CITY PUBLIC SERVICE
OF SAN ANTONIO, TEXAS

(A Component Unit of the City of San Antonio)

BASIC FINANCIAL STATEMENTS

Fiscal Year Ended January 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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" 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 ended January 31, 2022 ("FY2022"), compared to the fiscal year ("FY") ended January 31, 2021 ("FY2021"). It also provides an overview of CPS Energy's general financial condition and results of operations for FY2021, compared to the previous fiscal year ended January 31, 2020 ("FY2020"). 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 basic financial statements that follow.

BASIC FINANCIAL STATEMENTS OVERVIEW

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; customer, interest and other 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 the pension regulatory asset, fuel costs regulatory asset, other noncurrent assets and net capital assets.

Deferred outflows of resources include unrealized pension and other postemployment benefits ("OPEB") contributions made in the current year, unrealized losses related to pension and OPEB, unrealized losses on fuel hedges, unamortized debt reacquisition costs, and unamortized asset retirement obligation 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, asset retirement obligations, decommissioning net costs refundable, net pension liability, fuel costs liability, and other noncurrent liabilities.

Deferred inflows of resources include unrealized gains on fuel hedges, unrealized gains related to pension and OPEB, leases and future revenues. The deferred inflows related to future revenues are associated with the FY2014 sale of certain assets and unrealized future recoveries related to the Joint Base San Antonio ("JBSA") agreement.

The Statements of Net Position report net position as the difference between (a) the sum of total assets plus deferred outflows of resources and (b) the sum of total liabilities plus deferred inflows of resources. The 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 ("City"), contributed capital, and the effect of the South Texas Project's ("STP") 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.

The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position report the combined assets and liabilities and plan activity associated with the CPS Energy Pension Plan ("Pension Plan") and the CPS Energy Group Health Plan, CPS Energy Group Life Insurance Plan and the CPS Energy Long-Term Disability Income Plan (collectively, "Employee Benefit Plans")**.** The Pension Plan and Employee Benefit Plans are reported using the economic resources measurement focus and are prepared on the accrual basis of accounting in conformity with U.S. Generally Accepted Accounting Principles ("GAAP"). Contributions and income are recorded when earned and benefits and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

The notes to basic financial statements are an integral part of CPS Energy's financial statements and provide additional information on certain components of these statements.

FINANCIAL HIGHLIGHTS AND SIGNIFICANT ACCOUNTING POLICIES

Allowance for Funds Used During Construction ("AFUDC") – In FY2022, CPS Energy implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and has discontinued capitalizing interest on construction projects. However, prior to FY2022, to reflect funding methodology, the AFUDC rate included both a debt and an equity component. The blended rate was composed of 50% equity and 50% debt based on construction funding forecasts. Alternate AFUDC rates were applied to projects costing more than $100 million, reflecting the method by which they were funded.

Asset Retirement Obligations ("AROs") – CPS Energy accounts for AROs in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations*, by recognizing the obligations as a liability based on the best estimate of the current value of outlays expected to be incurred once the assets are retired. See Note 19 – Asset Retirement Obligations.

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

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 $74.4 million at January 31, 2022, as compared with $74.1 million at January 31, 2021. This included donated assets of $9.6 million and $7.8 million, respectively. The remaining portion of these balances, $64.8 million at January 31, 2022, and $66.3 million for January 31, 2021, represents contributions received from customers as payments for utility extensions and services, as well as funding for community initiatives and other local partnership projects.

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 nuclear decommissioning trusts ("Decommissioning Trusts" or "Trusts") for STP Units 1 and 2 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.

As required under GASB Statement No. 84, *Fiduciary Activities,* the Pension Plan and Employee Benefit Plans are reported as fiduciary component units. The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position report the combined assets and liabilities and plan activities of these Plans. See Note 11 –

Employee Pension Plan, Note 12 – Other Postemployment Benefits and Required Supplementary Information – Unaudited for required disclosures of the Pension Plan and the Employee Benefit Plans.

Decommissioning – 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 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 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 decommissioning net costs recoverable and would be receivable from customers.

A project to develop an independent spent fuel storage installation ("Dry Cask Storage Project") was recently completed at STP 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 that paid for these 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 September 1, 2020, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through calendar year 2022.

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 is entitled to request reimbursement at its discretion 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. 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 operation and maintenance ("O&M") expense or capital costs.

Electric Reliability Council of Texas ("ERCOT") Nodal Market System – ERCOT is the independent system operator managing the flow of electric power for approximately 90% of the electric load for the state of Texas. ERCOT schedules power on the electric grid in a nodal market with more than 8,000 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 and State Grant Programs – Periodically, federal or state grants are made available to CPS Energy as a subrecipient for a portion of grant funds allocated to the state of Texas or as direct awards. 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. Federal or state grants that subsidize in whole or a partial amount of capital assets are recognized as contributed capital on the Statement of Revenues, Expenses, and Changes in Net Position and reflected as part of Capital Assets, net on the Statements of 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, the CPS Energy Board of Trustees ("Board") authorized the establishment of a FRRN program to provide additional liquidity in support of the Company's electric and gas systems ("Systems"). On May 27, 2020, the Board authorized the reestablishment of the FRRN program. Under the reestablished 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 $100.0 million. As a result of the costs incurred from the 2021 Winter Storm Uri ("Winter Storm"), on March 18, 2021, the City Council and the Board approved an additional $500.0 million in capacity under this program to provide assurance of sufficient liquidity. The reestablished program maintained the original terms that became effective on April 28, 2009, and through annual renewals authorizes the issuance of the currently effective limit of $600.0 million of such notes, through November 1, 2028. The note outstanding under this program totaled $100.0 million at January 31, 2022. There was no balance outstanding under this program at January 31, 2021. See Note 10 - Flexible Rate Revolving Notes.

Hedging Derivative Instruments – CPS Energy accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Currently, CPS Energy's only derivative instruments 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 FY2022, 37% of distribution and 27% of generation natural gas volumes were hedged. In FY2021, 48% of distribution and 35% of generation natural gas volumes were hedged. See Note 14 – Other Financial Instruments.

Leases – CPS Energy adopted GASB Statement No. 87, Leases, during FY2022, which no longer differentiates between capital and operating leases. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, CPS Energy as a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and as a lessor is required to recognize a lease receivable and a deferred inflow of resources. See Note 17 – Leases for additional information.

Pension Plan – The financial statements of the Pension Plan are separately audited and reported as of December 31, 2021, with comparative totals as of December 31, 2020. The financial results of the Pension Plan are included as part of the basic financial statements and are presented in combination with the Employee Benefit Plans in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. Additionally, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, required disclosures are provided in Note 11 – Employee Pension Plan and in Required Supplementary Information.

Postemployment Benefits Other Than Pension ("OPEB") – The Employee Benefit Plans are separately audited and reported as of December 31, 2021, with comparative totals as of December 31, 2020. The financial results of the Employee Benefit Plans are included as part of the basic financial statements and are presented in combination with the Pension Plan in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. Additionally, in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, required disclosures are provided in Note 12 – Other Postemployment Benefits and in Required Supplementary Information.

Rates – Rates are set by the Board and approved by the San Antonio City Council. On January 13, 2022, City Council approved a 3.85% increase in both CPS Energy's electric and natural gas base rates, which is effective March 1, 2022.

SA Energy Acquisition Public Facility Corporation ("PFC") – The PFC is a public, nonprofit corporation organized under Texas state laws pursuant to the Texas Public Facility Corporation Act, Chapter 303, Texas Local Government Code. The PFC was organized in FY2008 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 the gas supplier, 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.

Winter Storm Uri – In February 2021, a winter storm swept through the continental United States that severely affected the Texas electrical grid. As a result, the operations and Systems of CPS Energy were significantly disrupted. Texas utilities, including CPS Energy, were faced with unprecedented financial costs associated with the effects of the storm on gas prices and prices of purchased power. CPS Energy is involved in litigation with ERCOT and four suppliers due to the associated costs and payments. See Note 5 – Regulatory Assets for further discussion of the impact of this event and Note 16 – Commitments and Contingencies for discussion of litigation matters related to this event.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

	Fiscal Year Ended January 31,			Change			
	2022	2021[1] Restated	2020[1] Restated	2022 vs. 2021		2021 vs. 2020	
Revenues and nonoperating income							
Electric	**$2,544,477**	$ 2,359,076	$ 2,426,396	$ 185,401	7.9%	$ (67,320)	-2.8%
Gas	**218,071**	150,704	142,782	67,367	44.7%	7,922	5.5%
Total operating revenues	**2,762,548**	2,509,780	2,569,178	252,768	10.1%	(59,398)	-2.3%
Nonoperating income, net	**34,250**	34,765	69,940	(515)	-1.5%	(35,175)	-50.3%
Total revenues and nonoperating income	**2,796,798**	2,544,545	2,639,118	252,253	9.9%	(94,573)	-3.6%
Expenses							
Operating expenses							
Fuel, purchased power and distribution gas	**989,089**	730,257	692,583	258,832	35.4%	37,674	5.4%
Operation and maintenance	**618,319**	652,530	645,699	(34,211)	-5.2%	6,831	1.1%
Energy efficiency and conservation (STEP)	**49,036**	48,193	72,815	843	1.7%	(24,622)	-33.8%
STEP net costs recoverable	**6,783**	23,193	235	(16,410)	-70.8%	22,958	9769.4%
Regulatory assessments	**79,469**	94,648	82,622	(15,179)	-16.0%	12,026	14.6%
Decommissioning	**21,360**	19,608	18,000	1,752	8.9%	1,608	8.9
Depreciation and amortization	**443,054**	436,899	421,000	6,155	1.4%	15,899	3.8%
Total operating expenses	**2,207,110**	2,005,328	1,932,954	201,782	10.1%	72,374	3.7%
Nonoperating expenses							
Interest and debt-related	**203,855**	196,381	201,670	7,474	3.8%	(5,289)	-2.6%
Payments to the City of San Antonio	**352,558**	330,588	343,012	21,970	6.6%	(12,424)	-3.6%
Total nonoperating expenses	**556,413**	526,969	544,682	29,444	5.6%	(17,713)	-3.3%
Total expenses	**2,763,523**	2,532,297	2,477,636	231,226	9.1%	54,661	2.2%
Income before other changes in net position	**33,275**	12,248	161,482	21,027	171.7%	(149,234)	-92.4%
Other payments to the City of San Antonio	**(11,600)**	(12,018)	(11,979)	418	3.5%	(39)	-0.3%
Contributed capital	**74,403**	74,080	59,507	323	0.4%	14,573	24.5%
Effect of defined benefit plan funding obligations - STP	**43,415**	(25,021)	(18,668)	68,436	273.5%	(6,353)	-34.0%
Change in net position	**139,493**	49,289	190,342	90,204	183.0%	(141,053)	-74.1%
Net position – beginning	**3,740,755**	3,691,466	3,501,124	49,289	1.3%	190,342	5.4%
Net position – ending	**$3,880,248**	$ 3,740,755	$ 3,691,466	$ 139,493	3.7%	$ 49,289	1.3%

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

Total Revenues and Nonoperating Income

FY2022 – Representing 98.8% of total revenues and nonoperating income, electric and gas revenues of $2,762.5 million increased by $252.8 million, or 10.1%, compared to FY2021.

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. Approximately 79.8% and 82.1% of its customers' electric energy needs in FY2022 and FY2021, 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 91.0% of CPS Energy's total revenues and nonoperating income, electric operating revenue of $2,544.5 million increased by $185.4 million from FY2021. This increase was primarily due to higher fuel recoveries resulting from a higher unit cost of fuel which was driven by significantly higher gas prices.

Representing 7.8% of total revenues and nonoperating income, gas revenue totaled $218.1 million, a $67.4 million increase from FY2021. This increase was primarily due to higher gas costs in the current year.

Net nonoperating income of $34.3 million decreased $0.5 million from FY2021 which was comparable to FY2021.

<u>FY2021</u> – Representing 98.6% of total revenues and nonoperating income, electric and gas revenues of $2,509.8 million decreased by $59.4 million, or 2.3%, compared to FY2020.

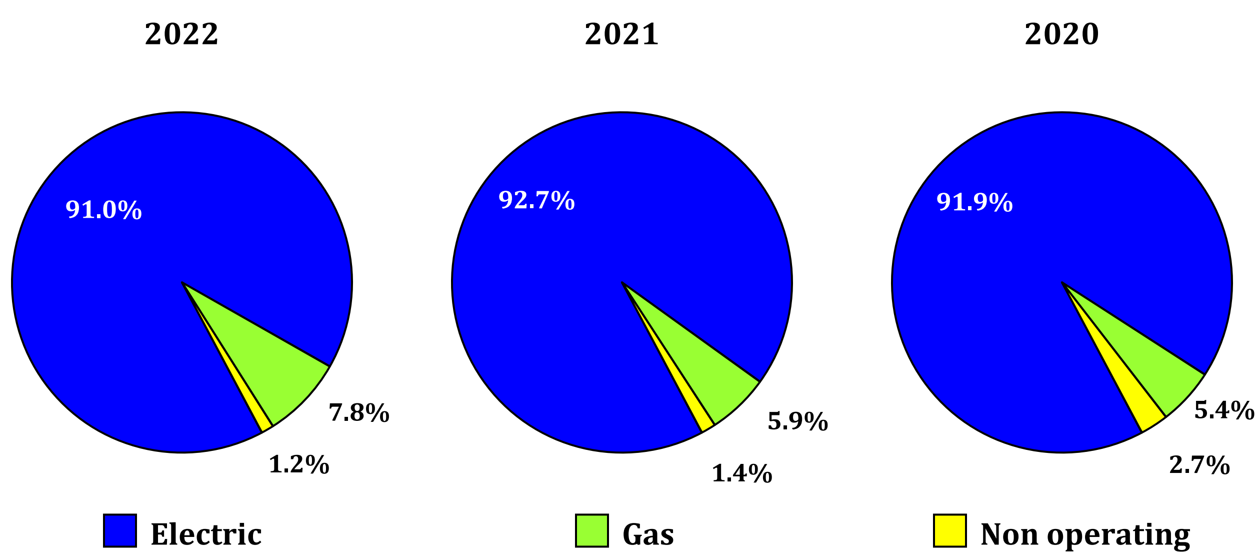
Approximately 82.1% and 83.5% of its customers' electric energy needs in FY2021 and FY2020, respectively, were produced from CPS Energy's generating units.

Representing 92.7% of CPS Energy's total revenues and nonoperating income, electric operating revenue of $2,359.1 million decreased by $67.3 million from FY2020. Approximately $32.7 million of this decrease was attributable to the increase in CPS Energy's electric retail bad debt provision in FY2021 as compared to FY2020. Due to the COVID-19 pandemic and the resulting economic hardships caused by the virus, CPS Energy suspended customer service disconnections and collection activities for customers if they could not pay their utility bills. Because a significant amount of customers could not pay their bills, the outstanding accounts receivable balance increased, and a larger dollar amount of accounts receivable became past due by longer periods of time. As accounts receivable become older, the probability of collecting becomes lower, so a higher dollar amount was considered to be uncollectible and was accounted for in the higher bad debt provision for FY2021. Also contributing to the decrease were lower wholesale recoveries resulting from lower sales volumes from fewer market opportunities.

Representing 5.9% of total revenues and nonoperating income, gas revenue totaled $150.7 million, a $7.9 million increase from FY2020. This increase was primarily due to the higher unit cost of fuel, partially offset by a higher gas bad debt provision of $5.9 million.

Net nonoperating income of $34.8 million decreased $35.2 million from FY2020, primarily due to the lower interest rate environment as compared to FY2020 resulting in lower interest and investment income.

Total Revenues and Nonoperating Income
Fiscal Year Ended January 31,



See accompanying Independent Auditors' report.

Operating Expenses

FY2022 – Operating expenses of $2,207.1 million were $201.8 million, or 10.1%, above the FY2021 total of $2,005.3 million.

Combined electric and gas fuel costs, which are passed through to customers, totaled $989.1 million and comprised 44.8% of total operating expenses. Electric fuel and purchased power costs of $873.7 million increased $197.6 million, from FY2021 primarily due to the higher gas costs experienced in the current year, coupled with higher coal volume, and summer and winter contingency purchases. Winter Storm costs are included as part of the regulatory asset that was approved to be recovered beginning in FY2023. Distribution gas costs of $115.4 million increased by $61.3 million from FY2021 due to unprecedentedly lower gas costs in prior year.

Operation and maintenance expenses (including annual OPEB and pension expense and STP O&M) of $618.3 million were $34.2 million, or 5.2%, lower than last year primarily due to favorable performance of the benefit trusts that resulted in a decrease in benefits expensed.

STEP expense of $49.0 million was $0.8 million less than last year's expense of $48.2 million. 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 $6.8 million compared to $23.2 million for last year. This operating statement item reflects the transfer of these costs to/from the Statements of Net Position as they are deferred or amortized. The primary driver of the variance is the result of a lower level of STEP expenses in FY2021 being recovered in the current fiscal year.

Regulatory assessments, including those charged by the Public Utility Commission of Texas ("PUCT") and ERCOT, of $79.5 million were $15.2 million lower due to decreased transmission costs of service ("TCOS") expenses.

Decommissioning expense of $21.4 million was comparable to the FY2021 expense of $19.6 million.

Depreciation and amortization expense of $443.1 million was $6.2 million higher than the FY2021 expense of $436.9 million due to normal increased plant-in-service.

FY2021 – Operating expenses of $2,005.3 million were $72.4 million, or 3.7%, above FY2020 total of $1,933.0 million.

Combined electric and gas fuel costs, which are passed through to customers, totaled $730.3 million and comprised 36.4% of total operating expenses. Electric fuel and purchased power costs of $676.2 million increased $27.2 million, from FY2020 primarily due to higher unit cost. Distribution gas costs of $54.1 million increased by $10.4 million, from FY2020 due to higher natural gas prices.

Operation and maintenance expenses (including annual OPEB and pension expense and STP O&M) of $652.5 million were $6.8 million, or 1.1%, higher than FY2020 primarily due to the increased outside services related to Power Generation.

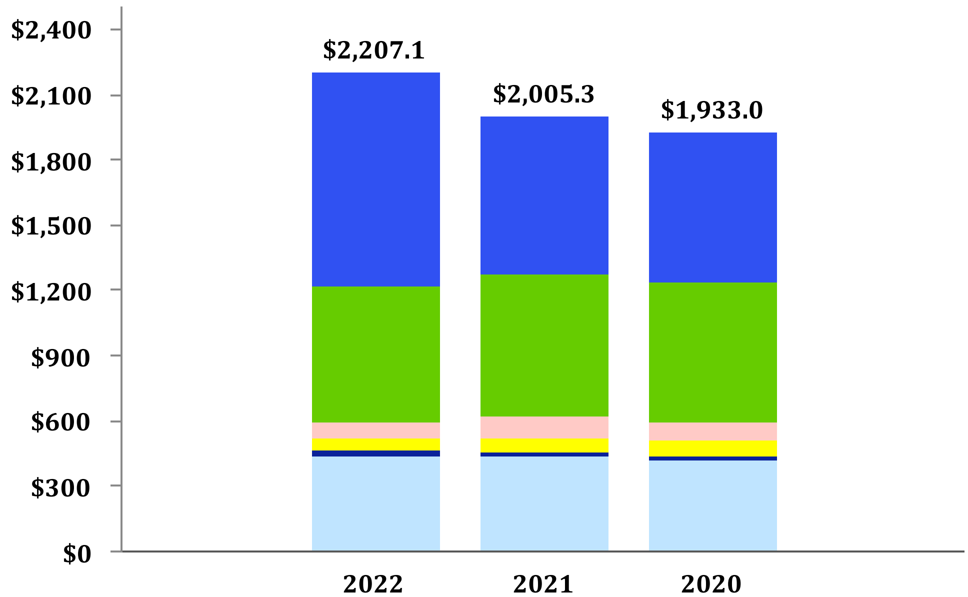
STEP expense of $48.2 million was $24.6 million lower than the FY2020 expense of $72.8 million, primarily due to lower solar rebate program activity. The related contra expense was $23.2 million compared to $0.2 million for FY2020.

Regulatory assessments, including those charged by the PUCT and ERCOT, of $94.6 million were $12.0 million higher due to increased TCOS expenses.

Decommissioning expense of $19.6 million was comparable to the FY2020 expense of $18.0 million.

Depreciation and amortization expense of $436.9 million was $15.9 million higher than the FY2020 expense of $421.0 million due to normal increased plant-in-service.

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



	2022	2021	2020
Fuel, purchased power and distribution gas	**$989.1**	$730.3	$692.6
Operation and maintenance	**618.3**	652.5	645.7
Regulatory assessments	**79.5**	94.6	82.6
Energy efficiency and conservation (STEP) & STEP net costs recoverable	**55.7**	71.4	73.1
Decommissioning	**21.4**	19.6	18.0
Depreciation and amortization	**443.1**	436.9	421.0

Nonoperating Expenses

FY2022 – Interest expense and other debt-related costs, including amortization of debt expense and AFUDC, totaled $203.9 million and were $7.5 million, or 3.8%, higher than FY2021. The increase was due to the implementation of newly issued guidance in the current year that eliminates the use of AFUDC for government entities.

The payments to the City totaled $352.6 million and were $22.0 million higher than last year due to higher electric and gas fuel revenues.

FY2021 – Interest expense and other debt-related costs, including amortization of debt expense and AFUDC, totaled $196.4 million and were $5.3 million, or 2.6%, lower than FY2020's $201.7 million. The decrease was due to lower interest rates and reduced debt service expense.

The payments to the City totaled $330.6 million and were $12.4 million lower than FY2020 due to lower wholesale revenues.

Other Changes in Net Position

<u>FY2022</u> – Other payments to the City totaled $11.6 million and were comparable to last year.

Contributed capital of $74.4 million was $0.3 million higher which was comparable to last year.

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 $43.4 million favorable compared to $25.0 million unfavorable in FY2021 due to the remeasurement of the STP defined benefit plan obligation.

<u>FY2021</u> – Other payments to the City totaled $12.0 million in FY2021 and were comparable to FY2020.

Contributed capital of $74.1 million was $14.6 million higher than FY2020. Primarily contributing to the increase were greater reimbursed projects completed in FY2021.

The effect of the STP defined benefit plan funding obligations was $(25.0) million compared to $(18.7) million in FY2020 due to the remeasurement of the STP defined benefit plan obligation.

