementation of GASB Statement No. 65. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt. See Note 6 – Revenue Bonds for additional information.

The Company also elected to use regulatory accounting in conjunction with the implementation of GASB Statement No. 68, which requires immediate recognition of the Company's previously unrecognized net pension liability. For governmental entities other than those whose operations are rate regulated, the GASB Statement No. 68 adoption accounting requires a charge to Net Position (Equity) for the net effect of the restatements required to recognize the net pension liability. CPS Energy elected to use regulatory accounting, as allowed under GASB Statement No. 62, to create a regulatory asset representing the net effect of the prior period restatements. Authorization was obtained from the San Antonio City Council for the creation of the regulatory asset, which totaled $266.5 million and is being amortized over a period of 50 years. See Note 9 – Employee Pension Plan for additional information.

Revenues and Expenses – Revenues are recorded when earned. Customers' meters are read, or periodically estimated, and bills are prepared monthly based on billing cycles. Rate tariffs include adjustment clauses that permit recovery of electric and gas fuel costs. CPS Energy uses historical information from prior fiscal years as partial bases to estimate and record earned revenue not yet billed. This process involves an extrapolation of customer usage over the days since the last meter read through the last day of the monthly period. Also included in unbilled revenue are the over/under-recoveries of electric and gas fuel costs and regulatory assessments. Unbilled revenue receivable recorded at

January 31, 2015, and January 31, 2014, including estimates for electric fuel and gas costs, was $37.2 million and $55.5 million, respectively.

An adjustment clause in CPS Energy's rate tariffs also permits recovery of regulatory assessments. Specifically, beginning in March 2000, CPS Energy began recovering assessments from the PUCT for transmission access charges and from the Texas Independent System Operator, also known as ERCOT, for its operating costs and other charges applicable to CPS Energy as a wholesale provider of power to other utilities. Regulatory assessments for FY 2015 and FY 2014 were $79.3 million and $72.5 million, respectively. These regulatory assessments include the impact of the change in CPS Energy's interim TCOS application approved on July 23, 2014.

Operating revenues include receipts from energy sales, ancillary services and miscellaneous revenue, such as late payment fees and rental income, related to the operation of electric and gas systems ("Systems"). Operating expenses are recorded as incurred and include those costs that result from the ongoing operations of the Systems.

Nonoperating income consists primarily of investment income, including fair value adjustments, and grant programs. The amortization of net gains from the lease/leaseback of the Spruce 1 coal-fired electric generating unit is also included for FY 2014. Certain miscellaneous income amounts from renting general property and providing various services are also recorded as nonoperating income when they are not directly identified with the Systems. Beginning in FY 2015, rental income from the sale of communication towers is also included in nonoperating income.

Statements of Cash Flows – For purposes of reporting cash flows, CPS Energy considers all highly liquid debt instruments purchased with an original maturity of 90 days or less to be cash equivalents. CPS Energy's Statements of Cash Flows separately list the noncash transactions.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses reported during the fiscal periods. Accordingly, actual results could differ from those estimates.

2. Cash, Cash Equivalents and Investments

CPS Energy's cash deposits at January 31, 2015, and January 31, 2014, were either insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the securities were U.S. Government, U.S. Government Agency or U.S. Government-guaranteed obligations held in book entry form by the Federal Reserve Bank of New York in CPS Energy's name.

Separation – CPS Energy's cash, cash equivalents and investments can be separated in the following manner:

- Those directly managed by CPS Energy, and
- Those managed through the Decommissioning Trusts.

For financial reporting purposes, cash, cash equivalents and investments managed directly by CPS Energy have been consistently measured as of the end of the applicable fiscal years. The Decommissioning Trusts are reported on a calendar-year basis.

Cash and Cash Equivalents

(In thousands)

	January 31,	
	2015	2014
Cash		
Petty cash funds on hand	**$ 97**	$ 97
Deposits with financial institutions		
Unrestricted CPS Energy deposits	**53**	19,004
Restricted CPS Energy deposits		
Capital projects	**3**	6
Debt service	**528**	734
Project Warm	**194**	173
Total cash	**875**	20,014
Cash equivalents		
Investments with original maturities of 90 days or less		
CPS Energy unrestricted (current)	**212,920**	268,732
CPS Energy restricted (noncurrent)	**252,749**	187,154
Decommissioning Trusts – restricted (noncurrent)	**31,706**	23,636
Total cash equivalents	**497,375**	479,522
Total cash and cash equivalents	**$ 498,250**	$ 499,536

Summary of Cash, Cash Equivalents and Investments

(In thousands)

	January 31,	
	2015	2014
Cash and cash equivalents		
CPS Energy – unrestricted and restricted	**$ 466,544**	$ 475,900
Decommissioning Trusts – restricted	**31,706**	23,636
Total cash and cash equivalents	**498,250**	499,536
Gross investments – current and noncurrent		
CPS Energy – unrestricted and restricted	**1,133,500**	1,028,771
Decommissioning Trusts – restricted	**536,416**	494,090
Total gross investments	**1,669,916**	1,522,861
Investments with original maturities of 90 days or less included in cash and cash equivalents		
CPS Energy – unrestricted and restricted	**(465,669)**	(455,886)
Decommissioning Trusts – restricted	**(31,706)**	(23,636)
Total cash equivalents	**(497,375)**	(479,522)
Net noncurrent investments	**1,172,541**	1,043,339
Total cash, cash equivalents and investments	**$ 1,670,791**	$ 1,542,875

Public Funds Investment Act ("PFIA") – CPS Energy's investments and the investments held in the Decommissioning Trusts are subject to the rules and regulations of the PFIA. The PFIA regulates what types of investments can be made, requires written investment policies, mandates training requirements of investment officers, requires internal management reports to be produced at least quarterly, and provides for the selection of authorized broker-dealers and investment managers.

Investments of CPS Energy – CPS Energy's allowable investments are defined by Board resolution, CPS Energy Investment Policy, bond ordinances, commercial paper ordinance and state law. These

investments are subject to market risk, and their market value will vary as interest rates fluctuate. All CPS Energy investments are held in trust custodial funds by independent banks.

Investments of the Decommissioning Trusts – CPS Energy's investments in the Decommissioning Trusts are held by an independent trustee. Investments are limited to those defined by Board resolution, the South Texas Project Decommissioning Trust Investment Policy, the Investment Committee, the Trust Agreements and state law, as well as PUCT and Nuclear Regulatory Commission ("NRC") guidelines. Allowable investments for the Decommissioning Trusts include those directly permissible for CPS Energy, as well as equities and corporate bonds (including international securities traded in U.S. dollars and on U.S. stock exchanges). In accordance with the Trusts' Investment Policy, total investments can include a maximum of 60% equity securities. In the summer of 2014, CPS Energy refined its target allocations for both Trusts in an effort to further reduce the overall risk of the portfolios. The new target allocations for both Trusts are 63.5% fixed income, 28.0% equities and 8.5% U.S. real estate investment trusts.

Permissible Investments

Investment Description	CPS Energy Investments	Decommissioning Trusts Investments
U.S. Government, U.S. Government Agency, or U.S. Government-guaranteed obligations	✓	✓
Collateralized mortgage obligations issued by the U.S. Government, or other obligations whose principal and interest are guaranteed by the U.S. or state of Texas	✓	✓
Fully secured certificates of deposit offered by a broker or issued by a depository institution that has its main office or branch office in the state of Texas	✓	✓
Direct repurchase agreements	✓	✓
Reverse repurchase agreements	✓	✓
Defined bankers' acceptances and commercial paper	✓	✓
No-load money market mutual funds	✓	✓
Investment pools	✓	Not Permitted
Equities	Not Permitted	✓
Investment quality obligations of states, agencies, counties, cities and political subdivisions of any state	✓	✓
Corporate bonds	Not Permitted	✓
International securities	Not Permitted	✓
No-load commingled funds	Not Permitted	✓
Securities lending programs	✓	✓
Other specific types of secured or guaranteed investments	✓	✓

Cash, Cash Equivalents and Investments by Fund
(In thousands)

	January 31,	
	2015	2014
Unrestricted		
Cash and cash equivalents	**$ 213,070**	$ 287,833
Investments	**145,150**	61,797
Total unrestricted (current)	**358,220**	349,630
Restricted		
Debt service		
Cash and cash equivalents	**13,210**	1,248
Total debt service	**13,210**	1,248
Capital projects		
Cash and cash equivalents	**101,191**	67,786
Investments	**117,008**	158,393
Total capital projects	**218,199**	226,179
Ordinance		
Cash and cash equivalents	**138,866**	118,847
Investments	**398,165**	345,304
Total ordinance	**537,031**	464,151
Project Warm		
Cash and cash equivalents	**207**	186
Investments	**7,508**	7,391
Total Project Warm	**7,715**	7,577
Decommissioning Trusts		
Cash and cash equivalents	**31,706**	23,636
Investments	**504,710**	470,454
Total Decommissioning Trusts	**536,416**	494,090
Total restricted		
Cash and cash equivalents	**285,180**	211,703
Investments	**1,027,391**	981,542
Total restricted (noncurrent)	**1,312,571**	1,193,245
Total cash, cash equivalents and investments (unrestricted and restricted)	**$ 1,670,791**	$ 1,542,875

Risk Exposure – Cash equivalents and fixed-income investments are exposed to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk. Equity investments are exposed to credit risk (including custodial credit risk and concentration of credit risk) and foreign currency risk. Interest rate risk is the exposure to fair value losses resulting from rising interest rates. Credit risk is the risk that an issuer of an investment will not fulfill its obligations (will be unable to make timely principal and interest payments on the security). Foreign currency risk is the exposure to fair value losses arising from changes in exchange rates. Cash, cash equivalents and fixed-income investments are also exposed to inflation, liquidity, political, legal, event, reinvestment and timing (call) risks. Additionally, equity investments are exposed to political, legal, event, market and general economic risks. Due to market fluctuations, it is possible that substantial changes in the market value of investments could occur after the end of the reporting period.

CPS Energy's investments and the investments in the Decommissioning Trusts are managed with a conservative focus. The Investment Policies are structured to ensure compliance with bond ordinances, the PFIA, the Public Funds Collateral Act, the NRC, the PUCT, other applicable state statutes and Board resolutions relating to investments. CPS Energy identifies and manages risks by following an appropriate investment oversight strategy, establishing and monitoring compliance with Investment Policies and procedures, and continually monitoring prudent controls over risks.

Summary of Investments (Including Cash Equivalents) by Organizational Structure and Type[1]
(In thousands)

	January 31,	
	2015	2014
CPS Energy investments		
U.S. Treasuries, U.S. Agencies, municipal bonds, CDs, commercial paper, investment pools and money market mutual funds	**$ 1,133,500**	$ 1,028,771
Decommissioning Trusts		
U.S. Treasuries, U.S. Agencies, municipal bonds and money market mutual funds	**217,595**	171,921
Corporate bonds	**119,271**	93,208
Foreign bonds	**20,698**	17,121
Subtotal	**357,564**	282,250
Common stock	**133,259**	165,847
Real estate investment trusts	**44,864**	45,238
Preferred stock	**729**	755
Total Decommissioning Trusts	**536,416**	494,090
Total investments	**$ 1,669,916**	$ 1,522,861

[1] Excludes cash of $0.9 million and $20.0 million as of January 31, 2015, and January 31, 2014, respectively.

Investment Policies – In accordance with state law, the Trusts' Investment Policy allows for investment in additional types of securities, such as corporate bonds and equity securities. The policy provides guidelines to ensure all funds are invested in authorized securities in order to earn a reasonable return. The primary emphasis is placed on long-term growth commensurate with the need to preserve the value of the assets and, at the time funds are needed for decommissioning costs, on liquidity. The Investment Policy continues to follow the "prudent person" concept.

GASB Statement No. 40 – In accordance with GASB Statement No. 40, additional disclosures have been provided in this note that address investment exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, as applicable. CPS Energy's investments and those in the Decommissioning Trusts do not have custodial credit risk, as all investments are held either by an independent trustee or bank and are in CPS Energy's or the Decommissioning Trusts' names.

CPS Energy Investments

In accordance with GASB Statement No. 40, the following tables address concentration of credit risk and interest rate risk exposure by investment type using the weighted-average maturity ("WAM") method. Since CPS Energy does not hold foreign instruments in its direct investments (those held by CPS Energy), foreign currency risk is not applicable.

Interest rate risk – In accordance with its Investment Policy, CPS Energy manages exposure to fair value losses resulting from rising interest rates by placing a limit on the portfolio's WAM. The definition of WAM is the weighted-average time to return a dollar of principal based on the investments' stated final maturity. It is used as an estimate of the interest rate risk of a fixed-income investment. The Investment Policy limits the WAM to three years or less, which allows for the management of risk while optimizing returns. CPS Energy invests securities lending cash collateral and other funds in money market mutual funds that have no fixed maturities.

Concentration of credit risk – In accordance with its Investment Policy, CPS Energy manages exposure to concentration of credit risk through diversification and by limiting investment in each federal agency to 35% and investment in any other issuer of debt securities to 5% of the total fixed-income portfolio. Additionally, negotiable certificates of deposit are limited to 35% per issuer.

(Dollars in thousands)	**January 31, 2015**				January 31, 2014			
Investment Type	**Carrying Value**	Market Value	Allocation	WAM	Carrying Value	Market Value	Allocation	WAM
U.S. Treasuries	**$ 20,348**	$ 20,348	1.80%	1.5	$ -	$ -	-	-
U.S. Agencies								
Federal Home Loan Mortgage Corp	**132,542**	132,540	11.69%	3.3	112,759	112,755	10.96%	4.4
Federal National Mortgage Assn	**100,428**	100,428	8.86%	5.7	112,556	112,556	10.94%	5.3
Federal Home Loan Bank	**177,744**	177,746	15.68%	1.8	114,126	114,133	11.09%	0.9
Federal Farm Credit Bank	**143,650**	143,650	12.67%	3.3	60,859	60,859	5.92%	6.3
Small Business Administration	**11,042**	11,042	0.98%	5.7	11,720	11,720	1.14%	6.1
Municipal bonds	**61,588**	61,588	5.43%	2.0	69,232	69,240	6.73%	1.8
Certificates of deposit	**496**	496	0.04%	0.1	1,738	1,738	0.17%	0.6
Commercial paper	**19,992**	19,992	1.77%	0.1	89,894	89,894	8.74%	0.3
Investment pools	**158,141**	158,141	13.95%	-	51,034	51,034	4.96%	-
Money market mutual funds	**307,529**	307,529	27.13%	-	404,853	404,853	39.35%	-
Total fixed-income portfolio	**$ 1,133,500**	$ 1,133,500	100.00%	1.8	$ 1,028,771	$ 1,028,782	100.00%	1.8

Credit risk – In accordance with its Investment Policy, CPS Energy manages exposure to credit risk by limiting long-term debt security investments to those with a credit rating of "A-" or better. As of January 31, 2015, and January 31, 2014, CPS Energy held no debt securities with a long-term credit rating below A- , or equivalent, or a short-term credit rating below "A-1/P-1/F-1."

(Dollars in thousands)	**January 31, 2015**			January 31, 2014		
Credit Rating	**Carrying Value**	Market Value	Allocation	Carrying Value	Market Value	Allocation
U.S. Treasuries (AA+)	**$ 20,348**	$ 20,348	1.80%	$ -	$ -	-
AAA / Aaa	**378,173**	378,173	33.36%	337,409	337,409	32.80%
AA+ / Aa1	**574,219**	574,219	50.66%	419,195	419,198	40.75%
AA / Aa2	**16,574**	16,574	1.46%	16,278	16,278	1.58%
AA- / Aa3	**18,954**	18,954	1.67%	13,298	13,298	1.29%
A+ / A1	**5,169**	5,169	0.46%	3,560	3,560	0.35%
A / A2	**60,863**	60,863	5.37%	98,171	98,171	9.54%
A- / A3	**333**	333	0.03%	2,358	2,358	0.23%
Short-term:						
S-P1+ / MIG 1	**-**	-	-	11,527	11,535	1.12%
A-1 / P-1 / F-1	**19,992**	19,992	1.76%	89,894	89,894	8.74%
Not rated[1]	**38,875**	38,875	3.43%	37,081	37,081	3.60%
Total fixed-income portfolio	**$ 1,133,500**	$ 1,133,500	100.00%	$ 1,028,771	$ 1,028,782	100.00%

[1] The category is composed of certificates of deposit that are fully insured or collateralized at a minimum of 102% and unrated/lesser-rated money market mutual funds accounts which still meet PFIA/CPS Energy Investment Policy requirements.

Decommissioning Trusts Investments

As mentioned previously, the Decommissioning Trusts report their assets on a calendar-year basis; therefore, information related to the Trusts is as of December 31, 2014, and December 31, 2013. The tables in this section address interest rate risk exposure by investment type, credit risk, concentration of credit risk and foreign currency risk. All investments held by the Decommissioning Trusts are long-term in nature and are recorded at fair value.

Interest rate risk – Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity allow interim fluctuations in market value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim market value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim market value of longer-maturity bonds may change substantially.

To mitigate interest rate risk, a limitation is placed on the weighted-average duration ("WAD") of the fixed-income portfolio. WAD is defined as the weighted-average time to return a dollar of principal and interest and also incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows and is used as an estimate of the interest rate risk of a fixed-income investment—especially those with payment terms dependent on market interest rates. The overall portfolio duration is limited by the Investment Policy to a deviation of no more than +/- 1.5 years from the WAD of the Investment Committee's specified fixed-income index. The specified fixed-income index for the 28% Trust is a blended index that is based on 83.3% Barclays Capital Aggregate, 11.7% Barclays Credit A, and 5% Barclays Credit BAA; and the WAD of that blended index was 5.80 for 2014 and 5.70 for 2013. The specified fixed-income index for the 12% Trust is Barclays Capital Aggregate, which was 5.55 for both 2014 and 2013.

Concentration of credit risk – In accordance with the Investment Policy, exposure to concentration of credit risk is managed through diversification and by limiting investments in each federal agency to 30% and investments in any other single issuer of debt securities to 5% of the total fixed-income portfolio (excluding cash collateral from securities lending). Likewise, equity investments are limited to 5% of the total portfolio for any one issuer. Total other debt securities (corporate and foreign issuers) amounted to 47.3% of the fixed-income portfolio for the 28% Decommissioning Trust at both December 31, 2014, and December 31, 2013. Total other debt securities (corporate and foreign issuers) amounted to 23.7% and 20.7% of the fixed-income portfolio for the 12% Decommissioning Trust at December 31, 2014, and December 31, 2013, respectively.

