

Report from Management for the Third Quarter Ended October 31, 2021

Board of Trustees Vacancy Filled

Trustee Ed Kelley will vacate his seat on the CPS Energy Board of Trustees in January 2022, after serving on the five-member Board since May 2011. We conducted an extensive awareness effort for the vacancy, including an in-person and virtual information session for applicants to learn about Board members' responsibilities for setting policy and working with the management team to oversee the operation of the nation's largest public power, natural gas, and electric company. More than 25 applications were received. Following interviews and deliberations, the Board voted to submit Dr. Francine Romero to the San Antonio City Council as their nominee. Dr. Romero is the Chair of the Department of Public Administration at the University of Texas at San Antonio and has extensive experience in research and community service. The City Council confirmed Dr. Romero's nomination on October 21, 2021.

Successful Customer Outreach Strategy Wins Awards

Our Customer Outreach Resource Effort (CORE) program received top honors from two leading industry organizations, CSWeek and Chartwell, Inc. Through CORE, we proactively contact residential and commercial customers to check on their well-being and connect them with bill assistance and other needed resources. CS Week, a utility education and customer service resource, recognized the CORE campaign as a 2021 Expanding Excellence Awards winner. Chartwell, Inc. helps utilities identify strategies to impact customer experience and operational efficiency. Chartwell's 2021 Best Practices Awards for Notable Achievement in COVID-19 Efforts for Customer Service Outreach was awarded to CORE. As of the end of October, CORE has called 89,357 customers, interacted with 68,350 customers, and provided payment arrangements for 63,197 customers. Working with community partners, we have connected customers with more than \$40 million in assistance resources.

Ongoing Discussions Held for the Community

Three virtual Tele-Town Halls, each attended by about 2,000 customers and stakeholders, shared information about our strategic initiatives. On August 12 and September 14, we discussed our **Flexible Path**SM strategy, which includes initiatives to support our **Reliable**, **Affordable**, **Resilient**, and cleaner energy future. On October 5, our Senior Chiefs discussed our journey and financial successes during the past 12 years with only one rate increase, changing circumstances, and ongoing engagement with our community.

Resuming Normal Operations

After more than a year of suspending service disconnections for nonpayment, we announced resuming normal collections activities in September, beginning with large and industrial commercial customers. The phased approach of resuming disconnections will include past-due residential customers who are not on assistance programs and have not made any payment or answered our calls to provide assistance. No disconnections are planned for the holidays, per normal business operations. Customer outreach through City Council District Utility Assistance Fairs began for Energy Advisors to work with customers to determine their program eligibility and help them complete utility assistance applications.

Rate Increase Dialogue with our Community

Transparent discussions with our community about the possibility of an increase in utility rates began as we fine tuned our potential rate request. Outreach will continue as we balance these themes with the need for continued **Financial Stability**.

Rudy Garza
Interim President & CEO, appointed by CPS Energy Board of Trustees as of November 8, 2021



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Interim Report

Third Quarter Ended October 31, 2021



City Council District Utility Assistance Fairs give customers the opportunity to meet one-on-one with our Energy Advisors to identify assistance resources from CPS Energy and our partner agencies, the City of San Antonio, Bexar County, and San Antonio Water System. We guide customers to find utility bill assistance, enroll in assistance programs, set up a payment plan, or get other help or information. The October 2, 2021, District 2 Utility Assistance Fair pictured here was attended by 229 customers.

Financial Review for the Third Quarter Ended October 31, 2021

Total operating revenues and nonoperating income of \$803.9 million for the third quarter of fiscal year 2022 increased by \$98.6 million, or 14.0%, compared to the same period last year.

- Electric operating revenue was \$761.8 million, which was \$93.5 million, or 14.0%, more than the same quarter last year. Primarily contributing to the increase were higher electric retail fuel recoveries due to higher electric retail fuel prices, and higher wholesale fuel recoveries resulting from higher sales volume and increased fuel costs.
- Gas operating revenue of \$40.8 million was \$9.6 million, or 30.8%, higher than last year primarily due to lower gas costs in the prior year.
- Nonoperating income of \$1.3 million was lower by \$4.5 million, or 78.3%, compared to the same quarter last year primarily due to lower yields in the bond market in the current year.

Total expenses of \$774.9 million were \$124.3 million, or 19.1%, higher than last year.