FINANCIAL POSITION

Statements of Net Position Summary

(Dollars in thousands)

	January 31,			Change			
	2022	2021[1] Restated	2020[1] Restated	2022 vs. 2021		2021 vs. 2020	
Assets							
Current assets	**$ 1,157,287**	$ 1,089,975	$ 1,031,139	$ 67,312	6.2%	$ 58,836	5.7%
Noncurrent assets							
Restricted	**1,386,020**	1,281,873	1,244,334	104,147	8.1%	37,539	3.0%
Other noncurrent assets	**1,300,155**	502,531	422,217	797,624	158.7%	80,314	19.0%
Capital assets, net	**8,908,861**	8,684,540	8,542,200	224,321	2.6%	142,340	1.7%
Total assets	**12,752,323**	11,558,919	11,239,890	1,193,404	10.3%	319,029	2.8%
Deferred outflows of resources	**724,718**	703,160	806,747	21,558	3.1%	(103,587)	-12.8%
Total assets plus deferred outflows of resources	**$ 13,477,041**	$ 12,262,079	$ 12,046,637	$ 1,214,962	9.9%	$ 215,442	1.8%
Liabilities							
Current liabilities	**$ 796,748**	$ 635,028	$ 671,799	$ 161,720	25.5%	$ (36,771)	-5.5%
Long-term debt, net	**6,367,277**	5,919,679	5,776,840	447,598	7.6%	142,839	2.5%
Other noncurrent liabilities	**2,179,301**	1,778,312	1,763,215	400,989	22.5%	15,097	0.9%
Total liabilities	**9,343,326**	8,333,019	8,211,854	1,010,307	12.1%	121,165	1.5%
Deferred inflows of resources	**253,467**	188,305	143,317	65,162	34.6%	44,988	31.4%
Total liabilities plus deferred inflows of resources	**9,596,793**	8,521,324	8,355,171	1,075,469	12.6%	166,153	2.0%
Net position							
Net investment in capital assets	**2,731,389**	2,649,002	2,563,140	82,387	3.1%	85,862	3.3%
Restricted	**572,504**	577,993	596,669	(5,489)	-0.9%	(18,676)	-3.1%
Unrestricted	**576,355**	513,760	531,657	62,595	12.2%	(17,897)	-3.4%
Total net position	**3,880,248**	3,740,755	3,691,466	139,493	3.7%	49,289	1.3%
Total liabilities plus deferred inflows of resources plus net position	**$ 13,477,041**	$ 12,262,079	$ 12,046,637	$ 1,214,962	9.9%	$ 215,442	1.8%

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

Current Assets

FY2022 – Current assets at January 31, 2022, of $1,157.3 million were $67.3 million higher than the balance at January 31, 2021, due to increases of $64.8 million in current prepayments, $86.0 million in customer accounts receivable related to COVID-19 impacts and suspending disconnects, offering payment plans and working with customers on assistance programs. Other impacts include increases of $12.6 million in gas inventory, $5.2 million in materials and supplies, $4.6 million in insurance reserves and $4.0 million in solar farm deposits. These increases were partially offset by decreases of $92.8 million in the General Fund, $14.8 million in coal inventory and $4.7 million in current interest and other accounts receivable.

FY2021 – Current assets at January 31, 2021, of $1,090.0 million were $58.8 million higher than the balance at January 31, 2020, due to increases of $54.3 million in customer accounts receivable related to COVID-19 impacts and suspending disconnects, offering payment plans and working with customers on assistance programs. As well as increases of $30.3 million in current interest and other accounts receivable, $19.3 million in coal inventory, and $10.5 million in current prepayments. These increases were partially offset by a decrease of $53.4 million in materials and supplies due to several long-term service agreement parts being installed in the current year.

Noncurrent Restricted Assets

FY2022 – Noncurrent restricted assets totaled $1,386.0 million at January 31, 2022, an increase of $104.1 million compared to January 31, 2021. The overall variance was largely attributable to increases of $70.1 million in the Repair and Replacement Account and $58.4 million in the Decommissioning Trusts balance. These increases were offset by decreases of $17.1 million in the Capital Projects Fund and $7.3 million in the Debt Service Account.

FY2021 – Noncurrent restricted assets totaled $1,281.9 million at January 31, 2021, an increase of $37.5 million compared to January 31, 2020. The overall variance was largely attributable to an increase of $56.5 million in the Decommissioning Trusts balance due to favorable market performance during the year. There were additional increases of $14.0 million in the Capital Projects Fund and $6.7 million in the Debt Service Account. These increases were offset by decreases of $31.8 million in the Repair and Replacement Account and $7.9 million in the Project Warm Rate Relief Program that was discontinued in FY2021 and the corpus transferred to the Residential Electric Assistance Program to better assist customers with bill relief as a result of COVID-19.

Other Noncurrent Assets

FY2022 – Other noncurrent assets increased to $1,300.2 million at January 31, 2022, from $502.5 million at January 31, 2021. The $797.6 million change reflects increases of $789.7 million in the fuel costs regulatory asset related to Winter Storm Uri, $46.2 million in noncurrent prepayments and $13.9 million in the net OPEB asset, partially offset by decreases of $5.3 million in the pension regulatory asset and $1.5 million in preliminary survey project-in-progress costs.

FY2021 – Other noncurrent assets increased to $502.5 million at January 31, 2021, from $422.2 million at January 31, 2020. The $80.3 million change reflects an increase of $34.4 million in the net OPEB asset primarily due to favorable market performance and favorable impact of demographic gains largely attributable to the Health Plan. There was also an increases of $18.4 million in the long-term service agreement inventory and $10.0 million in prepayments and other, partially offset by a decrease of $24.6 million in STEP net costs recoverable.

Deferred Outflows of Resources

FY2022 – Deferred outflows of resources increased $21.6 million, from $703.2 million at January 31, 2021, to $724.7 million at January 31, 2022, due to increases of $16.6 million in deferred outflows related to pension and OPEB to reflect updated actuarial valuations, $13.3 million for unrealized losses on fuel hedges $6.2 million in unamortized asset retirement obligation costs, partially offset by a decrease of $14.5 million in unamortized reacquisition costs.

FY2021 – Deferred outflows of resources decreased $103.6 million, from $806.7 million at January 31, 2020, to $703.2 million at January 31, 2021, due to decreases of $88.7 million in deferred outflows related to pension and OPEB primarily due to favorable market performance related to FY2021 for the pension plan and $31.7 million for unrealized losses on fuel hedges, partially offset by increases of $10.1 million in unamortized reacquisition costs and $6.7 million in unamortized asset retirement obligation costs.

Capital Assets, Net

Summary of Capital Assets
Net of Accumulated Depreciation and Amortization
(Dollars in thousands)

	January 31,			Change			
	2022	2021[1] Restated	2020[1] Restated	2022 vs. 2021		2021 vs. 2020	
Nondepreciable assets							
Land	**$ 112,823**	$ 105,393	$ 104,517	$ 7,430	7.0 %	$ 876	0.8%
Land easements	**106,765**	107,718	107,520	(953)	(0.9)%	198	0.2%
Construction-in-progress	**719,987**	497,379	702,054	222,608	44.8 %	(204,675)	-29.2%
Total nondepreciable assets	**939,575**	710,490	914,091	229,085	32.2 %	(203,601)	-22.3%
Depreciable/amortizable assets							
Electric plant							
Buildings and structures	**492,589**	512,185	517,970	(19,596)	-3.8 %	(5,785)	-1.1%
Systems and improvements	**5,832,244**	5,862,164	5,642,085	(29,920)	-0.5 %	220,079	3.9%
Total electric plant	**6,324,833**	6,374,349	6,160,055	(49,516)	-0.8 %	214,294	3.5%
Gas plant							
Buildings and structures	**79**	82	84	(3)	-3.7 %	(2)	-2.4%
Systems and improvements	**748,347**	702,048	670,136	46,299	6.6 %	31,912	4.8%
Total gas plant	**748,426**	702,130	670,220	46,296	6.6 %	31,910	4.8%
General plant							
Buildings and structures	**324,532**	318,274	169,786	6,258	2.0 %	148,488	87.5%
Machinery and equipment	**268,789**	257,910	264,562	10,879	4.2 %	(6,652)	-2.5%
Other	**1,783**	2,157	2,535	(374)	-17.3 %	(378)	-14.9%
Total general plant	**595,104**	578,341	436,883	16,763	2.9 %	141,458	32.4%
Intangibles							
Software	**154,957**	166,740	194,196	(11,783)	-7.1 %	(27,456)	-14.1%
Other	**28,143**	26,136	30,182	2,007	7.7 %	(4,046)	-13.4%
Total intangibles	**183,100**	192,876	224,378	(9,776)	-5.1 %	(31,502)	-14.0%
Leases							
Buildings	**1,900**	2,403	—	(503)	-20.9 %	2,403	—%
Equipment	**1,613**	1,928	—	(315)	-16.3 %	1,928	—%
Total Lease	**3,513**	4,331	—	(818)	-18.9 %	4,331	—%
Nuclear fuel	**114,310**	122,023	136,573	(7,713)	-6.3 %	(14,550)	-10.7%
Total depreciable/ amortizable assets	**7,969,286**	7,974,050	7,585,955	(4,764)	-0.1 %	388,095	5.1%
Total capital assets, net	**$ 8,908,861**	$ 8,684,540	$ 8,542,200	$ 224,321	2.6 %	$ 142,340	1.7%

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

FY2022 – At January 31, 2022, net capital assets of $8,908.9 million increased $224.3 million from $8,684.5 million at January 31, 2021. The increase was primarily due to a $229.1 million increase in nondepreciable assets, a $16.8 million increase in general plant, and a $46.3 million increase in gas plant. The increase was partially offset by a $49.5 million decrease in electric plant, and a $7.7 million decrease in nuclear fuel. Total depreciable/amortizable assets decreased $4.8 million.

Of the total plant-in-service and construction-in-progress additions, $655.7 million was related to new construction and net removal costs. These additions included funding with $427.1 million of debt, $64.9 million from contributed capital and $163.7 million from the Repair and Replacement Account. Included in capital assets is CPS Energy's 40% interest in STP Units 1 and 2.

FY2021 –At January 31, 2021, net capital assets of $8,684.5 million had an increase of $142.3 million from $8,542.2 million at January 31, 2020. The increase was primarily due to a $214.3 million increase in electric plant, a $141.5 million increase in general plant, and a $31.9 million increase in gas plant. The increase was partially offset by a $6.7 million decrease in general machinery and equipment and a $31.5 million decrease in intangible assets. Total depreciable/amortizable assets increased $388.1 million .

In June 2016, the Board approved the purchase of an existing building and land in downtown San Antonio, for CPS Energy's new corporate headquarters. After several years of extensive renovation activities, the two towers on the property were completed in the fourth quarter of calendar year 2020. Upon completion, the building was transferred to plant-in-service which contributed to the $204.7 million decrease in construction-in-progress and the overall increase in total depreciable/amortizable assets in FY2021.

Of the total plant-in-service and construction-in-progress additions, $630.8 million was related to new construction and net removal costs. These additions included funding with $311.1 million of debt, $66.3 million from contributed capital and $253.4 million from the Repair and Replacement Account. Included in capital assets is CPS Energy's 40% interest in STP Units 1 and 2.

Current Liabilities

FY2022 – Excluding current maturities of debt of $269.8 million, current liabilities increased $56.4 million, from $470.5 million at January 31, 2021, to $527.0 million at January 31, 2022. The higher balance was primarily due to increases of $45.4 million in accounts payable and accrued liabilities, $27.6 million in current customer advances and $3.0 million payable to the City, partially offset by a decrease of $20.6 million in STP operating, maintenance and construction payables.

FY2021 – Excluding current maturities of debt of $164.5 million, current liabilities decreased $40.1 million, from $510.6 million at January 31, 2020, to $470.5 million at January 31, 2021. The lower balance was primarily due to decreases of $32.0 million in accounts payable and accrued liabilities and $4.5 million in STP operating, maintenance and construction payables.

Other Noncurrent Liabilities

FY2022 – Excluding the noncurrent portion of debt of $6,367.3 million, noncurrent liabilities increased $401.0 million to $2,179.3 million at January 31, 2022, primarily due to increases of $375.6 million in deferred fuel related to disputed costs as a result of Winter Storm Uri, $55.1 million in other liabilities, $36.0 million in decommissioning net costs refundable, $28.0 million in asset retirement obligations, and $5.7 million in operating reserves, partially offset by decreases of $49.5 million in STP OPEB and pension liability, $45.5 million in net pension liability and $4.0 million in long-term service agreement liability.

FY2021 – Excluding the noncurrent portion of debt of $5,919.7 million, noncurrent liabilities increased $15.1 million to $1,778.3 million at January 31, 2021, primarily due to increases of $36.2 million in decommissioning net costs refundable, $26.7 million in asset retirement obligations, $20.2 million in STP OPEB and pension liability, $17.4 million in long-term service agreement liability and $4.2 million in operating reserves, partially offset by decreases of $84.4 million in net pension liability and $5.5 million in other liabilities.

Deferred Inflows of Resources

FY2022 – Deferred inflows of resources increased $65.2 million, from $188.3 million at January 31, 2021, to $253.5 million at January 31, 2022, primarily due to increases of $48.7 million in unrealized gains on fuel hedges and $19.2 million in deferred inflows related to pension and OPEB, partially offset by a decrease of $3.5 million in deferred inflows for unrealized future recoveries related to the JBSA agreement.

FY2021 – Deferred inflows of resources increased $45.0 million, from $143.3 million at January 31, 2020, to $188.3 million at January 31, 2021, primarily due to increases of $31.8 million in deferred inflows related to pension and OPEB, and $10.8 million in unrealized gains on fuel hedges and $6.4 million related to leases, partially offset by a decrease of $3.5 million in deferred inflows for unrealized future recoveries related to the JBSA agreement.

FINANCING AND DEBT COVENANTS COMPLIANCE

Long-Term Debt (Excluding Commercial Paper)

FY2022 – At January 31, 2022, CPS Energy's total debt was $5,475.6 million, excluding commercial paper, the FRRN, discounts and premiums. This long-term debt was composed of $4,889.6 million in fixed-interest-rate instruments and $586.0 million in variable-interest-rate instruments. Fixed-interest-rate long-term debt had an overall weighted-average yield of 3.8%. Separately, the variable-rate bonds had a weighted-average yield of 1.9%.

Issuances – On April 8, 2021, CPS Energy issued $330.7 million of Taxable 2021A Junior Lien Revenue Refunding Bonds. Bond proceeds, including the $91.6 million premium associated with the bonds, were used to refund $305.0 million, $60.0 million, and $55.0 million par value of the Commercial Paper Series A, Series B, and Series C, respectively. The true interest cost for this issue, which has maturities in FY2031 through FY2049, is 3.1%.

On December 1, 2021, CPS Energy remarketed $104.2 million of the Series 2015B Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of the $19.7 million premium, in conjunction with the remarketing, resulted in a principal paydown of the remarketed bonds of approximately $19.1 million. The bonds were converted from junior lien variable interest rate, to a junior lien fixed interest rate. The true interest cost for this issue, which has maturities in FY2029 through FY2033, is 1.4%.

Reductions – CPS Energy made principal payments of $164.5 million in FY2022. Additional principal paydowns related to the Series 2015B Variable-Rate Junior Lien Revenue Refunding Fixed Conversion transaction during the year totaled $123.3 million.

Summary of Debt Rollforward Activity[1]

(In thousands)

Balance Outstanding February 1, 2021	Additions During Year	Decreases During Year	**Balance Outstanding January 31, 2022**
$ 5,328,520	$ 434,850	$ (287,770)	**$ 5,475,600**

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

FY2021 – At January 31, 2021, CPS Energy's total debt was $5,328.5 million, excluding commercial paper, discounts and premiums. This long-term debt was composed of $4,619.2 million in fixed-interest-rate instruments and $709.3 million in variable-interest-rate instruments. Fixed-interest-rate long-term debt had an overall weighted-average yield of 3.9%. Separately, the variable-rate bonds had a weighted-average yield of 1.9%.

Issuances – On November 5, 2020, CPS Energy issued $418.3 million of Taxable New Series 2020 Revenue Refunding Bonds. Bond proceeds were used to refund $375.0 million par value of the 2013 Junior Lien Revenue Bonds. The refunding transaction resulted in net present value debt service savings of $86.0 million, or 22.9%, of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in FY2034 through FY2048, is 2.9%.

On December 1, 2020, CPS Energy remarketed $99.5 million of the Series 2015D Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of the $1.0 million premium, in conjunction with the remarketing, resulted in a principal paydown of the remarketed bonds of approximately $0.5 million. The bonds have maturities in FY2038 through FY2045. The coupon rate for these bonds is 1.125%, with a current yield of 0.95% and true interest cost of 4.7%, which reflects stepped interest rate provisions applicable to the bonds.

Reductions – CPS Energy made principal payments of $161.2 million in FY2021. Additional principal paydowns related to refunding transactions during the year totaled $475.0 million.

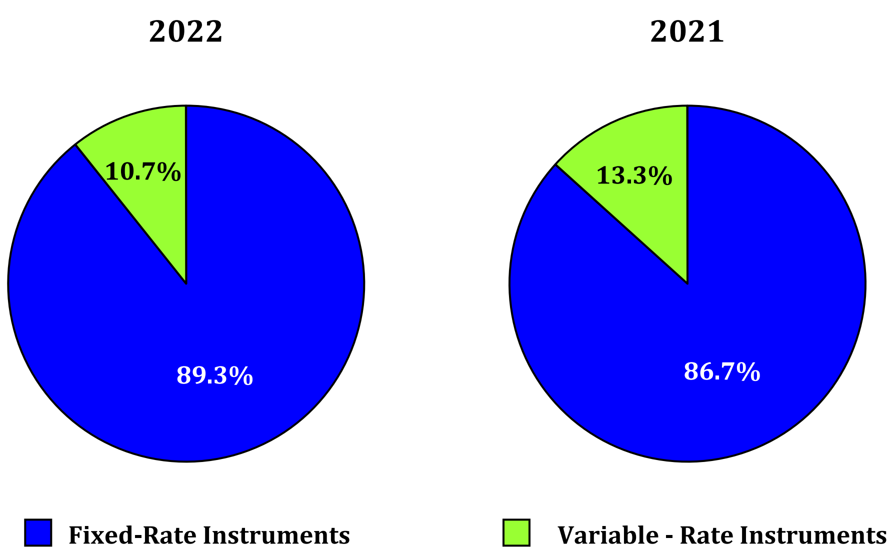
Summary of Debt Rollforward Activity[1]

(In thousands)

Balance Outstanding February 1, 2020	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2021
$ 5,446,975	$ 517,705	$ (636,160)	$ 5,328,520

[1]Excludes commercial paper, discounts and premiums.

Allocation of Debt at January 31,



Note: Graphs exclude commercial paper and the FRRN.

Commercial Paper

<u>FY2022</u> – *Issuances* – CPS Energy issued a total of $660.0 million in commercial paper during the fiscal year ended January 31, 2022, to fund construction and fuel costs.

Reductions – CPS Energy made reductions of $420.0 million related to commercial paper refunding transactions during the fiscal year ended January 31, 2022.

At January 31, 2022, the outstanding commercial paper balance was $660.0 million; of which $410.0 million was issued as tax-exempt to fund construction, and $250.0 million was issued as taxable to fund fuel costs.

Summary of Commercial Paper Rollforward Activity

(In thousands)

Balance Outstanding February 1, 2021	Additions During Year	Decreases During Year	**Balance Outstanding January 31, 2022**
$ 420,000	$ 660,000	$ (420,000)	**$ 660,000**

FY2021 – *Issuances* – CPS Energy issued a total of $325.0 million in commercial paper during the fiscal year ended January 31, 2021, to fund construction costs.

Reductions – There were no commercial paper reductions during the fiscal year ended January 31, 2021.

At January 31, 2021, the outstanding commercial paper balance was $420.0 million, all of which was issued as tax-exempt.

Summary of Commercial Paper Rollforward Activity

(In thousands)

Balance Outstanding February 1, 2020	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2021
$ 95,000	$ 325,000	$ —	$ 420,000

The weighted-average interest rate on outstanding commercial paper was 0.1% at January 31, 2022, and 0.1% at January 31, 2021. The weighted-average maturity of commercial paper at January 31, 2022 and 2021, was 31 and 19 days, respectively.

Flexible Rate Revolving Notes

CPS Energy maintains two FRRN private placement programs to provide taxable and tax-exempt financing to assist in the interim funding of eligible projects or fuel costs, in an aggregate amount not to exceed the currently effective limit of $600 million. The first program, Series A Flex Note, provides $100 million in funding and is classified as short-term in accordance with the financing terms under the Note Purchase Agreement. The second program, Series B Flex Note, provides $500 million in funding and is classified as long-term in accordance with the financing terms under the Note Purchase Agreements. See Note 10 – Flexible Rate Revolving Notes.

FY2022 – CPS Energy issued a total of $100.0 million in Series A Flex Notes under the FRRN program during FY2022. There were no reductions under the FRRN programs during the twelve months ended January 31, 2022. At January 31, 2022, the outstanding FRRN balance was $100.0 million for Series A and there was no outstanding amounts for Series B.

FY2021 – There were no note issuances or reductions under the FRRN programs during FY2021. At January 31, 2021, there was no outstanding FRRN balance.

Compliance

With respect to all New Series Bonds outstanding at January 31, 2022, 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 2010A Junior Lien BABs; the Series 2014 Junior Lien Revenue Bonds; the Series 2015A and 2015B Variable-Rate Junior Lien Revenue Refunding Bonds (2021 Fixed Conversion); the Series 2015C and 2015D Variable-Rate Junior Lien Revenue Bonds; the Series 2018 Variable-Rate Junior Lien Revenue Refunding Bonds; the Series 2020 Variable-Rate Junior Lien Revenue Refunding Bonds; and the Series 2021A 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 $700.0 million, for 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 FRRN purchase agreements, the credit facility is taxable to the full extent of the current $100 million, and $500 million limit, respectively, on outstanding principal. The outstanding notes under the Series A Flex Note agreement, are secured by proceeds of the sale of the System Revenue, the amounts held from time to time in the Program Note Security Fund, and a lien on and pledge of the net revenues not to exceed $0.1 million. Any outstanding notes under the Series B Flex Note agreement will be secured by a lien on and pledge of the net revenues of the Systems and the proceeds of sale.

At January 31, 2022 and 2021, CPS Energy was in compliance with the terms and provisions of the documents related to the senior and junior lien obligations, the commercial paper programs, and the 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, 2022, and January 31, 2021, the debt service coverage calculations included a BABs direct subsidy deduction of $12.7 million for the senior lien debt and $18.4 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 has reduced the BABs subsidy which resulted in an increase in CPS Energy's debt-related interest expense of approximately $1.1 million in both FY2022 and FY2021.

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, 2022

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	3.05x	2.94x
Senior and Junior lien debt	2.58x	2.46x

Debt service Coverage Ratios at January 31, 2021

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	2.92x	2.81x
Senior and Junior lien debt	2.45x	2.34x

The ratio of debt to debt and net position was 61.6% and 60.6% at January 31, 2022 and 2021, respectively.

Summary of CPS Energy's Bond and Commercial Paper Ratings

	Ratings at January 31, 2022		
	Senior Lien Debt	Junior Lien Debt	Commercial Paper
Fitch Ratings	AA-	AA-	F1+
Moody's Investors Service	Aa2	Aa3	P-1
S&P Global Ratings	AA-	A+	A-1

As of January 31, 2022, Fitch Ratings and S&P Global Ratings had affirmed the ratings of CPS Energy and currently reflect a negative outlook, respectively. Moody's Investors Service downgraded the ratings of CPS Energy and revised the outlook from negative to stable.

CURRENTLY KNOWN FACTS

Strategic Initiatives – In support of CPS Energy's commitment to provide world-class energy solutions to meet the diverse and unique needs of its customers, CPS Energy is focused on dialog with the community regarding power generation options and resource planning.

CPS Energy's goals include integrating new and emerging technologies like battery storage and electric vehicles, renewable energy resources, and adding more programs and services like energy efficiency and demand response. Strategic and operational flexibility will allow the Company to remain successful with a diverse generation portfolio that focuses on the environment as well as traditional generation assets that continue to be an important bridge to the future while ensuring value and reliability to customers. This strategy ultimately positions CPS Energy to embrace the changing utility landscape while serving its customers.

CPS Energy aims to address San Antonio's growing energy needs while transforming power generation to cleaner sources with a deliberately blended approach to power generation through which CPS Energy will consider adding more solar capacity, energy battery storage, new technologies, and firming capacity to replace energy production from aging power plants. Today's renewable technology, alone, cannot support all of the community's customers consistently and reliably, 24/7/365. The multi-faceted approach of the diversified generation solution will ensure the community has the power to thrive while maximizing the existing community-owned generation assets.