The following table lists the fixed-income investment holdings by type:

(Dollars in thousands)	December 31, 2014			December 31, 2013		
Investment Type – 28% Trust	**Market Value**	Allocation	WAD	Market Value	Allocation	WAD
U.S. Treasuries	**$ 29,421**	11.70%	4.2	$ 17,884	8.87%	4.8
U.S. Agencies						
Federal National Mortgage Assn	**37,279**	14.83%	4.6	32,856	16.30%	4.6
Federal Home Loan Mortgage Corp	**22,660**	9.01%	5.7	23,196	11.51%	5.8
Small Business Administration	**5,133**	2.04%	5.1	3,884	1.93%	5.5
Government National Mortgage Assn	**2,178**	0.87%	1.4	2,617	1.30%	2.4
Municipal bonds – Texas	**1,542**	0.61%	9.1	656	0.33%	7.8
Municipal bonds – other states	**12,634**	5.02%	8.9	9,921	4.92%	8.8
Corporate bonds	**98,154**	39.04%	7.1	78,210	38.81%	6.4
Foreign bonds	**20,698**	8.23%	6.2	17,121	8.50%	6.0
Money market mutual funds	**21,760**	8.65%	-	15,181	7.53%	-
Total fixed-income investments	**251,459**	100.00%	6.1	201,526	100.00%	5.9
Cash collateral – securities lending	**14,088**			8,106		
Total 28% Trust fixed-income portfolio	**265,547**			209,632		
Investment Type – 12% Trust						
U.S. Treasuries	**35,620**	40.11%	5.9	27,109	37.33%	4.8
U.S. Agencies						
Federal National Mortgage Assn	**10,103**	11.38%	7.0	8,898	12.25%	5.1
Federal Home Loan Mortgage Corp	**8,702**	9.80%	6.9	9,368	12.90%	6.3
Government National Mortgage Assn	**823**	0.93%	4.3	1,044	1.44%	5.8
Municipal bonds – Texas	**313**	0.35%	7.3	296	0.41%	7.8
Municipal bonds – other states	**2,214**	2.49%	7.3	2,450	3.38%	6.7
Corporate bonds	**21,085**	23.74%	7.0	14,998	20.65%	6.4
Money market mutual funds	**9,946**	11.20%	-	8,455	11.64%	-
Total fixed-income investments	**88,806**	100.00%	6.5	72,618	100.00%	5.6
Cash collateral – securities lending	**3,211**			-		
Total 12% Trust fixed-income portfolio	**92,017**			72,618		
Total Trusts fixed-income portfolio	**$ 357,564**			$ 282,250		

Credit risk – In accordance with the Investment Policy, exposure to credit risk is managed by limiting all fixed-income investments to a credit rating of "BBB-", or equivalent, or better from at least two nationally recognized credit rating agencies. If a security's rating falls below the minimum investment grade rating of BBB- after it has been purchased, the Investment Policy allows investment managers to continue to hold the security as long as the total fair value of securities rated below investment grade does not exceed 5% of the total fixed-income portfolio. As noted in the following tables, which list the fixed-income holdings by credit rating, investments with a credit rating below BBB-/Baa3 totaled 1.2% and 0.6% of the fixed-income portfolio for the 28% Trust at December 31, 2014, and December 31, 2013, respectively. There were no securities with a credit rating below BBB-/Baa3 held in the 12% Trust at December 31, 2014, or December 31, 2013.

The following table lists the fixed-income investment holdings by credit rating:

(Dollars in thousands)	December 31, 2014		December 31, 2013	
Credit Rating – 28% Trust	**Market Value**	Allocation	Market Value	Allocation
U.S. Treasuries (AA+)	**$ 29,421**	11.08%	$ 17,884	8.53%
AAA / Aaa	**59,380**	22.36%	31,118	14.84%
AA+ / Aa1	**71,629**	26.97%	66,531	31.74%
AA/Aa2	**3,670**	1.38%	1,842	0.88%
AA- / Aa3	**3,041**	1.15%	3,122	1.49%
A+ / A1	**10,029**	3.78%	6,882	3.28%
A/A2	**14,534**	5.47%	12,915	6.16%
A-/A3	**24,156**	9.10%	25,080	11.96%
BBB+/Baa1	**20,210**	7.61%	16,002	7.63%
BBB / Baa2	**20,565**	7.75%	19,989	9.54%
BBB-/Baa3	**5,636**	2.12%	7,059	3.37%
BB+/Ba1	**1,865**	0.70%	801	0.38%
BB/Ba2	**1,176**	0.44%	-	-
BB-/Ba3	**235**	0.09%	246	0.12%
B+/B1	**-**	-	161	0.08%
Total 28% Trust fixed-income portfolio	**265,547**	100.00%	209,632	100.00%
Credit Rating – 12% Trust				
U.S. Treasuries (AA+)	**35,620**	38.70%	27,109	37.33%
AAA /Aaa	**14,358**	15.60%	9,579	13.19%
AA+/Aa1	**20,645**	22.44%	20,167	27.77%
AA / Aa2	**1,444**	1.57%	1,196	1.65%
AA-/Aa3	**1,326**	1.44%	403	0.56%
A+/A1	**1,590**	1.73%	1,172	1.62%
A/A2	**3,245**	3.53%	2,688	3.70%
A-/A3	**6,257**	6.80%	4,615	6.35%
BBB+/Baa1	**4,184**	4.55%	3,283	4.52%
BBB/Baa2	**3,163**	3.44%	2,406	3.31%
BBB-/Baa3	**185**	0.20%	-	-
Total 12% Trust fixed-income portfolio	**92,017**	100.00%	72,618	100.00%
Total Trusts fixed-income portfolio	**$ 357,564**		$ 282,250	

Foreign currency risk – With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are in U.S. dollars. This reduces the potential

foreign currency risk exposure of the portfolio. All foreign bonds outstanding were issued in the U.S. and amounted to $20.7 million at December 31, 2014, and $17.1 million at December 31, 2013. In accordance with the Investment Policy, investments in international equity securities are limited to international commingled funds, American Depository Receipts and exchange-traded funds that are diversified across countries and industries. The international equity portfolio is limited to 20% of the total portfolio. Total foreign equity securities amounted to 11.7% and 16.6% of the 28% Trust's total portfolio at December 31, 2014, and December 31, 2013, respectively. Total foreign equity securities held by the 12% Trust amounted to 3.4% and 5.5% of the Trust's portfolio at December 31, 2014, and December 31, 2013, respectively.

3. Disaggregation of Current Accounts Receivable and Accounts Payable

Accounts Receivable – Net customer accounts receivable as of January 31, 2015, included $37.2 million for unbilled revenue receivable and $198.3 million for billed utility services. Interest and other accounts receivable included $7.2 million for regulatory-related accounts receivable, $0.2 million for interest receivable and $27.9 million for other miscellaneous accounts receivable.

Net customer accounts receivable as of January 31, 2014, included $55.5 million for unbilled revenue receivable and $202.1 million for billed utility services. Interest and other accounts receivable included $9.1 million for regulatory-related accounts receivable, $0.1 million for interest receivable and $30.6 million for other miscellaneous accounts receivable.

Accounts Payable – At January 31, 2015, accounts payable and accrued liabilities included $192.8 million related to standard operating supplier and vendor accounts payable, including fuels payable; $33.6 million for employee-related accounts payable; $33.2 million for customer-related accounts payable; $51.0 million for STP-related accounts payable; and $66.4 million for other miscellaneous accounts payable and accrued liabilities.

At January 31, 2014, accounts payable and accrued liabilities included $159.1 million related to standard operating supplier and vendor accounts payable, including fuels payable; $41.6 million for employee-related accounts payable; $22.6 million for the current portion of unearned lease revenue; $32.1 million for customer-related accounts payable; $54.8 million for STP-related accounts payable; and $52.6 million for other miscellaneous accounts payable and accrued liabilities.

4. Capital Assets, Net

General Description – CPS Energy's plant-in-service includes four power stations that are solely owned and operated by the Company. In total, there are 21 generating units at these four power stations - four are coal-fired and 17 are gas-fired. Two gas-fired generating units at the Leon Creek power station were retired in FY 2014. Excluding STP (nuclear units), following is a list of power stations and relative generating units as of January 31, 2015:

Power Station	Generating Units	Type	Power Station	Generating Units	Type
Calaveras	6	Coal (4)/Gas (2)	Leon Creek	4	Gas
Braunig	8	Gas	Rio Nogales	3	Gas

In FY 2012, CPS Energy announced plans to mothball its J.T. Deely Units 1 and 2 coal-fired power plants in FY 2019 instead of the originally projected dates of FY 2032 and FY 2033, respectively. Therefore, depreciation for these two units was accelerated beginning in FY 2013. To continue operating the units

past the announced mothball dates, the Company would have needed to install $550 million in flue gas desulfurization equipment (commonly referred to as scrubbers) to cut SO_2 emissions in order to be compliant with more stringent environmental regulations scheduled to take effect in the future.

Other notable capital assets in electric and gas plant include supporting coal yard assets, a fleet of railcars, a transmission network for the movement of electric power from the generating stations to substations, electric and gas distribution systems, and metering. Included in general plant are the Energy Management Center; the main office complex; the construction and customer service centers; the Villita Assembly Building; and a fleet of automobiles, trucks and work equipment.

Intangible assets consist of easements, software, a tax exemption settlement and other intangible items.

Communication Towers Sale – In FY 2014, the Company entered into an agreement for $41.0 million to sell 69 existing communication towers to an independent third party, including provisions for the Company's continued use of select space on those towers, the purchaser's use of space in the Company's communication shelters located near the towers, and the assignment of existing license agreements with other third parties using space on the towers. Title to 62 of the towers was conveyed to the purchaser in January 2014. Because the towers are subject to group depreciation as permitted under guidance provided in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, no gain or loss was recognized on the sale transaction. Instead, proceeds allocated to the sale were credited to accumulated depreciation. The costs of the assets sold were retired from the capital asset accounts in which they had originally been recorded.

Of the total purchase price, $3.3 million was allocated to the seven towers not initially transferred to the purchaser pending resolution of easement issues and was recorded as a current liability. Upon completion of the easement due diligence work on these sites and conveyance of title to the purchaser, the balance remaining will be reclassified from a current liability to accumulated depreciation.

In accordance with the sale agreement, the purchaser had six months from the closing date to complete their review of outstanding environmental and structural issues related to the conveyed towers. The Company agreed to receive into escrow $2.0 million of the total purchase price to be used for any damage payments that might be required related to any identified issues. The escrowed balance was not reported on CPS Energy's Statements of Net Position until the conditions for its release were met. In July 2014, subsequent to completion of the due diligence work on the 62 conveyed towers, the escrowed balance was released to CPS Energy and was recorded as a current liability. Upon completion of all due diligence work related to the communication towers sale, the balance remaining will be reclassified from a current liability to accumulated depreciation. For information on lease transactions associated with the sale of the communication towers, see Note 16 – Leases.

Plant Purchase – In the first quarter of FY 2013, taxable senior lien bonds were issued to purchase the Rio Nogales combined-cycle natural gas electric generating plant in Seguin, Texas. The 800-MW plant is being utilized to provide a portion of its power to a third party that has executed a multiyear agreement, due to expire in September 2015, for an option to call on power from the plant. Any remaining power is available for CPS Energy to sell into the ERCOT market or to utilize to meet its commitments. CPS Energy will be integrating the Rio Nogales plant into its rate base to provide generation capacity that will not otherwise be available once J.T. Deely Units 1 and 2 are mothballed.

In conjunction with the purchase, CPS Energy entered into a Tax Exemption Settlement Agreement in which CPS Energy agreed to pay $25.5 million to certain parties to compromise, terminate claims and settle any disputes relating to exemption of ad valorem taxes involving the parties to this agreement. The payment was recorded as an intangible asset that will be amortized over the life of the agreement, which runs through December 2041.

The purchase price of the Rio Nogales plant was allocated to major subsets of assets including land, transmission lines, water treatment facilities, combustion and steam turbines, and switchyard assets. Other than the plant assets, the tax exemption settlement and normal working capital settlements, CPS Energy incurred no other material acquisition costs, nor did the Company assume any material liabilities with the purchase of the plant.

Impairments – There were no capital asset impairments that were identified for FY 2015 or for FY 2014.

Investment in STP – STP is currently a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by the STP Nuclear Operating Company, a nonprofit Texas corporation special-purpose entity, which is financed and controlled by the owners. CPS Energy's 40% interest in STP Units 1 and 2 is included in plant assets. See Note 14 – South Texas Project.

On October 29, 2007, the Board approved a resolution enabling CPS Energy to participate in development activities related to new nuclear generation units to be constructed near Bay City, Texas, on a site where STP Units 1 and 2 currently operate. These generation units are referred to as STP Units 3 and 4. At January 31, 2010, CPS Energy held a 50% interest in the development. As a result of a litigation settlement with the Company's partner in the project, Nuclear Innovation North America, Inc. ("NINA"), CPS Energy's ownership in STP Units 3 and 4 was reduced from 50% to 7.625% effective March 1, 2010. Including AFUDC of $21.0 million, project costs incurred by CPS Energy to date of $391.4 million are reported on the Statements of Net Position as construction-in-progress. Effective as of FY 2012, AFUDC is not being recorded for the STP Units 3 and 4 project since efforts have been limited to licensing-related activities. For more detailed information on STP Units 3 and 4, see Note 14 – South Texas Project.

STP Capital Investment, Net

(Dollars in thousands)

	January 31,	
	2015	2014
STP capital assets, net		
Land	**$ 5,701**	$ 5,701
Construction-in-progress, STP Units 1 and 2	**57,978**	38,636
Construction-in-progress, STP Units 3 and 4	**391,417**	391,354
Electric and general plant	**923,825**	971,521
Intangibles – software	**12**	24
Nuclear fuel	**109,194**	114,081
Total STP capital assets, net	**$ 1,488,127**	$ 1,521,317
Total CPS Energy capital assets, net	**$ 7,952,924**	$ 7,817,280
STP capital investment as a percentage of total CPS Energy capital assets, net	**18.7%**	19.5%

Capital Asset Rollforward – The following tables provide more detailed information on the activity of CPS Energy's net capital assets as presented on the Statements of Net Position, including capital asset activity for FY 2015 and FY 2014:

FY 2015 Capital Asset Rollforward

(In thousands)

	February 1, 2014	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	**January 31, 2015**
Nondepreciable assets					
Land	$ 69,279	$ -	$ 1,877	$ (2)	**$ 71,154**
Land easements	88,633	-	66	-	**88,699**
Construction-in-progress	668,985	432,391	(316,043)	-	**785,333**
Total nondepreciable assets	826,897	432,391	(314,100)	(2)	**945,186**
Depreciable/amortizable assets					
Electric plant	10,039,112	52,562	248,090	(49,014)	**10,290,750**
Gas plant	776,727	11,061	28,145	(434)	**815,499**
General plant	652,519	25,273	30,024	(81,626)	**626,190**
Intangibles					
Software	219,743	39	7,841	(74,478)	**153,145**
Other	28,704	-	-	-	**28,704**
Nuclear fuel	791,074	36,801	-	-	**827,875**
Total depreciable/ amortizable assets	12,507,879	125,736	314,100	(205,552)	**12,742,163**
Accumulated depreciation and amortization					
Electric plant	(4,126,564)	(324,134)	-	64,451	**(4,386,247)**
Gas plant	(304,531)	(17,742)	-	943	**(321,330)**
General plant	(278,957)	(40,399)	-	80,619	**(238,737)**
Intangibles					
Software	(128,180)	(12,410)	-	74,450	**(66,140)**
Other	(2,271)	(1,102)	-	83	**(3,290)**
Nuclear fuel	(676,993)	(41,688)	-	-	**(718,681)**
Total accumulated depreciation and amortization	(5,517,496)	(437,475)	-	220,546	**(5,734,425)**
Capital assets, net	$ 7,817,280	$ 120,652	$ -	$ 14,992	**$ 7,952,924**

Cash flow information – Cash paid for additions and net removal costs totaled $522.8 million. This amount includes $521.3 million in additions to construction-in-progress and electric, gas and general plant, plus net salvage and removal costs of $12.7 million, partially offset by $6.5 million in AFUDC and $4.5 million in donated assets.

Other – Depreciation and amortization expense for the period totaled $395.8 million, while amortization of nuclear fuel of $41.7 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

FY 2014 Capital Asset Rollforward
(In thousands)

	February 1, 2013	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	January 31, 2014
Nondepreciable assets					
Land	$ 60,674	$ 761	$ 7,844	$ -	$ 69,279
Land easements	88,193	-	440	-	88,633
Construction-in-progress	591,725	380,034	(302,774)	-	668,985
Total nondepreciable assets	740,592	380,795	(294,490)	-	826,897
Depreciable/amortizable assets					
Electric plant	9,838,640	39,472	233,874	(72,874)	10,039,112
Gas plant	746,308	4,806	25,658	(45)	776,727
General plant	657,913	10,054	20,870	(36,318)	652,519
Intangibles					
Software	205,600	59	14,088	(4)	219,743
Other	28,704	-	-	-	28,704
Nuclear fuel	746,297	44,777	-	-	791,074
Total depreciable/ amortizable assets	12,223,462	99,168	294,490	(109,241)	12,507,879
Accumulated depreciation and amortization					
Electric plant	(3,889,773)	(315,443)	-	78,652	(4,126,564)
Gas plant	(288,178)	(16,972)	-	619	(304,531)
General plant	(230,934)	(44,545)	-	(3,478)	(278,957)
Intangibles					
Software	(114,910)	(12,248)	-	(1,022)	(128,180)
Other	(1,251)	(1,007)	-	(13)	(2,271)
Nuclear fuel	(642,968)	(34,025)	-	-	(676,993)
Total accumulated depreciation and amortization	(5,168,014)	(424,240)	-	74,758	(5,517,496)
Capital assets, net	$ 7,796,040	$ 55,723	$ -	$ (34,483)	$ 7,817,280

Cash flow information – Cash paid for additions and net removal costs was $389.9 million. This includes $435.2 million in additions to construction-in-progress and electric, gas and general plant, primarily offset by salvage and removal costs of $34.3 million, $4.7 million in AFUDC and $6.5 million in donated assets.

Other – Depreciation and amortization expense for the period totaled $390.2 million, while amortization of nuclear fuel of $34.0 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

5. Revenue Bond and Commercial Paper Ordinances Requirements

Senior Lien – As of January 31, 2015, the bond ordinances for New Series Bonds issued on and after February 1, 2006, contained, among others, the following provisions:

Revenue deposited in CPS Energy's General Account shall be pledged and appropriated to be used in the following priority for:

- Maintenance and operating expenses of the Systems;
- Payment of the New Series Bonds;
- Payment of prior lien bonds, including junior lien obligations;
- Payment of the notes and the credit agreement (as defined in the ordinance authorizing commercial paper);

- Payment of any inferior lien obligations issued, which are inferior in lien to the New Series Bonds, the prior lien bonds and the notes and credit agreement;
- An annual amount equal to 6% of the gross revenues of the Systems to be deposited in the Repair and Replacement Account;
- Cash payments and benefits to the General Fund of the City not to exceed 14% of the gross revenues of the Systems; and
- Any remaining net revenues of the Systems in the General Account to the Repair and Replacement Account, which is used to partially fund construction costs.

The maximum amount in cash to be transferred or credited to the City's General Fund from the net revenues of the Systems during any fiscal year shall not exceed 14% of the gross revenues of the Systems, less the value of gas and electric services of the Systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system and other authorized exclusions. The percentage of gross revenues of the Systems to be paid over, or credited to, the City's General Fund each fiscal year shall be determined (within the 14% limitation) by the governing body of the City.

The net revenues of the Systems are pledged to the payment of principal and interest on the New Series Bonds, which are classified as senior lien obligations. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the Systems.