- Comprising 39.6% of total expenses, fuel, purchased power and distribution gas costs increased \$108.1 million, or 54.3%, to \$307.1 million. Primarily contributing to the increase were lower gas costs experienced in the prior year, coupled with higher fuel purchases for summer and fall reliability. Distribution gas costs were higher due to higher gas unit costs in this quarter versus the same period last year.
- Operation and maintenance (O&M) expenses of \$174.2 million for the quarter were \$5.3 million, or 3.2%, higher than last year primarily due to an additional refueling outage at STP in the current year.
- Decommissioning expense of \$5.3 million was comparable to prior year, which was \$4.9 million.
- Regulatory assessments of \$21.7 million were \$3.9 million lower than last year primarily due to decreased Transmission Cost of Service (TCOS) expenses. Regulatory assessments include all amounts paid and received associated with postage stamp pricing for transmission service in the Electric Reliability Council of Texas (ERCOT).
- Depreciation and amortization expense of \$112.0 million was higher than last year by \$4.2 million, or 3.9%, due to the normal increase of plant-in-service.
- Interest and debt-related expenses of \$52.8 million were higher than last year by \$3.8 million or 7.7%, primarily due to the implementation of newly effective guidance in the current year that eliminates the use of Allowance for Funds Used during Construction (AFUDC) for government entities.
- Payments to the City of San Antonio (City) totaled \$101.8 million and were \$6.3 million higher than the same period last year primarily due to increased revenues.

Income (loss) before other changes in net position of \$29.0 million was \$25.7 million unfavorable compared to last year’s net income of \$54.6 million. This unfavorable variance was primarily due to higher operating expenses, including timing of fuel recoveries, as well as higher nonoperating expenses.

Contributed capital of \$16.1 million was \$5.3 million lower than the previous year’s third quarter primarily due to a lower number of reimbursed projects completed this quarter. An adjustment to the defined benefit plan obligation at the South Texas Project in the current year resulted in a favorable change of \$1.1 million as there was no adjustment in the prior year. The **change in net position** was an increase of \$46.1 million compared to an increase of \$76.0 million for the same quarter last year, reflecting an unfavorable change of \$29.9 million resulting from the net income drivers explained above.

As a result of the 2021 Winter Storm Uri event in February, CPS Energy incurred extraordinary fuel costs, for which it is legally disputing the unconscionable amounts to protect customers and will be seeking regulatory recovery for all vetted and legitimate costs to ensure financial stability. These costs have not been recovered or passed through to our customers. CPS Energy remains focused on executing its strategic initiatives consistent with its ***Guiding Pillars of Reliability, Customer Affordability, Security, Safety, Environmental Responsibility, and Resiliency***, built on a ***Foundation of Financial Responsibility***. Management is closely monitoring financial impacts from the pandemic and the 2021 Winter Storm Uri event, while remaining committed to affordability for our customers.

Cory Kuchinsky, CPA
CFO & Treasurer

Summary of Statements of Net Position Information - Unaudited

	October 31,	
	2021	2020
	(In thousands)	
Assets		
Current assets	\$ 1,145,033	\$ 1,081,433
Noncurrent assets ¹	2,896,787	1,871,943
Capital assets, net	8,729,936	8,644,110
Total assets	12,771,756	11,597,486
Deferred outflows of resources	727,347	703,395
Total assets plus deferred outflows of resources	<u>\$ 13,499,103</u>	<u>\$ 12,300,881</u>
Liabilities		
Current liabilities	\$ 815,792	\$ 618,404
Long-term debt, net	6,344,848	5,949,271
Other noncurrent liabilities ²	2,220,961	1,714,886
Total liabilities	9,381,601	8,282,561
Deferred inflows of resources	240,363	171,433
Total liabilities plus deferred inflows of resources	<u>9,621,964</u>	<u>8,453,994</u>
Net position		
Net investment in capital assets	2,124,362	2,536,480
Restricted	771,350	719,860
Unrestricted	981,427	590,547
Total net position	3,877,139	3,846,887
Total liabilities plus deferred inflows of resources plus net position	<u>\$ 13,499,103</u>	<u>\$ 12,300,881</u>

¹ Noncurrent assets include excessive fuel costs as a result of the 2021 Winter Storm Uri in February, for which CPS Energy plans to seek regulatory recovery.
² Other noncurrent liabilities include amounts for which uncertainty exists related to liabilities currently recorded for excessive fuel costs which CPS Energy is legally disputing and making no concession to accept at this time.