CPS Energy's Rate Advisory Committee (RAC), its Citizen's Advisory Council (CAC), and community dialog and input will drive decision-making regarding future generation planning, energy efficiency and energy conservation programs, and any changes to rate design.

GASB Implementations – The following guidance issued by the GASB will be effective for future periods:

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* provides improved guidance on financial reporting and issues related to public-private and public-public partnership arrangements ("PPP") and availability payment arrangements ("APA"). Under this statement, a transferor is required to recognize a PPP asset or a PPP receivable for installment payments and a deferred inflow of resources for the consideration received or to be received from the transferor to account for a PPP. An operator should report an intangible right-to-use PPP asset and a liability for installment payments and a deferred outflow of resources for consideration provided or to be provided to the transferor as part of the PPP. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2023. CPS Energy has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements ("SBITAs")*, requires the recognition of SBITAs as an intangible right-to-use subscription asset with a corresponding subscription liability. Under this statement, a lessee is required to recognize a SBITA lease liability and an intangible right-to-use SBITA lease asset, and a lessor is required to recognize a lease SBITA receivable and a deferred inflow of resources. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2023. CPS Energy has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.

- GASB Statement No. 99, *Omnibus 2022*, addresses a variety of topics and practice issues that have been identified during implementation and application of certain GASB Statements. The new statement clarifies issues related to derivative instruments, leases, PPP and APA arrangements, SBITAs and various other topics. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2023. CPS Energy has initiated an evaluation of 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 was designed to reduce risk, establish new business conduct rules, increase transparency and promote market integrity within the financial system. The Dodd-Frank Act gave the Commodity Futures Trading Commission ("CFTC") and the Securities and Exchange Commission ("SEC") statutory authority to regulate the over-the-counter derivative instruments market, including many of the commodities that are currently being traded or hedged by CPS Energy in accordance with its own policies and procedures. The CFTC and SEC, as well as U.S. prudential regulators charged with guarding against systemic risk to the banking and financial system, propose, finalize and implement rules pursuant to the legislation. 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" under the Dodd-Frank Act, CPS Energy is exempt from clearing and margining its over-the-counter positions and from capital requirements related to its commodities activities.

While there continues to be uncertainty regarding the future of the Patient Protection and Affordable Care Act, CPS Energy remains focused on its long-term strategy to address any potential cost increases associated with the health plan benefits it provides to its employees. The Company continues to monitor health care regulations as they evolve, as well as the status of the CPS Energy employee health plans, to ensure compliance with all regulations, while maintaining manageable plan costs for the Company and its employees.

In 2017 under the Trump Administration, the Environment Protection Agency ("EPA") repealed the Obama Administration's Clean Power Plan ("CPP") and put into effect the Affordable Clean Energy ("ACE") rule as a replacement under the section 111(d) of the Clean Air Act ("CAA"). Both the CPP and the ACE rule mark the EPA's attempts to regulate carbon dioxide (CO_2) emissions from existing fossil fuel-fired power plants. The EPA issued the final ACE rule on June 19, 2019 that established guidelines for states to use when developing a CO_2 rate at existing coal fired power plants. On January 19, 2021, the D.C. Circuit Court determined the EPA did not act lawfully in adopting the 2019 ACE rule and therefore cancelled it and sent it back to the EPA. EPA is obligated to adopt a new rule to replace ACE and the CPP. The rulemaking scheduled for the replacement rule is uncertain but the most recent regulatory agenda indicates that a proposed rule is expected in July 2022 and a final rule in July 2023.

The Generation Sector Industrial Effluent Guidelines Rule for power plant wastewater was finalized in 2016, with the latest compliance date of December 31, 2023 for flue gas desulfurization discharges related to coal. In October 2020, the final deadline for Voluntary Incentive Program ("VIP") treatment including zero liquid discharge technology was extended to December 31, 2028, which is CPS Energy's preferred option. Additionally, options were provided in the rule for repowering or shutting down coal units by December 31, 2028. The EPA is looking at adding further regulating coal combustion waste water in 2022; however, any impact will likely be minimal since CPS Energy has chosen to eliminate these discharges.

In July 2018, the EPA completed area designations for the 2015 ozone standards by designating eight counties in the San Antonio, Texas metropolitan area. The rule was published in the Federal Register on July 25, 2018. The EPA designated Bexar County as an Ozone Nonattainment area and the remaining seven counties – Atascosa, Bandera, Comal, Guadalupe, Kendall, Medina, and Wilson as Unclassifiable (insufficient data to classify). Bexar County is classified as Marginal Nonattainment which is the least stringent. Due to ozone readings in 2020, the area is expected to be designated Moderate Nonattainment by March 2022. The City of San Antonio ("COSA") has developed an Ozone Action Master Plan, and CPS Energy is working with COSA and the Alamo Area Council of Governments. CPS Energy developed an internal Ozone Action Plan and will continue its *Flexible Path* strategy to reduce emissions. On January 29, 2021, the D.C. Circuit vacated a few challenged provisions of the EPA's rule implementing the revised 2015 Ozone National Ambient Air Quality Standards, which will impact how the TCEQ develops the State Implementation Plan.

The EPA's Coal Combustion Residuals ("CCR") Rule became effective October 15, 2015, and allows for continued beneficial reuse of CCR materials. Proposed partial rule changes, finalized in July 2018, allow continued use of CCR impoundments. The EPA issued a proposed rule in December 2019 and finalized the rule in August 2020. The revised rule changed the compliance dates to stop placing CCR materials into existing impoundments meeting certain criteria and to initiate closure by April 11, 2021, instead of August 31, 2020. The latest date allowed to complete site-specific alternate closure moved from October 15, 2023, to October 15, 2024. CPS Energy plans to build new CCR impoundments, while continuing to operate two existing impoundments. CPS Energy submitted applications to the EPA, in November 2020, requesting extended use beyond the April 11,2021 date. The extension applications, which must be approved and granted by the EPA or EPA-approved State program, are still under review and the EPA has yet to render a decision.

CPS Energy complies with all current regulatory requirements and continues to monitor, evaluate, and assess the impacts of new and pending regulations on CPS Energy's strategies and operations.

Federal Budget Developments – In December 2017, Congress passed the Tax Cuts & Jobs Act ("Act"). The Act preserved tax-exempt financing for municipal bonds but eliminated the use of advanced refunding on a tax-exempt basis for issuers at the end of calendar year 2017. During the 116th Congress in 2020, proposals were introduced to reinstate advanced refundings but none have passed into law. Additionally, subsidy payments to BABs issuers were reduced by 5.7% from October 1, 2020, through September 30, 2030.

The 117th Congress convened in January 2021. As Congressional lawmakers continue to look for ways to manage the federal budget, especially considering the COVID-19 pandemic, proposals affecting financing tools, such as the tax exemption on municipal bond interest and BABs, could be revisited. CPS Energy's management continues to assess proposals and remains active in the national discussion with congressional leaders.

COVID-19 – Worldwide, national and local community transmission of COVID-19 continues to impact the CPS Energy community in various ways. With continued business restrictions and a slow economic recovery for many sectors, our community as well as others are still being affected. CPS Energy's revenues have been impacted, with usage in some customer classes increasing while other classes decreasing. In March 2020, CPS Energy suspended service disconnects and waived late fees for customers on payment plans during this time of uncertainty. As a result of this decision, outstanding customer accounts receivable has increased with additional customers participating in payment plans as well as a larger portion of bills aged and past due. Additionally, the allowance for doubtful accounts has increased as the aged receivables balance outstanding has grown. In response to the increased financial assistance need of the community, CPS Energy developed an outreach program to proactively contact customers and educate them on various discounts and affordability programs offered. In October 2021, CPS Energy resumed disconnects for those customers not enrolled in a payment plan. In November 2021, City Council approved a new $30.0 million utility program funded using American Rescue Plan Act ("ARPA"), of which $20.0 million is allocated to assist CPS Energy customers. CPS Energy will administer the funds to eligible customers and will assist with past due bills incurred from March 1, 2020, through September 30, 2021. ARPA funds will be applied to eligible past due customer bills starting in FY2023. The Company continues to evaluate the economic and financial impact from these actions.

REQUESTS FOR INFORMATION

For more information about CPS Energy, contact Corporate Communications & Marketing at (210) 353-2344 or at P.O. Box 1771, San Antonio, Texas 78296-1771.

KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

Independent Auditors' Report

Board of Trustees of
City Public Service of San Antonio, Texas:

Opinions

We have audited the financial statements of the business-type activities and fiduciary activities of the City Public Service of San Antonio, Texas (CPS Energy), a component unit of the City of San Antonio, Texas, as of and for the year ended January 31, 2022, and the related notes to the financial statements, which collectively comprise CPS Energy's basic financial statements for the year then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of CPS Energy, as of January 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of the CPS Energy Pension Plan, the CPS Energy Group Health Plan, the CPS Energy Group Life Plan, and the CPS Energy Long-Term Disability Income Plan, which represent 100% of the fiduciary activities as of December 31, 2021 and for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the CPS Energy Pension Plan, the CPS Energy Group Health Plan, the CPS Energy Group Life Plan, and the CPS Energy Long-Term Disability Income Plan, are based solely on the reports of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of CPS Energy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Other Matter

The financial statements of CPS Energy as of and for the year ended January 31, 2021 were audited by other auditors, who expressed unmodified opinions on those statements on April 26, 2021.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CPS Energy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CPS Energy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, the Schedules of Changes in CPS Energy Net Pension Liability and Related Ratios, the Schedules of Employer Contributions to CPS Energy Pension Plan, the Schedules of Changes in CPS Energy Net OPEB Liability and Related Ratios, the Schedules of Employer Contributions to CPS Energy OPEB Plans, and the Schedules of Investment Returns for CPS Energy Fiduciary Funds be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

KPMG LLP

Albuquerque, New Mexico
May 27, 2022

STATEMENTS OF NET POSITION

	January 31,	
	2022	2021
		Restated
	(In thousands)	
Assets		
Current assets		
Cash and cash equivalents	**$ 384,834**	$ 429,308
Investments	**—**	39,626
Interest and other accounts receivable	**84,050**	88,710
Customer accounts receivable, less allowance for doubtful accounts of $106.8 million at January 31, 2022, and $55.2 million at January 31, 2021	**338,731**	252,698
Inventories, at average costs		
Materials and supplies, net	**113,432**	108,277
Fossil fuels	**80,567**	80,490
Prepayments and other	**155,673**	90,866
Total current assets	**1,157,287**	1,089,975
Noncurrent assets		
Restricted		
Cash and cash equivalents	**109,916**	109,128
Investments	**1,269,198**	1,165,603
Interest and other accounts receivable	**6,906**	7,142
Pension regulatory asset	**223,819**	229,148
Fuel costs regulatory asset	**789,659**	—
Other noncurrent assets	**286,677**	273,383
Capital assets, net	**8,908,861**	8,684,540
Total noncurrent assets	**11,595,036**	10,468,944
Total assets	**12,752,323**	11,558,919
Deferred outflows of resources		
Pension and OPEB related	**141,755**	125,167
Fuel Hedges	**15,138**	1,849
Deferred charge on refunding	**56,946**	71,458
Asset retirement obligations	**510,879**	504,686
Total deferred outflows of resources	**724,718**	703,160
Total assets and deferred outflows of resources	**$ 13,477,041**	$ 12,262,079

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF NET POSITION

	January 31, 2022	January 31, 2021 Restated
	(In thousands)	
Liabilities		
Current liabilities		
Current maturities of debt	**$ 269,790**	$ 164,495
Accounts payable and accrued liabilities	**526,958**	470,533
Total current liabilities	**796,748**	635,028
Noncurrent liabilities		
Long-term debt, net	**6,367,277**	5,919,679
Asset retirement obligations	**1,084,140**	1,056,170
Decommissioning net costs refundable	**192,455**	156,422
Net pension liability	**248,174**	293,722
Fuel costs liability	**375,579**	—
Other noncurrent liabilities	**278,953**	271,998
Total noncurrent liabilities	**8,546,578**	7,697,991
Total liabilities	**9,343,326**	8,333,019
Deferred inflows of resources		
Fuel hedges	**59,501**	10,765
Pension and OPEB related	**103,388**	84,158
Unrealized future revenues	**77,583**	81,201
Leases	**12,995**	12,181
Total deferred inflows of resources	**253,467**	188,305
Total liabilities and deferred inflows of resources	**9,596,793**	8,521,324
Net position		
Net investment in capital assets	**2,731,389**	2,649,002
Restricted		
Debt service	**870**	8,185
Ordinance	**571,634**	569,808
Unrestricted	**576,355**	513,760
Total net position	**3,880,248**	3,740,755
Total liabilities, deferred inflows of resources and net position	**$ 13,477,041**	$ 12,262,079

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended January 31,	
	2022	2021 Restated
	(In thousands)	
Operating revenues		
Electric		
Retail	**$ 2,327,605**	$ 2,224,460
Wholesale	**216,872**	134,616
Total electric operating revenues	**2,544,477**	2,359,076
Gas	**218,071**	150,704
Total operating revenues	**2,762,548**	2,509,780
Operating expenses		
Fuel, purchased power and distribution gas	**989,089**	730,257
Operation and maintenance	**618,319**	652,530
Energy efficiency and conservation (STEP)	**49,036**	48,193
STEP net costs recoverable	**6,783**	23,193
Regulatory assessments	**79,469**	94,648
Decommissioning	**21,360**	19,608
Depreciation and amortization	**443,054**	436,899
Total operating expenses	**2,207,110**	2,005,328
Operating income	**555,438**	504,452
Nonoperating income (expense)		
Interest and other income, net	**12,890**	15,157
Decommissioning Trusts investment income	**58,422**	56,511
Decommissioning net costs recoverable (refundable)	**(37,062)**	(36,903)
Interest and other expense	**(231,546)**	(233,128)
Amortization of debt-related costs	**27,691**	27,671
Allowance for funds used during construction	**—**	9,076
Payments to the City of San Antonio	**(352,558)**	(330,588)
Total nonoperating income (expense)	**(522,163)**	(492,204)
Income before other changes in net position	**33,275**	12,248
Other payments to the City of San Antonio	**(11,600)**	(12,018)
Contributed capital	**74,403**	74,080
Effect of defined benefit plan funding obligations – STP	**43,415**	(25,021)
Change in net position	**139,493**	49,289
Net position – beginning	**3,740,755**	3,691,466
Net position – ending	**$ 3,880,248**	$ 3,740,755

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 31,	
	2022	2021
	(In thousands)	
Cash flows from operating activities		
Cash received from customers	**$ 2,681,623**	$ 2,430,049
Cash received from City services billed	**141,731**	140,703
Cash payments to suppliers for goods and services	**(1,892,836)**	(1,185,057)
Cash payments to employees for service	**(217,597)**	(242,152)
Cash payments to the City for services billed	**(141,619)**	(140,791)
Net cash provided (used) by operating activities	**571,302**	1,002,752
Cash flows from capital and related financing activities		
Cash paid for additions to utility plant and net removal costs	**(709,538)**	(651,859)
Contributed capital	**64,806**	66,317
Proceeds from the sale of capital assets	**50,845**	—
Proceeds from issuance of revenue bonds and commercial paper	**832,537**	326,241
Principal payments on revenue bonds and cash defeasance of debt	**(584,495)**	(161,160)
Interest paid	**(232,567)**	(237,675)
Debt issue and cash defeasance costs paid	**(19,483)**	(3,194)
Net cash provided (used) by capital and related financing activities	**(597,895)**	(661,330)
Cash flows from noncapital financing activities		
Cash payments to the City of San Antonio	**(359,978)**	(343,259)
Proceeds from issuance of flexible rate revolving note	**100,000**	—
Proceeds from issuance of commercial paper	**250,000**	—
Net cash provided (used) by noncapital financing activities	**(9,978)**	**(343,259)**
Cash flows from investing activities		
Purchases of investments	**(781,589)**	(640,445)
Proceeds from sales and maturities of investments	**723,209**	696,160
Interest and other income	**51,265**	62,347
Net cash provided (used) by investing activities	**(7,115)**	118,062
Net increase (decrease) in cash and cash equivalents	**(43,686)**	116,225
Cash and cash equivalents at beginning of period	**538,436**	422,211
Cash and cash equivalents at end of period	**$ 494,750**	$ 538,436

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 31, 2022	2021
	(In thousands)	
Reconciliation of operating income to net cash provided by operating activities		
Cash flows from operating activities		
Operating income	**$ 555,438**	$ 502,897
Noncash items included		
Depreciation and amortization	**443,054**	436,098
Nuclear fuel amortization	**46,302**	49,156
Provision for doubtful accounts	**59,115**	46,422
Changes in current assets and liabilities		
(Increase) decrease in customer accounts receivable, net	**(145,148)**	(100,718)
(Increase) decrease in other receivables	**4,550**	(25,061)
(Increase) decrease in materials and supplies	**(5,155)**	53,430
(Increase) decrease in fossil fuels	**(77)**	(19,149)
(Increase) decrease in prepayments and other	**(30,898)**	(3,195)
Increase (decrease) in accounts payable and accrued liabilities	**45,235**	(12,455)
Changes in noncurrent and other assets and liabilities		
(Increase) decrease in other noncurrent assets and prepaid costs	**(44,432)**	(28,491)
(Increase) decrease in fuel costs recoverable	**(789,659)**	—
Increase (decrease) in customer service deposits payable	**558**	(374)
Increase (decrease) in asset retirement obligation	**27,970**	26,685
Increase (decrease) in deferred fuel	**375,579**	—
Increase (decrease) in noncurrent liabilities	**4,451**	(62,961)
Changes in deferred outflows of resources	**5,189**	108,624
Changes in deferred inflows of resources	**19,230**	31,844
Net cash provided (used) by operating activities	**$ 571,302**	$ 1,002,752
Noncash financing activities		
Bond proceeds deposited into an escrow account for purposes of refunding long-term debt	**$ —**	$ 520,245
Donated assets received and recorded	**$ 9,597**	$ 7,763

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF FIDUCIARY NET POSITION

	December 31,	
	2021	2020
	(In thousands)	
Assets		
Cash and cash equivalents	**$ 25,234**	$ 37,755
Cash and cash equivalents collateral from securities lending	**700**	43,584
Receivables		
Accrued interest and dividends receivable	**3,588**	4,212
Receivable from federal government under Medicare Part D	**178**	121
Investment trades pending receivable	**284**	—
Receivable from property managers and others	**934**	756
Total receivables	**4,584**	5,089
Investments		
U.S. Government securities	**101,217**	106,444
Corporate bonds	**268,409**	258,191
Global bond funds	**57,903**	62,482
Senior loan fund	**94,632**	88,418
Domestic equities	**1,078,314**	947,477
Low-volatility equities	**205,514**	178,153
International equities	**274,309**	259,746
Specialized funds	**—**	26,648
Master limited partnerships	**163,875**	96,725
Alternative investments	**118,148**	57,553
Real estate	**165,542**	118,157
Investment in partnership	**51,800**	51,000
Total investments	**2,579,663**	2,250,994
Total assets	**$ 2,610,181**	$ 2,337,422
Liabilities		
Accounts payable and other liabilities	**$ 484**	$ 773
Investment trades pending payable	**88**	1,329
Investment and administrative expenses payable	**530**	741
Securities lending obligation	**700**	43,584
Accrued health claims payable	**4,683**	4,870
Total liabilities	**6,485**	51,297
Net position restricted for pension and other postemployment benefits	**2,603,696**	2,286,125
Total liabilities plus net position	**$ 2,610,181**	$ 2,337,422

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	December 31,	
	2021	2020
	(In thousands)	
Additions		
Contributions		
Employer	**$ 96,914**	$ 91,887
On-behalf payments from federal government	**977**	936
Participants	**26,390**	27,559
Total contributions	**124,281**	120,382
Investment income		
Interest and dividend income	**23,859**	24,107
Securities lending income	**90**	279
Real estate rental income	**5,524**	6,054
Net realized and unrealized gain (loss) on investments	**344,556**	185,206
Miscellaneous income	**1,051**	40
Total investment income (loss)	**375,080**	215,686
Investment expenses	**(6,097)**	(8,036)
Net investment income (loss)	**368,983**	207,650
Total additions	**493,264**	328,032
Deductions		
Benefits paid	**170,969**	166,169
Interest expense	**—**	719
Administrative expenses	**4,324**	4,351
Total deductions	**175,693**	171,239
Change in fiduciary net position	**317,571**	156,793
Fiduciary net position – beginning	**2,286,125**	2,129,332
Fiduciary net position – ending	**$ 2,603,696**	$ 2,286,125

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS
January 31, 2022 and 2021

1. Summary of Significant Accounting Policies

Reporting Entity – City Public Service Board of San Antonio (also referred to as "CPS Energy" 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 annual comprehensive financial report of the City.

In accordance with 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 there exists a financial benefit/burden relationship, 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".

In accordance with GASB Statement No. 84*, Fiduciary Activities,* the fiduciary financial statements include four component units, fiduciary in nature, related to the CPS Energy Pension Plan ("Pension Plan"), the CPS Energy Group Health Plan, the CPS Energy Group Life Plan, and the CPS Energy Long-Term Disability Income Plan (collectively, "Employee Benefit Plans"). The financial results of the Pension Plan and the Employee Benefit Plans are reported on a calendar year basis and included in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. The Pension Plan and the Employee Benefit Plans are also separately audited.

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.

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.

CPS Energy presents it financial statement in accordance with GASB pronouncements that establish standards for external financial reporting for all state and local governmental entities that include a statement of net position, a statement of revenue, expenses and changes in net position, and a statement of cash flows. It requires classification of net position into three components - net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

- Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets and increased/reduced by costs to be recovered from future revenues or revenues to be used for future costs and any unspent bond construction funds or tax-exempt commercial paper proceeds to be used to fund future construction costs.
- Restricted consists of assets that have constraints placed upon their use through external constraints imposed either by creditors (such as debt covenants) or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets.
- Unrestricted consists of net position that does not meet the definition of restricted or net investment in capital assets.

CPS Energy's bond resolutions specify the flow of funds from revenues and specify the requirements for the use of certain restricted and unrestricted assets.

The fiduciary financial statements of the Pension Plan and the Employee Benefit Plans are reported using the economic resources measurement focus and are prepared on the accrual basis of accounting in conformity with U.S. GAAP. Contributions and income are recorded when earned and benefits and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. The Pension Plan and the Employee Benefit Plans apply all applicable GASB pronouncements.

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.

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

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. The investments of the Pension Plan and the Employee Benefit Plans are also reported at fair value in the fiduciary financial statements. Refer to Note 3 – Fair Value Measurement for additional information.

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. Restricted funds also include customer assistance programs that receive proceeds from outside parties and the assets of the Decommissioning Trusts. Also included in the restricted funds classification is the Repair and Replacement Account, restricted in accordance with the Company's bond ordinances.

CPS Energy sets aside 1% of prior fiscal year electric base rate revenue, which is remitted to the City on an annual basis as an additional transfer. In accordance with bond ordinances, the combined total of all payments to the City may not exceed 14% of gross revenues.

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.

Classification of Revenues and Expenses – Revenues and expenses related to providing energy services in connection with the Company's principal ongoing operations of the Systems are classified as operating. All other revenues and expenses are classified as nonoperating and reported as nonoperating income (expense) on the Statements of Revenues, Expenses and Change in Net Position.

Revenues – 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 (unbilled revenue). 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, 2022 and 2021, including estimates for electric fuel and gas costs, was $64.2 million and $28.6 million, respectively.