Junior Lien – The Series Bonds are composed of two categories of debt: fixed-interest-rate and variable-interest-rate. The junior lien fixed-interest-rate Series Bonds are similar to the senior lien New Series Bonds, as they have fixed and set interest rates for the life of the bonds. The junior lien Variable-Rate Demand Obligations and Variable-Rate Note bonds are variable-interest-rate debt instruments of the City. The junior lien obligations are payable solely from, and equally and ratably secured by, a junior lien on and pledge of the net revenues of the Systems, subject and subordinate to liens and pledges securing the outstanding senior lien obligations and any additional senior lien obligations hereafter issued, and superior to the pledge and lien securing the currently outstanding commercial paper obligations, all as fully set forth in the ordinances authorizing the issuance of the junior lien obligations as noted below:

The City agrees that it will at all times maintain rates and charges for the sale of electric energy, gas or other services furnished, provided and supplied by the Systems to the City and all other consumers, which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

- All operation and maintenance expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502 of the Texas Government Code, as amended;
- The interest on, and principal of, all parity bonds, as defined in the New Series Bond ordinances, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the parity bonds;
- The interest on, and principal of, the prior lien bonds, including the junior lien obligations and any additional junior lien obligations hereafter issued (all as defined in the New Series Bond ordinances), as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the junior lien obligations and any additional junior lien obligations;
- To the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the commercial paper), the interest on and principal of all notes (as defined in said ordinance), and the credit agreement (as defined in said ordinance); and
- Any legal debt or obligation of the Systems as and when the same shall become due.

Commercial Paper – As of January 31, 2015, the commercial paper ordinances contain, among others, the following provisions: authorized capacity of $600 million, ability to issue tax-exempt or taxable commercial paper, ability to issue multiple series notes and final maturity on November 1, 2042.

To secure the payment of commercial paper principal and interest, a pledge is made of:

- Proceeds from
  - The sale of bonds and additional notes issued for such purposes, and
  - The sale of Project Notes;
- Loans under and pursuant to a revolving credit agreement; and
- The net revenues of the Systems, after payment on New Series Bond requirements and prior lien bond obligations.

6. Revenue Bonds

On June 7, 2013, $63.5 million of New Series 2003A Revenue Refunding Bonds were legally defeased with cash. Under this defeasance, the debt obligations were technically voided, as the cash was escrowed with a third party to service the debt. As a result, an accounting loss of $2.2 million was recorded. The accounting loss resulted from the additional cash put into escrow to defease the bonds. This additional cash was for the interest that would have been incurred through the end of FY 2014 had the cash defeasance not occurred.

On July 25, 2013, CPS Energy issued $375.0 million of Series 2013 Junior Lien Revenue Bonds. The true interest cost for this issue, which has maturities in 2034 through 2048, is 4.75%. Bond proceeds were primarily being used to fund construction projects.

On July 3, 2014, CPS Energy issued $200.0 million of Series 2014 Junior Lien Revenue Bonds. The true interest cost for this issue, which has maturities in 2026 through 2044, is 4.14%. Bond proceeds were primarily being used to fund construction projects.

On November 5, 2014, CPS Energy issued $262.5 million of Series 2014 Junior Lien Revenue Refunding Bonds. Proceeds, including the $37.3 million premium associated with the bonds, were used to refund the $294.6 million par value of the New Series 2005 Senior Lien Revenue Refunding Bonds. The refunding transaction resulted in a net present value debt service savings of $36.0 million, or 12.21% of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in 2016 through 2020, is 1.22%.

On December 1, 2014, CPS Energy remarketed $47.1 million of the Series 2012A Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of a $1.3 million premium in conjunction with the remarketing resulted in a principal paydown for the remarketed bonds of approximately $1.0 million. These bonds have maturities in 2024 through 2027. The coupon rate for these bonds is 2.0%, with a current yield of 1.27%.

On January 7, 2015, CPS Energy issued $125.0 million in Series 2015A Variable-Rate Junior Lien Revenue Refunding Bonds and $125.0 million in Series 2015B Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds were used to refund the $250.0 million par value of the 2003 Junior Lien Variable-Rate Demand Obligations. The bonds have maturities in 2029 through 2033. The bonds were issued as multi-modal variable-rate instruments issued initially in a Securities Industry and Financial Markets Association ("SIFMA") Index Mode with an applicable spread of 0.28% and 0.38% through their term rate periods of 2017 and 2018, and at a stepped rate of 8.0% for each series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed before their respective expiration dates.

Revenue Bond Summary
(Dollars in thousands)

	Issues	Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2015	January 31, 2015	January 31, 2014
Tax-exempt new series bonds	2006B-2012	2016-2034	4.6%	**$ 2,135,620**	$ 2,587,280
Taxable new series bonds	2009C[1], 2010A[1] and 2012	2026-2042	4.1%	**1,276,000**	1,276,000
Total new series bonds			4.3%	**3,411,620**	3,863,280
Taxable series bonds	2010A[1], 2010B[1]	2034-2041	4.0%	**500,000**	500,000
Tax-exempt variable-rate series bonds	2012A, 2012B, 2012C 2015A and 2015B	2024-2033	1.0%	**392,610**	393,645
Tax-exempt series bonds	2013, 2014	2026-2048	4.7%	**837,530**	375,000
Total series bonds			4.4%	**1,730,140**	1,268,645
Total long-term revenue bonds outstanding				**5,141,760**	5,131,925
Less: Current maturities of bonds				**149,270**	157,035
Total revenue bonds outstanding, net of current maturities				**$ 4,992,490**	$ 4,974,890

[1]Direct Subsidy Build America Bonds

Build America Bonds Direct Subsidy – The American Recovery and Reinvestment Act ("ARRA") of 2009 provided authority for the issuance of BABs, which were issuable in calendar years 2009 and 2010 as taxable bonds. The ARRA permitted the issuer or the issuer's paying agent to receive a subsidy payment equal to 35% of the bond's interest directly from the U.S. Department of the Treasury.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government reduced the BABs subsidy by 8.7% for payments made during the period beginning March 1, 2013, through their fiscal year ended September 30, 2013. In February 2014, the federal government sequestration for BABs subsidy payments was extended through September 30, 2024. The subsidy was reduced by 7.2% for payments made during the period beginning October 1, 2013, through the federal government's fiscal year ended September 30, 2014. The subsidy is being reduced by 7.3% for payments made during the period October 1, 2014, through September 30, 2015. In FY 2015, the total subsidy received for the 2009C and 2010A Senior Lien BABs and the 2010A and 2010B Junior Lien BABs was $24.2 million, which included a reduction as described above totaling $1.9 million. In FY 2014, the total subsidy received for the 2009C and 2010A Senior Lien BABs and the 2010A and 2010B Junior Lien BABs was $24.1 million, which included a reduction as described above totaling $2.1 million.

As of January 31, 2015, principal and interest amounts due for all revenue bonds outstanding for each of the next five years and thereafter to maturity are:

(In thousands)

Fiscal Year	Principal	Interest	Direct Subsidy	Total
2016	$ 149,270	$ 256,456	$ (24,224)	$ 381,502
2017	160,000	251,411	(24,224)	387,187
2018	157,515	251,842	(24,224)	385,133
2019	173,200	250,803	(24,224)	399,779
2020	181,675	244,334	(24,224)	401,785
2021-2025	1,082,850	1,078,232	(122,074)	2,039,008
2026-2030	674,325	830,994	(130,659)	1,374,660
2031-2035	885,473	613,739	(126,001)	1,373,211
2036-2040	1,115,572	334,185	(64,352)	1,385,405
2041-2045	483,255	66,645	(3,069)	546,831
2046-2048	78,625	7,991	-	86,616
Totals	$ 5,141,760	$ 4,186,632	$ (567,275)	$ 8,761,117

The above table includes senior lien and junior lien bonds. Interest on the senior lien bonds and the junior lien fixed-rate bonds is based upon the stated coupon rates of each series of bonds outstanding. The direct subsidy associated with the BABs has been presented in a separate column. CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating total debt service since the subsidy is received directly by the trustee to be used solely for BABs debt service payments.

The Series 2012A, 2012B and 2012C Junior Lien Bonds were issued as variable-rate bonds that utilize interest rates of 2.0% through their term rate period's expiration in 2018, 2015 and 2016, respectively. A stepped rate of 7.0% is assumed in the table above for each series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

The Series 2015A and Series 2015B Junior Lien Bonds were issued as multi-modal variable-rate bonds issued initially in a SIFMA Index Mode with an applicable spread of 0.28% and 0.38%, respectively, through their term rate periods of 2017 and 2018 and at a stepped rate of 8.0% for each series thereafter through applicable final maturity. In the table above, interest on these variable-rate bonds is calculated at an assumed rate of 3.0% for the applicable initial interest period and at an assumed stepped rate of 8.0% thereafter through stated maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

Pursuant to guidance provided in GASB Statement No. 65, debt reacquisition costs meet neither the definition of an asset nor a liability and are therefore required to be classified as deferred outflows or inflows of resources on the Statements of Net Position. Debt reacquisition costs reported as deferred outflows of resources totaled $65.2 million at January 31, 2015, and $79.7 million at January 31, 2014. Debt reacquisition costs are amortized over the life of the related debt.

CPS Energy, as a rate-regulated entity and in accordance with guidance found in GASB Statement No. 62, establishes regulatory assets for debt issuance costs that would otherwise be required to be expensed in accordance with GASB Statement No. 65. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt. Debt issuance costs, which are reported within other noncurrent assets on the Statements of Net Position, totaled $31.6 million at January 31, 2015, and $29.8 million at January 31, 2014.

FY 2015 Long-Term Debt Activity
(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding 2-1-14	Additions During Year	Decreases During Year	**Balance Outstanding 1-31-15**
Revenue and refunding bonds							
2002 tax-exempt	$ 436,090	2017	4.055	$ 68,135	$ -	$ (68,135)	**$ -**
2002 tax-exempt	140,615	2015	4.751	10,525	-	(10,525)	**-**
2003 tax-exempt – Junior Lien	250,000	2033	Variable	250,000	-	(250,000)	**-**
2005 tax-exempt	294,625	2020	4.379	294,625	-	(294,625)	**-**
2006A tax-exempt	384,185	2025	4.555	16,920	-	(16,920)	**-**
2006B tax-exempt	128,845	2021	3.974	66,270	-	(10,615)	**55,655**
2007 tax-exempt	46,195	2018	4.159	46,195	-	-	**46,195**
2007 tax-exempt	403,215	2032	4.575	402,130	-	(13,750)	**388,380**
2008 tax-exempt	287,935	2032	4.582	287,935	-	-	**287,935**
2008A tax-exempt	158,030	2016	3.736	45,695	-	(23,510)	**22,185**
2009A tax-exempt	442,005	2034	4.863	439,500	-	(13,580)	**425,920**
2009C taxable	375,000	2039	3.944	375,000	-	-	**375,000**
2009D tax-exempt	207,940	2021	3.720	203,065	-	-	**203,065**
2010A taxable	380,000	2041	3.834	380,000	-	-	**380,000**
2010A taxable – Junior Lien	300,000	2041	3.806	300,000	-	-	**300,000**
2010B taxable – Junior Lien	200,000	2037	4.101	200,000	-	-	**200,000**
2011 tax-exempt	50,915	2017	1.599	50,915	-	-	**50,915**
2012 taxable	521,000	2042	4.382	521,000	-	-	**521,000**
2012 tax-exempt	655,370	2025	2.552	655,370	-	-	**655,370**
2012A tax-exempt – Junior Lien	48,170	2028	Variable	48,170	47,135	(48,170)	**47,135**
2012B tax-exempt – Junior Lien	47,815	2028	Variable	47,815	-	-	**47,815**
2012C tax-exempt – Junior Lien	47,660	2028	Variable	47,660	-	-	**47,660**
2013 tax-exempt – Junior Lien	375,000	2048	4.753	375,000	-	-	**375,000**
2014 tax-exempt – Junior Lien	200,000	2044	4.142	-	200,000	-	**200,000**
2014 tax-exempt – Junior Lien	262,530	2020	1.220	-	262,530	-	**262,530**
2015A tax-exempt – Junior Lien	125,000	2033	Variable	-	125,000	-	**125,000**
2015B tax-exempt – Junior Lien	125,000	2033	Variable	-	125,000	-	**125,000**
Bonds outstanding				5,131,925	759,665	(749,830)	**5,141,760**
Current maturities				(157,035)	-	7,765	**(149,270)**
(Discount) premium				210,323	63,728	(35,160)	**238,891**
Revenue bonds, net				5,185,213	823,393	(777,225)	**5,231,381**
Commercial paper, tax-exempt			Variable	360,000	-	-	**360,000**
Long-term debt, net				$ 5,545,213	$ 823,393	$ (777,225)	**$ 5,591,381**

FY 2014 Long-Term Debt Activity
(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding 2-1-13	Additions During Year	Decreases During Year	Balance Outstanding 1-31-14
Revenue and refunding bonds							
2002 tax-exempt	$ 436,090	2017	4.055	$ 141,425	$ -	$ (73,290)	$ 68,135
2002 tax-exempt	140,615	2015	4.751	10,525	-	-	10,525
2003 tax-exempt – Junior Lien	250,000	2033	Variable	250,000	-	-	250,000
2003A tax-exempt	93,935	2014	3.675	63,475	-	(63,475)	-
2005 tax-exempt	294,625	2020	4.379	294,625	-	-	294,625
2006A tax-exempt	384,185	2025	4.555	33,035	-	(16,115)	16,920
2006B tax-exempt	128,845	2021	3.974	76,385	-	(10,115)	66,270
2007 tax-exempt	46,195	2018	4.159	46,195	-	-	46,195
2007 tax-exempt	403,215	2032	4.575	402,130	-	-	402,130
2008 tax-exempt	287,935	2032	4.582	287,935	-	-	287,935
2008A tax-exempt	158,030	2016	3.736	66,310	-	(20,615)	45,695
2009A tax-exempt	442,005	2034	4.863	439,500	-	-	439,500
2009C taxable	375,000	2039	3.944	375,000	-	-	375,000
2009D tax-exempt	207,940	2021	3.720	203,065	-	-	203,065
2010A taxable	380,000	2041	3.834	380,000	-	-	380,000
2010A taxable – Junior Lien	300,000	2041	3.806	300,000	-	-	300,000
2010B taxable – Junior Lien	200,000	2037	4.101	200,000	-	-	200,000
2011 tax-exempt	50,915	2017	1.599	50,915	-	-	50,915
2012 taxable	521,000	2042	4.382	521,000	-	-	521,000
2012 tax-exempt	655,370	2025	2.552	655,370	-	-	655,370
2012A tax-exempt – Junior Lien	48,170	2028	Variable	48,170	-	-	48,170
2012B tax-exempt – Junior Lien	47,815	2028	Variable	47,815	-	-	47,815
2012C tax-exempt – Junior Lien	47,660	2028	Variable	47,660	-	-	47,660
2013 tax-exempt – Junior Lien	375,000	2048	4.753	-	375,000	-	375,000
Bonds outstanding				4,940,535	375,000	(183,610)	5,131,925
Current maturities				(183,610)	-	26,575	(157,035)
(Discount) premium				222,427	16,139	(28,243)	210,323
Revenue bonds, net				4,979,352	391,139	(185,278)	5,185,213
Commercial paper, tax-exempt			Variable	296,500	63,500	-	360,000
Long-term debt, net				$ 5,275,852	$ 454,639	$ (185,278)	$ 5,545,213

7. Commercial Paper and Related Revolving Credit Agreements

In 1988, the San Antonio City Council adopted an ordinance authorizing the issuance of up to $300 million in tax-exempt commercial paper. The current ordinances allow for the issuance of three separate series of commercial paper to provide funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed $600 million to the extent of support from liquidity facilities. Effective June 26, 2013, there was a total of $600 million in liquidity support. The ordinances allow for the issuance of taxable, as well as tax-exempt, commercial paper. Eligible projects include fuel acquisition, capital improvements to the Systems, and refinancing or refunding any outstanding obligations which are secured by and payable from a lien and/or a pledge of net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing senior lien and junior lien obligations. Scheduled maximum maturities cannot extend beyond November 1, 2042.

The commercial paper has been classified as long-term in accordance with the refinancing terms under three revolving credit agreements with a consortium of banks, which support the commercial paper program. Each revolving credit agreement relates to a particular series of notes and provides liquidity support therefore in the amount specified. The Series A agreement, which provides $150 million in liquidity support for the Series A Notes, is effective February 7, 2014, through February 6, 2017. The Series B agreement, which provides $225 million in liquidity support for the Series B Notes, is effective June 26, 2013, through June 24, 2016. The Series C agreement, which provides $225 million in liquidity support for the Series C Notes, is effective June 26, 2013, through June 23, 2017. Under the terms of these

revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed $600 million for the purpose of paying principal due under the commercial paper program. At January 31, 2015, there was no amount outstanding under the revolving credit agreements. Further, there have been no borrowings under the agreements since inception of the program.

CPS Energy issued a total of $63.5 million in new tax-exempt commercial paper during FY 2014 to help fund construction costs. As of January 31, 2015, and January 31, 2014, the outstanding commercial paper balance was $360.0 million, all of which was tax-exempt.

Commercial Paper Summary
(Dollars in thousands)

	January 31,	
	2015	2014
Commercial paper outstanding	**$ 360,000**	$ 360,000
New money issues	**$ -**	$ 63,500
Weighted-average interest rate of outstanding	**0.1%**	0.1%
Average life outstanding (number of days)	**90**	71

8. Flexible Rate Revolving Note

In FY 2010, the San Antonio City Council adopted an ordinance authorizing the establishment of the FRRN Private Placement Program, under which CPS Energy may issue taxable or tax-exempt notes, bearing interest at fixed or variable rates in an aggregate principal amount at any one time outstanding not to exceed $100 million. This ordinance provides for funding to assist in the interim financing of eligible projects that include the acquisition or construction of improvements, additions or extensions to the Systems, including capital assets and facilities incident and related to the operation, maintenance and administration of fuel acquisition and development and facilities for the transportation thereof; capital improvements to the Systems; and refinancing or refunding of any outstanding obligations secured by the net revenues of the Systems; or with respect to the payment of any obligation of the Systems pursuant to any credit. Under the program, maturity dates cannot extend beyond November 1, 2028.

On May 10, 2010, CPS Energy issued a $25.2 million taxable Flexible Rate Revolving Note, Series A, under its taxable Note Purchase Agreement with JPMorgan Chase Bank, N.A., which currently serves as the note purchaser under the program. On May 11, 2010, the proceeds from the note, along with cash, were used to defease $25.7 million in principal amounts of the allocable portion of the debt associated with the common facilities of STP Units 1 and 2 that were assigned to NINA in March 2010 when CPS Energy reduced its ownership share of STP Units 3 and 4 to 7.625%. The outstanding FRRN balance at both January 31, 2015, and January 31, 2014, was $25.2 million.

The FRRN has been classified as current in accordance with the financing terms under the taxable Note Purchase Agreement and is reported on the Statements of Net Position under current maturities of debt. At January 31, 2015, only the taxable facility was being utilized through the taxable Note Purchase Agreement. The taxable notes are being secured by a pledge of investment collateral and a limited, subordinate and inferior lien on and pledge of net revenues in the amount of $0.1 million. The current taxable Note Purchase Agreement will expire on December 31, 2015, but through an annual renewal process may be extended through November 1, 2028.

9. Employee Pension Plan

Plan Description – The City Public Service Pension Plan (the "Plan") is a self-administered, single-employer, defined-benefit contributory pension plan covering substantially all employees who have attained age 21 and completed one year of service. It is sponsored by and may be amended at any time by CPS Energy, acting by and through the Oversight Committee, which includes the President and CEO, the Chief Financial Officer, and the Audit Committee of the Board. Plan assets are segregated from CPS Energy's assets and are separately managed by the Administrative Committee, whose members are appointed by the Oversight Committee. The Plan reports results on a calendar-year basis, and the separately audited financial statements, which contain historical trend information, may be obtained at www.cpsenergy.com or by contacting Benefit Trust Administration at CPS Energy. The Plan's financial statements include certain disclosures related to CPS Energy's net pension liability. However, because the financial reporting and pension measurement dates for the Plan and CPS Energy are not aligned, the Plan's disclosures will vary from information provided by CPS Energy in this footnote and in the accompanying RSI.