Summary of Revenues, Expenses and Changes in Net Position Information - Unaudited

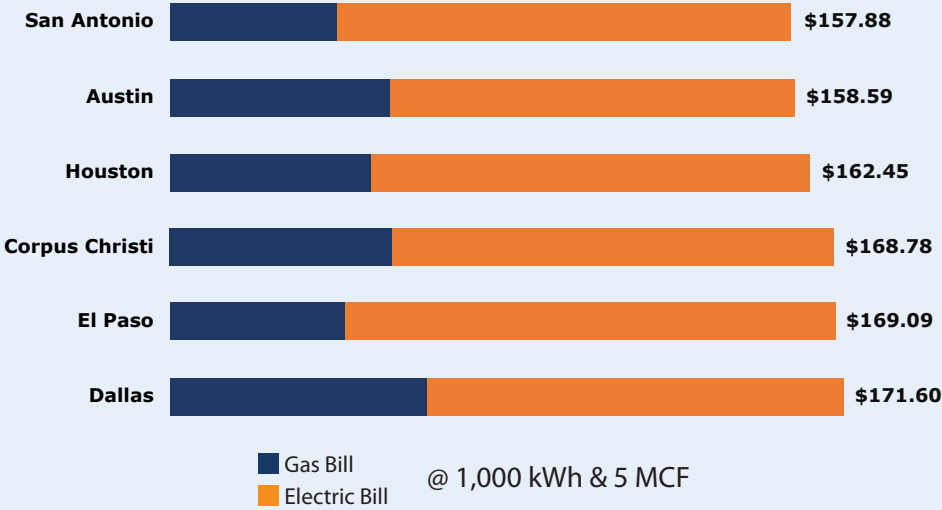
	Quarter Ended		Twelve Months Ended	
	October 2021	October 2020	October 2021	October 2020
	(In thousands)			
Revenues				
Electric.....	\$ 761,835	\$ 668,289	\$2,491,390	\$2,339,337
Gas.....	40,774	31,184	181,860	147,968
Total operating revenues.....	802,609	699,473	2,673,250	2,487,305
Nonoperating income, net.....	1,261	5,805	26,878	47,077
Total revenues and nonoperating revenues.....	803,870	705,278	2,700,128	2,534,382
Expenses				
Fuel, purchased power and distribution gas ¹	307,084	198,964	911,382	699,669
Operation and maintenance ²	174,194	168,845	719,811	725,648
Decommissioning.....	5,340	4,902	20,925	19,207
Regulatory assessments.....	21,655	25,574	81,297	92,882
Depreciation and amortization.....	111,987	107,770	443,812	429,626
Interest and debt-related.....	52,842	49,082	207,672	195,295
Payments to the City of San Antonio.....	101,814	95,512	344,854	328,301
Total expenses.....	774,916	650,649	2,729,753	2,490,628
Income (loss) before other changes in net position				
	28,954	54,629	(29,625)	43,754
Other payments to the City of San Antonio.....	—	—	(12,018)	(11,979)
Contributed capital.....	16,078	21,408	66,996	67,956
Effect of defined benefit plan funding obligations - STP.....	1,065	—	4,899	10,035
Change in net position.....	46,097	76,037	30,252	109,766
Net position - beginning.....	3,831,042	3,770,850	3,846,887	3,737,121
Net position - ending.....	\$3,877,139	\$3,846,887	\$3,877,139	\$3,846,887

¹ Excludes higher fuel costs from the 2021 Winter Storm Uri, as CPS Energy continues to dispute these excessive costs through legal proceedings.
² Includes South Texas Project (STP) O&M costs, Other Post Employment Benefits cost, pension costs and Save for Tomorrow Energy Plan expenses.

Statistical Highlights - Unaudited

	Quarter Ended		Twelve Months Ended	
	October 2021	October 2020	October 2021	October 2020
ELECTRIC SYSTEM				
Retail sales (thousands of MWh)	6,501	6,322	22,624	22,522
Wholesale sales (thousands of MWh)	1,723	1,185	6,579	4,585
Total sales (thousands of MWh)	8,224	7,507	29,203	27,107
Customers (average number for period) .	900,138	876,877	891,566	867,537
Maximum electric demand (MW)	4,906	5,080	4,935	5,080
GAS SYSTEM				
Sales (MMCF)	4,409	5,123	25,680	26,004
Customers (average number for period) .	371,406	363,987	368,704	360,839
GENERATION BY FUEL SOURCE AND OTHER POWER				
Gas	31 %	36 %	29 %	33 %
Coal	23 %	21 %	23 %	18 %
Nuclear	23 %	29 %	28 %	31 %
Purchased power – Renewables	11 %	12 %	13 %	15 %
Purchased power – Other	12 %	2 %	7 %	3 %

Texas Cities Combined Residential Bill Comparison
Twelve Months Ended October 2021



Note: Deregulated markets electric data from powertochoose.org (Terms 12; 4&5 star rated REPs). San Antonio is the only city that has a single electric & gas provider.