The allowance for uncollectible accounts is management's best estimate of the amount of probable credit losses based on account delinquencies, historical write-off experience and current energy market conditions. Account balances are written off against the allowance when it is probable the receivable will not be recovered. The allowance for uncollectible accounts totaled $106.8 million and $55.2 million for fiscal years ended January 31, 2022 and 2021, respectively. As a result of COVID-19 impacts on outstanding accounts receivable balances, the allowance for uncollectible accounts increased as a result of the suspension of disconnects and customers being unable to pay.

In June 2020, CPS Energy established the customer outreach program ("CORE program") to expand efforts to contact customers by proactively calling those that were largely impacted by the pandemic and educating them on various discounts and affordability programs offered. Customers who applied or have been approved for financial assistance through an approved CPS Energy program or reside in a HUD low income qualified census tract will not be scheduled for disconnect. CPS Energy began disconnections for commercial and small businesses customers in September 2021 and October 2021, respectively. In November 2021, the customer disconnects were halted due to the holiday season. In January 2022, CPS Energy resumed customer disconnects for commercial and small businesses. There were no residential customer disconnects during FY2022; they are expected to begin FY2023. The customer disconnects in FY2022 had a minimal effect, if any, on bad debt provisions.

CPS Energy records bad debts for its estimated uncollectible accounts related to electric and gas services as a reduction to the related operating revenues in the Statements of Revenues, Expenses, and Changes in Net Position. CPS Energy's bad debt provision totaled $59.1 million and $46.4 million for the fiscal years ended January 31, 2022 and 2021, respectively. At January 31, 2022 and 2021, customer accounts receivables, net were $338.7 million and $252.7 million, respectively.

An adjustment clause in CPS Energy's rate tariffs also permits recovery of regulatory assessments. CPS Energy recovers 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 as of January 31, 2022 and 2021, were $79.5 million and $94.6 million, respectively.

Inventories – CPS Energy maintains inventories for its materials and supplies and fossil fuels. In total, CPS Energy reported ending inventories of $194.0 million and $188.8 million at January 31, 2022 and 2021, respectively. Included in these amounts was CPS Energy's portion of STP inventories, which are valued at the lower of average cost or net realizable value. CPS Energy's directly managed inventories are valued using an average costing approach and are subject to write-off when deemed obsolete. CPS Energy has established a reserve for excess and obsolete inventory that is based on a combination of inventory aging and specific identification of items that can be written off. The reserve is intended to adjust the net realizable value of inventory CPS Energy may not be able to use due to obsolescence. The balance in the reserve amounted to $6.4 million and $6.2 million at January 31, 2022 and 2021, respectively.

Regulatory Accounting – Regulatory accounting applies to governmental entities with rate-regulated operations, such as CPS Energy, that fall within the scope of GASB Codification Section Re10, *Regulated Operations*. Regulatory accounting may be applied by entities, as approved by the governing body, 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 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. CPS Energy applies the accounting requirements of GASB Statement No. 62. Accordingly, certain costs may be capitalized as a regulatory asset that otherwise would be charged to expense. These regulatory assets will be recovered through rates in future years, and consist of costs related to outstanding debt, costs related to pension benefits, STEP net costs recoverable and fuel costs regulatory asset. See Note 5 - Regulatory Assets for further discussion.

Other Noncurrent Assets – Other noncurrent assets include prepayments, Save for Tomorrow Energy Plan ("STEP") net costs recoverable, inventory relating to long-term service agreements ("LTSA"), net OPEB (asset) liability, assets held for sale, and purchased gas prepayments. This section also includes a pension regulatory asset and unamortized bond expense discussed within the Regulatory Accounting topic above.

Prepayments – Included in prepayments is the balance related to an agreement entered in November 2011 for purchased power from San Antonio-area solar energy facilities with a total of 30 megawatt ("MW") of capacity. In FY2013, $77.0 million in prepayments were made for approximately 60% of the anticipated annual output over a period of 25 years. At January 31, 2022, of the remaining prepayment balance, $3.1 million was classified as current and $44.5 million was classified as noncurrent. At January 31, 2021, of the remaining prepayment balance, $3.1 million was classified as current and $47.6 million was classified as noncurrent. The balance of the output is purchased on a pay-as-you-go basis.

Save for Tomorrow Energy Plan ("STEP") – In FY2009, CPS Energy was authorized by City ordinance to spend up to $849 million to save 771 MW of customer demand through energy efficiency and conservation programs by calendar year 2020. Under STEP, CPS Energy launched an array of weatherization, energy efficiency, solar, and demand response programs. As of January 31, 2020, CPS Energy had achieved its original STEP goal of reducing demand by an estimated 825 MW and approximately 15% below the original STEP budget. Due to the success of the STEP program, the City authorized continuation of the STEP Bridge program in January 2020, which allowed for the existing customer programs to continue for an additional year through January 31, 2021, to reach a targeted additional reduction of 75 MW. On June 29, 2020, the Board approved the expenditure of up to $31.0 million from the authorized $70 million STEP Bridge budget for continued delivery of energy efficiency and weatherization programs. In January 2021, the City Council approved an additional extension of the STEP Bridge program until July 2022 to allow additional time to recover from COVID-19 pandemic related program impacts and to continue gathering public and stakeholder input for CPS Energy's next generation of energy efficiency and conservation programs.

Annually, approximately $9.4 million of STEP expenses are funded through the electric base rate and reported as O&M expenses. STEP expenses in excess of this initial amount per year are recovered through the fuel adjustment factor over a period of 12 months, or longer for certain STEP expenses, 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. At January 31, 2022 and 2021, the net costs recoverable was $49.0 million and $48.2 million, respectively.

Inventory relating to long-term service agreements – CPS Energy maintains LTSA arrangements with General Electric Inc. ("GE") to provide maintenance services and select replacement parts for certain combined-cycle power plants in CPS Energy's fleet. Per the maintenance schedules, Advanced Gas Path ("AGP") parts are delivered to the facilities. AGP parts not immediately required for maintenance procedures are recorded as inventory until the installation process for each set of parts at the power plant is initiated, at which time the parts are reclassified to capital assets. The liability for the purchase of the parts, along with other LTSA payment obligations are recorded as a liability on the Statements of Net Position. For additional information related to the LTSAs, see Note 13 – Other Obligations and Risk Management.

Net OPEB (Asset) Liability – A net OPEB (asset) liability is recorded in accordance with GASB Statement No. 75. The asset or liability is the difference between the actuarial total OPEB liabilities and the Employee Benefit Plans' fiduciary net positions as of the measurement date. The net OPEB (asset) liability was $(54.9) million and $(41.0) million at January 31, 2022 and 2021, respectively. For additional information, see Note 12 – Other Postemployment Benefits.

Assets Held for Sale – During FY2021, evaluation of surplus properties resulted in identification and reclassification of several real estate properties from capital assets, net to other noncurrent assets on the Statements of Net Position. The surplus properties that are now reflected as assets held for sale include a land parcel, the Villita Assembly Building and a former power plant facility. At January 31, 2022 and 2021, real estate held for sale totaled $0.2 million and $45.6 million, respectively.

Purchased Gas Prepayments – In FY2022, the Company entered into agreements for natural gas that call for prepayment. In connection with these agreements, CPS Energy made prepayments of $61.9 million in FY2022 of which $53.8 million is still unamortized as of the fiscal year end. Of the unamortized amount, $26.3 million is classified as current assets and $27.5 million as other noncurrent assets. Each advance payment has been recorded as a prepaid asset and is amortized monthly to fuel expense over each agreed upon contract term, with the last one ending in June 2026.

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. For depreciable assets that are retired due to circumstances other than impairment, the cost of the retired asset, 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. Prior to FY2022, AFUDC was applied to projects that required 30 days or more to complete. In accordance with the implementation of GASB Statement No. 89 in FY2022, AFUDC is no longer applied to projects.

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 $74.4 million and $74.1 million at January 31, 2022 and 2021, respectively. This included donated assets of $9.6 million and $7.8 million, respectively. The remaining portion of these balances, $64.8 million for FY2022 and $66.3 million for FY2021, represents contributions received from customers as payments for utility extensions and services, as well as funding for community initiatives and other local partnership projects.

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 3.0% and 3.1% for FY2022 and FY2021, respectively.

The estimated useful lives of depreciable capital assets for FY2022 and FY2021 were as follows:

Depreciable Capital Asset	Estimated Useful Life
Buildings and structures	20–45 years
Systems and improvements	
Generation	18–49 years
Transmission and distribution	15–60 years
Gas	35–65 years
Intangibles - software	10 years
Intangibles - other	20–30 years
Machinery and equipment	4–20 years
Mineral rights and other	20–40 years
Nuclear fuel	Units of Production

CPS Energy engages an independent third-party consulting firm to conduct a depreciation study, which is performed every five years. The most recent study was completed in FY2018, and the resulting depreciation rates were applied beginning in that period.

Separately, right-to-use lease assets are being amortized over the lesser of the life of the assets or the term of the lease, using the straight-line method.

Thresholds contained in the Company's capitalization policy, procedures and guidelines for FY2022 and FY2021 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

Leases – CPS Energy adopted GASB Statement No. 87, Leases, during FY2022, which no longer differentiates between capital and operating leases. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, CPS Energy as a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and as a lessor is required to recognize a lease receivable and a deferred inflow of resources. See below for impact of adoption of GASB Statement No. 87. See Note 17 – Leases for additional information regarding leases.

Deferred Outflows of Resources – Deferred outflows of resources related to pension and OPEB amounted to $141.8 million and $125.2 million at January 31, 2022 and 2021, respectively.

Deferred outflows of resources related to fuel hedges totaled $15.1 million and $1.8 million at January 31, 2022 and 2021, respectively.

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, 2022 and 2021, reacquisition costs totaled $56.9 million and $71.5 million, respectively.

Deferred outflows of resources related to AROs associated with the decommissioning of STP Units 1 and 2, and the retirement of the fuel storage tanks, and vaults totaled $510.9 million and $504.7 million at January 31, 2022 and 2021, respectively.

Compensated Absences – Employees earn vacation benefits based upon their employment status and years of service. At January 31, 2022 and 2021, the accrued liabilities for those vested benefits were $22.8 million and $24.4 million, respectively, which were included in accounts payable and accrued liabilities on the Statements of Net Position. CPS Energy does not accrue a liability for sick leave since there is no cash payment made for sick leave when an employee terminates or retires.

Flexible Rate Revolving Notes ("FRRN") Private Placement Program – In FY2010, the San Antonio City Council adopted an ordinance authorizing the establishment of the FRRN Private Placement Program ("Series A Flex Notes") to provide additional liquidity in support of the Company's electric and gas systems ("Systems"). Under this 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. This program became effective on April 28, 2009, and through annual renewals authorizes the issuance of such notes through November 1, 2028. The outstanding Series A Flex Notes has been classified as short-term in accordance with 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 Series A Flex Notes totaled $100.0 million at January 31, 2022. There was no balance outstanding under this program at January 31, 2021. On March 18, 2021, the City Council and the Board authorized a second FRRN program ("Series B Flex Notes") with an additional $500 million in capacity to provide assurance of sufficient liquidity to address the costs incurred related to Winter Storm Uri. Under this program, CPS Energy can issue taxable or tax-exempt notes with individual maturities of two years or less at fixed or variable interest rates in an aggregate principal amount at any one time outstanding not to exceed $500 million. This program became effective April 27, 2021, and through renewals authorizes the issuance of such notes through April 1, 2031. There were no notes outstanding under Series B Flex Notes at January 31, 2022 and 2021. See Note 10 – Flexible Rate Revolving Notes.

Long-Term Debt – To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2022 and 2021, 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. In December 2017, Congress passed the Tax Cuts & Jobs Act ("Act"). The Act preserved tax-exempt financing for municipal bonds but eliminated the use of tax-exempt advanced refundings at the end of calendar year 2017. See Note 8 – Revenue Bonds for information on current-year debt refundings.

Bond premiums and discounts are amortized using the effective interest method over the life of the related debt.

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, the federal government reduced the BABs subsidy as noted below:

Subsidy Reduction	Period Covered
6.2%	October 1, 2018, through September 30, 2019
5.9%	October 1, 2019, through September 30, 2020
5.7%	October 1, 2020, through September 30, 2030

CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating debt service since the subsidy is received directly by a trustee to be used solely for BABs debt service payments. Transaction details for CPS Energy's BABs issuances are provided in Note 8 – Revenue Bonds.

Asset Retirement Obligations ("AROs") – CPS Energy accounts for AROs in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations*, by recognizing the obligations as a liability based on the best estimate of the current value of outlays expected to be incurred once the assets are retired. See Note 19 – Asset Retirement Obligations.

Decommissioning – CPS Energy accounts for its legal obligation to decommission STP Units 1 and 2 in accordance with GASB Statement No. 83. The Company has recognized its pro rata share of an ARO based on the best estimate of the current values of outlays expected to be incurred to decommission the units, determined by the most recent cost study. A new cost study is performed every 5 years; in years after the latest study, the Statement requires the current value of the Company's ARO be adjusted for the effects of inflation or deflation, at least annually. In addition to the ARO, the Company has recorded deferred outflows of resources that are being amortized over the remaining useful life of the plant. See Note 19 – Asset Retirement Obligations for the criteria for determining the timing and pattern of recognition for the decommissioning liability. See Note 15 – 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 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 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 decommissioning net costs recoverable and would be receivable from customers.

A project to develop an independent spent fuel storage installation ("Dry Cask Storage Project") was recently completed at STP 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 that paid for these 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 September 1, 2020, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through calendar year 2022.

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 is entitled to request reimbursement at its discretion 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. 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 operation and maintenance ("O&M") expense or capital costs.

Net Pension Liability – A net pension liability is recorded in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* The liability is the difference between the actuarial total pension liability and the Pension Plan's fiduciary net position as of the measurement date. The net pension liability was $248.2 million and $293.7 million at January 31, 2022 and 2021, respectively. For additional information, see Note 11 – Employee Pension Plan.

Other Noncurrent Liabilities – Other noncurrent liabilities include the unrealized change in fair value of fuel hedges, communication towers liability, note payable, LTSA obligations and other liabilities for balances payable and deposits received.

Deferred Inflows of Resources – Deferred inflows of resources related to pension and OPEB amounted to $103.4 million and $84.2 million at January 31, 2022 and 2021, respectively. Deferred inflows of resources related to unrealized future revenue associated with the sale of the communication towers totaled $0.3 million and $0.4 million at January 31, 2022 and 2021, respectively. Deferred inflows of resources related to future recoveries associated with the FY2020 Joint Base San Antonio ("JBSA") agreement totaled $77.3 million and $80.8 million at January 31, 2022 and 2021, respectively.

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 inflows of resources related to fuel hedges totaled $59.5 million and $10.8 million at January 31, 2022 and 2021, respectively.

Deferred inflows of resources related to leasing agreements totaled $13.0 million and $12.2 million at January 31, 2022 and 2021, respectively.

Rates – Rates are set by the Board and approved by the San Antonio City Council. On January 13, 2022, City Council approved a 3.85% increase in both CPS Energy's electric and natural gas base rates, which is effective March 1, 2022.

Federal and State Grant Programs – Periodically, federal or state grants are made available to CPS Energy as a subrecipient for a portion of grant funds allocated to the state of Texas or as direct awards. 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. Federal or state grants that subsidize in whole or a partial amount of capital assets are recognized as contributed capital on the Statement of Revenues, Expenses, and Changes in Net Position and reflected as part of Capital Assets, net on the Statement of 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.

Allowance for Funds Used During Construction ("AFUDC") – In FY2022, CPS Energy implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and has discontinued capitalizing interest on construction projects. However, prior to FY2022, to reflect funding methodology, the AFUDC rate included both a debt and an equity component. The blended rate was composed of 50% equity and 50% debt based on construction funding forecasts. Alternate AFUDC rates were applied to projects costing more than $100 million, reflecting the method by which they were funded.

FY2021 GASB pronouncement implementations:

- GASB Statement No. 92, *Omnibus 2020,* addresses a variety of topics and practice issues that have been identified during implementation and application of certain GASB Statements. The new statement clarifies issues related to leases, intra-entity transfers, pension and postemployment benefits, asset retirement obligations, risk pools, fair value measurements, and derivative instruments. This Statement did not have significant effect on CPS Energy's financial reporting.

- GASB Statement No. 93, *Replacement of Interbank Offered Rates,* addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate as the notable, London Interbank Offered Rate, is expected to cease to exist in its current form at the end of calendar year 2021. This statement will provide exceptions to the existing provisions for hedge accounting termination and lease modifications. This statement did not have a significant effect on CPS Energy's financial reporting.

- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postpones the effective dates of certain provisions in Statements and Implementation Guides that first became effective or were scheduled to become effective for periods beginning after June 15, 2018, due to the COVID-19 pandemic impact on governments and stakeholders. The Company has revised effective dates and related reporting for the statements identified. This standard became effective when issued in May 2020 and was immediately implemented by CPS Energy in FY2021.

- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans–An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32,* requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and amends certain guidance included in GASB Statements No. 14, *The Financial Reporting Entity,* and No. 84, *Fiduciary Activities*. This Statement did not have a significant effect on CPS Energy's financial reporting.

FY2022 GASB pronouncement implementations:

- GASB Statement No. 87, *Leases*, requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the Company's leasing activities. Refer to the subsequent page for description of effects of implementation.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. As a result of this Statement, the Company discontinued capitalizing interest costs on construction projects through its allowance for funds used during construction ("AFUDC").

- GASB Statement No. 98, *The Annual Comprehensive Financial Report*, addresses references in authoritative literature to effectively replace the use of the term comprehensive annual financial report to the annual comprehensive financial report. This statement was issued in October 2021 and was immediately implemented by CPS Energy in FY2022. This Statement did not have a significant effect on CPS Energy's financial reporting.

Future GASB pronouncement implementations:

- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* provides improved guidance on financial reporting and issues related to public-private and public-public partnership arrangements ("PPP") and availability payment arrangements ("APA"). Under this statement, a transferor is required to recognize a PPP asset or a PPP receivable for installment payments and a deferred inflow of resources for the consideration received or to be received from the transferor to account for a PPP. An operator should report an intangible right-to-use PPP asset and a liability for installment payments and a deferred outflow of resources for consideration provided or to be provided to the transferor as part of the PPP. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2023. CPS Energy has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements ("SBITAs")*, requires the recognition of SBITAs as an intangible right-to-use subscription asset with a corresponding subscription liability. Under this statement, a lessee is required to recognize a SBITA lease liability and an intangible right-to-use SBITA lease asset, and a lessor is required to recognize a lease SBITA receivable and a deferred inflow of resources. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2023. CPS Energy has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.

- GASB Statement No. 99, *Omnibus 2022*, addresses a variety of topics and practice issues that have been identified during implementation and application of certain GASB Statements. The new statement clarifies issues related to derivative instruments, leases, PPP and APA arrangements, SBITAs and various other topics. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2023. CPS Energy has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.

Implementation of GASB Statement No. 87 – CPS Energy adopted GASB Statement No. 87, *Leases,* during FY2022 and retroactively implemented the standard as of February 1, 2020. The statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under the statement, CPS Energy as a lessee is required to recognize a lease liability and an intangible right to use lease asset, and as a lessor is required to recognize a lease asset receivable and a deferred inflow of resources.

As a result of the adoption of the statement in FY2022, CPS Energy as a lessee recorded an increase of $46.5 million in capital assets, net and an increase of $30.9 million in total liabilities as of January 31, 2021. The lease obligations represent the net present value of various contracts. The value of the asset and the obligation is reduced each month to properly reflect the remaining net present value of the contract asset and obligation.

CPS Energy as a lessor recorded a decrease of $16.6 million in interest and other accounts receivables (current and noncurrent) and an increase of $12.2 million in deferred inflows of resources as of January 31, 2021. The leased assets represent the net present value of various contracts. The value of the leased asset and the deferred lease inflow is reduced each month to properly reflect the remaining net present value of the leased asset and deferred inflow resources.

The Statement of Revenues, Expenses and Changes in Net Position operating expenses and non-operating expenses decreased by a total of $1.6 million and $1.7 million, respectively, for FY2021. The implementation of the statement resulted in a $13.0 million unfavorable restatement effect on beginning net position as of February 1, 2020, and a $13.2 million unfavorable restatement effect on ending net position as of January 31, 2021.

GASB Statement No. 87 requires the effects of accounting changes to be applied retroactively by restating the financial statements. CPS Energy adopted GASB Statement No. 87 in FY2022 and, accordingly, has restated amounts of the affected balances within the financial statements for the fiscal year ending January 31, 2021, as follows:

(In thousands)	As Originally Reported	As Restated	Effect of Change
Statement of Net Position			
Current assets			
Interest and other accounts receivable	$ 88,018	$ 88,710	$ 692
Total current assets	88,018	88,710	692
Noncurrent assets			
Other noncurrent asset	290,651	273,383	(17,268)
Capital assets, net	8,638,055	8,684,540	46,485
Total noncurrent assets	8,928,706	8,957,923	29,217
Current liabilities			
Accounts payable and accrued liabilities	469,496	470,533	1,037
Total current liabilities	469,496	470,533	1,037
Noncurrent liabilities			
Other noncurrent liabilities	242,129	271,998	29,869
Total noncurrent liabilities	242,129	271,998	29,869
Deferred inflows of resources			
Leases	—	12,181	12,181
Total deferred inflows of resources	—	12,181	12,181
Total net position	3,753,933	3,740,755	(13,178)
Statement of Revenues, Expenses and Changes in Net Position			
Operating expenses			
Operation and maintenance	654,886	652,530	(2,356)
Depreciation and amortization	436,098	436,899	801
Nonoperating income (expense)			
Interest and other income, net	17,281	15,157	(2,124)
Interest and other expense	(233,582)	(233,128)	454
Payments to the City of San Antonio	(330,564)	(330,588)	(24)
Net position - beginning	$ 3,704,505	$ 3,691,466	$ (13,039)
Net position - ending	$ 3,753,933	$ 3,740,755	$ (13,178)

2. Cash, Cash Equivalents and Investments

CPS Energy's cash deposits at January 31, 2022 and 2021, were either insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the collateral included letters of credit and securities. 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 or other allowable banks 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,	
	2022	2021
Cash		
Petty cash funds on hand (current)	**$ 43**	$ 44
Deposits with financial institutions		
Unrestricted CPS Energy deposits (current)	**37,910**	30,504
Restricted CPS Energy deposits (noncurrent)		
Capital projects	**43**	22
Debt service	**835**	274
Total cash	**38,831**	30,844
Cash equivalents		
Investments with original maturities of 90 days or less		
CPS Energy unrestricted (current)	**346,881**	398,760
CPS Energy restricted (noncurrent)	**75,104**	77,889
Decommissioning Trusts – restricted (noncurrent)	**33,934**	30,943
Total cash equivalents	**455,919**	507,592
Total cash and cash equivalents	**$ 494,750**	$ 538,436

Summary of Cash, Cash Equivalents and Investments

(In thousands)

	January 31, 2022	January 31, 2021
Cash and cash equivalents		
CPS Energy – unrestricted and restricted	**$ 460,816**	$ 507,493
Decommissioning Trusts – restricted	**33,934**	30,943
Total cash and cash equivalents	**494,750**	538,436
Gross investments – current and noncurrent CPS Energy – unrestricted and restricted	**968,424**	1,014,708
Decommissioning Trusts – restricted	**756,693**	698,113
Total gross investments	**1,725,117**	1,712,821
Investments with original maturities of 90 days or less included in cash and cash equivalents CPS Energy – unrestricted and restricted	**(421,985)**	(476,649)
Decommissioning Trusts – restricted	**(33,934)**	(30,943)
Total cash equivalents	**(455,919)**	(507,592)
Total gross investments less cash equivalents	**1,269,198**	1,205,229
Total cash, cash equivalents and investments	**$ 1,763,948**	$ 1,743,665

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 brokers/dealers and investment managers.