In addition to the defined-benefit Plan, CPS Energy has two Restoration Plans that were effective as of January 1, 1998, which supplement benefits paid from the Plan due to Internal Revenue Code restrictions on benefit and compensation limits. The benefits due under those Restoration Plans have been paid annually by CPS Energy.

Employees who retired prior to 1983 receive annuity payments from an insurance carrier, as well as some benefits directly from CPS Energy. The costs for the benefits directly received from the Company were $0.04 million for FY 2015 and $0.1 million for FY 2014. These costs were recorded when paid.

Benefits Provided – Participants become fully vested in the benefits of the Plan upon attainment of age 40 or after completion of seven years of vesting service before age 40. Normal retirement age is 65; however, early retirement is available with 25 years of benefit service, as well as to those employees who are age 55 or older with at least ten years of benefit service. Plan benefits consist of a normal retirement annuity calculated based primarily on length of service and compensation. Benefits are reduced for retirement before age 55 with 25 years or more of benefit service or before age 62 with less than 25 years of service. If early retirement occurs due to disability, the reductions in benefits normally associated with early retirement are modified.

Payments to retirees are adjusted each year by an amount equal to 50% of the change in the Consumer Price Index-U, limited to a maximum adjustment of 5% each year, with no reduction allowed below the retirees' initial benefit levels.

The following table presents information about Plan participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate, as of the measurement dates, the net pension liability for the fiscal years ended January 31, 2015, and 2014, were:

	Fiscal Year Ended January 31,	
	2015	2014
Active participants	**3,357**	3,458
Participants currently receiving benefits	**2,015**	1,982
Participants entitled to deferred benefits	**113**	87
Total plan participants	**5,485**	5,527

Contributions – The current policy of CPS Energy is to use each actuarial valuation as the basis for determining employer contributions to the Plan during the fiscal year beginning in the calendar year after the valuation year. The January 1, 2013, valuation is the basis for contributions in FY 2015. With recommendations from the Administrative Committee, composed of a cross-functional group of active and retired CPS Energy employees, the Company establishes funding levels, considering annual actuarial valuations. Generally, participating employees contribute 5.0% of their total compensation, commencing with the effective date of participation and continuing until normal or early retirement, completion of 44 years of benefit service, or termination of employment. Participants who leave CPS Energy service before becoming eligible for retirement benefits receive a return of the total amount they contributed to the Plan, plus the vested portion of accumulated interest. Beginning January 1, 2012, the employee contribution interest crediting rate was 5.75%.

The balance of Plan contributions is the responsibility of CPS Energy, giving consideration to actuarial information, budget controls, legal requirements, compliance, and industry and/or community norms. For FY 2015 and FY 2014, the amount to be funded was established using a general target near the 30-year funding contribution level as determined by the Plan's actuary using the entry-age normal cost method.

Net Pension Liability – CPS Energy's net pension liability at January 31, 2015, and January 31, 2014, was measured as of January 31, 2014, and January 31, 2013, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2013, and January 1, 2012, rolled forward using generally accepted actuarial procedures to the January 31, 2014, and January 31, 2013, measurement dates, respectively.

Changes in Net Pension Liability
(In thousands)

	Fiscal Year Ended January 31,	
	2015	2014
Total pension liability		
Service cost	**$ 33,417**	$ 33,470
Interest cost	**116,155**	112,356
Changes in Plan benefits	**-**	-
Changes in assumptions	**-**	-
Differences between expected and actual experience	**(24,410)**	25,158
Benefit payments	**(74,352)**	(70,677)
Net change in total pension liability	**50,810**	100,307
Total pension liability, beginning of period	**1,533,250**	1,432,943
Total pension liability, end of period	**1,584,060**	1,533,250
Plan fiduciary net position		
Employer contributions	**(44,400)**	(39,016)
Participant contributions	**(12,569)**	(12,332)
Earnings on Plan assets	**(145,883)**	(110,529)
Benefit payments	**74,352**	70,677
Net change in Plan fiduciary net position	**(128,500)**	(91,200)
Plan fiduciary net position, beginning of period	**(1,188,800)**	(1,097,600)
Plan fiduciary net position, end of period	**(1,317,300)**	(1,188,800)
Net pension liability, end of period	**$ 266,760**	$ 344,450

CPS Energy recorded $40.0 million and $58.0 million in pension expense for the years ended January 31, 2015, and 2014, respectively.

Actuarial Assumptions – Significant actuarial assumptions used in the January 31, 2013, valuation include a rate of return on the investment of present and future assets of 7.75%, a discount rate on Plan liabilities of 7.75%, annual projected salary increases averaging 5.03% per year, and annual post-retirement cost-of-living increases of 1.5%. The projected salary increases include an inflation rate of 3.0%. Mortality rates were based on the RP-2000 Combined Healthy Annuitant Mortality Table for Males or Females, as appropriate, projected using Scale AA. The actuarial assumptions used in the January 1, 2013, valuation for amounts reported in FY 2015 and FY 2014 were based on the results of an actuarial experience study completed in 2010 covering experience for the period June 1, 2004, through December 31, 2009.

The long-term expected rate of return on Plan investments was determined based on a blend of historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions, developed on a geometric basis. An economic simulation method was used in which best-estimate ranges of expected future rates of return (expected returns net of Plan investment expense) for each major asset class were combined using simulations that ensure the economic consistency of each individual trial, and then reduced by a factor representing inflation to produce long-term expected real rates of return for each major asset class. The assumed allocation and expected real rates of return for each major asset class are summarized in the following table:

	Assumed Asset Allocation	Expected Real Rate of Return
Asset Class		
Domestic equity	49.5%	5.2%
International equity	8.7%	5.2%
U.S. government and corporate bonds	20.8%	2.4%
International bonds	5.0%	0.9%
Real estate	12.4%	3.7%
Cash equivalents	3.6%	-
Total investments	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that future employee contributions will be made at the current contribution rate and that future CPS Energy contributions will be made in a manner consistent with the current contribution practices. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the sensitivity of net pension liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total pension liability:

Discount Rate Sensitivity
(In thousands)

	Net Pension Liability at January 31,	
	2015	2014
Discount rate		
1% decrease - 6.75%	**$458,305**	$ 529,851
Current discount rate - 7.75%	**266,760**	344,450
1% increase - 8.75%	**103,793**	186,711

Plan Fiduciary Net Position – Detailed information about the Plan's fiduciary net position is available in the separately issued Plan financial statements. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position for the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. Investments are stated at fair market value. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the terms of the Plan.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension – The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for CPS Energy at January 31, 2015, and 2014:

(In thousands)

	January 31,	
	2015	2014
Deferred outflows of resources		
Differences between projected and actual earnings on pension assets	**$ -**	$ 15,592
Changes in assumptions	**-**	-
Differences between expected and actual experience in the measurement of total pension liability	**17,970**	21,564
Employer's contributions to the Plan subsequent to the measurement of total pension liability	**55,800**	44,400
Total deferred outflows of resources	**$ 73,770**	$ 81,556
Deferred inflows of resources		
Differences between projected and actual earnings on pension assets	**$ (35,099)**	$ -
Changes in assumptions	**-**	-
Differences between expected and actual experience in the measurement of total pension liability	**(28,684)**	(9,701)
Total deferred inflows of resources	**$ (63,783)**	$ (9,701)

The following table presents the future amortization of pension-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the Plan in the current fiscal year and subsequent to the net pension liability measurement date. The

deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the net pension liability in the subsequent fiscal year.

Amortization of Pension-Related Deferred Outflows/Inflows of Resources
(In thousands)

Year ended January 31,	
2016	$ (5,806)
2017	(5,806)
2018	(18,055)
2019	(12,766)
2020	107
Thereafter	(3,487)
Total	$ (45,813)

10. Other Postemployment Benefits

Plan Descriptions – The Company provides certain health and welfare benefits for active and retired employees through the City Public Service Group Health and Group Life Insurance Plans, and CPS Energy Long Term Disability Income Plan (collectively, "Employee Benefit Plans"). CPS Energy employees and their dependents may elect to participate in the plans and most employees continue eligibility upon retirement from the Company. Disclosures included in this footnote are limited to information related only to those benefits provided on a postemployment basis. Assets of the postemployment benefit plans are held in three separate, single-employer contributory plans:

- City Public Service Group Health Plan ("Health Plan")—a defined-benefit contributory group health plan that provides health, dental and vision insurance benefits.
- City Public Service Group Life Insurance Plan ("Life Plan")—a defined-benefit contributory plan that provides life insurance benefits.
- CPS Energy Long Term Disability Income Plan ("Disability Plan")—a defined-benefit contributory plan that provides disability income benefits.

The Employee Benefit Plans may be amended at any time by CPS Energy, acting by and through an Oversight Committee, which includes the President and CEO, the Chief Financial Officer, and the Audit Committee of the Board.

The Employee Benefit Plans' assets are segregated from CPS Energy's assets and are separately managed by an Administrative Committee whose members are appointed by the Oversight Committee. The plans report results on a calendar-year basis and issue separately audited financial statements that may be obtained by contacting Benefit Trust Administration at CPS Energy. The Health Plan's net position was $242.1 million at December 31, 2014, and $245.2 million at December 31, 2013. The Life Plan's net position was $50.3 million at December 31, 2014, and $50.6 million at December 31, 2013. The Disability Plan's net position was $4.4 million at December 31, 2014, and December 31, 2013.

Funding Policy – The funding requirements for both the plan participants and the employer are established by and may be amended by CPS Energy. Funding is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Company. The current policy of CPS Energy is to use each actuarial valuation as the basis for determining monthly employer contributions to the plans during the fiscal year beginning in the calendar year after the valuation year. The January 1, 2013, valuation was the basis for contributions in FY 2015.

Retired employees contribute to the Health Plan in varying amounts depending upon an equity formula that considers age and years of service. Individuals who retired before February 1, 1993, contribute a base rate plus 2.25% of the difference between that amount and the aggregate rate for each year that the sum of age and service is less than 95. Those who retired on or after February 1, 1993, contribute a base rate plus a percentage of the CPS Energy contribution, based on the number of years of service, if they retire with less than 35 years. Retirees and covered dependents contributed $6.1 million in FY 2015 and $5.3 million in FY 2014 for their health insurance benefits.

The Company's contributions in relation to the annual required contribution ("ARC") were 1.3% of covered payroll in FY 2015 and 0.4% of covered payroll in FY 2014.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D entitled the Health Plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the Health Plan on behalf of certain plan participants. These payments totaled $0.9 million for FY 2015 and FY 2014. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D,* future projected payments from the federal government have not been used to lessen total projected obligations under the Company's Health Plan.

Active employees contribute to the Life Plan at a rate of $0.13 per $1,000 of insurance per month on amounts in excess of $20,000. Employees who retired prior to February 1, 1993, contribute at a rate of $0.13 per $1,000 of insurance per month on amounts in excess of $20,000 plus 2.25% of the difference between that amount and the aggregate rate for retiree coverage for each year the sum of retirement age and service is less than 95. Those who retired on or after February 1, 1993, contribute $0.13 per $1,000 of insurance per month on amounts in excess of $20,000 plus a percentage of the CPS Energy contribution, based on number of years of service, if they retire with less than 35 years. Retirees and covered dependents contributed $0.3 million in FY 2015 and $0.2 million in FY 2014. Based on the funded status of the Life Plan, the Company made no contributions in relation to the ARC in FY 2015. CPS Energy's contributions in relation to the ARC were 0.05% of covered payroll in FY 2014.

Beginning February 1, 2014, the Disability Plan is funded by a combination of employee and employer contributions. Active employee contribution rates are determined by CPS Energy and may be adjusted on an annual basis. The Company's contributions are determined on a discretionary basis and are generally based on actuarial valuation calculations. Retired employees do not contribute to the Disability Plan. Prior to FY 2015, the Disability Plan was funded completely by CPS Energy. The Company's contributions in relation to the ARC were 0.1% of covered payroll in FY 2015 and FY 2014.

Annual OPEB Cost and Net OPEB Obligation – CPS Energy's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The annual OPEB cost consists of the ARC, interest on the net OPEB obligation, and adjustments to the ARC for the Health, Life and Disability Plans. The January 1, 2013, and January 1, 2012, actuarial valuations are the basis for annual OPEB cost of $8.8 million for FY 2015 and $7.0 million for FY 2014, respectively.

The following table shows the components of the Company's annual OPEB cost for FY 2015 and FY 2014, the contributions in relation to the ARC, and changes in the net OPEB obligation for each of the plans. The

net OPEB obligation may be either positive, reflecting a liability, or negative, reflecting an asset. The term net OPEB obligation, as used in this note, refers to either situation.

(In thousands)

	Health Plan	Life Plan	Disability Plan	Total
FY 2015				
Annual required contribution	$ 8,216	$ 227	$ 176	$ 8,619
Interest on net OPEB obligation	(805)	(71)	(82)	(958)
Adjustment to annual required contribution	963	85	99	1,147
Annual OPEB cost	8,374	241	193	8,808
Contributions in relation to ARC	(3,200)	-	(175)	(3,375)
Increase (decrease) in net OPEB obligation	5,174	241	18	5,433
Net OPEB obligation – beginning of year	(10,387)	(911)	(1,062)	(12,360)
Net OPEB obligation – end of year	$ (5,213)	$ (670)	$ (1,044)	$ (6,927)
FY 2014				
Annual required contribution	$ 6,382	$ 99	$ 205	$ 6,686
Interest on net OPEB obligation	(1,233)	(70)	(79)	(1,382)
Adjustment to annual required contribution	1,476	86	95	1,657
Annual OPEB cost	6,625	115	221	6,961
Contributions in relation to ARC	(1,106)	(99)	(257)	(1,462)
Increase (decrease) in net OPEB obligation	5,519	16	(36)	5,499
Net OPEB obligation – beginning of year	(15,906)	(927)	(1,026)	(17,859)
Net OPEB obligation – end of year	$ (10,387)	$ (911)	$ (1,062)	$ (12,360)

CPS Energy's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for FY 2015, FY 2014 and FY 2013 for each of the plans were as follows:

(Dollars in thousands)

	Health Plan	Life Plan	Disability Plan	Total
FY 2015				
Annual OPEB cost	$ 8,374	$ 241	$ 193	$ 8,808
Percentage of annual OPEB cost contributed	38.2%	-	90.7%	38.3%
Net OPEB obligation	$ (5,213)	$ (670)	$ (1,044)	$ (6,927)
FY 2014				
Annual OPEB cost	$ 6,625	$ 115	$ 221	$ 6,961
Percentage of annual OPEB cost contributed	16.7%	85.7%	116.3%	21.0%
Net OPEB obligation	$ (10,387)	$ (911)	$ (1,062)	$ (12,360)
FY 2013				
Annual OPEB cost	$ 7,179	$ 13	$ 289	$ 7,481
Percentage of annual OPEB cost contributed	15.3%	-	133.3%	19.9%
Net OPEB obligation	$ (15,906)	$ (927)	$ (1,026)	$ (17,859)

Funded Status and Funding Progress – CPS Energy began partial funding of projected future benefits in 1992. The funded status of the plans as of the January 1, 2013, valuation date was as follows:

(Dollars in thousands)

	Health Plan	Life Plan[1]	Disability Plan[1]
Actuarial value of plan assets (a)	$ 233,187	$ 46,995	$ 4,609
Actuarial accrued liability (b)	243,022	41,923	5,113
Unfunded actuarial accrued liability (funding excess)[2] (b) - (a)	$ 9,835	$ (5,072)	$ 504
Funded ratio (a) / (b)	96.0%	112.1%	90.2%
Covered payroll (c)	$ 247,324	$ 216,358	$ 216,358
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(b) - (a)] / (c))	4.0%	-2.3%	0.2%

[1] CPS Energy has selected the aggregate cost method for determining Life and Disability Plan funding amounts. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress has been prepared using the entry-age normal actuarial cost method, which approximates the funding progress of the plans.

[2] The unfunded actuarial accrued liability (funding excess) does not reflect the projected future payments expected to be received from the federal government for Medicare Part D retiree drug cost subsidies.

The schedules of funding progress, presented as RSI following the notes to the financial statements, present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Actuarial valuations of ongoing plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plans and the ARC of the employer are subject to continued revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting are based on the substantive plans (the plans as understood by the employer and plan members) and include the types of benefits provided for at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the Health Plan, the actuarial cost method used was the projected-unit-credit actuarial cost method. For the Life and Disability Plans, the aggregate actuarial cost method was used to determine the cost of benefits. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress was prepared using the entry-age normal actuarial cost method, which is intended to approximate the funding progress of the plans.

The amortization method used for all three plans was the level-dollar open method, with an amortization period of 20 years. The asset valuation method used for all three plans was the five-year smoothed market

valuation method. The January 1 valuation results each year are used to determine the contributions for the fiscal year commencing in the succeeding calendar year.

Significant actuarial assumptions used in the calculations for the January 1, 2013, actuarial valuation for FY 2015 included: (a) a rate of return on the investment of present and future assets of 7.75% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 3.0% per year for the Life and Disability Plans, (c) projected annual base salary increases for the Health Plan ranging from 3.6% to 9.9% depending on age and projected average annual salary increases of 5.0% for the Life and Disability Plans, and (d) overall medical and prescription cost increases projected at 7.5% and 8.5%, respectively, for 2013, decreasing annually to 5.5% and 6.0%, respectively, in 2018 and thereafter.

11. Other Obligations and Risk Management

Other Liabilities – CPS Energy maintains other obligations as noted below. The relative long-term portion of these obligations compared to the total was 96.4% as of January 31, 2015, and 95.4% as of January 31, 2014.

