

Report from Management for the Second Quarter Ended July 31, 2022

Solar Project Selected for FlexPOWER Bundle

We signed an agreement on May 24 with Consolidated Edison Development, Inc., for a 300-megawatt (MW) solar project in Goliad County. The contract is the first awarded out of 650 proposals from more than 100 companies across the U.S. and ten other nations who responded to our FlexPOWER Bundle Request for Proposal launched in November 2020. The FlexPOWER Bundle replaces a portion of our existing aging power generation capacity by adding up to 900 MW of solar resources, 50 MW of energy storage, and up to 500 MW of all-source firming capacity. The new agreement will deliver one-third of our goal for additional solar energy resources. Construction is expected to begin in 2023. The 25-year partnership agreement will create \$19 million in economic benefits for Bexar and Goliad counties by creating new jobs, contribute \$500,000 to support community and education initiatives over the next ten years, and \$750,000 in annual spending with local suppliers and vendors to operate the solar farm through the life of the 25-year agreement.

Sustainable Tomorrow Energy Plan (STEP) Approved

Our Board of Trustees voted at its May 23 meeting to adopt a 5-year energy efficiency and conservation program at the funding level of \$70 million per year. The program includes annual reports to the Board of Trustees and a 3-year check-in to evaluate the program. On June 16, San Antonio City Council approved the recommended evolution of the energy efficiency and conservation program. The \$350 million initiative funded over the next five years has an average bill impact of \$3.50, equivalent to the previous award-winning Save for Tomorrow Energy Plan. The newly approved STEP goals include 410 MW of demand reduction, 1% energy savings per year, 16,000 weatherized homes, and 1.85 million tons of avoided carbon.

Actions Taken Around Hottest Summer Months on Record

Summer arrived early with record-breaking numbers of days over 100 degrees in May, June, and July. We launched a new energy conservation notification program to help customers manage their energy bills, conserve energy, and support state power grid reliability. The notifications consist of four color-coded energy conservation levels, guiding customers to use simple conservation tips appropriate to the anticipated demand for energy. We asked customers to practice everyday conservation on Green Days. On Yellow Days, we asked customers to conserve more by putting off the use of large appliances during specified hours when energy demand is high. Orange and Red Alerts are notifications used if ERCOT, the statewide grid manager, would have declared grid reliability was at risk, which did not occur. The conservation alert system will be used in the winter as well.

Rudy D. Garza
President & CEO



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Interim Report

Second Quarter Ended July 31, 2022



Community leaders, Trustees, business partners, elected officials, stakeholders, local media, and employees gathered for the announcement of the first partnership in our FlexPOWER Bundle. Rudy D. Garza, then Interim President & CEO, recognized the contributions of CPS Energy's skilled professionals working as One Team across Power Generation, Energy Supply & Market Operations, Supply Chain, Economic Development, Legal, Finance, and Corporate Communications & Marketing to develop the 25-year agreement that continues our solar energy leadership.

Financial Review for the Second Quarter Ended July 31, 2022

Total operating revenues and nonoperating income of \$1,043.7 million for the second quarter of fiscal year 2023 increased by \$284.5 million, or 37.5%, compared to the same period last year.

- Electric operating revenue was \$969.2 million, which was \$256.4 million, or 36.0%, more than the same quarter last year. Primarily contributing to the increase were higher fuel recoveries stemming from the higher unit cost of fuel. Nonfuel recoveries increased due to higher sales volumes from the sustained hotter spring and summer temperatures.
- Gas operating revenue of \$55.2 million was \$19.0 million, or 52.7%, higher than last year primarily due to higher fuel recoveries from higher natural gas prices.
- Nonoperating income of \$19.3 million was higher by \$9.1 million, or 89.0%, compared to the same quarter last year primarily due to the American Rescue Plan Act (ARPA) funds received from the City of San Antonio (City) to assist customers with past due bills and higher interest income from investments.

Total expenses of \$942.1 million were \$217.5 million, or 30.0%, higher than last year.