Investments of CPS Energy – CPS Energy's allowable investments are defined by Board resolution, CPS Energy Investment Policy, the Investment Committee, bond ordinances, commercial paper ordinances, a revolving financial program ordinance, and state law. These investments are subject to market risk, and their fair 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 all types directly permissible for CPS Energy, except for investment pools. Additionally, permitted are investments in 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. To further reduce the overall risk of the portfolio, the target allocations for both Trusts are 64.0% fixed income, 27.0% equities and 9.0% 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 for which 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,	
	2022	2021
Unrestricted		
Cash and cash equivalents	**$ 384,834**	$ 429,308
Investments	**—**	39,626
Total unrestricted (current)	**384,834**	468,934
Restricted		
Debt service		
Cash and cash equivalents	**1,347**	8,662
Total debt service	**1,347**	8,662
Capital projects		
Cash and cash equivalents	**51,141**	68,211
Total capital projects	**51,141**	68,211
Ordinance		
Cash and cash equivalents	**23,494**	1,312
Investments	**546,439**	498,433
Total ordinance	**569,933**	499,745
Decommissioning Trusts		
Cash and cash equivalents	**33,934**	30,943
Investments	**722,759**	667,170
Total Decommissioning Trusts	**756,693**	698,113
Total restricted		
Cash and cash equivalents	**109,916**	109,128
Investments	**1,269,198**	1,165,603
Total restricted (noncurrent)	**1,379,114**	1,274,731
Total cash, cash equivalents and investments (unrestricted and restricted)	**$ 1,763,948**	$ 1,743,665

Risk Exposure – Cash equivalents, equity 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. 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. Due to market fluctuations, it is possible that substantial changes in the fair 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, 2022	January 31, 2021
CPS Energy investments		
U.S. Treasuries, U.S. Agencies, municipal bonds, CDs, commercial paper, investment pools and money market mutual funds	**$ 968,424**	$ 1,014,708
Decommissioning Trusts		
U.S. Treasuries, U.S. Agencies, municipal bonds and money market mutual funds	**302,091**	253,406
Corporate bonds	**140,706**	164,744
Foreign bonds	**12,367**	12,877
Subtotal	**455,164**	431,027
Common stock	**217,030**	206,858
Real estate investment trusts	**83,745**	59,461
Preferred stock	**754**	767
Total Decommissioning Trusts	**756,693**	698,113
Total investments	**$ 1,725,117**	$ 1,712,821

[1] Excludes cash of $38.8 million and $30.8 million as of January 31, 2022 and 2021, 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 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 Investment Policy limits the WAM to three years or less, which allows for the management of risk while optimizing returns. CPS Energy invests in money market mutual funds and investment pools that have maturities of one year or less.

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% of the total portfolio per issuer.

(Dollars in thousands)

Investment Type	January 31, 2022 Carrying Value	January 31, 2022 Fair Value	January 31, 2022 Allocation	January 31, 2022 WAM[1]	January 31, 2021 Carrying Value	January 31, 2021 Fair Value	January 31, 2021 Allocation	January 31, 2021 WAM[1]
U.S. Treasuries	**$ 19,161**	$ 19,161	1.98%	3.9	$ 19,916	$ 19,916	1.96%	4.9
U.S. Agencies								
Federal Agriculture Mtg Corp	**9,675**	9,675	1.00%	2.7	—	—	0.00%	—
Federal Farm Credit Bank	**109,017**	109,017	11.26%	5.3	80,193	80,193	7.90%	6.6
Federal Home Loan Bank	**84,985**	84,985	8.78%	3.7	32,129	32,129	3.17%	5.1
Federal Home Loan Mortgage Corp	**33,627**	33,627	3.47%	3.9	98,035	98,035	9.66%	3.7
Federal National Mortgage Assn	**91,286**	91,286	9.43%	3.5	137,956	137,956	13.60%	4.3
Small Business Administration	**11,028**	11,028	1.14%	5.4	16,255	16,255	1.60%	6.1
Municipal bonds	**187,660**	187,661	19.38%	3.3	153,575	153,575	15.13%	2.6
Investment pools	**327,322**	327,321	33.80%	—	371,020	371,020	36.57%	—
Money market mutual funds	**94,663**	94,663	9.76%	—	105,629	105,629	10.41%	—
Total fixed-income portfolio	**$ 968,424**	$ 968,424	100.00%	2.2	$ 1,014,708	$ 1,014,708	100.00%	2.2

[1]CPS Energy invests in money market mutual funds and investment pools that are assumed to have maturities of one year or less.

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, 2022 and 2021, 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)

Credit Rating	January 31, 2022 Carrying Value	January 31, 2022 Fair Value	January 31, 2022 Allocation	January 31, 2021 Carrying Value	January 31, 2021 Fair Value	January 31, 2021 Allocation
U.S. Treasuries (AA+)	**$ 19,161**	$ 19,161	2.00%	$ 19,916	$ 19,916	1.96%
AAA / Aaa	**489,500**	489,500	50.50%	451,575	451,575	44.50%
AA+ / Aa1	**367,847**	367,847	38.00%	454,657	454,657	44.81%
AA / Aa2	**49,862**	49,862	5.10%	49,420	49,420	4.87%
AA- / Aa3	**15,381**	15,381	1.60%	12,583	12,583	1.24%
Not rated[1]	**26,673**	26,673	2.80%	26,557	26,557	2.62%
Total fixed-income portfolio	**$ 968,424**	$ 968,424	100.00%	$ 1,014,708	$ 1,014,708	100.00%

[1]Interest bearing deposit 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, 2021 and 2020. The tables in this section address interest rate risk exposure by investment type, concentration of credit risk, 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 fair value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim fair value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim fair 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. 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 both the 28% Trust and the 12% Trust is Bloomberg Barclays US Aggregate, which was 6.78 years and 6.22 years for the period ending December 31, 2021 and 2020, respectively.

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. 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 33.5% and 41.1% of the fixed-income portfolio for the 28% Decommissioning Trust at December 31, 2021 and 2020, respectively. Total other debt securities (corporate and foreign issuers) amounted to 34.0% and 41.6% of the fixed-income portfolio for the 12% Decommissioning Trust at December 31, 2021 and 2020, respectively.

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

(Dollars in thousands)	**December 31, 2021**			December 31, 2020		
Investment Type – 28% Trust	**Fair Value**	Allocation	*WAD	Fair Value	Allocation	WAD
U.S. Treasuries	$ **97,623**	29.47%	7.7	$ 62,842	20.15%	6.9
U.S. Agencies						
Federal Home Loan Mortgage Corp	**27,852**	8.41%	3.6	47,571	15.26%	1.8
Federal National Mortgage Assn	**55,261**	16.68%	3.5	32,658	10.47%	2.5
Government National Mortgage Assn	**3,367**	1.02%	1.4	4,127	1.32%	1.3
Small Business Administration	**3,623**	1.10%	3.3	4,327	1.39%	6.5
Municipal bonds – Texas	**961**	0.29%	8.6	1,628	0.52%	8.4
Municipal bonds – other states	**7,785**	2.35%	8.8	9,463	3.03%	9.0
Corporate bonds	**100,030**	30.20%	6.4	116,785	37.45%	7.2
Foreign bonds	**10,924**	3.30%	5.6	11,238	3.60%	5.8
Money market mutual funds	**23,788**	7.18%	—	21,179	6.81%	—
Total 28% Trust fixed-income portfolio	**331,214**	100.00%	6.0	311,818	100.00%	5.6
Investment Type – 12% Trust						
U.S. Treasuries	**38,268**	30.87%	8.3	22,700	19.04%	8.6
U.S. Agencies						
Federal Home Loan Mortgage Corp	**9,247**	7.46%	3.5	20,329	17.05%	1.6
Federal National Mortgage Assn	**18,613**	15.01%	3.7	9,620	8.07%	2.8
Government National Mortgage Assn	**308**	0.25%	3.9	668	0.56%	1.6
Small Business Administration	**1,710**	1.38%	3.5	1,962	1.65%	3.7
Municipal bonds – Texas	**482**	0.39%	8.4	833	0.70%	8.3
Municipal bonds – other states	**3,057**	2.47%	9.0	3,735	3.14%	8.6
Corporate bonds	**40,676**	32.82%	5.9	47,959	40.23%	6.7
Foreign bonds	**1,443**	1.16%	7.6	1,639	1.37%	6.0
Money market mutual funds	**10,146**	8.19%	—	9,764	8.19%	—
Total 12% Trust fixed-income portfolio	**123,950**	100.00%	6.3	119,209	100.00%	5.8
Total Trusts fixed-income portfolio	$ **455,164**			$ 431,027		

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, investments with a credit rating below "BBB-/Baa3" for the 28% Trust or 12% Trust did not exceed 5% of total fixed-income portfolio at December 31, 2021 and 2020.

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

(Dollars in thousands)	**December 31, 2021**		December 31, 2020	
Credit Rating – 28% Trust	**Fair Value**	Allocation	Fair Value	Allocation
U.S. Treasuries (AA+)	**$ 97,623**	29.47 %	$ 62,842	20.15 %
AAA / Aaa	**30,537**	9.22 %	30,169	9.68 %
AA+ / Aa1	**94,177**	28.43 %	91,674	29.40 %
AA/Aa2	**2,718**	0.82 %	3,546	1.15 %
AA- / Aa3	**3,711**	1.12 %	2,595	0.83 %
A+ / A1	**2,792**	0.84 %	3,089	0.99 %
A/A2	**3,711**	1.12 %	10,137	3.25 %
A-/A3	**19,861**	6.00 %	25,228	8.09 %
BBB+/Baa1	**29,809**	9.01 %	36,623	11.74 %
BBB / Baa2	**21,730**	6.56 %	19,867	6.37 %
BBB-/Baa3	**10,902**	3.29 %	11,628	3.73 %
BB+/Ba1	**2,616**	0.79 %	3,129	1.00 %
BB/Ba2	**791**	0.24 %	—	— %
BB-/Ba3	**—**	— %	634	0.20 %
Not Rated[1]	**10,236**	3.09 %	10,657	3.42 %
Total 28% Trust fixed-income portfolio	**331,214**	100.00 %	311,818	100.00 %
Credit Rating – 12% Trust				
U.S. Treasuries (AA+)	**38,268**	30.87 %	22,700	19.04 %
AAA /Aaa	**13,566**	10.94 %	14,690	12.34 %
AA+/Aa1	**31,819**	25.67 %	34,292	28.77 %
AA / Aa2	**1,350**	1.09 %	1,410	1.18 %
AA-/Aa3	**1,298**	1.05 %	704	0.59 %
A+/A1	**429**	0.35 %	351	0.29 %
A/A2	**3,145**	2.54 %	4,913	4.12 %
A-/A3	**8,144**	6.57 %	11,313	9.49 %
BBB+/Baa1	**10,723**	8.65 %	12,581	10.55 %
BBB/Baa2	**6,451**	5.20 %	5,638	4.73 %
BBB-/Baa3	**2,924**	2.36 %	2,806	2.35 %
BB+/Ba1	**76**	0.06 %	70	0.06 %
BB/Ba2	**21**	0.02 %	—	— %
BB-/Ba3	**—**	— %	49	0.04 %
Not Rated[1]	**5,736**	4.63 %	7,692	6.45 %
Total 12% Trust fixed-income portfolio	**123,950**	100.00 %	119,209	100.00 %
Total Trusts fixed-income portfolio	**$ 455,164**		$ 431,027	

[1] The NDT Investment Managers are given discretion to invest in unrated securities that are of suitable quality and in line with their investment strategy, as long as those do not exceed the 10% limit prescribed for the portfolio by the NDT Investment Policy.

Foreign currency risk – 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 $12.4 million at December 31, 2021, and $12.9 million at December 31, 2020. 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 13.5% and 14.0% of the 28% Trust's total portfolio at December 31, 2021 and 2020, respectively. Total foreign equity securities held by the 12% Trust amounted to 12.6% and 12.5% of the Trust's portfolio at December 31, 2021 and 2020, respectively.

Fiduciary Funds' Investments

As mentioned previously, the fiduciary financial statements include the CPS Energy Pension Plan and the CPS Energy Group Health Plan, CPS Energy Group Life Insurance Plan and the CPS Energy Long-Term Disability Income Plan, (collectively "the Plans"). The Plans report their assets on a calendar year basis; therefore, information related to the Plans is as of December 31, 2021 and 2020. The tables in this section address interest rate risk exposure by investment type, concentration of credit risk, credit risk and foreign currency risk. Investments held by the Plans are recorded at fair value and net asset value. All assets held by the Plans are held in irrevocable trusts.

The Plans' allowable investments are established and amended by the Employee Benefits Oversight Committee (the "EBOC") and are separately managed by the Administrative Committee. The Administrative Committee ensures the Plans' assets are invested in accordance with the investment policy of the Plans, engaging investment consultants and independent investment managers as needed.

Interest rate risk – In accordance with its investment policy, the Administrative Committee manages exposure to fair value losses arising from rising interest rates by limiting the effective duration of (a) each investment manager's portfolio as well as (b) the aggregate portfolio of debt securities of the trust to +/- 1.5 years from the WAD of the specified debt security index as used as a benchmark. Investments included on the following page, which include the global bond fund, that are managed through a fund are not subject to the investment manager limitation noted above. The specified debt securities indices used as benchmarks are presented in the following table:

Debt Securities Indices Benchmarks

	December 31,	
	2021	2020
Barclays Aggregate (Total investment grade)	**6.80**	6.20
Bloomberg Barclays High-yield (High-yield corporate bonds and bond funds)	**3.80**	3.60
Credit Suisse Leveraged Loan Index (Senior loan funds)	**0.25**	0.25
Bloomberg Barclays 60/40 Sovereign Credit Fund (Global bond funds)	**7.68**	7.86

The following table presents the weighted-average effective duration of debt security asset classes:

(Dollars in thousands)	**December 31, 2021**		December 31, 2020	
Investment Type – Pension Plan	**Fair Value**	WAD	Fair Value	WAD
U.S. Treasury and Agency:				
Notes and bonds	**41,825**	7.96	37,908	8.03
Collateralized mortgage obligations	**11,109**	2.58	14,301	2.41
Mortgage pass-through securities	**21,826**	3.88	25,783	2.60
Commercial mortgage-backed securities	**6,115**	3.68	7,857	4.50
Asset-backed securities	**15,021**	2.21	10,193	2.10
Corporate bonds	**59,363**	7.65	63,225	7.57
Municipal bonds	**611**	17.92	616	18.00
Total investment grade	**156,582**	6.18	159,883	5.96
Senior loan fund (floating rate)	**78,251**	0.53	73,082	
Global bond fund	**44,083**	7.65	47,569	0.36
High-yield corporate bonds	**146,625**	3.76	140,295	5.01
Total Pension Plan investments in debt securities	**425,541**		420,829	2.87
Investment Type – Health Plan				
U.S. Treasury and Agency:				
Notes and bonds	**9,183**	6.57	8,318	6.30
Collateralized mortgage obligations	**1,254**	2.69	1,604	2.07
Mortgage pass-through securities	**5,713**	4.46	6,201	2.23
Commercial mortgage-backed securities	**236**	7.19	247	8.02
Asset-backed securities	**1,112**	2.16	—	—
Corporate bonds	**14,143**	7.15	14,349	7.46
Total investment grade	**31,641**	6.14	30,719	5.81
Senior loan fund (floating rate)	**13,845**	0.53	12,930	0.36
High-yield corporate bonds	**12,097**	3.12	11,629	2.45
High-yield bond fund[1]	**11,191**	4.00	10,690	3.40
Global bond fund	**11,971**	7.65	12,917	5.01
Total Health Plan investments in debt securities	**80,745**		78,885	
Investment Type – Life Plan				
U.S. Treasury and Agency:				
Notes and bonds	**1,534**	7.34	1,538	6.76
Collateralized mortgage obligations	**300**	2.41	386	1.67
Mortgage pass-through securities	**1,164**	4.44	1,302	2.24
Commercial mortgage-backed securities	**55**	7.19	58	8.02
Asset-backed securities	**226**	2.16	—	—
Corporate bonds	**2,979**	6.83	3,118	7.21
Total investment grade	**6,258**	6.13	6,402	5.77
Senior loan fund (floating rate)	**2,305**	0.53	2,186	0.36
Global bond fund	**1,633**	7.65	1,762	5.01
High-yield corporate bonds	**2,069**	3.12	1,969	2.47
High-yield bond fund[1]	**2,114**	4.00	2,019	3.40
Total Life Plan investments in debt securities	**14,379**		14,338	
Investment Type – Disability Plan				
U.S. Treasury and Agency:				
Notes and bonds	**159**	6.05	166	6.34
Collateralized mortgage obligations	**25**	2.45	38	1.64
Mortgage pass-through securities	**107**	4.28	121	2.15
Asset-backed securities	**22**	2.12	—	—
Corporate bonds	**275**	7.48	266	7.84
Total investment grade	**588**	6.10	591	5.86
Senior loan fund (floating rate)	**232**	0.53	220	
Global bond fund	**216**	7.65	233	0.36
High-yield bond fund[1]	**460**	4.00	439	5.01
Total Disability Plan investments in debt securities	**1,496**		1,483	3.40
Total investments in debt securities for the Plans	**$ 522,161**		$ 515,535	

[1]The market value at December 31, 2021, includes the residual position, relating to dividend reinvestments, from the bond fund sold in 2021. The effective duration at December 31, 2021, corresponds to the replacement fund purchased in 2021.

Credit Risk – In accordance with its investment policy, the Administrative Committee manages credit risk by (a) limiting high-grade domestic debt investment managers to no more than 15% of their portfolio in below A rated bonds, (b) limiting high-grade domestic debt investment managers to no more than 2.5% of their portfolio in below BBB rated bonds and (c) limiting investment in high-yield debt securities using high-yield investment managers to no more than 15% of total Plan investments. At December 31, 2021 and 2020, investments for all the Plans were held in accordance with the investment policy.

The following table summarizes the individual Plans' investment in debt securities by credit rating, with most securities rated by S&P Global Ratings, however some were rated by other agencies:

(Dollars in thousands)	**December 31, 2021**		December 31, 2020	
Credit Rating – Pension Plan	**Fair Value**	Allocation	Fair Value	Allocation
AAA	**$ 25,810**	6.10 %	$ 21,110	5.02 %
AA	**95,468**	22.40 %	93,129	22.13 %
A	**39,797**	9.40 %	42,925	10.20 %
BBB	**36,964**	8.60 %	54,960	13.06 %
Less than BBB	**225,371**	53.00 %	206,677	49.11 %
Not Rated	**2,131**	0.50 %	2,028	0.48 %
Total Pension Plan investments in debt securities	**425,541**	100.00 %	420,829	100.00 %
Credit Rating – Health Plan				
AAA	**5,959**	7.40 %	4,042	5.12 %
AA	**20,075**	24.90 %	17,795	22.56 %
A	**8,731**	10.80 %	9,931	12.59 %
BBB	**8,657**	10.70 %	11,694	14.82 %
Less than BBB	**36,473**	45.20 %	35,009	44.38 %
Not Rated	**850**	1.00 %	414	0.52 %
Total Health Plan investments in debt securities	**80,745**	100.00 %	78,885	100.00 %
Credit Rating – Life Plan				
AAA	**805**	5.60 %	566	3.95 %
AA	**3,635**	25.28 %	3,518	24.54 %
A	**2,005**	13.94 %	2,129	14.85 %
BBB	**1,481**	10.30 %	1,965	13.70 %
Less than BBB	**6,301**	43.82 %	6,088	42.46 %
Not Rated	**152**	1.06 %	72	0.50 %
Total Life Plan investments in debt securities	**14,379**	100.00 %	14,338	100.00 %
Credit Rating – Disability Plan				
AAA	**122**	8.20 %	71	4.79 %
AA	**356**	23.80 %	355	23.94 %
A	**181**	12.10 %	181	12.20 %
BBB	**173**	11.50 %	210	14.16 %
Less than BBB	**643**	43.00 %	659	44.44 %
Not Rated	**21**	1.40 %	7	0.47 %
Total Disability Plan investments in debt securities	**1,496**	100.00 %	1,483	100.00 %
Total investment in debt securities for the Plans	**$ 522,161**		$ 515,535	

Concentration of credit risk – To help ensure diversification and to minimize the impact of a failure of any issuer, the investment policy of the Plans limits holdings of issuers, other than the federal government issuers to 5% of the fair value of (a) an investments manager's portfolio and (b) the aggregate portfolio of debt securities. There is no concentration restriction on debt issued by the U.S. Federal government. Debt issued by other U.S. governmental entities may not exceed 50% by any one issuer. There were no corporate issues exceeding these limits at December 31, 2021 and 2020, for the Plans.

The following table presents the fair value of investments by issuer, per individual Plan, representing 5% or more of any of the respective Plan's debt security portfolio:

(Dollars in thousands)	**December 31, 2021**			December 31, 2020		
Issuer – Plan	**Fair Value**	% Debt Securities	Policy Limit %	Fair Value	% Debt Securities	Policy Limit %
Federal National Mortgage Assn. – Pension	**$ 22,315**	5.24%	50%	$ 30,543	7.26%	50%
Federal National Mortgage Assn. – Health	**4,316**	5.35%	50%	5,804	7.36%	50%
Federal National Mortgage Assn. – Life	**919**	6.39%	50%	1,278	8.92%	50%
Federal National Mortgage Assn. – Disability	**86**	5.73%	50%	117	7.87%	50%

As of December 31, 2021 and 2020, the Plans did not have an investment in any one organization whose fair value equaled 5% or more of the individual plan's net position restricted for the Plans.

Foreign currency risk – There were no non-dollar foreign investments held directly as of December 31, 2021 and 2020. All nondollar denominated foreign investments are held through mutual funds or commingled funds with a similar mandate. These funds are not subject to investment policy constraints on non-dollar denominated foreign investments.

Securities lending – Authority to engage in securities lending transactions is granted under the investment policies of the Plans. The Plans are authorized to loan up to 100% of the investments in securities lending transactions. The Plans' securities lending programs are managed through JPMorgan Chase Bank, N.A. Worldwide Securities Services ("JPMorgan") as lending agent.

In securities lending transactions, the Plans, through the lending agent, transfer securities to brokers/dealers in exchange for collateral and simultaneously agree to return the collateral for the same securities in the future. Both cash and noncash collateral is accepted. In 2017, the Disability Income Plan's securities lending program was suspended indefinitely by the Administrative Committee due to minimal activity.

Cash collateral received from the borrower is invested as defined by the Plans in U.S government and agency securities, corporate debt securities rated A-1/P-1 or equivalent, or AAA-rated money market mutual funds. The maturities of these investments do not necessarily match the term of the loans; however, the weighted-average maturity of the portfolio will not exceed 120 days.

Noncash collateral may be accepted from a limited set of borrowers and includes both U.S and certain international equities and government and agency debt securities that meet JPMorgan's credit criteria.

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, part of the payment to the borrower would come from the Plans' resources and the lending agent based on the rate split. The Plans are responsible for losses, if any, related to the investment of cash collateral. No losses were incurred in 2021 or 2020.

Loans that are collateralized with noncash 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 the Plans for the loaned securities is held by the lending agent. These securities are not available to the Plans for selling or pledging unless the borrower is in default of the loan.

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 Fiduciary Net Position as an asset, with a corresponding liability for the obligation to repay the cash collateral. Noncash collateral for the 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, the Plans 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 the original securities may not be able to be replaced. The lending agent has indemnified the Plans from any loss due to borrower default in the event the collateral is not sufficient to replace the securities.