FY 2015 Other Liabilities Rollforward
(In thousands)

	Balance Outstanding 2-1-2014	Additions During Year	Decreases During Year	**Balance Outstanding 1-31-2015**	**Amounts Due within One Year**	**Noncurrent Balance Outstanding**
STP decommissioning	$ 393,211	$ 57,966	$ (30,590)	**$ 420,587**	**$ -**	**$ 420,587**
STP decommissioning net costs refundable	105,167	52,234	(32,494)	**124,907**	-	**124,907**
Unearned lease revenue	407,970	-	(407,970)	**-**	-	**-**
	906,348	110,200	(471,054)	**545,494**	-	**545,494**
Other						
Customer deposits	34,049	22,437	(20,520)	**35,966**	**21,577**	**14,389**
Operating reserves	25,671	10,010	(12,496)	**23,185**	**2,932**	**20,253**
STP pension and OPEBs	85,831	42,852	(36,858)	**91,825**	-	**91,825**
Pollution remediation liability	1,437	3,354	(1,141)	**3,650**	**2,134**	**1,516**
Project Warm	7,709	161	(140)	**7,730**	-	**7,730**
Retainage interest expense payable	20	-	-	**20**	**-**	**20**
Notes payable	3,019	17	(220)	**2,816**	**203**	**2,613**
Customer advances	20,089	27,833	(26,985)	**20,937**	**653**	**20,284**
Other	11,507	40,669	(25,604)	**26,572**	-	**26,572**
Total other liabilities	189,332	147,333	(123,964)	**212,701**	**27,499**	**185,202**
Total other long-term liabilities	$1,095,680	$ 257,533	$(595,018)	**$ 758,195**	**$ 27,499**	**$ 730,696**

FY 2014 Other Liabilities Rollforward
(In thousands)

	Balance Outstanding 2-1-2013	Additions During Year	Decreases During Year	Balance Outstanding 1-31-2014	Amounts Due within One Year	Noncurrent Balance Outstanding
STP decommissioning	$ 362,495	$ 46,424	$ (15,708)	$ 393,211	$ -	$ 393,211
STP decommissioning net costs refundable	105,911	57,796	(58,540)	105,167	-	105,167
Unearned lease revenue	430,530	-	(22,560)	407,970	22,561	385,409
	898,936	104,220	(96,808)	906,348	22,561	883,787
Other						
Customer deposits	33,588	20,244	(19,783)	34,049	20,848	13,201
Operating reserves	21,362	11,616	(7,307)	25,671	3,853	21,818
STP pension and OPEBs	122,577	10,787	(47,533)	85,831	-	85,831
Pollution remediation liability	2,814	819	(2,196)	1,437	829	608
Project Warm	7,701	155	(147)	7,709	-	7,709
Retainage interest expense payable	20	-	-	20	-	20
Notes payable	3,234	16	(231)	3,019	214	2,805
Customer advances	20,475	26,061	(26,447)	20,089	2,111	17,978
Other	743	148,161	(137,397)	11,507	-	11,507
Total other liabilities	212,514	217,859	(241,041)	189,332	27,855	161,477
Total other long-term liabilities	$1,111,450	$ 322,079	$(337,849)	$ 1,095,680	$ 50,416	$ 1,045,264

Insurance and Reserves – CPS Energy is exposed to various risks of loss including, but not limited to, those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major risks. The property insurance program provides $6.7 billion of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, and fire damage coverage for construction equipment and valuable papers. The deductible for the property insurance policy is $5 million per occurrence with a secondary deductible of $1 million per occurrence applicable to non-power-plant property locations.

The liability insurance program includes:

- $100 million of excess general liability coverage over a retention amount of $3 million;
- $25 million of fiduciary liability coverage;
- $100 million of employment practices liability coverage; and
- Other property and liability insurance coverage, which includes commercial crime, employee travel and event insurance.

CPS Energy also manages its own workers' compensation program. Additionally, to support this program, $35 million of excess workers' compensation coverage over a retention amount of $3 million is maintained. No claims settlements exceeded insurance coverage and there were no decreases in coverage in FY 2015, FY 2014 or FY 2013.

Actuarial studies are performed periodically to assess the adequacy of CPS Energy insurance reserve retentions. Actuarial valuations include nonincremental claims expenses. An actuarial study was last performed during the third quarter of FY 2015.

In the following table, the remaining balance under the property reserve column at January 31, 2015, relates to estimated obligations for the cleanup, closure and post-closure care requirements of the Company's landfills. CPS Energy has seven landfill sites, four of which are at full capacity. The estimates for landfills, surface impoundment and ash ponds liability are based upon capacity to date and are subject

to change due to inflation or deflation, as well as new developments in technology, applicable laws or regulations**.**

Under CPS Energy's reserve program, all claims are recorded against the reserve.

FY 2014 and FY 2015 Reserve Rollforward
(In thousands)

	Employee & Public Liability Claims	Property Reserves	Total
Balance – FY 2013	$ 14,865	$ 4,810	$ 19,675
Payments	(2,466)	-	(2,466)
Other claims adjustments	6,279	391	6,670
Balance – FY 2014	18,678	5,201	23,879
Payments	(4,371)	-	(4,371)
Other claims adjustments	1,400	480	1,880
Balance – FY 2015	**$ 15,707**	**$ 5,681**	**$ 21,388**

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

12. Other Financial Instruments

Fuel Hedging – The 1999 Texas utility deregulation legislation, Senate Bill 7, contains provisions modifying the PFIA to allow municipal utilities the ability to purchase and sell energy-related derivative instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil and electric energy. In 2002, CPS Energy began hedging its exposure to changes in natural gas prices, with the goal of controlling fuel costs to native load customers and stabilizing the expected cash flows associated with wholesale power transactions.

CPS Energy reports its derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses recognition, measurement and disclosures related to derivative instruments. CPS Energy does not use derivative instruments for speculative purposes. The only derivative instruments entered into are for the purposes of risk mitigation; therefore, these instruments are considered potential hedging derivative instruments under GASB Statement No. 53.

On June 30, 2014, the Board reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. The essential goal of the Energy Price Risk Management Policy is to provide a framework for the operation of a fuel and energy price hedging program to better manage CPS Energy's risk exposure in order to stabilize pricing and costs for the benefit of CPS Energy and its customers.

In accordance with the requirements of GASB Statement No. 53, all fuel hedges are reported on the Statements of Net Position at fair value. The fair value of option contracts is determined using New York Mercantile Exchange ("NYMEX") closing settlement prices as of the last day of the reporting period. For futures and basis swap contracts, the fair value is calculated by deriving the difference between the closing futures prices on the last day of the reporting period and the futures or basis swap purchase prices at the time the positions were established, less applicable commissions.

All potential hedging derivative instruments were evaluated for effectiveness at January 31, 2015, and at January 31, 2014. These instruments were determined to be effective in substantially offsetting the changes in cash flows of the hedgeable items. The instruments were categorized into two broad groups for the purposes of this testing. In one category, hedges utilize natural gas forwards and options that are priced based on the underlying Henry Hub natural gas price, while the physical gas is typically purchased at prices based on either the Western Area Hub Association ("WAHA") or the Houston Ship Channel ("HSC"). Therefore, effectiveness testing was based on the extent of correlation between the first of the month index prices of natural gas at each of these locations and the settlement price at Henry Hub. The correlation coefficient was established by GASB Statement No. 53 at the critical term to be evaluated, with 0.8944 established as the minimum standard tolerated. The testing, based on two different location hubs (WAHA and HSC), demonstrated a substantial offset in the fair values, as evidenced by their calculated R values, 0.9434 and 0.9815, respectively, indicating that the changes in cash flows of the derivative instruments substantially offset the changes in cash flows of the hedgeable item. Additionally, the substantive characteristics of the hedge have been considered, and the evaluation of this effectiveness measure has been sufficiently completed and documented such that a different evaluator, using the same method and assumptions, would reach substantially similar results.

In the second category, hedges utilize both Henry Hub based natural gas forwards and locational basis swaps to the appropriate natural gas hub (WAHA or HSC) with volumes matching the underlying expected physical transaction. Considering the substantive characteristics of these hedge transactions, these instruments were determined to be effective utilizing the consistent critical terms method prescribed under GASB Statement No. 53.

As of January 31, 2015, the total fair value of outstanding hedge instruments was a net liability of $26.4 million. Fuel hedging instruments with a fair value of $(15.2) million are classified on the Statements of Net Position as a component of current accounts payable and accrued liabilities. Long-term fuel hedging instruments with a fair value of $(11.2) million are classified as a component of other noncurrent liabilities.

As of January 31, 2014, the total fair value of outstanding hedge instruments was a net asset of $4.5 million. Fuel hedging instruments with a fair value of $3.1 million are classified on the Statements of Net Position as a component of current assets. Long-term fuel hedges with a fair value of $1.4 million are classified as a component of other noncurrent assets.

Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred outflows or deferred inflows of resources on the Statements of Net Position until the contract expiration that occurs in conjunction with the hedged expected fuel purchase transaction. When fuel hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel expense. The deferred outflows of resources related to fuel hedges totaled $29.8 million at January 31, 2015, and $1.0 million at January 31, 2014.

Following is information related to CPS Energy's outstanding fuel hedging derivative instruments:

Fuel Derivative Transactions as of January 31, 2015
(Dollars in thousands)

	Type of Transaction	Referenced Index	Duration	Volumes in MMBtu	Fair Value	FY 2015 Change in Fair Value
Long	Call Option	Henry Hub	Feb 2014 through Jan 2018	10,611,666	$ 591	$ (3,502)
Long	Fixed-Price Natural Gas Swap	Henry Hub	Feb 2014 through Jun 2018	38,765,856	(26,302)	(29,188)
Short	Fixed-Price Natural Gas Swap	Henry Hub	Feb 2014 through Feb 2016	2,333,658	885	2,449
Long	Put Option	Henry Hub	Feb 2014 through Mar 2015	40,000	56	(3)
Long	Basis Swap	Henry Hub	Feb 2014 through Nov 2017	21,888,926	(1,632)	(1,486)
					$ (26,402)	$ (31,730)

Fuel Derivative Transactions as of January 31, 2014
(Dollars in thousands)

	Type of Transaction	Referenced Index	Duration	Volumes in MMBtu	Fair Value	FY 2014 Change in Fair Value
Long	Call Option	Henry Hub	Apr 2013 through Jan 2017	12,199,681	$ 3,257	$ (506)
Long	Fixed-Price Natural Gas Swap	Henry Hub	Feb 2013 through Jan 2017	16,304,740	2,886	18,211
Short	Fixed-Price Natural Gas Swap	Henry Hub	Jan 2014 through Mar 2014	956,655	(1,564)	(1,564)
Long	Put Option	Henry Hub	Feb 2013 through Feb 2015	1,259,041	50	(3,709)
Long	Basis Swap	Henry Hub	Feb 2013 through Dec 2014	4,026,866	(146)	(137)
					$ 4,483	$ 12,295

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established and options are sold, premiums are received and an obligation to honor the terms of the option contract, if exercised, is created. The decision to exercise the options or let them expire rests with the purchasing party.

Futures contracts represent a firm obligation to buy or sell the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy or sell the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. Only if expressly requested in advance may an exchange for physical assets take place.

Credit Risk – CPS Energy executes over-the-counter hedge transactions directly with approved counterparties. These counterparties are generally highly rated entities that are leaders in their respective industries. CPS Energy monitors the creditworthiness of these entities on a daily basis and manages the resulting financial exposure via a third-party, vertically integrated risk system. Contractual terms with each existing counterparty vary, but each is structured so that, should the counterparty's credit rating fall below investment grade, no unsecured credit would be granted and the counterparty would be required to post collateral for any calculated credit exposure. In the event of default or nonperformance by counterparties, brokers or NYMEX, the operations of CPS Energy could be materially affected. However, CPS Energy does not expect these entities to fail to meet their obligations given the level of their credit ratings and the monitoring procedures in place with which to manage this risk. As of January 31, 2015, the exposure to all hedge-related counterparties was such that no material counterparty credit risk existed.

Termination Risk – For CPS Energy's fuel hedges that are executed over the counter directly with approved counterparties, the possibility exists that one or more of these derivative instruments may end earlier than expected, thereby depriving CPS Energy of the protection from the underlying risk that was being hedged or potentially requiring CPS Energy to make a significant termination payment. This termination payment between CPS Energy and its counterparty is determined based on current market

prices. In the event a transaction is terminated early, CPS Energy would likely be able to replace the transaction at current market prices with similar, although not exact, terms with one of its other approved counterparties.

Basis Risk – The Company is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a pricing point (HSC or WAHA) different than that at which the contracts are expected to settle (Henry Hub). For January 2015, the HSC price was $3.04 per MMBtu, the WAHA price was $3.00 per MMBtu and the Henry Hub price was $3.19 per MMBtu.

Congestion Revenue Rights – In the normal course of business, CPS Energy acquires Preassigned Congestion Revenue Rights ("PCRRs") and Congestion Revenue Rights ("CRRs") as a hedge against congestion costs. The CRRs are purchased at semi-annual and monthly auctions at market value. Non-Opt-In Entities are granted the right to purchase PCRRs annually at a percentage of the cost of CRRs. While PCRRs exhibit the three characteristics of derivatives as defined in GASB Statement No. 53, they are generally used by CPS Energy as factors in the cost of transmission. Therefore, these PCRRs meet the normal purchases and sales scope exception and are thus reported on the Statements of Net Position at cost and classified as prepayments. From time to time, the Company purchases PCRRs and sells them at the same auction at market price. In this case, the PCRRs are considered investments and the gain is reported as investment income. Gains on the sale of PCRRs totaled $2.3 million and $0.7 million for FY 2015 and FY 2014, respectively.

Securities Lending – Until early FY 2016, CPS Energy and the Decommissioning Trusts engaged in securities lending transactions under a contract with their lending agent, Frost Bank. Authority to engage in these transactions is granted under each entity's Investment Policy. CPS Energy and the Decommissioning Trusts are authorized to loan up to 70% and 100%, respectively, of their eligible investments in securities lending transactions. The securities lending program with Frost Bank was discontinued effective April 1, 2015.

GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, provides guidance for entities reporting and disclosing securities lending transactions. This guidance includes reporting certain securities lending collateral on the statement of net position as an asset, with a corresponding liability for the obligation to repay the collateral.

In securities lending transactions, CPS Energy and the Decommissioning Trusts, through their lending agent, transfer securities to broker-dealers in exchange for collateral and simultaneously agree to return the collateral for the same securities in the future. Cash collateral received from the borrower is invested entirely in money market mutual funds. The liquidity provided by the money market mutual funds allows for the easy return of collateral at the termination of a security loan.

Lending income is earned if the returns on the cash collateral invested exceed the rebate paid to borrowers of the securities. The income is then shared with the lending agent to cover its fees based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate or if the investment incurs a loss of principal, part of the payment to the borrower would come from CPS Energy's or the Decommissioning Trusts' resources and the lending agent based on the rate split.

Loans that are collateralized with securities generate income when the borrower pays a loan premium for the securities loaned. This income is split at the same ratio as the earnings for cash collateral. The collateral pledged to CPS Energy or the Decommissioning Trusts for the loaned securities is held by the lending agent. These securities are not available to the Company or the Decommissioning Trusts for selling or pledging unless the borrower is in default of the loan.

Any collateral received is required to have a fair value of at least 102% of the loaned securities. Securities are marked to market daily and additional cash or securities are required from the borrower if the market value of the collateral falls below 100%. Cash collateral is reported on the Statements of Net Position as an asset, with a corresponding liability for the obligation to repay the cash collateral. Noncash collateral for securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, CPS Energy and the Decommissioning Trusts have authorized the lending agent to seize the collateral held. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible that the original securities may not be able to be replaced. The lending agent has indemnified CPS Energy and the Decommissioning Trusts from any loss due to borrower default in the event the collateral is not sufficient to replace the securities.

At January 31, 2015, and January 31, 2014, neither CPS Energy nor the Decommissioning Trusts had any credit risk exposure to borrowers because the amounts the Company and the Decommissioning Trusts owed to borrowers exceeded the amounts the borrowers owed. There were no violations of legal or contractual provisions nor were there any borrower or lending agent default losses related to securities lending in FY 2015 or FY 2014.

CPS Energy Investment Securities and Collateral

At January 31, 2015, there was a total of $212.5 million in securities, or 18.7% of the Company's investments, out on loan to broker-dealers. In exchange, the Company received $216.9 million in securities collateral, or 102.1% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to $0.8 million in FY 2015, of which 30.0% was paid as fees to the lending agent.

At January 31, 2014, there was a total of $157.9 million in securities, or 15.3% of the Company's investments, out on loan to broker-dealers. In exchange, the Company received $161.0 million in securities collateral, or 101.9% of the market value of the corresponding securities loaned. Income generated from securities lending transactions amounted to $0.8 million in FY 2014, of which 30.0% was paid as fees to the lending agent.

Decommissioning Trusts Investment Securities and Collateral

For the 28% Decommissioning Trust at December 31, 2014, there was a total of $40.3 million in securities, or 10.5% of the Decommissioning Trust's investments, out on loan to broker-dealers. In exchange, the Trust received $14.1 million in cash collateral and $27.2 million in securities collateral, or a total of 102.5% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to $0.1 million in calendar year 2014, of which 30.0% was paid as fees to the lending agent.

For the 28% Decommissioning Trust at December 31, 2013, there was a total of $23.1 million in securities, or 6.4% of the Decommissioning Trust's investments, out on loan to broker-dealers. In exchange, the Trust received $8.1 million in cash collateral and $15.4 million in securities collateral, or a total of 102.1% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to $0.1 million in calendar year 2013, of which 30.0% was paid as fees to the lending agent.

For the 12% Decommissioning Trust at December 31, 2014, there was a total of $35.0 million in securities, or 25.5% of the Decommissioning Trust's investments, out on loan to broker-dealers. In exchange, the

Trust received $32.5 million in securities collateral and $3.2 million in cash collateral, or a total of 102.2% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to $0.1 million in calendar year 2014, of which 30.0% was paid as fees to the lending agent.

For the 12% Decommissioning Trust at December 31, 2013, there was a total of $26.3 million in securities, or 20.7% of the Decommissioning Trust's investments, out on loan to broker-dealers. In exchange, the Trust received $26.9 million in securities collateral, or a total of 102.1% of the market value of the corresponding securities loaned. Income generated from securities lending transactions for this Decommissioning Trust amounted to $0.1 million in calendar year 2013, of which 30.0% was paid as fees to the lending agent.

13. Lease/Leaseback

In June 2000, CPS Energy entered into a lease/leaseback transaction with an affiliate of Exelon involving CPS Energy's Spruce 1 unit. The transaction included a lease for a term of approximately 65 years in combination with a leaseback of the facility by CPS Energy for approximately 32 years.

In February 2014, the parties to the leases executed a termination agreement and, as a result, CPS Energy was released from all scheduled payment and security obligations under the lease transaction. The termination transaction resulted in a noncash gain of $43.4 million, net of the related City payment on the transaction, each of which was reported as a special item on the Statements of Revenues, Expenses and Changes in Net Position.

Prior to the termination, CPS Energy retained fee simple title to, and operating control of, the facility and retained all revenues generated from sales of electricity produced from the facility. For the original lease transaction, CPS Energy received the appraised fair value of the unit, $725.0 million, which was being amortized over 381 months. The transaction expenses and leaseback costs of $628.3 million were recorded as prepaid items in FY 2001 and, through FY 2014, were being amortized over 381 months, or approximately 32 years.

CPS Energy's net benefits associated with the transaction were approximately $88.0 million. The City was paid $12.3 million in accordance with the provisions of the New Series Bond Ordinance that permit 14% of this net benefit to be distributed. The distribution was recorded as a prepayment in FY 2001 and, through FY 2014, was being amortized over 381 months. As a result, net proceeds from the transaction of approximately $75.7 million were being recognized over the leaseback term. For FY 2014, the net amount recorded as income by CPS Energy was $2.8 million.

14. South Texas Project

Units 1 and 2 – CPS Energy is one of three participants in STP, currently a two-unit nuclear power plant with each unit having a nominal output of approximately 1,350 MW. The other participants in STP Units 1 and 2 are NRG South Texas LLP ("NRG"), a wholly owned subsidiary of NRG Energy, Inc., and the City of Austin. The units, along with their support facilities and administrative offices, are located on a 12,220-acre site in Matagorda County, Texas. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS Energy's 40% ownership in STP Units 1 and 2 represents approximately 1,080 MW of total plant capacity.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, the South Texas Project Nuclear Operating Company ("STPNOC"), a Texas nonprofit,

nonmember corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. STPNOC is financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs STPNOC, with each owner appointing one member to serve with STPNOC's chief executive officer.

STP Units 1 and 2 License Renewal and Waste Confidence Rule – On October 28, 2010, STP submitted license renewal applications to the NRC to extend the operating licenses of STP Units 1 and 2 to 2047 and 2048, respectively. The NRC issued a revision to STPNOC's license renewal application schedule due to a scheduling request from the Advisory Committee on Reactor Safeguards and due to continued work on one of the open items. This schedule change lists milestones associated with issuance of the Safety Evaluation Report as "to be determined."