- Comprising 43.2% of total expenses, fuel, purchased power and distribution gas costs increased \$173.4 million, or 74.3%, to \$407.0 million. Primarily contributing to the increase in electric fuel costs were higher natural gas prices experienced in the current year coupled with higher generation requirements due to record-setting summer temperatures. Distribution gas costs were higher due to higher natural gas prices.
- Operation and maintenance (O&M) expenses of \$186.2 million for the quarter were \$19.4 million, or 11.7%, higher than last year primarily due to higher outside services and benefit plan expenses.
- Decommissioning expense of \$5.8 million was comparable to prior year, which was \$5.3 million.
- Regulatory assessments, including those charged by the Public Utility Commission of Texas (PUCT) and the Electric Reliability Council of Texas (ERCOT), of \$25.6 million were \$15.4 million higher than last year primarily due to an increase in transmission cost of service.
- Depreciation and amortization expense of \$113.4 million was higher than last year by \$2.4 million, or 2.1%, due to the normal increase of plant-in-service.
- Interest and debt-related expenses of \$57.2 million were higher than last year by \$4.5 million or 8.5%, primarily due to the interest costs incurred in the current year related to the February 2022 debt refunding transaction.
- The recorded payments to the City totaled \$146.9 million and were \$2.0 million higher than the same period last year primarily due to increased electric and gas revenues.

Income before other changes in net position of \$101.5 million was \$67.0 million favorable compared to last year's net income of \$34.5 million. This favorable variance was primarily due to higher operating revenue partially offset by higher operating expenses compared to prior year.

Contributed capital of \$18.8 million was comparable to previous year's second quarter, which was \$18.6 million. An adjustment of \$19.2 million to the defined benefit obligation at the South Texas Project resulted in a favorable increase of \$9.6 million compared to prior year. The **change in net position** was an increase of \$139.6 million compared to an increase of \$81.9 million for the same quarter last year, reflecting a favorable change of \$57.7 million resulting from the net income drivers explained above.

CPS Energy remains focused on executing its strategic initiatives consistent with our community values of **Connecting, Listening, Engaging and Serving**. Management continues to monitor and actively manage the impacts from the pandemic, especially those related to customer receivables, while remaining committed to affordability for our customers.

Cory Kuchinsky, CPA
CFO & Treasurer

Summary of Statements of Net Position Information - Unaudited

	July 31,	
	2022	2021 ¹
		Restated
	(In thousands)	
Assets		
Current assets	\$ 1,387,970	\$ 1,201,873
Noncurrent assets ²	2,708,086	2,879,661
Capital assets, net.....	9,046,212	8,753,274
Total assets	13,142,268	12,834,808
Deferred outflows of resources	746,917	707,459
Total assets plus deferred outflows of resources	<u>\$ 13,889,185</u>	<u>\$ 13,542,267</u>
Liabilities		
Current liabilities.....	\$ 928,923	\$ 852,520
Long-term debt, net.....	6,594,327	6,295,805
Other noncurrent liabilities ³	2,042,239	2,396,319
Total liabilities.....	9,565,489	9,544,644
Deferred inflows of resources	315,926	179,584
Total liabilities plus deferred inflows of resources	9,881,415	9,724,228
Net position		
Net investment in capital assets	2,356,521	2,196,654
Restricted	627,799	686,843
Unrestricted.....	1,023,450	934,542
Total net position	4,007,770	3,818,039
Total liabilities plus deferred inflows of resources plus net position	<u>\$ 13,889,185</u>	<u>\$ 13,542,267</u>

¹ Certain amounts have been restated to reflect the adoption of GASB Statement No. 87, Leases.

² 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 once litigation is concluded.