The Plans had no credit risk exposure to borrowers because the amount the Plans owed to borrowers exceeded the amounts the borrowers owed at December 31, 2021 and 2020.

The Plans received cash and noncash collateral for securities lending activity, as shown in the following table. The cash collateral is presented as an unclassified custodial credit risk.

Given the current market conditions and portfolio make-up, it was determined to be no longer viable to participate in securities lending. The Health and Life Plans ceased lending activity during 2021. The Pension Plan will cease lending activity in early 2022.

(Dollars in thousands)	December 31, 2021		
Outstanding Loans – Pension Plan	**Loan Fair Value**	**Collateral Value**	**Collateral %**
Cash loans	**$ 685**	**$ 700**	**102.19 %**
Noncash loans	**314**	**323**	**102.87 %**
Total Pension Plan outstanding loans	**$ 999**	**$ 1,023**	**102.40 %**
Outstanding Loans – Health Plan			
Cash loans	**$ —**	**$ —**	**— %**
Noncash loans	**—**	**—**	**— %**
Total Health Plan outstanding loans	**$ —**	**$ —**	**— %**
Outstanding Loans – Life Plan			
Cash loans	**$ —**	**$ —**	**— %**
Noncash loans	**—**	**—**	**— %**
Total Life Plan outstanding loans	**$ —**	**$ —**	**— %**

	December 31, 2020		
Outstanding Loans – Pension Plan	Loan Fair Value	Collateral Value	Collateral %
Cash loans	$ 42,492	$ 43,439	102.23 %
Noncash loans	17,495	17,985	102.80 %
Total Pension Plan outstanding loans	$ 59,987	$ 61,424	102.40 %
Outstanding Loans – Health Plan			
Cash loans	$ 122	$ 125	102.12 %
Noncash loans	2,400	2,463	102.62 %
Total Health Plan outstanding loans	$ 2,522	$ 2,588	102.60 %
Outstanding Loans – Life Plan			
Cash loans	$ 20	$ 20	102.29 %
Noncash loans	549	564	102.58 %
Total Life Plan outstanding loans	$ 569	$ 584	102.57 %

The following table reflects the income and fees from securities lending activity per individual Plan:

(In thousands)	December 31, 2021				
Plan	**Securities Lending Income**	**Rebates to Borrowers**	**Net Income**	**Lending Agent Fees**	**Securities Lending Net Income to the Plan**
Pension	**$ 56**	**$ (61)**	**$ 117**	**$ 35**	**$ 82**
Health	**29**	**(6)**	**35**	**11**	**24**
Life	**5**	**(1)**	**6**	**2**	**4**
Total	**$ 90**	**$ (68)**	**$ 158**	**$ 48**	**$ 110**

	December 31, 2020				
Plan	Securities Lending Income	Rebates to Borrowers	Net Income	Lending Agent Fees	Securities Lending Net Income to the Plan
Pension	$ 215	$ 80	$ 135	$ 40	$ 95
Health	56	(8)	64	19	45
Life	8	—	8	2	6
Total	$ 279	$ 72	$ 207	$ 61	$ 146

3. Fair Value Measurement

CPS Energy records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Fair value is defined in GASB Statement No. 72 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 the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

As a basis for considering market participant assumptions in fair value measurements, GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted or published prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities are examples of Level 1 inputs.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. U.S. Government Treasury securities, government agency and mortgage-backed securities are examples of Level 2 inputs.

- Level 3 inputs are unobservable inputs that reflect CPS Energy's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

Valuation methods of the primary fair value measurements disclosed below are as follows:

- The majority of investments in equity securities are valued using Level 1 measurements. Investments in equity securities are typically valued at the closing price in the principal active market. For equity securities, these markets include published exchanges such as the National Association of Securities Dealers Automated Quotations and the New York Stock Exchange. Foreign equity prices are translated from their trading currency using the currency exchange rate in effect at the close of the principal active market.

- Most investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.

- Commodity derivative instruments, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using Level 1 inputs. Options included in this category are those with an identical strike price quoted through a clearinghouse.

- Other commodity derivative instruments, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on internally developed pricing algorithms using observable market quotes for similar derivative instruments. Pricing inputs are derived from published exchange transactions and other observable data sources.

- The fair value of real estate held by the Employee Benefit Plans is evaluated annually according to the Plans' policy and is a multi-step process beginning with obtaining a broker's opinion of value. Additionally, Level 3 inputs, independent appraisals and bids received on properties, are also utilized to determine fair value.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

CPS Energy's fair value measurements are performed on a recurring basis. The table on the following page presents fair value balances and their levels within the fair value hierarchy for CPS Energy as of January 31, 2022 and 2021, and Decommissioning Trusts investment balances as of December 31, 2021 and 2020. The CPS Energy and Decommissioning Trusts investment balances presented exclude amounts related to money market mutual fund investments and short-term investments accounted for using amortized cost.

Fair Value Measurements as of January 31, 2022 and 2021

(In thousands)

	January 31, 2022				January 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Fair Value Investments								
CPS Energy								
U.S. Treasuries	**$ —**	**$ 19,161**	**$ —**	**$ 19,161**	$ —	$ 19,916	$ —	$ 19,916
U.S. Agencies								
Federal Agricultural Mortgage Corp	**—**	**9,675**	**—**	**9,675**	—	—	—	—
Federal Farm Credit Bank	**—**	**109,017**	**—**	**109,017**	—	80,193	—	80,193
Federal Home Loan Bank	**—**	**84,985**	**—**	**84,985**	—	32,129	—	32,129
Federal Home Loan Mortgage Corp	**—**	**33,627**	**—**	**33,627**	—	98,035	—	98,035
Federal National Mortgage Assn	**—**	**91,286**	**—**	**91,286**	—	137,956	—	137,956
Small Business Administration	**—**	**11,028**	**—**	**11,028**	—	16,255	—	16,255
Municipal bonds	**—**	**187,660**	**—**	**187,660**	—	153,575	—	153,575
Total CPS Energy fair value investments	**$ —**	**$ 546,439**	**$ —**	**$ 546,439**	$ —	$ 538,059	$ —	$ 538,059

	December 31, 2021				December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Decommissioning Trusts Investments								
28% Trust								
U.S. Treasuries	**$ —**	**$ 97,623**	**$ —**	**$ 97,623**	$ —	$ 62,842	$ —	$ 62,842
U.S. Agencies								
Federal Home Loan Mortgage Corp	**—**	**27,852**	**—**	**27,852**	—	47,571	—	47,571
Federal National Mortgage Assn	**—**	**55,261**	**—**	**55,261**	—	32,658	—	32,658
Government National Mortgage Assn	**—**	**3,367**	**—**	**3,367**	—	4,127	—	4,127
Small Business Administration	**—**	**3,623**	**—**	**3,623**	—	4,327	—	4,327
Municipal bonds – Texas	**—**	**961**	**—**	**961**	—	1,628	—	1,628
Municipal bonds – other states	**—**	**7,785**	**—**	**7,785**	—	9,463	—	9,463
Corporate bonds	**—**	**100,030**	**—**	**100,030**	—	116,785	—	116,785
Foreign bonds	**—**	**10,924**	**—**	**10,924**	—	11,238	—	11,238
Total 28% Trust fair value fixed-income portfolio	**—**	**307,426**	**—**	**307,426**	—	290,639	—	290,639
Equity securities								
Common stock	**160,128**	**—**	**—**	**160,128**	153,686	—	—	153,686
Real estate investment trusts	**61,353**	**—**	**—**	**61,353**	43,509	—	—	43,509
Preferred stock	**—**	**754**	**—**	**754**	—	767	—	767
Total 28% Trust fair value investments	**221,481**	**308,180**	**—**	**529,661**	197,195	291,406	—	488,601
12% Trust								
U.S. Treasuries	**—**	**38,268**	**—**	**38,268**	—	22,700	—	22,700
U.S. Agencies								
Federal Home Loan Mortgage Corp	**—**	**9,247**	**—**	**9,247**	—	20,329	—	20,329
Federal National Mortgage Assn	**—**	**18,613**	**—**	**18,613**	—	9,620	—	9,620
Government National Mortgage Assn	**—**	**308**	**—**	**308**	—	668	—	668
Small Business Administration	**—**	**1,710**	**—**	**1,710**	—	1,962	—	1,962
Municipal bonds – Texas	**—**	**482**	**—**	**482**	—	833	—	833
Municipal bonds – other states	**—**	**3,057**	**—**	**3,057**	—	3,735	—	3,735
Corporate bonds	**—**	**40,676**	**—**	**40,676**	—	47,959	—	47,959
Foreign bonds	**—**	**1,443**	**—**	**1,443**	—	1,639	—	1,639
Total 12% Trust fair value fixed-income portfolio	**—**	**113,804**	**—**	**113,804**	—	109,445	—	109,445
Equity securities								
Common stock	**56,902**	**—**	**—**	**56,902**	53,172	—	—	53,172
Real estate investment trusts	**22,392**	**—**	**—**	**22,392**	15,952	—	—	15,952
Total 12% Trust fair value investments	**79,294**	**113,804**	**—**	**193,098**	69,124	109,445	—	178,569
Total Trusts fair value investments	**300,775**	**421,984**	**—**	**722,759**	266,319	400,851	—	667,170
Total fair value investments	**$ 300,775**	**$ 968,423**	**$ —**	**$1,269,198**	$ 266,319	$ 938,910	$ —	$1,205,229

	January 31, 2022				January 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Financial Instruments								
Current fuel hedges	**$ 14,222**	**$ 31,197**	**$ —**	**$ 45,420**	$ 5,522	$ 2,059	$ —	$ 7,581
Noncurrent fuel hedges	**4,777**	**21,519**	**—**	**26,297**	2,772	4,093	—	6,865
Total financial instruments - Assets	**$ 18,999**	**$ 52,717**	**$ —**	**$ 71,717**	$ 8,294	$ 6,152	$ —	$ 14,447
Liabilities								
Financial Instruments								
Current fuel hedges	**$ (11,713)**	**$ (25)**	**$ —**	**$ (11,739)**	$ (686)	$ (398)	$ —	$ (1,084)
Noncurrent fuel hedges	**(6,261)**	**(8)**	**—**	**(6,268)**	(978)	(701)	—	(1,679)
Total financial instruments - (Liabilities)	**$ (17,974)**	**$ (33)**	**$ —**	**$ (18,007)**	$ (1,664)	$ (1,099)	$ —	$ (2,763)
Total financial instruments	**$ 1,025**	**$ 52,684**	**$ —**	**$ 53,709**	$ 6,630	$ 5,053	$ —	$ 11,683

Fiduciary Funds' Fair Value

The Plans' fair value measurements are performed on a recurring basis. The following table presents fair value balances and their levels within the fair value hierarchy for CPS Energy's Employee Benefit Plans as of December 31, 2021 and 2020. The Plans' investment balances presented exclude amounts related to cash collateral related to securities lending.

Fair Value Measurements as of December 31, 2021 and 2020

(In thousands)

	December 31, 2021				December 31, 2020			
Pension Plan	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
U.S. Government securities	**$ —**	**$ 81,486**	**$ —**	**$ 81,486**	$ —	$ 86,465	$ —	$ 86,465
Corporate bonds	**—**	**221,721**	**—**	**221,721**	—	213,713	—	213,713
Global bond funds	**—**	**44,083**	**—**	**44,083**	—	47,569	—	47,569
Domestic equities	**25,352**	**881,972**	**—**	**907,324**	80,541	717,913	—	798,454
Low-volatility equities	**—**	**88,709**	**—**	**88,709**	—	77,695	—	77,695
International equities	**149,942**	**—**	**—**	**149,942**	144,086	—	—	144,086
Specialized funds	**—**	**—**	**—**	**—**	22,510	—	—	22,510
Investment in partnership	**—**	**—**	**51,800**	**51,800**	—	—	51,000	51,000
Total Pension Plan investments by fair value level	**175,294**	**1,317,971**	**51,800**	**1,545,065**	247,137	1,143,355	51,000	1,441,492
Investments measured at net asset value (NAV):								
Senior loan fund				**78,250**				73,082
Low-volatility equity fund				**83,204**				70,987
International equities fund				**82,976**				76,160
Master limited partnership fund				**136,544**				79,958
Alternative investments – multi-strategy hedge fund				**53,343**				47,106
Real estate funds – open end				**147,776**				103,570
Total investments measured at NAV				**626,519**				450,863
Total Pension Plan fair value investments				**2,171,584**				1,892,355
Health Plan								
U.S. Government securities	**—**	**16,387**	**—**	**16,387**	—	16,370	—	16,370
Corporate bonds	**11,191**	**27,352**	**—**	**38,543**	10,690	25,978	—	36,668
Global bond fund	**—**	**11,971**	**—**	**11,971**	—	12,917	—	12,917
Domestic equities	**98,383**	**45,617**	**—**	**144,000**	82,931	40,873	—	123,804
Low volatility equities	**—**	**28,309**	**—**	**28,309**	—	24,821	—	24,821
International equities	**13,208**	**—**	**—**	**13,208**	13,403	—	—	13,403
Specialized funds	**—**	**—**	**—**	**—**	2,979	—	—	2,979
Total Health Plan investments by fair value level	**122,782**	**129,636**	**—**	**252,418**	110,003	120,959	—	230,962
Investments measured at NAV:								
Senior loan fund				**13,844**				12,930
International equities fund				**21,332**				19,579
Master limited partnerships				**23,174**				13,903
Alternative investments – multi-strategy hedge fund				**11,831**				10,447
Real estate fund - open end				**13,936**				11,516
Total investments measured at NAV				**89,387**				68,375
Total Health Plan fair value investments				**341,805**				299,337

	December 31, 2021				December 31, 2020			
Life Plan	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
U.S. Government securities	**—**	**3,053**	**—**	**3,053**	—	3,284	—	3,284
Corporate bonds	**2,114**	**5,274**	**—**	**7,388**	2,019	5,087	—	7,106
Global bond fund	**—**	**1,633**	**—**	**1,633**	—	1,762	—	1,762
Senior loan fund	**2,305**	**—**	**—**	**2,305**	2,186	—	—	2,186
Domestic equities	**17,087**	**6,982**	**—**	**24,069**	16,461	6,103	—	22,564
Low volatility equities	**—**	**4,748**	**—**	**4,748**	—	4,163	—	4,163
International equities	**2,461**	**—**	**—**	**2,461**	2,478	—	—	2,478
Specialized funds	**—**	**—**	**—**	**—**	796	—	—	796
Alternative investments	**2,886**	**—**	**—**	**2,886**	—	—	—	—
Total Life Plan investments by fair value level	**26,853**	**21,690**	**—**	**48,543**	23,940	20,399	—	44,339
Investments measured at NAV:								
International equities fund				**3,611**				3,315
Master limited partnerships				**3,657**				2,593
Real estate fund – open end				**3,374**				2,788
Total investments measured at NAV				**10,642**				8,696
Total Life Plan fair value investments				**59,185**				53,035
Disability Plan								
U.S. Government securities	**—**	**291**	**—**	**291**	—	325	—	325
Corporate bonds	**460**	**297**	**—**	**757**	439	266	—	705
Global bond fund	**—**	**216**	**—**	**216**	—	233	—	233
Senior loan fund	**232**	**—**	**—**	**232**	220	—	—	220
Domestic equities	**2,921**	**—**	**—**	**2,921**	2,655	—	—	2,655
Low volatility equities	**544**	**—**	**—**	**544**	487	—	—	487
International equities	**778**	**—**	**—**	**778**	724	—	—	724
Specialized funds	**392**	**—**	**—**	**392**	363	—	—	363
Total Disability Plan investments by fair value level	**5,327**	**804**	**—**	**6,131**	4,888	824	—	5,712
Investments measured at NAV:								
Master limited partnerships				**501**				271
Real estate fund – open end				**457**				284
Total investments measured at NAV				**958**				555
Total Disability Plan fair value investments				**7,089**				6,267
Total investments at fair value for the Plans	**$ 330,256**	**$1,470,101**	**$ 51,800**	**$2,579,663**	$ 385,968	$1,285,537	$ 51,000	$2,250,994

The following table summarizes changes in the Plan's Level 3 assets as of December 31, 2021 and 2020.

(In thousands)	Level 3 Assets
	Pension
	Investment in Partnership
Balance at December 31, 2019	$ 54,000
Net realized and unrealized gains/(losses)	1,186
Dispositions/distribution	(5,034)
Investments / contributions	848
Balance at December 31, 2020	51,000
Net realized and unrealized gains/(losses)	(139)
Dispositions/distribution	(1,396)
Investments / contributions	2,335
Balance at December 31, 2021	**$ 51,800**

The following table shows quantitative information about unobservable inputs related to the Level 3 fair value measurements used to derive values at December 31, 2021 and 2020. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurements respectively.

(Dollars in thousands)

	December 31, 2021			
	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Type – Pension Plan				
Investment in partnership	$ 51,800	Income Approach –	Discount Rate	9.25%
		Discounted Cash Flow	Terminal Capitalization	8.25%
Total Pension Plan	$ 51,800			

	December 31, 2020			
	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Type – Pension Plan				
Investment in partnership	$ 51,000	Income Approach –	Discount Rate	9.25%
		Discounted Cash Flow	Terminal Capitalization	8.25%
Total Pension Plan	$ 51,000			

Certain assets are valued at NAV of units held and others are valued based on ownership interest, represented as a percentage of the fund's NAV. The NAV is used as a practical expedient to estimate fair value. The following table reflects key valuation information on investments measured at the NAV:

Investments Measured at the Net Asset Value at December 31, 2021

(Dollars in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Type – Pension Plan				
Senior loan fund	$ **78,250**	$ —	Monthly	20 days
Low-volatility equity fund	**83,204**	—	Daily/Monthly	30 days
International equities fund	**82,976**	—	Monthly	30 days
Master limited partnerships	**136,544**	—	Monthly	30 days
Multi-strategy hedge fund	**53,343**	—	Quarterly	90 days
Real estate fund - open end	**147,776**	—	Quarterly	30–60 days
Total Pension Plan	**626,519**	—		
Type – Health Plan				
Senior loan fund	**13,844**	—	Monthly	20 days
International equities fund	**21,332**	—	Monthly	30 days
Master limited partnerships	**23,174**	—	Monthly	30 days
Multi-strategy hedge fund	**11,831**	—	Quarterly	90 days
Real estate fund - open end	**13,936**	—	Quarterly	45 days
Total Health Plan	**89,387**	—		
Type – Life Plan				
International equities fund	**3,611**	—	Monthly	30 days
Master limited partnerships	**3,657**	—	Monthly	30 days
Real estate fund – open end	**3,374**	—	Quarterly	45 days
Total Life Plan	**10,642**	—		
Type – Disability Plan				
Master limited partnerships	**501**	—	Monthly	30 days
Real estate fund – open end	**457**	—	Quarterly	45 days
Total Disability Plan	**958**	—		
Total Plans	$ **727,506**	$ —		

Investments Measured at the Net Asset Value at December 31, 2020

(Dollars in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Type – Pension Plan				
Senior loan fund	$ 73,082	$ —	Monthly	20 days
Low-volatility equity fund	70,987	—	Daily/Monthly	30 days
International equities fund	76,160	—	Monthly	30 days
Master limited partnerships	79,958	—	Monthly	30 days
Multi-strategy hedge fund	47,106	—	Quarterly	90 days
Real estate fund - open end	103,570	—	Quarterly	30–60 days
Total Pension Plan	450,863	—		
Type – Health Plan				
Senior loan fund	12,930	—	Monthly	20 days
International equities fund	19,579	—	Monthly	30 days
Master limited partnerships	13,903	—	Monthly	30 days
Multi-strategy hedge fund	10,447	—	Quarterly	90 days
Real estate fund - open end	11,516	—	Quarterly	45 days
Total Health Plan	68,375	—		
Type – Life Plan				
International equities fund	3,315	—	Monthly	30 days
Master limited partnerships	2,593	—	Monthly	30 days
Real estate fund – open end	2,788	—	Quarterly	45 days
Total Life Plan	8,696	—		
Type – Disability Plan				
Master limited partnerships	271	—	Monthly	30 days
Real estate fund – open end	284	—	Quarterly	45 days
Total Disability Plan	555	—		
Total Plans	$ 528,489	$ —		

4. Disaggregation of Current Accounts Receivable and Accounts Payable

Accounts Receivable – Net customer accounts receivable as of January 31, 2022, included $64.2 million for unbilled revenue receivable and $274.6 million for billed utility services. Interest and other accounts receivable included $17.6 million for regulatory-related accounts receivable, and $66.4 million for other miscellaneous accounts receivable.

Net customer accounts receivable as of January 31, 2021, included $28.6 million for unbilled revenue receivable and $224.1 million for billed utility services. Interest and other accounts receivable included $17.0 million for regulatory-related accounts receivable, $0.1 million for interest receivable and $71.6 million for other miscellaneous accounts receivable.

Accounts Payable – At January 31, 2022, accounts payable and accrued liabilities included $287.6 million related to standard operating supplier and vendor accounts payable, including fuels payable; $46.9 million for employee-related accounts payable; $87.1 million for customer-related accounts payable; $31.9 million for STP-related accounts payable; and $73.4 million for other miscellaneous accounts payable and accrued liabilities.

At January 31, 2021, accounts payable and accrued liabilities included $238.8 million related to standard operating supplier and vendor accounts payable, including fuels payable; $64.0 million for employee-related accounts payable; $63.2 million for customer-related accounts payable; $52.5 million for STP-related accounts payable; and $51.9 million for other miscellaneous accounts payable and accrued liabilities.

5. Regulatory Assets

CPS Energy's Board of Trustees and City Council have approved various regulatory mechanisms and regulatory accounting to account for timing differences between the recognition of revenues and expenses for rate regulated entities. The following listing states the balances of the approved regulatory assets.

Debt Issuance Costs – Beginning in FY2014, with the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, CPS Energy adopted the use of regulatory accounting to account for debt issuance costs. Prior to FY2014, 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 establishes regulatory assets for the debt issuance costs that GASB Statement No. 65 would otherwise require be expensed. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt as the designated rate-recovery period. At January 31, 2022 and 2021, debt issuance costs to be recovered in future years was $37.2 million and $37.8 million, respectively. See Note 8 – Revenue Bonds for additional information.

Fuel Costs Recoverable – In FY2022, the City approved the use of regulatory accounting related to the fuel expenses that were incurred as a result of Winter Storm Uri in February 2021 that severely impacted the CPS Energy service area. CPS Energy incurred unprecedented costs associated with the winter storm that included purchases of natural gas and purchased power, along with financing costs to cover short-term liquidity needs, and legal costs for ongoing legal disputes over excessive amounts invoiced by gas suppliers. On January 13, 2022, the City approved the ordinance that established a rate-supported regulatory asset for the winter storm costs incurred and recovery of paid fuel costs totaling $418.0 million to be recovered over a 25-year period, commencing in March 2022. Recovery of additional amounts for costs included in the regulatory asset must be approved by CPS Energy's Board of Trustees and the City Council. At January 31, 2022, fuel costs to be recovered in future years totaled $789.7 million with no amounts for FY2021.

Pension Benefits – The Company also elected to use regulatory accounting in conjunction with the implementation of GASB Statement No. 68 in FY2015, which required 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 required a charge to net position (equity) for the net effect of the restatements required to recognize the net pension liability. CPS Energy elected to use regulatory accounting, as allowed under GASB Statement No. 62, to create a regulatory asset representing the net effect of the prior period restatements, which totaled $266.5 million and is being amortized over a rate-recovery period of 50 years. The amortization expense was $5.3 million for FY2022 and FY2021 and is included in annual OPEB and pension expense on the Statements of Revenues, Expenses and Changes in Net Position. At January 31, 2022 and 2021, pension benefit costs to be recovered in future years was $223.8 million and $229.1 million, respectively. See Note 11 – Employee Pension Plan for additional information.