In a separate action, on June 8, 2012, the U.S. Court of Appeals for the District of Columbia Circuit ("Court") found that some aspects of the Waste Confidence Decision and Rule did not satisfy the NRC's National Environmental Protection Act obligations and vacated the Decision and Rule. The Waste Confidence Decision and Rule represent the determination by the NRC that spent nuclear fuel can be stored safely and without significant environmental impact for a period of time after the end of the licensed life of a nuclear power plant. In response to the Court's decision, in August 2012 the NRC suspended all licensing activities that rely on the Waste Confidence Decision and Rule and created a Waste Confidence Directorate within the Office of Nuclear Material Safety and Safeguards to oversee the drafting of a new Waste Confidence Rule and a supporting Generic Environmental Impact Statement ("GEIS") within 24 months.

On August 26, 2014, the NRC approved the GEIS and final rule (renamed the Continued Storage rule). In a separate order, the NRC approved lifting the licensing suspension once the Continued Storage rule became effective, which was effective on October 20, 2014. On September 29, 2014, interveners filed a petition to suspend the new rule with the Atomic Safety and Licensing Board ("ASLB") and a proposed contention opposing the NRC's action. In late October 2014, the states of New York, Vermont and Connecticut filed a timely petition for review of the Continued Storage rule by the U.S. Court of Appeals for the District of Columbia Circuit. Barring further action by the Court, CPS Energy expects that STPNOC's license renewal applications for STP Units 1 and 2 will be approved in the latter part of 2016. Upon approval of these applications, it is expected that STP Units 1 and 2 will each be licensed for a total of 60 years of operation.

Suspension of Used Nuclear Fuel Fee – Under the Nuclear Waste Policy Act ("NWPA"), the DOE has an obligation to provide for the permanent disposal of high-level radioactive waste, which includes used nuclear fuel at U.S. commercial nuclear power plants such as STP. To fund that obligation, all owners or operators of commercial nuclear power plants entered into a standard contract under which the owners paid a fee to the DOE based on the amount of electricity generated and sold from the power plant, along with additional assessments. In exchange for collecting this fee and the assessments, the DOE undertook the obligation to develop a high-level waste repository for safe, long-term storage of the fuel and, no later than January 31, 1998, to transport and dispose of the used fuel. To date, no high-level waste repository has been licensed to accept used fuel. NARUC challenged further collection of this fee; and on November 19, 2013, the Court ruled in favor of NARUC and ordered the DOE to submit to the U.S. Congress a proposal to reduce the fee to zero until certain conditions are met. While the reporting to the DOE of used nuclear fuel volumes will continue, effective May 16, 2014, the rate was reduced to zero.

DOE Settlement and Dry Cask Storage Project – Multiple cases have been filed in the U.S. Court of Federal Claims by the existing owners or operators of nuclear facilities against the DOE related to its failure to meet its obligations under the NWPA. The owners/operators were seeking damages related to ongoing used nuclear fuel storage costs incurred because the DOE did not meet its obligation. On August 31, 2000, in *Maine Yankee Atomic Power Company, et. al. v. United States*, the U.S. Court of Appeals

for the Federal Circuit affirmed that the DOE had breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, the DOE settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while the DOE continues to develop a permanent high-level waste repository.

In February 2013, STPNOC, on behalf of the owners of STP, entered into a similar settlement with the DOE. Under the terms of the settlement, the DOE will reimburse STP for certain costs that will be incurred in continuing onsite storage of all of its used nuclear fuel. As with similar settlements throughout the nuclear industry, the terms of the agreement called for the DOE to reimburse for certain costs incurred through December 2013. In November 2013, STPNOC and its outside counsel received notice from the Department of Justice 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 was executed on January 24, 2014, and extends the term of the Spent Fuel Settlement Agreement with the DOE through December 31, 2016.

Until the DOE is able to fulfill its responsibilities under the NWPA, 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's analysis of NRC guidance, STPNOC has started the process of planning, licensing, and building an on-site independent spent fuel storage installation ("ISFSI"; also known as "Dry Cask Storage") with an expectation that the ISFSI will be operational in 2016.

Ongoing costs for the spent fuel management project are being funded by the STP owners as expenditures are incurred. CPS Energy requests reimbursement periodically from its Decommissioning Trusts for the Company's portion of allowable costs. Annually, STPNOC submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned by STP to the owners upon receipt of funds from the DOE. Upon receipt, CPS Energy reimburses the Trusts for the settlement amount received from the DOE. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Trusts. Any costs not reimbursable by the DOE or the Trusts are recorded as an STP O&M expense or capital costs.

Post-Fukushima Recommendations – On March 11, 2011, a region of Japan sustained significant loss of life and destruction as a result of a major earthquake and resulting tsunami. Included in the damaged areas were the Fukushima Daiichi nuclear units, which lost power to components of the backup and safety control systems and began emitting radiation into the surrounding environment. Following the incident, the NRC convened a Near-Term Task Force to conduct a review of the Commission's processes and regulations in light of the events at Fukushima. The Near-Term Task Force's 90-day report confirmed the safety of U.S. nuclear power plants and included twelve recommendations to the NRC to enhance readiness to safely manage severe events. The NRC Commissioners directed the staff to implement several of the recommendations that were identified as those that should be implemented without unnecessary delay. In addition, the Commissioners directed the staff to identify the schedule and resource needs associated with those Near-Term Task Force recommendations that were identified as long-term actions and/or that require additional staff study to inform potential regulatory changes. On March 12, 2012, the NRC issued three Orders and one Request for Information letter. These actions represented the first regulatory activity initiated as a result of the lessons learned from the events at Fukushima. The Orders outlined actions that must be taken and also provided a compliance deadline. License holders must complete the actions within two refueling outages or by December 31, 2016, whichever comes first. To date, STPNOC has submitted the requested information in a timely manner to comply with all deadlines that have come due.

STP Units 1 and 2 Reduced Capacity – Since January 2014, the electric output of STP Units 1 and 2 has been reduced by 22 MW and 18 MW, respectively, from their nominal output of 1,350 MW for each unit.

STPNOC has identified an issue with the ultrasonic feed water flow as the reason for the reduction. This issue does not represent a safety or other long-term operational concern for STP, and a repair solution has already been identified that will restore the units to full production capacity by late 2015.

STP Unit 2 Forced Outages – On January 4, 2013, STP Unit 2 experienced an outage caused by a failed electrical switch. On January 8, 2013, the unit was returned to 100% power. Approximately 2½ hours after reaching 100% power, the unit experienced an automatic trip due to a main transformer lockout associated with an internal fault. During the plant transient following the trip, the main turbine experienced a loss of lube oil that ultimately resulted in damage to the turbine. STP Unit 2 was returned to 100% power on April 23, 2013. Insurance covered substantially all repairs in excess of the deductible.

Units 3 and 4 Development – In September 2007, NRG and CPS Energy signed the South Texas Project Supplemental Agreement ("Supplemental Agreement") under which CPS Energy elected to participate in the development of two new nuclear units at the STP site, STP Units 3 and 4, pursuant to the terms of the participation agreement among the STP owners and agreed to potentially own up to 50% of STP Units 3 and 4. Also in September 2007, STPNOC, on behalf of CPS Energy and NRG, filed with the NRC a combined construction and operating license application ("COLA") to build and operate STP Units 3 and 4. This COLA was the first complete application for new commercial nuclear units to be filed with the NRC in nearly 30 years. On November 29, 2007, the NRC announced it had accepted the COLA for review.

On March 26, 2008, NRG announced the formation of NINA. Upon the formation of NINA, NRG had an 88.0% ownership interest in NINA, while Toshiba America Nuclear Energy Corporation ("TANE") owned the remaining 12.0%. NRG contributed its 50% ownership of, and its development rights to, STP Units 3 and 4 to NINA. As a result, NINA became CPS Energy's partner for the co-development of STP Units 3 and 4.

On September 24, 2008, STPNOC, on behalf of CPS Energy and NINA, filed with the NRC an updated COLA naming TANE as the provider of STP Units 3 and 4. Receipt of the NRC-approved combined operating license is a condition precedent to starting significant project construction.

On November 5, 2008, STPNOC and the DOE executed a standard contract in which the DOE undertook the obligation to provide for permanent disposal of used nuclear fuel from the proposed STP Units 3 and 4.

On January 20, 2009, the Board authorized CPS Energy to work with STPNOC to enter into an engineering, procurement and construction ("EPC") agreement with TANE for STP Units 3 and 4. The EPC agreement did not commit CPS Energy to build the new nuclear units. Rather, it enabled the Company to lock in favorable terms and conditions with the contractor prior to a final construction decision once the NRC issues a license for the project. The agreement was subsequently signed by all parties on February 24, 2009.

Following notice published on February 21, 2009, three individuals and three groups joined to file one Petition to Intervene against the STP Units 3 and 4 COLA. This initial petition, filed on April 21, 2009, contained 28 contentions. Interveners subsequently filed seven additional contentions. As a result of ASLB decisions, most of the contentions were dismissed. Two contentions were admitted for further consideration but were later dismissed by the ASLB.

On October 13, 2009, the Board approved selection of STP Units 3 and 4 as the next baseload generation resource and approved a request for $400.0 million in bonds to support the project. However, amid reports that CPS Energy had knowledge that costs of the project might be significantly higher than previously reported, the San Antonio City Council's vote on the bonds was postponed. This higher project cost estimate prompted the City Council to reevaluate CPS Energy's stake in the project and members of CPS Energy's management to engage in negotiations with representatives from TANE in November 2009.

Following the postponement of the City Council's vote, the Board undertook an investigation to determine whether CPS Energy's management had knowledge of an increase in the preliminary cost estimate for STP Units 3 and 4 and why that information was not previously communicated to the Board. The results of this investigation were reported to the Board in late 2009 and, based on the report, the Board adopted a resolution finding that there was a failure of communication from certain members of CPS Energy executive management to the Board and the City Council regarding a revised cost estimate. The investigation report also concluded that there was no malicious intent on the part of any member of the management team in connection with the failure of communication. Further, the report found that no member of management instructed any other employee to conceal or withhold any information from the Board.

On December 6, 2009, the Company filed a petition in Bexar County district court to clarify the roles and obligations of CPS Energy and NINA and to define the rights of both parties should either decide to withdraw from the project. NRG escalated the litigation when it sued CPS Energy and claimed the Company should forfeit all investment to date and lose all value in the project's land and water rights. CPS Energy amended its petition on December 23, 2009, and raised significant issues concerning misconduct by NRG and NINA. The Company specified actual and exemplary damages of $32.0 billion.

On February 17, 2010, CPS Energy and NINA announced that a proposed settlement had been reached that ended the parties' legal disagreement and allowed the proposed expansion of STP Units 3 and 4 to proceed. As a result of the settlement, CPS Energy's ownership stake in STP Units 3 and 4 was reduced from 50% to 7.625%, while NINA retained 92.375% ownership. CPS Energy is not liable for any project development costs incurred after January 31, 2010. However, once the new units reach commercial operation, CPS Energy will be responsible for its 7.625% share of ongoing costs to operate and maintain the units. Also as a result of the settlement, NINA agreed to pay CPS Energy $80.0 million, in two $40.0 million payments, upon DOE issuance of a conditional loan guarantee. NINA also agreed to make a contribution of $10.0 million over a four-year period to the Residential Energy Assistance Partnership ("REAP"), which provides emergency bill payment assistance to low-income customers in San Antonio and Bexar County. The settlement agreement was finalized on March 1, 2010. CPS Energy has received the entire $10.0 million from NINA for REAP.

On March 21, 2011, NINA announced that it was reducing the scope of development in STP Units 3 and 4 to allow time for the NRC to assess the lessons learned from the events in Japan. They further stated that current ongoing work would be limited to activities associated with NRC licensing and with securing a DOE loan guarantee. On April 19, 2011, NRG announced that it would continue to support its current partners but that it would not invest additional capital in the STP Units 3 and 4 development effort. NRG wrote off the entire value of its investment in the project while continuing to own a legal interest. Since then, TANE has funded ongoing costs to move the application process forward for the combined operating and construction license.

In April 2011 interveners filed a contention related to foreign ownership following NRG's announcement that it planned to write down its full investment in the STP Units 3 and 4 project. Subsequently, the ASLB agreed to admit the contention of foreign ownership for further consideration. In August 2011 interveners filed a contention related to the NRC's Fukushima Near-Term Task Force report issued in July 2011. In separate actions, the ASLB subsequently dismissed both of the two original contentions and determined the contention on the Fukushima Near-Term Task Force report to be inadmissible, leaving the foreign ownership contention as the only admitted contention.

On December 13, 2011, the NRC issued a letter to NINA stating that its COLA did not meet the requirements of 10 CFR 50.38 (Ineligibility of Certain Applicants). This section of federal regulation contains restrictions associated with foreign ownership, control and domination ("FOCD"). The letter stated that NRC staff was suspending its review of the foreign ownership section of the STP Units 3 and 4

COLA until this matter is resolved by NINA. The NRC letter referenced a NINA letter dated June 23, 2011, in which NINA submitted to the NRC revised general and financial information that included a revised foreign ownership Negation Action Plan. In the revised Negation Action Plan, TANE could acquire up to 90% ownership in NINA with a corresponding 85% ownership interest in STP Units 3 and 4. The NRC letter also stated that review of all remaining portions of the COLA would continue. On December 31, 2011, in response to the NRC letter, interveners filed a motion for summary disposition of the STP Units 3 and 4 COLA due to the FOCD issue. Subsequently, on February 7, 2012, the ASLB denied this motion for summary disposition, noting an evidentiary hearing would be the more appropriate method of analyzing the facts related to this issue.

On February 1, 2012, NINA submitted a revision to the STP Units 3 and 4 COLA. Subsequent to the COLA revision, NINA submitted to the NRC a revised Negation Action Plan, as well as updated information related to FOCD and financial qualification ("FQ"). Recognizing that current NRC guidance does not provide a clear mechanism to issue a license without committed construction funding, the NRC Staff in 2013 submitted SECY 13-0124 seeking Commission guidance to resolving this issue. In an April 24, 2014, Staff Requirements Memo ("SRM"), the Commission directed the NRC staff to engage in a rulemaking to amend the FQ requirements of 10 CFR 50; and upon completion of the rulemaking, applicants could propose the use of a license condition to establish FQ. In addition, the SRM stated that staff consider utilizing the exemption process for existing applicants during the rulemaking period. On June 18, 2014, NINA submitted a request for exemption regarding FQ.

In February 2013 the ASLB issued an order establishing the "trigger date" for the evidentiary hearing related to the foreign ownership contention as the earlier of April 30, 2013, or the date on which the NRC makes known the results of its FOCD review. On April 29, 2013, as part of this review, the NRC staff issued a determination that NINA "continue[s] to be under foreign ownership, control or domination." This initial ruling by the NRC staff was a necessary first step in order to move the process forward to an evidentiary hearing by the ASLB. In January 2014 the ASLB convened the evidentiary hearing with NRC staff, NINA and interveners. A decision was issued by the ASLB on April 10, 2014, ruling in favor of NINA's position that it is not under foreign ownership, control or domination. The partial initial decision would have constituted a final decision of the NRC 120 days from the date of the order unless a petition for review was filed or the NRC directed otherwise. In May 2014 the interveners filed an appeal with the NRC Commissioners regarding the ASLB's decision on the FOCD issue. On April 14, 2015, the NRC Commissioners issued an order denying the interveners' appeal.

Acknowledging that these developments and plans related to FOCD, FQ and the final Safety Evaluation Report facilitate constructive momentum to continue the STP Units 3 and 4 Project and create a pathway to obtaining further clarity for the project participants, CPS Energy's management takes no exception to the process being pursued and will continue to monitor NINA's progress.

On June 6, 2013, the NRC issued a letter to NINA providing an updated review schedule for the STP Units 3 and 4 COLA. Citing budget constraints, the NRC informed NINA that the review schedule for the STP Units 3 and 4 COLA would be delayed by five months, resulting in a revised target date of September 30, 2015, for the release of the final Safety Evaluation Report. CPS Energy continues to expect that the STP Units 3 and 4 COLA could be approved in the early 2016 timeframe.

On May 7, 2014, Toshiba Corporation ("Toshiba") issued a revised business forecast which stated they had "taken a conservative reassessment of the asset value of NINA . . . and recognized an operating loss" of about $300 million. In the statement accompanying the business forecast, Toshiba specifically noted that they remain positive about the project's business feasibility.

Annually, CPS Energy performs a thorough re-evaluation of its investment in the STP Units 3 and 4 project 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. The Company again in FY 2015 reached the conclusion that its investment in the project remains valuable and that the most appropriate treatment is to continue to report this investment on its Statements of Net Position at full historical cost. If it is determined at some point in the future that a full or partial write-down is appropriate, due to the unusual and/or infrequent nature of the circumstances that have to be considered, the impact of writing down the project is expected to be treated as an extraordinary or special item on its Statements of Revenues, Expenses and Changes in Net Position. The write-down would be a noncash transaction that would have no impact on the Company's debt service coverage ratio; however, it would affect the debt to debt and net position ratio. At January 31, 2015, the impact of a write-down would have been an increase in the debt to debt and net position ratio from 60.8% to 63.6%. The Company continues to maintain regular communication with all stakeholders regarding ongoing assessment of the viability of the project and the impact to its financial position.

Including AFUDC of $21.0 million, project costs incurred by CPS Energy to date of $391.4 million are included on the Statements of Net Position as construction-in-progress. Effective as of FY 2012, AFUDC is not being recorded for the STP Units 3 and 4 project since efforts have been limited to licensing-related activities. See Note 4 – Capital Assets, Net for more information about CPS Energy's capital investment in STP.

Nuclear Insurance – The Price-Anderson Act is a comprehensive statutory arrangement for providing limitations on liability and governmental indemnities with respect to nuclear accidents or events. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $121.3 million, subject to adjustment for inflation, for the number of operating nuclear units and for each licensed reactor, payable at $19.0 million per year per reactor for each nuclear incident. CPS Energy and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests. For purposes of these assessments, STP currently has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC in accordance with the financial protection requirements of the Price-Anderson Act. A nuclear liability policy, with a maximum limit of $375 million for the nuclear industry as a whole, provides protection from nuclear-related claims. A Master Worker Certificate policy, also with a maximum limit of $375 million for the nuclear industry as a whole, provides protection from radiation tort claims of workers at nuclear facilities.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of approximately $1.1 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP Units 1 and 2 currently maintain approximately $2.8 billion of nuclear property insurance, which is above the legally required amount of $1.1 billion. The $2.8 billion of nuclear property insurance consists of $500 million in primary property damage insurance and approximately $2.3 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited ("NEIL"). A retrospective assessment could occur if property losses, as a result of an accident at any nuclear plant insured by NEIL, exceed the accumulated funds available to NEIL. CPS Energy also maintains accidental outage insurance through STP's NEIL membership, with a policy structure consisting of an eight-week deductible period, with a $4.5 million weekly indemnity option and $490 million policy limit.

Nuclear Decommissioning – In 1991, CPS Energy started accumulating funds for decommissioning of its 28% ownership in STP Units 1 and 2 in an external trust in accordance with NRC regulations. The 28%

Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excess or deficient funds related to the 28% Trust will be distributed to or received from CPS Energy's ratepayers after decommissioning is complete.