³ 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	
	July 2022	July 2021 ¹	July 2022	July 2021 ¹
		Restated		Restated
	(In thousands)			
Revenues				
Electric.....	\$ 969,202	\$ 712,785	\$2,911,761	\$2,397,845
Gas.....	55,198	36,154	277,944	172,270
Total operating revenues	1,024,400	748,939	3,189,705	2,570,115
Nonoperating income (expense), net.....	19,273	10,197	20,356	30,368
Total revenues and nonoperating revenues	<u>1,043,673</u>	<u>759,136</u>	<u>3,210,061</u>	<u>2,600,483</u>
Expenses				
Fuel, purchased power and distribution gas ²	406,955	233,542	1,276,535	803,261
Operation and maintenance ³	186,174	166,740	674,204	704,742
Decommissioning	5,820	5,340	22,320	20,487
Regulatory assessments.....	25,646	10,239	89,875	85,216
Depreciation and amortization	113,409	111,044	450,994	440,408
Interest and debt-related.....	57,178	52,719	209,780	203,464
Payments to the City of San Antonio.....	146,942	144,982	401,072	338,578
Total expenses	<u>942,124</u>	<u>724,606</u>	<u>3,124,780</u>	<u>2,596,156</u>
Income (loss) before other changes in net position	101,549	34,530	85,281	4,327
Other payments to the City of San Antonio	—	—	(11,600)	(12,018)
Contributed capital	18,835	18,559	82,261	72,326
Effect of defined benefit plan funding obligations - STP	19,229	28,855	33,789	3,834
Change in net position	<u>139,613</u>	<u>81,944</u>	<u>189,731</u>	<u>68,469</u>
Net position - beginning	3,868,157	3,736,095	3,818,039	3,749,570
Net position - ending	<u>\$4,007,770</u>	<u>\$3,818,039</u>	<u>\$4,007,770</u>	<u>\$3,818,039</u>

¹ Certain amounts have been restated to reflect the adoption of GASB Statement No. 87, Leases.

² Excludes higher fuel costs from the 2021 Winter Storm Uri, as CPS Energy continues to dispute these excessive costs through legal proceedings.

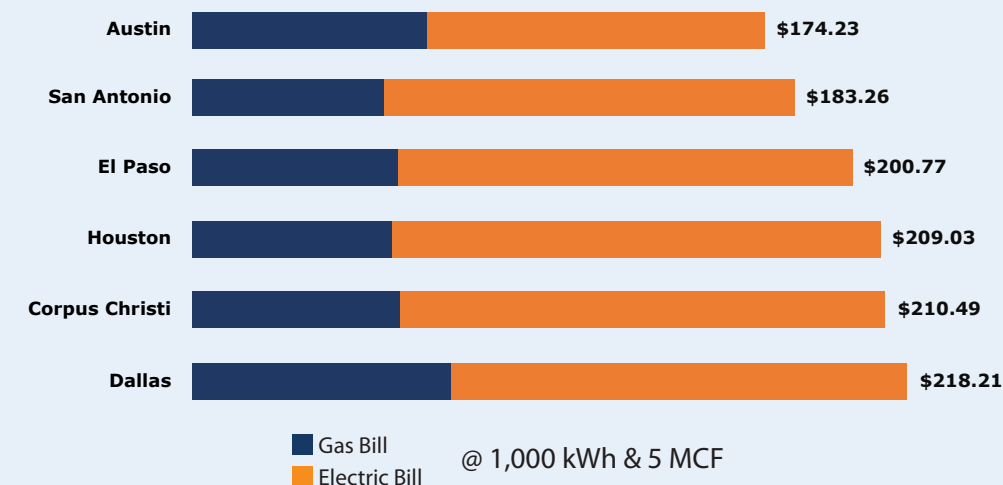
³ Includes South Texas Project (STP) O&M costs, Other Post Employment Benefits cost, pension costs and Save for Tomorrow Energy Plan expenses.

Statistical Highlights - Unaudited

	Quarter Ended		Twelve Months Ended	
	July 2022	July 2021	July 2022	July 2021
ELECTRIC SYSTEM				
Retail sales (thousands of MWh).....	7,669	6,331	24,241	22,445
Wholesale sales (thousands of MWh)	1,053	2,374	6,244	6,041
Total sales (thousands of MWh)	8,722	8,705	30,485	28,486
Customers (average number for period)	917,579	894,765	908,619	885,751
Maximum electric demand (MW).....	5,440	4,722	5,440	5,080
GAS SYSTEM				
Sales (MMCF).....	4,455	4,507	25,515	26,394
Customers (average number for period)	376,919	369,869	374,159	366,849
GENERATION BY FUEL SOURCE AND OTHER POWER				
Gas	32%	31%	29%	30%
Coal	25%	25%	24%	23%
Nuclear.....	25%	25%	28%	29%
Purchased power – Renewables	14%	10%	12%	14%
Purchased power – Other.....	4%	9%	7%	4%

Texas Cities Combined Residential Bill Comparison

Trailing Twelve Months Ending July 2022



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.