STEP Net Costs Recoverable – In FY2009, CPS Energy was authorized by City ordinance to spend up to $849 million to save 771 MW of customer demand through energy efficiency and conservation programs by calendar 2020. As of January 31, 2020, CPS Energy had achieved its original goal by reducing demand by 825 MW and below budget. Due to the success of the STEP program , in January 2020, the City authorized continuation of the program through January 31, 2021. In January 2021, the City Council approved an additional extension of the program until July 2022 to allow for additional time to recover from COVID-19 related program impacts. Annually, approximately $9.3 million of STEP expenses are funded through the base rate and reported as O&M expenses and amount in excess of this initial amount per year are recovered through the fuel adjustment factor over a period of 12 months, or longer for certain STEP expenses, 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 and reflected as other noncurrent assets on the Statements of Net Position and costs incurred are reflected as STEP net costs recoverable in the Statements of Revenues, Expenses, and Changes in Net Position. At January 31, 2022 and 2021, STEP costs to be recovered within a year were $18.8 million and $26.5 million, respectively. At January 31, 2022 and 2021, STEP costs classified as noncurrent were $49.0 million and $48.2 million, respectively

6. 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 17 generating units at these four power stations, two of which are coal-fired and 15 of which are gas-fired. CPS Energy also has two solar generating units, one which also includes battery storage. Excluding STP (nuclear units), the following is a list of power stations and their respective generating units as of January 31, 2022:

Power Station	Generating Units	Type
Calaveras	4	Coal (2)/Gas (2)
Braunig	8	Gas
Leon Creek	4	Gas
Rio Nogales	1	Gas
Commerce	1	Solar/Battery Storage
Community	1	Solar

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 two data centers; the McCullough headquarters campus; the construction and customer service centers; and a fleet of automobiles, trucks and work equipment.

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

In conjunction with the Rio Nogales plant 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 the exemption of ad valorem taxes involving the parties to this agreement. The payment was recorded as an intangible asset that is being amortized over the life of the agreement, which runs through December 2041.

In July 2019, CPS Energy executed a Bill of Sale with the Department of Defense ("DOD") for $87.1 million for the electric and gas systems at three JBSA installations: JBSA Randolph, JBSA Lackland and JBSA Lackland Training Annex. In addition to the fixed assets acquired, deferred inflows for the unrealized future recoveries associated with the JBSA agreement were recorded at the time of the purchase which are being amortized over the 50-year Utilities Privatization Contract that covers the JBSA systems.

As part of normal operations, CPS Energy evaluates whether surplus property exists within the capital asset portfolio and whether such property should be sold or reported as held for sale.

During FY2022, CPS Energy sold several surplus properties, which consisted of the Navarro Building, the former Northside Customer Service Center, the former Main Office building and garage and adjacent parking lots. The properties sold had a combined sales price of $50.8 million. Meanwhile, total remaining properties that were classified as held for sale had a balance of $0.2 million at January 31, 2022 and $45.6 million as of January 31, 2021.

Impairments – There were no capital asset impairments identified for FY2022 and FY2021.

Investment in STP Units 1 and 2 – STP is currently a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by STPNOC, 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 15 – South Texas Project.

STP Capital Investment

(Dollars in thousands)

	January 31, 2022	January 31, 2021
STP capital assets, net		
Land	**$ 5,701**	$ 5,701
Construction-in-progress	**8,622**	6,364
Electric and general plant	**828,586**	841,756
Intangibles	**9,879**	9,879
Nuclear fuel	**114,310**	122,023
Total STP capital assets, net	**$ 967,098**	$ 985,723
Total CPS Energy capital assets, net	**$ 8,908,861**	$ 8,680,882
STP capital investment as a percentage of total CPS Energy capital assets, net	**10.9 %**	11.4 %

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 FY2022 and FY2021:

FY2022 Capital Asset Rollforward

(In thousands)

	February 1, 2021	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	**January 31, 2022**
Nondepreciable assets					
Land	$ 105,393	$ (2)	$ 6,860	$ 572	**$ 112,823**
Land easements	107,718	—	24	(977)	**106,765**
Construction-in-progress	497,379	559,817	(337,209)	—	**719,987**
Total nondepreciable assets	710,490	559,815	(330,325)	(405)	**939,575**
Depreciable/amortizable assets					
Electric plant	11,967,451	63,384	222,483	(33,168)	**12,220,150**
Gas plant	1,143,051	18,372	52,070	(1,117)	**1,212,376**
General plant	823,886	9,012	41,807	(41,334)	**833,371**
Intangibles					
Software	249,080	—	13,967	(7,251)	**255,796**
Other	38,572	—	—	—	**38,572**
Leases	5,131	—	—	—	**5,131**
Nuclear fuel	1,112,466	38,589	—	—	**1,151,055**
Total depreciable/ amortizable assets	15,339,637	129,357	330,327	(82,870)	**15,716,451**
Accumulated depreciation and amortization					
Electric plant	(5,593,102)	(347,219)	—	45,003	**(5,895,318)**
Gas plant	(440,921)	(26,050)	—	3,021	**(463,950)**
General plant	(245,545)	(45,225)	—	52,502	**(238,268)**
Intangibles					
Software	(82,340)	(25,749)	—	7,251	**(100,838)**
Other	(12,436)	2,007	—	—	**(10,429)**
Leases	(800)	(818)	—	—	**(1,618)**
Nuclear fuel	(990,443)	(46,302)	—	—	**(1,036,745)**
Total accumulated depreciation and amortization	(7,365,587)	(489,355)	—	107,777	**(7,747,165)**
Capital assets, net	$ 8,684,540	$ 199,817	$ 2	$ 24,502	**$ 8,908,861**

Cash flow information – Cash paid for additions and net removal costs totaled $610.5 million. This amount includes $641.4 million in additions to construction-in-progress and electric, gas and general plant, partially offset by net salvage and removal costs of $21.3 million and $9.6 million in donated assets.

Depreciation and amortization expense for the period totaled $443.1 million, while amortization of nuclear fuel of $46.3 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

FY2021 Capital Asset Rollforward

(In thousands)

	February 1, 2020	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	January 31, 2021
Nondepreciable assets					
Land	$ 104,517	$ 28	$ 848	$ —	$ 105,393
Land easements	107,520	—	198	—	107,718
Construction-in-progress	702,054	551,890	(756,565)	—	497,379
Total nondepreciable assets	914,091	551,918	(755,519)	—	710,490
Depreciable/amortizable assets					
Electric plant	11,526,076	54,967	481,064	(94,656)	11,967,451
Gas plant	1,087,227	12,444	44,399	(1,019)	1,143,051
General plant	706,557	3,412	148,147	(34,230)	823,886
Intangibles					
Software	281,522	—	705	(33,147)	249,080
Other	38,572	—	—	—	38,572
Leases	—	1,397	—	—	1,397
Nuclear fuel	1,077,859	34,607	—	—	1,112,466
Total depreciable/amortizable assets	14,717,813	106,827	674,315	(163,052)	15,335,903
Accumulated depreciation and amortization					
Electric plant	(5,366,021)	(334,615)	—	107,534	(5,593,102)
Gas plant	(417,007)	(24,827)	—	913	(440,921)
General plant	(269,674)	(44,600)	35,650	33,079	(245,545)
Intangibles					
Software	(87,326)	(28,161)	—	33,147	(82,340)
Other	(8,390)	(3,895)	—	(151)	(12,436)
Leases	—	(724)	—	—	(724)
Nuclear fuel	(941,286)	(49,157)	—	—	(990,443)
Total accumulated depreciation and amortization	(7,089,704)	(485,979)	35,650	174,522	(7,365,511)
Capital assets, net	$ 8,542,200	$ 172,766	$ (45,554)	$ 11,470	$ 8,680,882

Cash flow information – Cash paid for additions and net removal costs totaled $617.3 million. This amount includes $620.7 million in additions to construction-in-progress and electric, gas and general plant, plus net salvage and removal costs of $13.5 million, partially offset by $9.1 million in AFUDC and $7.8 million in donated assets.

Depreciation and amortization expense for the period totaled $437.5 million, while amortization of nuclear fuel of $49.2 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

7. Revenue Bond and Commercial Paper Ordinances Requirements

Senior Lien – As of January 31, 2022, the bond ordinances for New Series Bonds 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 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 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 senior lien 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 senior lien 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 inferior lien obligations or any other legal debt or obligation of the Systems as and when the same shall become due.

Commercial Paper – As of January 31, 2022, the commercial paper ordinances contain, among others, the following provisions: authorized capacity of $700 million, ability to issue tax-exempt or taxable commercial paper, ability to issue multiple series notes and final maturity on April 11, 2049.

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;
- Amounts held in funds used specifically for payment of commercial paper principal and interest balances and unspent proceeds from commercial paper; and
- The net revenues of the Systems, after payment on New Series Bond requirements and prior lien bond obligations.

CPS Energy's outstanding debt agreements specify certain events of default or breach of a financial covenant or failure to make debt service. Such an event would trigger a covenant requiring the City to charge rates sufficient to make debt service payments and satisfy debt service coverage. During the years ended January 31, 2022 and 2021, CPS Energy did not default on any terms of its debt agreements.

8. Revenue Bonds

On November 5, 2020, CPS Energy issued $418.3 million of Taxable New Series 2020 Revenue Refunding Bonds. Bond proceeds were used to refund $375.0 million par value of the 2013 Junior Lien Revenue Bonds. The refunding transaction resulted in net present value debt service savings of $86.0 million, or 22.9%, of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in 2034 through 2048, is 2.9%.

On December 1, 2020, CPS Energy remarketed $99.5 million of the Series 2015D Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of the $1.0 million premium, in conjunction with the remarketing, resulted in a principal paydown of the remarketed bonds of approximately $0.5 million. The bonds have maturities in 2038 through 2045. The coupon rate for these bonds is 1.125%, with a current yield of 0.95% and true interest cost of 4.7%, which reflects stepped interest rate provisions applicable to the bonds.

On April 8, 2021, CPS Energy issued $330.7 million of Taxable 2021A Junior Lien Revenue Refunding Bonds. Bond proceeds, including the $91.6 million premium associated with the bonds, were used to refund $305.0 million, $60.0 million, and $55.0 million par value of the Commercial Paper Series A, Series B, and Series C, respectively. The true interest cost for this issue, which has maturities in 2031 through 2049, is 3.1%.

On December 1, 2021, CPS Energy remarketed $104.2 million of the Series 2015B Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of the $19.7 million premium, in conjunction with the remarketing, resulted in a principal paydown of the remarketed bonds of approximately $19.1 million. The bonds were converted from junior lien variable interest rate, to a junior lien fixed interest rate. The true interest cost for this issue, which has maturities in FY2029 through FY2033, is 1.4%.

Revenue Bond Summary

(Dollars in thousands)

	Issues	Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2022	January 31, 2022	January 31, 2021
Tax-exempt new series bonds	2012, 2015, 2016, 2017 2018, 2018A, 2019, and 2020	2023-2049	4.0%	**$ 2,224,595**	$ 2,389,090
Taxable new series bonds	2009C[1], 2010A[1], 2012 and 2020	2031-2048	3.7%	**1,477,480**	1,477,480
Total new series bonds			3.8%	**3,702,075**	3,866,570
Taxable series bonds	2010A[1]	2038-2041	3.8%	**300,000**	300,000
Tax-exempt variable-rate series bonds	2015A, 2015C, 2015D, 2018, 2020	2029-2049	1.9%	**586,035**	709,310
Tax-exempt series bonds	2014, 2015B, 2019,	2026-2049	3.9%	**887,490**	452,640
Total series bonds			3.9%	**1,773,525**	1,461,950
Total long-term revenue bonds				**5,475,600**	5,328,520
Less: Current maturities of bonds				**169,790**	164,495
Total revenue bonds outstanding, net of current maturities				**$ 5,305,810**	$ 5,164,025

[1]Direct Subsidy Build America Bonds

Build America Bonds Direct Subsidy – The 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 has reduced the BABs subsidy through sequestration reduction. For the years ended January 31, 2022, and January 31, 2021, the total subsidy recorded for the 2009C and 2010A Senior Lien BABs and the 2010A Junior Lien BABs was $18.4 million, which included a reduction totaling $1.1 million.

As of January 31, 2022, principal and interest amounts due for all revenue bonds outstanding for each of the next five years and thereafter to maturity are as follows:

(In thousands)

Fiscal Year	Principal	Interest	Direct Subsidy	Total
2023	$ 169,790	$ 243,044	$ (18,443)	$ 394,391
2024	172,780	240,877	(18,443)	395,214
2025	180,880	233,960	(18,443)	396,397
2026	152,730	235,527	(18,443)	369,814
2027	180,220	234,663	(18,443)	396,440
2028-2032	950,800	1,073,378	(93,885)	1,930,293
2033-2037	1,265,894	819,416	(85,251)	2,000,059
2038-2042	1,440,088	470,103	(28,749)	1,881,442
2043-2047	794,703	171,686	—	966,389
2048-2049	167,715	12,583	—	180,298
Totals	$ 5,475,600	$ 3,735,237	$ (300,100)	$ 8,910,737

The previous 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 and includes the impact of sequestration.

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 2015A Junior Lien Bonds were issued as multi-modal variable-rate bonds. The bonds were remarketed in FY2020 and utilize an interest rate of 1.75% through their term rate period's expiration in FY2025. A stepped rate of 7.0% is assumed in the previous table for this series thereafter through applicable final maturity.

The Series 2015C and Series 2015D Junior Lien Bonds were issued as multi-modal variable-rate bonds. The Series 2015C Junior Lien Bonds were remarketed in FY2020 and utilize an interest rate of 1.75% through their term rate period's expiration in FY2025. A stepped rate of 7.0% is assumed in the previous table for this series thereafter through applicable final maturity. The Series 2015D Junior Lien Bonds were remarketed in FY2021 and utilize an interest rate of 1.125% through their term rate period's expiration in FY2027. A stepped rate of 7.0% is assumed in the previous table for this series thereafter through applicable final maturity.

The Series 2018 Junior Lien Bonds were issued as multi-modal variable-rate bonds that utilize an interest rate of 2.75% through their term rate period's expiration in FY2023. A stepped rate of 8.0% is assumed in the previous table 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 2020 Junior Lien Bonds were issued as multi-modal variable-rate bonds that utilize an interest rate of 1.75% through their term rate period's expiration in FY2026. A stepped rate of 7.0% is assumed in the previous table 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.

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. The debt refundings that occurred in FY2022 and FY2021 resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $(2.0) million and $22.5 million, respectively. Debt reacquisition costs reported as deferred outflows of resources totaled $58.9 million at January 31, 2022, and $71.5 million at January 31, 2021. These amounts are amortized as components of interest expense using the effective interest method over the shorter of the remaining life of the refunding or the refunded 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 $37.2 million at January 31, 2022, and $37.8 million at January 31, 2021.

FY2022 Long-Term Debt Activity

(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding 02-01-2021	Additions During Year	Decreases During Year	**Balance Outstanding 01-31-2022**
Revenue and refunding bonds							
2009C taxable	$ 375,000	2039	6.051	$ 375,000	$ —	$ —	**$ 375,000**
2010A taxable	380,000	2041	3.834	280,000	—	—	**280,000**
2010A taxable – Junior Lien	300,000	2041	3.399	300,000	—	—	**300,000**
2012 taxable	521,000	2042	4.382	404,225	—	—	**404,225**
2012 tax-exempt	655,370	2025	2.552	579,615	—	(135,305)	**444,310**
2014 tax-exempt – Junior Lien	200,000	2044	4.142	200,000	—	—	**200,000**
2015A tax-exempt – Junior Lien	125,000	2033	Variable	124,205	—	—	**124,205**
2015B tax-exempt – Junior Lien	125,000	2033	1.4277	123,275	104,150	(123,275)	**104,150**
2015 tax-exempt	320,530	2032	2.992	237,700	—	—	**237,700**
2015 tax-exempt	235,000	2039	3.476	235,000	—	—	**235,000**
2015C tax-exempt – Junior Lien	100,000	2045	Variable	99,740	—	—	**99,740**
2015D tax-exempt – Junior Lien	100,000	2046	Variable	99,450	—	—	**99,450**
2016 tax-exempt	544,260	2034	2.144	372,565	—	(29,190)	**343,375**
2017 tax-exempt	267,320	2047	3.804	267,320	—	—	**267,320**
2017 tax-exempt	194,980	2047	3.619	194,980	—	—	**194,980**
2018 tax-exempt	218,285	2028	2.745	122,425	—	—	**122,425**
2018A tax-exempt	130,220	2048	3.654	130,220	—	—	**130,220**
2018 tax-exempt – Junior Lien	134,870	2048	Variable	134,870	—	—	**134,870**
2019 tax-exempt	114,685	2030	1.462	114,685	—	—	**114,685**
2019 tax-exempt – Junior Lien	252,640	2041	2.885	252,640	—	—	**252,640**
2020 tax-exempt	134,580	2049	3.132	134,580	—	—	**134,580**
2020 tax-exempt – Junior Lien	127,770	2049	Variable	127,770	—	—	**127,770**
2020 taxable	418,255	2048	2.8636	418,255	—	—	**418,255**
2021A tax-exempt - Junior Lien	330,700	2049	3.1389	—	330,700	—	**330,700**
Bonds outstanding				5,328,520	434,850	(287,770)	**5,475,600**
Current maturities				(164,495)	(5,295)	—	**(169,790)**
(Discount) premium				335,654	111,257	(45,444)	**401,467**
Revenue bonds, net				5,499,679	540,812	(333,214)	**5,707,277**
Commercial paper, taxable and tax-exempt			Variable	420,000	660,000	(420,000)	**660,000**
Long-term debt, net				$ 5,919,679	$ 1,200,812	$ (753,214)	**$ 6,367,277**

FY2021 Long-Term Debt Activity

(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding 02-01-2020	Additions During Year	Decreases During Year	Balance Outstanding 01-31-2021
Revenue and refunding bonds							
2009C taxable	$ 375,000	2039	6.051	$ 375,000	$ —	$ —	$ 375,000
2010A taxable	380,000	2041	3.834	280,000	—	—	280,000
2010A taxable – Junior Lien	300,000	2041	3.399	300,000	—	—	300,000
2012 taxable	521,000	2042	4.382	404,225	—	—	404,225
2012 tax-exempt	655,370	2025	2.552	655,370	—	(75,755)	579,615
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
2015A tax-exempt – Junior Lien	125,000	2033	Variable	124,205	—	—	124,205
2015B tax-exempt – Junior Lien	125,000	2033	Variable	123,275	—	—	123,275
2015 tax-exempt	320,530	2032	2.992	237,700	—	—	237,700
2015 tax-exempt	235,000	2039	3.476	235,000	—	—	235,000
2015C tax-exempt – Junior Lien	100,000	2045	Variable	99,740	—	—	99,740
2015D tax-exempt – Junior Lien	100,000	2046	Variable	100,000	99,450	(100,000)	99,450
2016 tax-exempt	544,260	2034	2.144	411,140	—	(38,575)	372,565
2017 tax-exempt	40,685	2047	1.126	120	—	(120)	—
2017 tax-exempt	267,320	2047	3.804	267,320	—	—	267,320
2017 tax-exempt	194,980	2047	3.619	194,980	—	—	194,980
2018 tax-exempt	218,285	2028	2.745	169,135	—	(46,710)	122,425
2018A tax-exempt	130,220	2048	3.654	130,220	—	—	130,220
2018 tax-exempt – Junior Lien	134,870	2048	Variable	134,870	—	—	134,870
2019 tax-exempt	114,685	2030	1.462	114,685	—	—	114,685
2019 tax-exempt – Junior Lien	252,640	2041	2.885	252,640	—	—	252,640
2020 tax-exempt	134,580	2049	3.132	134,580	—	—	134,580
2020 tax-exempt – Junior Lien	127,770	2049	Variable	127,770	—	—	127,770
2020 taxable	418,255	2048	2.864	—	418,255	—	418,255
Bonds outstanding				5,446,975	517,705	(636,160)	5,328,520
Current maturities				(161,160)	(3,335)	—	(164,495)
(Discount) premium				396,025	1,012	(61,384)	335,654
Revenue bonds, net				5,681,840	515,382	(697,544)	5,499,679
Commercial paper, tax-exempt			Variable	95,000	325,000	—	420,000
Long-term debt, net				$ 5,776,840	$ 840,382	$ (697,544)	$ 5,919,679

9. 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 $700 million to the extent of support from liquidity facilities. As of January 31, 2022, there was a total of $700 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 April 11, 2049.

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 in the amount specified. The Series A agreement provides $400 million in liquidity support for the Series A Notes and is effective through June 21, 2026. The Series B agreement provides $200 million in liquidity support for the Series B Notes and the Series C agreement provides $100 million in liquidity support for Series C Notes. The Series B and Series C agreements are both effective through June 21, 2022. Under the terms of these revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed $700 million for the purpose of paying principal due under the commercial paper program. At January 31, 2022, there was no amount outstanding under the revolving credit agreements. Further, there have been no borrowings under the agreements since inception of the program.

During FY2022, CPS Energy issued a total of $660.0 million in commercial paper. At January 31, 2022, the outstanding commercial paper balance was $660.0 million, of which $410.0 million was issued as tax-exempt to fund construction and $250.0 million was issued as taxable to fund fuel costs.

Commercial Paper Summary

(Dollars in thousands)

	January 31,	
	2022	2021
Commercial paper outstanding	**$ 660,000**	$ 420,000
New commercial paper issues	**$ 660,000**	$ 325,000
Weighted-average interest rate of outstanding	**0.1%**	0.1%
Average life outstanding (number of days)	**31**	19

10. Flexible Rate Revolving Notes

In FY2010, the San Antonio City Council adopted an ordinance authorizing the establishment of the FRRN Private Placement Program ("Series A Flex Notes"), under which CPS Energy may issue taxable or tax exempt notes, bearing interest at fixed or variable rates. 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 electric and gas systems ("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. The note purchase agreement that was entered into in FY2019, under the program, was not renewed and terminated in calendar 2019. On May 27, 2020, the Board authorized for CPS Energy to enter into a new FRRN note purchase agreement not to exceed $100 million.

Additionally, on March 18, 2021, the City Council and the Board approved a second FRRN program ("Series B Flex Notes") with an additional $500 million in capacity to provide assurance of sufficient liquidity to address the costs incurred related to Winter Storm Uri.

On February 26, 2021, CPS Energy issued a $100.0 million taxable Series A Flex Rate Note, with JPMorgan Chase Bank, National Association, as the note purchaser under this program, by contractual agreement in effect through February 26, 2022. On February 26, 2021, proceeds from the note were used to pay purchased power costs and conceded natural gas costs.

The Series A Flex Note 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. The outstanding notes under this agreement, are secured by proceeds of the sale of the Systems' revenue, the amounts held from time to time in the Program Note Security Fund, and a lien on and pledge of the net revenues not to exceed $0.1 million. The outstanding Series A Flex Rate Notes balance at January 31, 2022, was $100.0 million. There was no balance outstanding under this program at January 31, 2021. The current taxable Note Purchase Agreement will expire on February 26, 2022, but through an annual renewal process may be extended through November 1, 2028.