In conjunction with the acquisition of the additional 12% interest in STP Units 1 and 2 in May 2005, the Company also assumed control of a relative portion of the decommissioning trust previously established by the prior owner, American Electric Power ("AEP"). The 12% Decommissioning Trust's assets and related liabilities are also included in CPS Energy's financial statements as a component unit. Subject to PUCT approval as may be requested in the future, excess or deficient funds related to the 12% Trust will be distributed to or received from AEP's ratepayers after decommissioning is complete.

CPS Energy, together with the other owners of STP Units 1 and 2, files a certificate of financial assurance with the NRC for the decommissioning of the nuclear power plant every two years or upon transfer of ownership. The certificate assures that CPS Energy and the other owners meet the minimum decommissioning funding requirements mandated by the NRC. The owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. The most recent cost study, which was finalized in May 2013, estimated decommissioning costs for the 28% ownership in STP Units 1 and 2 at $627.5 million in 2012 dollars. Included in the cost study was a 10% contingency component as required to comply with the PUCT. Based on the level of funds accumulated in the 28% Trust and an analysis of this cost study, the Company determined that no further decommissioning contributions will be required to be deposited into the Trust.

In FY 2009, CPS Energy determined that some preshutdown decommissioning and spent fuel management activities would be required prior to shutdown of STP Units 1 and 2. As a result, separate trust accounts were created to pay for preshutdown decommissioning activities. Additionally, funds in the Trusts applicable to spent fuel management were transferred to separate spent fuel accounts so that they were not commingled with funds allocable to preshutdown or postshutdown decommissioning costs. Based on projected costs, the spent fuel management accounts are currently fully funded; therefore, no contributions were made to these accounts in FY 2015 or FY 2014. CPS Energy made contributions of $3.1 million in FY 2015 to fund preshutdown decommissioning costs for its 28% ownership in STP. No preshutdown decommissioning expenses were incurred for the 28% ownership in calendar year 2014 or 2013. For the 12% Trust, preshutdown costs were funded by AEP's ratepayers. The 12% Trust incurred no preshutdown decommissioning expenses in calendar year 2014 or 2013.

Excluding securities lending cash collateral, as of December 31, 2014, and December 31, 2013, CPS Energy had accumulated approximately $390.5 million and $367.4 million, respectively, in the 28% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC as of December 31, 2014, the 28% Trust funds allocated to decommissioning costs totaled $241.6 million, which exceeded the calculated financial assurance amount of $185.3 million.

The May 2013 cost study estimated decommissioning costs for the 12% ownership in STP Units 1 and 2 at $268.9 million in 2012 dollars. Excluding securities lending cash collateral, as of December 31, 2014, and December 31, 2013, approximately $140.3 million and $129.8 million, respectively, had been accumulated in the 12% Trust. Total funds are allocated to decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC as of December 31, 2014, the 12% Trust funds allocated to decommissioning costs totaled $93.3 million, which exceeded the calculated financial assurance amount of $79.4 million.

The Company accounts for decommissioning by recognizing a liability and expense for a pro rata share of projected decommissioning costs as determined by the most recent finalized cost study. A new cost study is performed every five years; and, in years subsequent to the latest study, estimated annual

decommissioning expense and an increase in the liability is calculated by applying the effects of inflation and the ratio of years of plant usage to total plant life. Additionally, a zero net position approach is applied in accounting for the Decommissioning Trusts.

Both Decommissioning Trusts also have separate calendar-year financial statements, which are separately audited and can be obtained by contacting the Controller at CPS Energy.

STP Pension Plans and Other Postretirement Benefits – STPNOC maintains several pension and other postretirement benefit plans covering most employees, including a noncontributory defined-benefit pension plan, defined-benefit postretirement plan, supplementary nonqualified unfunded pension plan, supplemental retirement plan, deferred compensation program, and a contributory savings plan. The owners of STPNOC, including CPS Energy, share in all plan costs in the same proportion as their respective ownership percentages.

The noncontributory defined-benefit pension plan covers certain employees. Retirement benefits are based on length of service and compensation. Plan assets are invested in various equity and fixed-income securities. Pension contributions totaling $31.9 million were made in STP's FY 2014, of which $9.2 million related to the 2014 plan year, while $22.7 million related to the 2013 plan year. Contributions totaling $31.7 million were made in STP's FY 2013, of which $11.1 million related to the 2013 plan year, while $20.6 million related to the 2012 plan year. A final contribution of $5.7 million for plan year 2014 will be made during STP's FY 2015 in order to meet or exceed minimum funding requirements and maintain the targeted adjusted funding target attainment percentage.

STPNOC also maintains a defined-benefit postretirement plan that provides medical, dental and life insurance benefits for substantially all non-bargaining retirees and eligible dependents. The cost of these benefits is recognized in the project statements during an employee's active working career. STPNOC has a trust to partially meet the obligations of the plan. As of May 1, 2014, STPNOC members of the International Brotherhood of Electrical Workers ("IBEW") Local 66 voted to transition from STPNOC's medical plan to the National Electrical Contractors Association ("NECA") Family Medical Care Plan, a Taft-Hartley multi-employer health and welfare plan. STPNOC pays monthly premiums for the benefits, to be partially funded by IBEW employees.

Employees whose eligible compensation exceeds the limitations established under the 1974 Employee Retirement Income Security Act, $260 thousand for 2014 and $255 thousand for 2013, are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligation. The accruals for the cost of that plan are based on substantially the same actuarial methods and economics as the noncontributory defined-benefit pension plan.

An unfunded supplemental retirement plan and other unfunded deferred compensation programs are maintained by STPNOC for certain key individuals.

STPNOC approved a change to the pension plan, effective January 1, 2007, to preclude the eligibility of employees hired after December 31, 2006, in the plan. Employees hired after this date receive enhanced matching contributions under the STP Nuclear Operating Company Savings Plan.

Pursuant to Subtopic 958-715 of the FASB Accounting Standards Codification, the *Compensation – Retirement Benefits* Subtopic of the *Not-for-Profit Entities* Topic, STP is required to recognize additional liabilities and eliminate the intangible asset related to certain of its qualified and nonqualified plans. The effect to CPS Energy of funding obligations related to the defined-benefit plans sponsored by STPNOC was $13.0 million for FY 2015 and was reflected as a decrease in Other Changes in Net Position on the Statements of Revenues, Expenses and Changes in Net Position. For FY 2014, the effect of the defined

benefit obligations was $39.1 million and was reflected as an increase in Other Changes in Net Position on the Statements of Revenues, Expenses and Changes in Net Position.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

15. Commitments and Contingencies

Purchase and construction commitments approximated $10,607.1 million at January 31, 2015. This amount includes construction commitments, provisions for coal purchases through December 2021, coal transportation through December 2018, and natural gas purchases through June 2027; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for wind power through 2037, solar power through 2042, landfill power through December 2029, capacity and power purchases through 2044, and raw uranium associated with STP fabrication and conversion services needed for refueling through May 2026.

On January 20, 2009, the Board approved a policy statement on sustainability. The basis of the policy is to affirm that CPS Energy's strategic direction centers on transforming from a company focused on providing low-cost power from traditional generation sources to a company providing competitively priced power from a variety of sources, including low and non-carbon emitting sources. To be sustainable, CPS Energy has to balance its financial viability, environmental commitments and social responsibility as a community-owned provider. Further, the objective of sustainable energy development is to meet current needs without compromising the ability of future generations to meet their needs.

In FY 2008, CPS Energy entered into a Natural Gas Supply Agreement with the SA Energy Acquisition Public Facility Corporation ("PFC"), a component unit of the City, to purchase, to the extent of its gas utility requirements, all natural gas to be delivered under a Prepaid Natural Gas Sales Agreement. Under the Prepaid Natural Gas Sales Agreement between the PFC and a third-party gas supplier, the PFC prepaid the cost of a specified supply of natural gas to be delivered over 20 years. On February 25, 2013, the PFC executed certain amendments to the Prepaid Natural Gas Sales Agreement entered into with J. Aron in 2007 and other related documents with respect to the 2007 prepayment transaction with J. Aron. Under the resolution and the amendments, Goldman, Sachs & Co. surrendered for cancellation $111.1 million of the SA Energy Acquisition Public Facility Corporation Gas Supply Revenue Bonds, Series 2007 owned by J. Aron; Goldman, Sachs & Co.; or affiliates. In exchange, the PFC agreed to reduce future required natural gas delivery volumes from 104.6 million MMBtu to 81.3 million MMBtu and to adjust the notional amount of its commodities price hedge so that hedged revenue from gas sales will bear at least the same proportion to annual debt service requirements as before the transaction. In conjunction with the transaction, a portion of the savings related to the purchase of natural gas from the PFC that would have been passed on to CPS Energy's distribution gas customers over the 20-year life of the original agreement has been accelerated. Distribution gas customers are benefitting from the accelerated savings beginning March 1, 2013, through June 30, 2015. CPS Energy's 20-year commitment under the Natural Gas Supply Agreement is included in the aforementioned purchase and construction commitments amount.

In FY 2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority ("BDA") to upgrade the electric and gas utility systems located within Brooks City-Base. CPS Energy and BDA each committed to invest $6.3 million ($4.2 million in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. Annual reductions to BDA's obligation were made from incremental revenues to the City for electric and gas sales to customers that reside on the BDA-developed property. Annual reductions to BDA's obligation were also made in accordance with contract terms for economic development at Brooks City-Base that benefited

CPS Energy's Systems. To the extent that the capital renewals and upgrades do not total $12.6 million by September 2022, BDA's and CPS Energy's obligations each will be reduced equally. To date, $10.6 million has been invested in capital renewals and upgrades. BDA has met its obligation, net of annual interest, of $4.2 million.

On June 8, 2010, CPS Energy committed to partner in the Texas Sustainable Energy Research Institute ("Institute") at the University of Texas at San Antonio for sustainable energy research. The agreement calls for CPS Energy to invest up to $50 million over 10 years in the Institute. The investment made through January 31, 2015, was $6.0 million, from funds currently allocated to research and development. Future funding will be developed by the scope of the projects defined by the partnership and subject to annual approval by the Board.

CPS Energy sells excess power into the wholesale market. While the majority of these sales are short-term transactions, from time to time the Company enters into long-term wholesale power supply agreements with other public power entities. In addition to long-standing wholesale power relationships with the cities of Castroville, Floresville and Hondo, the Company currently has agreements to provide either full or partial requirements to seven additional public power entities. These agreements have varying terms expiring between 2016 and 2023. The volumes committed under these agreements represent approximately 5% to 6% of current capacity. The Company regularly monitors the market values of these transactions to manage contract provisions with the counterparties.

CPS Energy entered into two contractual obligations, referred to as heat rate call options ("HRCO"), with Morgan Stanley Group Inc ("Morgan Stanley"). The HRCOs give Morgan Stanley the right to purchase specified amounts of MW per hour generated from the Rio Nogales plant, based on a pricing schedule set forth in each. One of these agreements expired in December 2012, and the remaining HRCO will expire in September 2015. The volumes committed under the remaining agreement represent approximately 31.3% of the Rio Nogales plant's generating capacity.

On June 20, 2011, CPS Energy announced its New Energy Economy initiative. The program is designed to focus on more clean energy sources rather than traditional energy sources and includes several major initiatives to which the Company has committed (current commitments are included in the aforementioned $10,607.1 million):

- CPS Energy's customers have the opportunity to manage their home energy use through a Home Area Network system referred to as Home Manager. The program was launched in FY 2012 with plans to enroll up to 140,000 homes and businesses by 2019. Home area networks work with smart meters to provide up-to-the-minute energy use information and allow demand-side management to reduce energy consumption on the customer premises. The deployment may be partially funded through STEP and has the potential to reduce electrical demand by 205 MW. Through January 31, 2015, approximately 25,000 Home Manager systems have been installed.

- The Company is in the process of replacing 25,000 San Antonio streetlights with LED streetlights. The lights were purchased from GreenStar, a worldwide supplier of LED lighting. The streetlights use 60% less energy than standard sodium lights and are designed to last 12 to 15 years, thereby reducing maintenance costs. Approximately $2.2 million of the deployment costs were funded through STEP, with the remainder being funded by the City. Through January 31, 2015, approximately 23,500 LED streetlights have been installed.

- In November 2011, the Company entered into a $77.0 million prepaid agreement with SunEdison for purchased power equal to approximately 60% of the anticipated output from 30 MW of solar energy facilities in the San Antonio area. The unamortized balance of the prepayment was $69.1 million at January 31, 2015, and $72.2 million at January 31, 2014. The agreement expires

in 2037, and the purchase of the balance of the output is on a pay-as-you-go basis. As part of the agreement, CPS Energy has the right to purchase the facilities six years after commencement of commercial operations.

- In late 2011, CPS Energy and Summit Power Group ("Summit") negotiated a contract for 200 MW of power offtake from the proposed Texas Clean Energy Project. The contract between CPS Energy and Summit expired on December 31, 2013, in accordance with the terms of the contract. Discussions between CPS Energy and Summit reinitiated in early 2014. In October 2014, CPS Energy announced a new agreement with Summit to purchase power from its Texas Clean Energy Project integrated combined-cycle coal gasification plant, which will incorporate carbon capture, utilization and storage technology in a first-of-its-kind commercial clean-coal power plant. The plant will provide 200 MW of clean-coal electricity to CPS Energy; 90% of the carbon will be captured and used for enhanced oil recovery in the West Texas Permian Basin. The plant, to be built approximately 15 miles west of Odessa, Texas, is expected to be online in 2019, instead of the originally scheduled date in 2017. The contract is for all expected electrical output from the facility, with payments beginning once the project has commenced electrical production. CPS Energy has no further legal or financial obligations associated with the project.

- In July 2012, CPS Energy and OCI Solar Power ("OCI") entered into an agreement for CPS Energy to purchase solar power produced by OCI. OCI created a consortium of partners to deliver 400 MW of solar energy, produced at solar farms primarily in and around San Antonio, to CPS Energy throughout the life of the 25-year power purchase agreement. Also as part of the agreement, Mission Solar Energy, LLC, the anchor manufacturer in the consortium, has built a high-tech manufacturing facility to produce components for solar power generation and has relocated its headquarters to San Antonio, creating over 400 jobs in total. Alamo 1, with a capacity of 40.7 MW, achieved commercial operations in December 2013. Alamo 2, with a capacity of 4.4 MW, achieved commercial operations in March 2014. Alamo 4, with a capacity of 39.6 MW, achieved commercial operations in August 2014. Alamo 3, with a capacity of 5.2 MW, achieved commercial operations in January 2015.

- In December 2013, CPS Energy, along with partners Silver Spring Networks and Landis+Gyr, began the Company's Grid Optimization project, or more commonly known as Smart Grid. The project, which will be implemented over the next four years, will provide a standards-based networking platform, advanced metering infrastructure and distribution automation solutions across CPS Energy's service territory. The completed system will also facilitate wireless two-way communication between CPS Energy and its customers, allow for increased energy efficiency and offer greater customer control and savings. The estimated cost of this project is approximately $290 million and is expected to bring a minimum of 50 jobs to San Antonio.

16. Leases

Capital Leases

CPS Energy was not a contracted party to any capital leases during FY 2015 or FY 2014, either as a lessee or lessor.

Operating Leases

Leases Related to Communication Towers Sale – In FY 2014, the Company entered into an agreement to sell 69 of its communication towers to an independent third party. Title to 62 of the towers was conveyed to the purchaser in January 2014. Transfer of title for the remaining seven sites is pending

resolution of easement issues. See Note 4 – Capital Assets, Net for additional information related to the sale. Additionally, new licensing agreements were entered into between CPS Energy and the purchaser for CPS Energy's ongoing use of the towers and the purchaser's use of CPS Energy's communication buildings for a period of 40 years, with three five-year options by the purchaser to extend the agreement.

In accordance with lease guidance provided in GASB Statement No. 62, leases related to the communication towers sale, both with CPS Energy as lessor and as lessee, have been classified as operating leases. Future minimum lease payment information provided in this footnote includes lease revenue and lease expense to be recognized as a result of the following lease components of the communication towers sale:

- **Lease of Tower Space for CPS Energy Communication Equipment** – The parties to the sale transaction agreed that no cash would be paid by CPS Energy for the space it leased on the communication towers for the 40-year term of the lease agreement. As a result, the total sale transaction proceeds received from the purchaser were reduced by an amount representing an advance payment to the purchaser of the net present value of the estimated total lease obligation. This value represents a prepaid lease expense to the Company benefitting a period of time equal to the 40-year term of the leases. In accordance with GASB Statement No. 62, the value of this prepaid lease obligation for space on the 62 towers was recorded at fair value and totaled $18.7 million, which will be amortized to lease expense over the 40-year term. The prepaid lease obligation related to each of the remaining seven towers will be recorded at closing and title conveyance for each respective tower sale.

- **Lease of Communication Building Space** – The parties agreed that no cash would be paid by the purchaser for the space it leased in CPS Energy's communication buildings for the term of the lease agreement. As a result, the total sale transaction proceeds received from the purchaser included an additional amount representing an advance payment by the purchaser of the net present value of the estimated total lease obligation. This value represents unearned lease revenue to CPS Energy generated over a period of time equal to the 40-year term of the leases. In accordance with GASB Statement No. 62, the value of this unearned lease revenue for space in the 62 communication buildings was recorded at fair value and totaled $6.3 million, which will be amortized to nonoperating income over the 40-year term. The unearned lease revenue related to each of the remaining seven communication buildings will be recorded at closing and title conveyance for each respective tower sale.

Additionally, the communication towers sale transaction included an assignment of existing operating lease agreements with tenants who had equipment located on the towers. At the time of sale, there were approximately 127 lease agreements outstanding, with CPS Energy as lessor for space on the towers and in the Company's communication buildings, having remaining terms varying from fewer than two years to ten years. In FY 2014, these leases provided approximately $2.8 million in proceeds to the Company, which was recognized as nonoperating income. With the sale of the towers, these leases were assigned to the purchaser, and the right to collect future cash flows from the leases was conveyed. The estimated net present value of these cash flows, including annual escalations based on estimated future Consumer Price Indices, totaled approximately $6.5 million for the 62 towers conveyed in the initial closing plus an additional $0.5 million for the seven towers to be subsequently conveyed. Proceeds to the Company from the tower sale transaction included a purchase price for these leases, which was recorded as a deferred inflow of resources totaling $6.5 million in accordance with guidance provided in GASB Statement No. 65. Revenue from the sale of future revenues related to these leases will be recognized over the term of the original leases in accordance with guidance provided in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*. Additional deferred inflows of resources for the assignment to the purchaser of any leases related to each of the remaining seven towers will be recorded at closing and title conveyance for each respective tower sale.

Following is a brief description of CPS Energy's current leases, as well as future minimum payments and receipts related to those leases.

CPS Energy as Lessee – CPS Energy has entered into operating lease agreements to secure the usage of communication towers space, railroad cars, natural gas storage facilities, land, office space, parking lot space and engineering equipment. The lease for the parking lot space and several of the leases for office space, as well as the lease of communication towers space, include an escalation in the monthly payment amount after the first year of each lease.

CPS Energy's projected future minimum lease payments for noncancelable operating leases with terms in excess of one year are as follows:

(In thousands)

Year Ended January 31,	Operating Lease Payments
2016	$ 7,968
2017	6,228
2018	3,523
2019	1,679
2020	1,425
Thereafter	77,171
Total future minimum lease payments	$ 97,994

CPS Energy's minimum lease payments for all operating leases for which the Company was the lessee amounted to $10.4 million in FY 2015 compared to $8.3 million in FY 2014. Contingent lease payments amounted to $0.1 million in FY 2015, while no payments were made in FY 2014.

CPS Energy as Lessor – CPS Energy has entered into operating lease agreements allowing cable and telecommunication companies to attach telephone, cable and fiber-optic lines to CPS Energy's electric poles. Operating leases also exist between CPS Energy and telecommunication companies allowing the companies to attach communication equipment to CPS Energy's communication and transmission towers. As described above, CPS Energy sold 69 of its communication towers to a third party in January 2014. Projected future minimum lease receipts pertaining to the use of CPS Energy's communication towers and buildings reflect a 4% annual escalation in receipts after the first year of each lease.

CPS Energy has three operating leases for the use of land that the Company owns, and it has entered into multiple agricultural leases allowing the lessees to use CPS Energy's land for sheep and cattle grazing. The three land leases contain provisions for contingent lease receipts based on the Consumer Price Index. Additionally, the majority of the operating leases pertaining to the use of CPS Energy's transmission towers contain provisions for contingent lease receipts that will equal the lesser of a 15% increase in the prior five-year lease payment or the percentage increase in the Consumer Price Index over the same five-year period.

Projected future minimum lease receipts to CPS Energy for noncancelable operating leases with terms in excess of one year are as follows:

(In thousands)

Year Ended January 31,	Operating Lease Receipts
2016	$ 980
2017	985
2018	805
2019	591
2020	604
Thereafter	26,597
Total future minimum lease receipts	$ 30,562

CPS Energy's minimum lease receipts for all operating leases for which the Company was the lessor amounted to $7.0 million in FY 2015 and $7.7 million in FY 2014. Contingent lease receipts amounted to $0.03 million in FY 2015 and $0.4 million in FY 2014. There were no sublease receipts in FY 2015 or FY 2014.

17. Pollution Remediation Obligation

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that a liability be recognized for expected outlays for remediating existing pollution when certain triggering events occur. The general nature of existing pollution that has been identified at CPS Energy sites is consistent with that experienced within the electric and gas utilities industry. Under most circumstances, the triggering event most relevant to the Company is the voluntary commencement of activities to clean up pollution.

Under Federal Energy Regulatory Commission guidance, reserves have been established for dismantling and closure costs. In FY 2008, in preparation for implementation of GASB Statement No. 49, a portion of those reserves were reclassified to remediation and dismantling reserve accounts reported on the Statements of Net Position within other liabilities. When a triggering event occurs, those reserves will be reclassified as a pollution remediation liability also reported within other liabilities.

The pollution remediation liability was $3.7 million as of January 31, 2015, and $1.4 million as of January 31, 2014. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49 utilizing information provided by the Company's environmental staff and consultants.

REQUIRED SUPPLEMENTARY INFORMATION ("RSI")
January 31, 2015 and 2014
(Unaudited)

Schedules of Changes in CPS Energy Net Pension Liability and Related Ratios – The following schedules present multiyear trend information that demonstrates the components of change in the net pension liability from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts presented are determined as of the measurement date of the net pension liability for the following fiscal years:

(Dollars in thousands)

	Fiscal Year Ended January 31,		
	2015	2014	2013
Total pension liability			
Service cost	**$ 33,417**	$ 33,470	$ 31,420
Interest cost	**116,155**	112,356	105,013
Changes in Plan benefits	**-**	-	-
Changes in assumptions	**-**	-	-
Differences between expected and actual experience	**(24,410)**	25,158	(13,581)
Benefit payments	**(74,352)**	(70,677)	(66,147)
Net change in total pension liability	**50,810**	100,307	56,705
Total pension liability, beginning of period	**1,533,250**	1,432,943	1,376,238
Total pension liability, end of period	**1,584,060**	1,533,250	1,432,943
Plan fiduciary net position			
Employer contributions	**(44,400)**	(39,016)	(37,687)
Participant contributions	**(12,569)**	(12,332)	(11,745)
Earnings on Plan assets	**(145,883)**	(110,529)	(22,510)
Benefit payments	**74,352**	70,677	66,147
Net change in Plan fiduciary net position	**(128,500)**	(91,200)	(5,795)
Plan fiduciary net position, beginning of period	**(1,188,800)**	(1,097,600)	(1,091,805)
Plan fiduciary net position, end of period	**(1,317,300)**	(1,188,800)	(1,097,600)
Net pension liability, end of period	**$ 266,760**	$ 344,450	$ 335,343
Plan fiduciary net position as a percentage of the total pension liability	**83.2%**	77.5%	76.6%
Covered-employee payroll	**$ 261,085**	$ 260,730	$ 251,136
Net pension liability as a percentage of covered-employee payroll	**102.2%**	132.1%	133.5%

Notes to Schedule

There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, in the use of different assumptions or other factors that significantly affected trends from year to year in the amounts reported above.

Schedules of Employer Contributions to CPS Energy Pension Plan – The following schedules present multiyear trend information regarding employer contributions to the Plan. Information is presented related to all periods for which the required data is available. The amounts presented are determined as of the fiscal years ending:

(Dollars in thousands)

	2015	2014	2013
Actuarially determined contribution	**$ 48,696**	$ 44,362	$ 39,016
Contributions in relation to the actuarially determined contribution	**55,800**	44,400	39,016
Contribution deficiency (excess)	**$ (7,104)**	$ (38)	$ -
Covered-employee payroll	**$261,085**	$ 260,730	$ 251,136
Contributions as a percentage of covered-employee payroll	**21.4%**	17.0%	15.5%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal cost
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years, beginning with calendar year 2014; expected value adjusted market value method for all prior periods
Inflation	3.0% per year, compounded annually
Salary increases	Average, including inflation - 5.03% for FY 2015, 5.07% for FY 2014, 5.18% for FY 2013
Investment rate of return	7.75% per year, compounded annually
Mortality	Based on RP-2000 Combined Healthy Annuitant Mortality Table for Males or Females, projected using Scale AA
Cost-of-living increases	1.50% per year

Other information: There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, in the use of different assumptions or other factors that significantly affected trends from year to year in the amounts reported above.

CPS Energy Other Postemployment Benefits

Schedules of Funding Progress – The following schedules of funding progress present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits:

Health Plan

(Dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL)[1] (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Annual Covered Total Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
January 1, 2013	$ 233,187	$ 243,022	$ 9,835	96.0%	$ 247,324	4.0%
January 1, 2012	$ 224,792	$ 222,878	$ (1,914)	100.9%	$ 246,908	-0.8%
January 1, 2011	$ 218,555	$ 222,472	$ 3,917	98.2%	$ 237,823	1.6%

[1] The AAL consisted of the liability for both retired employees and active employees. The AAL for health benefits paid to retired employees was $106.0 million for January 1, 2013; $97.4 million for January 1, 2012; and $103.2 million for January 1, 2011.

Life Plan

(Dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL)[1] (b - a)	Funded Ratio (a / b)	Annual Covered Total Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
January 1, 2013	$ 46,995	$ 41,923	$ (5,072)	112.1%	$ 216,358	-2.3%
January 1, 2012	$ 47,074	$ 40,670	$ (6,404)	115.7%	$ 214,898	-3.0%
January 1, 2011	$ 47,386	$ 39,076	$ (8,310)	121.3%	$ 206,643	-4.0%

[1] CPS Energy has selected the aggregate cost method for determining Life Plan funding amounts. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress has been prepared using the entry-age normal actuarial cost method, which approximates the funding progress of the plan.

Disability Plan

(Dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL)[1] (b - a)	Funded Ratio (a / b)	Annual Covered Total Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
January 1, 2013	$ 4,610	$ 5,113	$ 503	90.2%	$ 216,358	0.2%
January 1, 2012	$ 4,598	$ 5,390	$ 792	85.3%	$ 214,898	0.4%
January 1, 2011	$ 4,342	$ 5,744	$ 1,402	75.6%	$ 206,643	0.7%

[1] CPS Energy has selected the aggregate cost method for determining Disability Plan funding amounts. Since this method does not identify or separately amortize unfunded actuarial liabilities, information about the funded status and funding progress has been prepared using the entry-age normal actuarial cost method, which approximates the funding progress of the plan.

STP Pension Plan (Reported at 100%)

The following table presents information regarding STP Nuclear Operating Company's pension and OPEB benefits and was prepared in accordance with FASB standards and by STPNOC as part of their financial reporting. These amounts are STP total balances and have not been adjusted to give effect to CPS Energy's ownership percentage of STP.

(Dollars in thousands)

	Pension Benefits		Other Benefits	
	Year ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013
Change in benefit obligation				
Benefit obligation – beginning	**$ 414,073**	$ 431,227	**$ 130,429**	$ 138,043
Service cost	**10,497**	12,101	**8,062**	11,558
Interest cost	**21,047**	18,758	**5,236**	6,078
Plan changes	**-**	-	**(113,214)**	(1,211)
Actuarial loss	**83,094**	(39,969)	**41,001**	(20,176)
Benefits paid	**(9,894)**	(8,044)	**(3,396)**	(3,863)
Benefit obligation – ending	**518,817**	414,073	**68,118**	130,429
Change in plan assets				
Fair value of plan assets – beginning	**318,591**	257,513	**12,947**	11,430
Actual return on plan assets	**17,992**	37,422	**115**	1,901
Employer contributions	**31,900**	31,700	**3,629**	3,479
Reclassification of assets	**-**	-	**(13,062)**	-
Benefits paid	**(9,894)**	(8,044)	**(3,629)**	(3,863)
Fair value of plan assets – ending	**358,589**	318,591	**-**	12,947
Funded status – ending	**(160,228)**	(95,482)	**(68,118)**	(117,482)
Unrecognized net actuarial loss	**183,019**	98,468	**59,947**	20,924
Unrecognized prior service cost	**1,135**	2,072	**(113,046)**	(7,837)
Unrecognized transition obligation	**-**	-	**-**	31
Cumulative difference between recognized and unrecognized net expense and funding	**$ 23,926**	$ 5,058	**$ (121,217)**	$ (104,364)
Weighted-average assumptions used to determine benefit obligation				
Discount rate	**4.28%**	5.19%	**4.05%**	5.17%
Expected return on plan assets	**7.75%**	7.75%	**7.75%**	7.75%
Rate of compensation increase - Bargained	**3.00%**	3.00%	**3.00%**	3.00%
Rate of compensation increase - Non-bargained	**2.00%**	3.00%	**2.00%**	2.00%
Weighted-average assumptions used to determine pension and other benefits expense				
Discount rate	**5.19%**	4.39%	**5.17% - 4.33%**	4.35%/518%
Expected return on plan assets	**7.75%**	7.75%	**7.75%**	7.75%
Rate of compensation increase	**3.00%**	3.00%	**3.00%**	3.00%

GLOSSARY OF TERMS

Advance Refunding: A bond issuance in which new bonds are sold at a lower interest rate than outstanding ones. The proceeds are then invested in an irrevocable escrow; when the older bonds become callable, they are paid off with the invested proceeds.

Allowance for Funds Used During Construction ("AFUDC"): A cost accounting procedure whereby interest charges on borrowed funds and a return on equity for capital used to finance construction are added to the cost of utility plant being constructed (i.e., capitalized interest).

Amortize: To reduce an original amount or an account balance on an installment basis.

Annual Other Postemployment Benefit ("OPEB") Cost: An accrual-basis measure of the periodic cost of an employer's participation in a defined-benefit OPEB plan.

Annual Required Contribution ("ARC"): The employer's periodic required contributions to a defined-benefit OPEB plan, calculated in accordance with certain parameters.

Assets: Resources of value to a company to which it has exclusive rights of use.

Build America Bonds ("BABs"): Taxable municipal bonds created under the American Recovery and Reinvestment Act of 2009 that carry special federal subsidies for either the bondholder or the bond issuer.

Call Option: An option contract giving the owner the right (but not the obligation) to buy a specified amount of an underlying asset at a specified price within a specified time.

Capital Asset: An asset with a life of more than one year that is not bought and sold in the ordinary course of business.

Cash and Cash Equivalents: The value of assets that can be converted into cash immediately. Usually includes bank accounts and marketable securities, such as government bonds. Cash equivalents on the Statements of Net Position include securities with an original maturity of 90 days or less.

Commercial Paper: A short-term note with a maximum maturity of 270 days. Maturities for commercial paper notes, however, can be extended indefinitely for the life of the program that supports the commercial paper notes.

Community Infrastructure and Economic Development ("CIED") Fund: Used to support qualified capital projects that provide economic benefit within the communities served by CPS Energy.

Component Unit: A legally separate entity for which the elected officials of the primary government are financially accountable and with which a financial benefit/burden relationship exists. The nature and significance of its relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Decommissioning: The process related to permanently taking a nuclear plant out of service, including decontaminating and removing buildings or other structures.

Defeasance: A provision that legally discharges a borrower for debt incurred when the borrower sets aside cash or bonds sufficient to service the outstanding debt.

Deferred Inflows of Resources: Acquisition of net assets applicable to a future reporting period.

Deferred Outflows of Resources: Consumption of net assets applicable to a future reporting period.

Depreciation: Amount allocated during the period to expense the cost of acquiring a capital asset over the useful life of the asset.

Derivative: In finance, a security for which price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Examples of derivatives include futures and options.

Electric Reliability Council of Texas (“ERCOT”): An organization whose mission is to direct and ensure reliable and cost-effective operation of the electric transmission grid in Texas and to enable fair and efficient market-driven solutions to meet customers’ electric service needs.

Fair Value: The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Energy Regulatory Commission (“FERC”): Independent federal agency created within the U.S. Department of Energy. FERC is vested with broad regulatory authority over wholesale electric, natural gas and oil production, and the licensing of hydroelectric facilities.

Financial Accounting Standards Board (“FASB”): Board composed of independent members who create and interpret generally accepted accounting principles (“GAAP”).

Fiscal Year (“FY”): The 12-month period covered by the income statement. A fiscal year may or may not coincide with a calendar year. For CPS Energy, the fiscal year is from February 1 through January 31.

Futures: Financial contracts obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange.

Generally Accepted Accounting Principles (“GAAP”): Conventions, rules and procedures that serve as the norm for the fair presentation of financial statements. The Governmental Accounting Standards Board is responsible for setting GAAP for state and local governments.

Governmental Accounting Standards Board (“GASB”): The authoritative standard-setting body for accounting and financial reporting for governmental entities in the United States.

Heat Rate Call Option (“HRCO”): A contractual obligation which grants a counterparty the right to purchase specified amounts of MW per hour generated from a power generation facility, according to fixed pricing terms set forth in the option contract.

Hedging: The process of buying and selling fuel oil; natural gas; and electric energy futures, options or similar contracts to protect against loss due to price fluctuations.

Lease: A legal agreement to pay rent to the lessor for a stated period of time. Sometimes the lease is in substance a purchase of an asset and a financing arrangement (i.e., a capital lease).

Lease/Leaseback: A financing transaction that involves a company leasing an asset to another entity and that entity subleasing the asset back to the company.

Liabilities: Claims by creditors against the assets of the company.

MCF: A measure of natural gas volumes. An MCF equals 1,000 cubic feet.

MMBtu: 1,000,000 British Thermal Units (“BTU”). A BTU is the standard unit for measuring the quantity of heat energy, such as the heat content of fuel. It is the amount of heat energy necessary to raise the temperature of one pound of water one degree Fahrenheit at sea level pressure.

Management’s Discussion & Analysis (“MD&A”): A section of the annual report that contains objective and easily readable analysis from management about the company’s financial condition and its operations to assist users in assessing the company’s financial position.

Megawatt ("MW"): A measure of electric power. A megawatt equals 1,000 kilowatts or 1,000,000 watts.

Mothballed: A generation resource that is placed in an inactive state so that it can neither be brought into operation immediately nor counted towards the electric transmission grid's reserve margin.

National Association of Regulatory Utility Commissioners ("NARUC"): A nonprofit organization whose members include the governmental agencies that are engaged in the regulation of utilities and carriers in the 50 United States, the District of Columbia, Puerto Rico and the Virgin Islands. NARUC's member agencies regulate the activities of energy, water and telecommunications utilities.

Natural Gas Basis Swap: A financial contract that allows the purchaser to lock in the price difference between two natural gas delivery points or hubs, such as the Houston Ship Channel and Henry Hub, Louisiana.

Net Costs Recoverable/Refundable: Certain costs that are required to be accrued as a regulatory asset or a regulatory liability under GASB Statement No. 62 if regulation provides assurance that these costs can be recovered or refunded through rates in the future.

Net OPEB Obligation: The cumulative difference between the annual OPEB cost and the employer's contributions to the plan.

Net Pension Liability: The difference between the actuarial total pension liability and a pension plan's fiduciary net position of as the measurement date.

Net Revenue: Per the New Series Bond Ordinance, all income and revenues from the operation of the Systems after the deduction of maintenance and operating expenses.

New Series Bonds: A CPS Energy term used to distinguish bonds that have a first lien on the net revenues of CPS Energy's Systems.

Other Postemployment Benefits ("OPEBs"): Postemployment benefits other than pension benefits. OPEBs include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination benefits.

Public Utility Commission of Texas ("PUCT"): The governmental commission that regulates the rates and services of telephone utilities; investor-owned electric, water and sewer utilities; electric, water and sewer utilities in unincorporated areas; and radio companies statewide. The PUCT does not have authority to regulate retail activities of municipally owned utilities.

Refunding: Retiring an outstanding bond issue after the first call date by using money from the sale of a new offering.

Regulatory Asset/Liability: Specific costs, revenues or gains that a government with qualifying rate-regulated operations is allowed to defer, until recovered through future rates, that would otherwise be immediately recognized in the statement of revenues, expenses and changes in net position.

Required Supplementary Information ("RSI"): Schedules, statistical data and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.

Retail Sales: Retail electric sales within a utility's certificated service area.

Revenue Bonds: Bonds issued by a municipality in which the issuer pledges to the bondholders its revenues as security for the bonds.

SA Energy Acquisition Public Facility Corporation ("PFC"): A public nonprofit corporation organized under the laws of the state of Texas pursuant to the Texas Public Facility Corporation Act, Chapter 303, Texas Local Government Code. The Corporation was organized to assist the City of San Antonio in financing, refinancing or providing public facilities, including natural gas, to be devoted to public use.

Securities Lending: An investment strategy that involves the temporary loan of securities to another party, typically dealers. For the full time that the securities are out on loan, they are secured with cash and/or noncash collateral in excess of the value of the securities that are lent. In return for the use of securities, the lender earns a spread on the cash pledged as collateral.

South Texas Project ("STP"): A two-unit nuclear plant with a capacity of 2,700 MW of electricity, enough to provide service for more than one million homes and businesses.

STP Nuclear Operating Company ("STPNOC"): A not-for-profit entity that provides for the licensing, construction, operation and maintenance of the jointly owned and operated electric generation facilities of STP.

Tax-Exempt Bond: A bond usually issued by a municipal, county or state government for which interest payments are not subject to the bondholders' federal income tax and, in some cases, state and local income tax.

Transmission Costs of Service ("TCOS"): A functional classification of expenses and capital expenditures relating to the operation and maintenance of the transmission plant. The transmission function is that portion of the utility system used for the purpose of transmitting electrical energy in bulk to other principal parts of the system or to other utility systems.

True Interest Cost: The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds.

Variable-Rate Demand Obligation: A long-term bond with a floating interest rate that varies as it is re-determined periodically (daily, weekly, semi-annually, annually, etc.).

Wholesale Sales: Wholesale electric sales outside a utility's certificated service area. (Also see "Retail Sales.")