On April 27, 2021, the City entered into a note purchase agreement under the Series B Flex Notes program, with JPMorgan Chase Bank, National Association, Wells Fargo Bank, National Association, and Frost Bank as the note purchasers by contractual agreement in effect through April 26, 2023, with the approval of $500 million in additional capacity.

When issued, Series B Flex Notes will be classified as long-term in accordance with the financing terms under the Note Purchase Agreement. Any outstanding notes under Series B Flex Note will be secured by a lien on and pledge of the net revenues of the Systems and the proceeds of sale. There are no Series B Flex Notes outstanding at January 31, 2022. There was no balance outstanding under this program at January 31, 2021. The current taxable Note Purchase Agreement will expire on April 26, 2023, but through a renewal process may be extended through April 1, 2031.

11. Employee Pension Plan

Plan Description – The CPS Energy Pension Plan (the "Pension 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 Employee Benefits Oversight Committee ("EBOC"), which includes the President & CEO, the Chief Financial Officer, and the Audit & Finance Committee of the Board. Pension Plan assets are segregated from CPS Energy's assets and are separately managed by the Administrative Committee, whose members are appointed by the EBOC. The Pension 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 Pension 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 Pension Plan and CPS Energy are not aligned, the Pension Plan's disclosures will vary from information provided by CPS Energy in this footnote and in the accompanying RSI. The Pension Plan, along with the Employee Benefit Plans are included in the fiduciary financial statements.

In addition to the defined-benefit Pension Plan, CPS Energy has two Restoration Plans that were effective as of January 1, 1998, which supplement benefits paid from the Pension 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.

Benefits Provided – Participants become fully vested in the benefits of the Pension 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. Pension 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 Pension Plan participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate the net pension liability, as of the measurement dates, for the fiscal years ended January 31, 2022 and 2021, were:

	January 31,	
	2022	2021
Active participants	**2,929**	2,983
Participants currently receiving benefits	**2,525**	2,450
Participants entitled to deferred benefits	**234**	218
Total plan participants	**5,688**	5,651

Contributions – The current policy of CPS Energy is to use an actuarial valuation as the basis for determining employer contributions to the Pension Plan during the fiscal year beginning thirteen months after the valuation date.

The January 1, 2020, valuation is the basis for contributions in FY2022. 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 Pension Plan, plus the vested portion of accumulated interest. Beginning January 1, 2015, through December 31, 2017, the employee contribution interest crediting rate was 5.50%. Beginning January 1, 2018, the employee contribution interest crediting rate was 5.25%.

The balance of Pension 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 FY2022 and FY2021, the amount to be funded was established using a general target near the 30-year layered amortization funding contribution level as determined by the Pension Plan's actuary using the entry-age normal cost method.

Net Pension Liability – CPS Energy's net pension liability at January 31, 2022 and 2021, was measured as of January 31, 2021 and 2020, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2020 and 2019, rolled forward using generally accepted actuarial procedures to the January 31, 2021 and 2020, measurement dates, respectively.

Changes in Net Pension Liability

(In thousands)

	Fiscal Year Ended January 31,	
	2022	2021
Total pension liability		
Service cost	**$ 35,403**	$ 36,861
Interest cost	**148,068**	143,079
Changes in assumptions	**28,832**	(4,940)
Differences between expected and actual experience	**(846)**	(2,685)
Benefit payments	**(106,825)**	(101,037)
Net change in total pension liability	**104,632**	71,278
Total pension liability, beginning of period	**2,060,241**	1,988,963
Total pension liability, end of period	**2,164,873**	2,060,241
Plan fiduciary net position		
Employer contributions	**(56,025)**	(73,435)
Participant contributions	**(13,890)**	(14,758)
(Earnings) loss on Plan assets	**(187,600)**	(169,004)
Benefit payments	**106,825**	101,037
Administrative expenses	**510**	476
Net change in Plan fiduciary net position	**(150,180)**	(155,684)
Plan fiduciary net position, beginning of period	**(1,766,519)**	(1,610,835)
Plan fiduciary net position, end of period	**(1,916,699)**	(1,766,519)
Net pension liability, end of period	**$ 248,174**	$ 293,722

CPS Energy recorded $15.7 million and $56.6 million in pension expense for the fiscal years ended January 31, 2022 and 2021, respectively.

Actuarial Assumptions – Significant actuarial assumptions used in the January 1, 2020, valuation include a rate of return on the investment of present and future assets of 7.00%, a discount rate on Pension Plan liabilities of 7.00%, annual projected salary increases averaging 5.54% per year and annual post-retirement cost-of-living increases of

1.25%. The projected salary increases include an inflation rate of 2.20%. Mortality rates were based on the Pri-2012 Employee / Retiree Mortality Tables (separate tables for males/females) projected with Mortality Improvement Scale MP-2019. Separate tables are used for disabled participants and contingent annuitants.

The actuarial assumptions used in the January 1, 2020, valuation for amounts reported in FY2022, were based on the results of an actuarial experience study completed in 2020 covering experience for the period January 1, 2017, through December 31, 2019.

Significant actuarial assumptions used in the January 1, 2019, valuation include a rate of return on the investment of present and future assets of 7.25%, a discount rate on Pension Plan liabilities of 7.25%, annual projected salary increases averaging 5.36% per year and annual post-retirement cost-of-living increases of 1.5%. The projected salary increases include an inflation rate of 3.00%. Mortality rates were based on the RP-2014 Mortality Table (separate tables for males/females) adjusted backwards to 2006 with Mortality Improvement Scale MP-2014 and projected with Mortality Improvement Scale MP-2018.

The actuarial assumptions used in the January 1, 2019, valuation for amounts reported in FY2021, were based on the results of an actuarial experience study completed in 2017 covering experience for the period January 1, 2012, through December 31, 2016.

The long-term expected rate of return on Pension 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 Pension 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 a long-term expected real rate of return for each major asset class.

The assumed asset allocation and expected real rate of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Expected Real Rate of Return
Equities	52.5%	4.3%
Debt securities	25.5%	1.9%
Alternative investments	22.0%	4.1%
Total investments	100.0%	

Discount Rate – The discount rate used to measure the total pension liability for FY2022 was 7.00%, which was lowered from 7.25% for FY2021, to more closely reflect actual experience based on the actuarial experience study that was completed in 2020. The projection of cash flows used to determine the discount rates 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 Pension 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 Pension 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)

Discount Rate		Net Pension Liability at January 31, 2022
1% decrease - 6.00%	$	**520,067**
Current discount rate - 7.00%		**248,174**
1% increase - 8.00%		**20,913**

Discount Rate		Net Pension Liability at January 31, 2021
1% decrease - 6.25%	$	555,213
Current discount rate - 7.25%		293,722
1% increase - 8.25%		75,747

Pension Plan Fiduciary Net Position – The financial results of the Pension Plan are included, in combination with the Employee Benefit Plans, in the Statements of Fiduciary Net Position. Detailed information about the Pension Plan's fiduciary net position is available in the separately issued Pension Plan financial statements. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position for the Pension Plan and additions to/ deductions from the Pension Plan's fiduciary net position have been determined on the same basis as they are reported by the Pension Plan. Investments are stated at fair value. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the terms of the Pension 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, 2022 and 2021:

(In thousands)	January 31,	
	2022	2021
Deferred outflows of resources		
Changes in assumptions	**$ 57,107**	$ 49,799
Differences between expected and actual experience in the measurement of total pension liability	**5,395**	9,069
Employer's contributions to the Plan subsequent to the measurement of total pension liability	**62,101**	56,025
Total deferred outflows of resources	**$ 124,603**	$ 114,893
Deferred inflows of resources		
Differences between projected and actual earnings on pension assets	**$ (40,013)**	$ (17,735)
Changes in assumptions	**(8,189)**	(10,761)
Differences between expected and actual experience in the measurement of total pension liability	**(17,226)**	(28,056)
Total deferred inflows of resources	**$ (65,428)**	$ (56,552)

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 Pension 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,	
2023	$ (5,758)
2024	18,953
2025	(11,471)
2026	(8,510)
2027	3,860
Total	$ (2,926)

12. Other Postemployment Benefits

Plan Descriptions – The Company provides certain health and welfare benefits for active and retired employees through the CPS Energy Group Health, Group Life Insurance and Long-Term Disability Income Plans (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:

- CPS Energy Group Health Plan ("Health Plan") – a defined-benefit contributory group health plan that provides health, dental and vision insurance benefits;

- CPS Energy Group Life Insurance Plan ("Life Plan") – a defined-benefit contributory plan that provides life insurance benefits; and
- 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 the EBOC, which includes the President & CEO, the Chief Financial Officer, and the Audit & Finance 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 EBOC. The Employee Benefit 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 Employee Benefit Plans' financial statements include certain disclosures related to CPS Energy's net OPEB (asset) liability. However, because the financial reporting and OPEB measurement dates for the Employee Benefit Plans and CPS Energy are not aligned, the Employee Benefit Plans' disclosures will vary from information provided by CPS Energy in this footnote and in the accompanying RSI. The Employee Benefit Plans along with the Pension Plan are included in the fiduciary financial statements.

Benefits Provided – The Health Plan provides health, dental and vision benefits to eligible retirees, including their enrolled dependents, and the spouse and dependent children of deceased employees. The Life Plan provides life insurance benefits and death benefits to eligible retired employees and enrolled dependents. The Disability Plan provides disability income benefits to employees as of an employee's date of hire; however, benefits under the Plan are reduced if the employee is receiving certain other disability, retirement or welfare benefits.

The following tables present information about the Employee Benefit Plans' participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate the net OPEB liability, as of the measurement dates, for the fiscal years ended January 31, 2022 and 2021, were:

	January 31, 2022		
	Health	**Life**	**Disability**
Active participants	**2,900**	**2,900**	**3,000**
Inactive participants receiving benefits	**1,927**	**2,438**	**75**
Inactive participants with deferred benefits	**—**	**—**	**—**
Total plan participants	**4,827**	**5,338**	**3,075**

	January 31, 2021		
	Health	Life	Disability
Active participants	**2,929**	**2,929**	**2,999**
Inactive participants receiving benefits	**1,928**	**2,383**	**71**
Inactive participants with deferred benefits	**—**	**—**	**—**
Total plan participants	**4,857**	**5,312**	**3,070**

Contributions – The funding requirements for both the Plans' 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 Employee Benefit Plans during the fiscal year beginning thirteen months after the valuation date. The January 1, 2020, valuation was the basis for contributions in FY2022.

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 retired with less than 35 years. Based on the funded status of the Health Plan, the Company made no contributions in FY2022 and FY2021.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, known as Medicare Part D, established prescription drug coverage for Medicare beneficiaries. 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 and $0.8 million for FY2022 and FY2021, respectively. 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. Individuals 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 retired with less than 35 years. Based on the funded status of the Life Plan, the Company made no contributions in FY2022 and FY2021.

Beginning in FY2015, the Disability Plan has been 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 are not eligible to participate and therefore do not contribute to the Disability Plan. Prior to FY2015, the Disability Plan was funded completely by CPS Energy. The Company's average contribution rate was 0.3% of covered-employee payroll in FY2022 and FY2021, respectively.

Net OPEB (Asset) Liability – CPS Energy's net OPEB (asset) liability at January 31, 2022 and 2021, was measured as of January 31, 2021 and 2020, respectively. The total OPEB liability used to calculate the net OPEB (asset) liability was determined by actuarial valuations as of January 1, 2020 and 2019, rolled forward using generally accepted actuarial procedures to the January 31, 2021 and 2020, measurement dates, respectively. At January 31, 2022 and 2021, the net OPEB asset was $54.9 million and $41.0 million, respectively, and is reflected as part of the Other noncurrent assets on the Statements of Net Position.

FY2022 Changes in Net OPEB (Asset) Liability

(In thousands)

	Health	Life	Disability	**Total**
Total OPEB liability				
Service cost	$ 3,772	$ 517	$ 557	**$ 4,846**
Interest cost	17,089	3,400	384	**20,873**
Changes in assumptions	(5,962)	4,044	1,993	**75**
Differences between expected and actual experience	(11,592)	4,766	(156)	**(6,982)**
Benefit payments	(13,398)	(3,987)	(1,142)	**(18,527)**
Net change in total OPEB liability	(10,091)	8,740	1,636	**285**
Total OPEB liability, beginning of period	250,115	47,260	5,457	**302,832**
Total OPEB liability, end of period	240,024	56,000	7,093	**303,117**
Plan fiduciary net position				
Employer contributions	—	—	(614)	**(614)**
Participant contributions	—	(1,077)	(276)	**(1,353)**
Medicare Part D payment	(924)	—	—	**(924)**
(Earnings) loss on Plan assets	(26,613)	(4,031)	(539)	**(31,183)**
Benefit payments	13,398	3,987	1,142	**18,527**
Administrative expense	1,297	25	21	**1,343**
Net change in Plan fiduciary net position	(12,842)	(1,096)	(266)	**(14,204)**
Plan fiduciary net position, beginning of period	(284,986)	(52,590)	(6,238)	**(343,814)**
Plan fiduciary net position, end of period	(297,828)	(53,686)	(6,504)	**(358,018)**
Net OPEB (asset) liability, end of period	$ (57,804)	$ 2,314	$ 589	**$ (54,901)**

FY2021 Changes in Net OPEB (Asset) Liability

(In thousands)

	Health	Life	Disability	Total
Total OPEB liability				
Service cost	$ 4,300	$ 511	$ 580	$ 5,391
Interest cost	17,624	3,308	402	21,334
Changes in assumptions	(4,246)	309	11	(3,926)
Differences between expected and actual experience	(19,010)	840	(673)	(18,843)
Benefit payments	(12,475)	(3,895)	(977)	(17,347)
Net change in total OPEB liability	(13,807)	1,073	(657)	(13,391)
Total OPEB liability, beginning of period	263,922	46,187	6,114	316,223
Total OPEB liability, end of period	250,115	47,260	5,457	302,832
Plan fiduciary net position				
Employer contributions	—	—	(769)	(769)
Participant contributions	—	(1,053)	(291)	(1,344)
Medicare Part D payment	(842)	—	—	(842)
(Earnings) loss on Plan assets	(30,260)	(5,702)	(603)	(36,565)
Benefit payments	12,475	3,895	977	17,347
Administrative expense	1,150	30	14	1,194
Net change in Plan fiduciary net position	(17,477)	(2,830)	(672)	(20,979)
Plan fiduciary net position, beginning of period	(267,509)	(49,760)	(5,566)	(322,835)
Plan fiduciary net position, end of period	(284,986)	(52,590)	(6,238)	(343,814)
Total OPEB (asset) liability, end of period	$ (34,871)	$ (5,330)	$ (781)	$ (40,982)

CPS Energy recorded $(9.7) million and $1.7 million in OPEB expense for the years ended January 31, 2022 and 2021, respectively, as summarized in the following table:

(In thousands)	January 31,	
	2022	2021
Health	**$ (10,047)**	$ 1,492
Life	**(30)**	(17)
Disability	**359**	249
Total	**$ (9,718)**	$ 1,724

Actuarial Assumptions – Significant actuarial assumptions used in the calculations for the January 1, 2020, actuarial valuations for FY2022 included: (a) a rate of return on the investment of present and future assets of 7.00% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 2.2% per year for the Health, Life and Disability Plans, (c) projected annual base salary increases for the Health, Life and Disability Plan ranging from 3.2% to 11.47% depending on age, and (d) overall average medical and prescription cost increases projected at 5.45% for 2020, decreasing annually thereafter based on medical trend assumptions. Mortality rates for retirees were based on the Pri-2012 Employee/Retiree Mortality (headcount weighted) projected forward (fully generational) with MP-2019, with employee rates before termination and healthy annuitant rates after termination. Mortality rates for disabled lives were based on the 1987 Commissioners Group Disabled Life Mortality Table.

The actuarial assumptions used in the January 1, 2020, valuation for amounts reported in FY2022, were based on the results of an actuarial experience study completed in 2020 covering experience for the period January 1, 2017, through December 31, 2019.

Significant actuarial assumptions used in the calculations for the January 1, 2019, actuarial valuations for FY2021 included: (a) a rate of return on the investment of present and future assets of 7.25% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 3.0% per year for the Health, Life and Disability Plans, (c) projected annual base salary increases for the Health Plan ranging from 3.1% to 11.6% depending on age, and (d) overall medical and prescription cost increases projected at 5.30% for 2019, decreasing annually thereafter based on medical trend assumptions. Mortality rates for retirees were based on the RP-2014 Mortality Table adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2018, with employee rates before termination and healthy annuitant rates after termination. Mortality rates for disabled lives were based on the 1987 Commissioners Group Disabled Life Mortality Table.

The actuarial assumptions used in the January 1, 2019, valuation for amounts reported in FY2021, were based on the results of an actuarial experience study completed in 2017 covering experience for the period January 1, 2012, through December 31, 2016.

The long-term expected rate of return on Employee Benefit Plans' 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 on Employee Benefit Plans' investment expense) for each major asset class were combined using simulations that ensure the economic consistency of each individual trial, then reduced by a factor representing inflation to produce a long-term expected real rate of return for each major asset class. The assumed asset allocation and expected real rate of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Expected Real Rate of Return
Equities	54.5%	4.3%
Debt securities	28.5%	1.8%
Alternative investments	17.0%	4.3%
Total investments	100.0%	

Discount Rate and Healthcare Cost Trend Rates – The discount rate used to measure the total OPEB liability for FY2022 was 7.00%, which was lowered from 7.25% for FY2021, to more closely reflect actual experience based on the actuarial experience study that was completed in 2020. The projection of cash flows used to determine the discount rate assumed that CPS Energy contributions will be made in a manner consistent with the current contribution practices. Based on those assumptions, the Employee Benefit Plans' fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on the Employee Benefit Plans' investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following tables present the sensitivity of net OPEB (asset) liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total OPEB liability:

Discount Rate Sensitivity

(In thousands)

	Net OPEB (Asset) Liability at January 31, 2022			
	Health	Life	Disability	**Total**
Discount rate				
1% decrease - 6.00%	$ (32,871)	$ 9,302	$ 831	**$ (22,738)**
Current discount rate - 7.00%	(57,804)	2,314	589	**(54,901)**
1% increase - 8.00%	(79,281)	(3,395)	363	**(82,313)**

	Net OPEB (Asset) Liability at January 31, 2021			
	Health	Life	Disability	Total
Discount rate				
1% decrease - 6.25%	$ (9,214)	$ 1,097	$ (682)	$ (8,799)
Current discount rate - 7.25%	(34,871)	(5,330)	(781)	(40,982)
1% increase - 8.25%	(56,982)	(10,568)	(884)	(68,434)

The following table presents the sensitivity of net Health Plan OPEB (asset) liability calculation to a 1% increase and a 1% decrease in the healthcare cost trend rates used to measure the total Health Plan OPEB liability:

Healthcare Cost Trend Rates Sensitivity

(In thousands)

	Net Health Plan OPEB (Asset) Liability at January 31,	
	2022	2021
Healthcare Cost Trend Rates		
1% decrease	**$ (83,560)**	$ (61,349)
Current healthcare cost trend rates	**(57,804)**	(34,871)
1% increase	**(26,854)**	(3,077)

Employee Benefit Plans' Fiduciary Net Position – The financial results of the Employee Benefit Plan are included, in combination with the Pension Plan, in the Statements of Fiduciary Net Position. Detailed information about the Employee Benefit Plans' fiduciary net position is available in the separately issued Employee Benefit Plans financial statements. For purposes of measuring the net OPEB (asset) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position for the Employee Benefit Plans and additions to/deductions from the Employee Benefit Plans' fiduciary net position have been determined on the same basis as they are reported by the Employee Benefit Plans. Investments are stated at fair value. Benefit payments are recognized when due and payable in accordance with the terms of the Employee Benefit Plans.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – The following tables present information about the OPEB-related deferred outflows of resources and deferred inflows of resources for CPS Energy at January 31, 2022 and 2021:

(In thousands)	**January 31, 2022**			
	Health	Life	Disability	**Total**
Deferred outflows of resources				
Changes in assumptions	$ 4,139	$ 3,967	$ 1,839	**$ 9,945**
Differences between expected and actual experience in the measurement of total OPEB liability	1,100	5,308	73	**6,481**
Employer's contributions to the Plan subsequent to the measurement of total OPEB liability	—	—	726	**726**
Total deferred outflows of resources	$ 5,239	$ 9,275	$ 2,638	**$ 17,152**
Deferred inflows of resources				
Changes in assumptions	$ (9,216)	$ (196)	$ —	**$ (9,412)**
Differences between projected and actual earnings on OPEB assets	(3,939)	(61)	(10)	**(4,010)**
Differences between expected and actual experience in the measurement of total OPEB liability	(23,085)	(504)	(949)	**(24,538)**
Total deferred inflows of resources	$ (36,240)	$ (761)	$ (959)	**$ (37,960)**

	January 31, 2021			
	Health	Life	Disability	Total
Deferred outflows of resources				
Changes in assumptions	$ 5,518	$ 674	$ 192	$ 6,384
Differences between expected and actual experience in the measurement of total OPEB liability	1,434	1,732	110	3,276
Employer's contributions to the Plan subsequent to the measurement of total OPEB liability	—	—	614	614
Total deferred outflows of resources	$ 6,952	$ 2,406	$ 916	$ 10,274
Deferred inflows of resources				
Changes in assumptions	$ (5,131)	$ (261)	$ —	$ (5,392)
Differences between projected and actual earnings on OPEB assets	(3,807)	(656)	47	(4,416)
Differences between expected and actual experience in the measurement of total OPEB liability	(16,129)	(648)	(1,021)	(17,798)
Total deferred inflows of resources	$ (25,067)	$ (1,565)	$ (974)	$ (27,606)

The following table presents the future amortization of OPEB-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the Employee Benefit Plans in the current fiscal year and subsequent to the net OPEB (asset) 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 OPEB (asset) liability in the subsequent fiscal year.

Amortization of OPEB-Related Deferred Outflows/(Inflows) of Resources

(In thousands)

	Health	Life	Disability	Total
Year ended January 31,				
2023	$ (6,636)	$ 1,540	$ 160	$ (4,936)
2024	(2,105)	2,429	218	542
2025	(8,378)	887	60	(7,431)
2026	(7,512)	1,418	130	(5,964)
2027	(4,774)	1,439	218	(3,117)
Thereafter	(1,596)	801	167	(628)
Total	$ (31,001)	$ 8,514	$ 953	$ (21,534)

13. Other Obligations and Risk Management

Other Liabilities – CPS Energy maintains other obligations as noted on the following tables. The relative long-term portion of these obligations compared to the total was 88.8% as of January 31, 2022, and 91.0% as of January 31, 2021.

FY2022 Other Liabilities Rollforward

(In thousands)

	Balance Outstanding 02-01-2021	Additions During Year	Decreases During Year	**Balance Outstanding 01-31-2022**	**Amounts Due within One Year**	**Noncurrent Balance Outstanding**
Customer deposits	$ 36,028	$ 20,222	$ (20,147)	**$ 36,103**	**$ 20,795**	**$ 15,308**
Operating reserves	41,818	14,070	(8,916)	**46,972**	**2,625**	**44,347**
STP pension and OPEBs	107,813	7,473	(57,010)	**58,276**	**—**	**58,276**
Pollution remediation liability	1,492	1,587	(1,514)	**1,565**	**1,187**	**378**
Fuel hedges	2,971	21,653	(8,968)	**15,656**	**9,386**	**6,270**
Long-term service agreements	43,405	655	(4,618)	**39,442**	**—**	**39,442**
Communication towers	34,169	—	—	**34,169**	**—**	**34,169**
Other	31,171	301,148	(250,406)	**81,913**	**1,150**	**80,763**
Total other long-term liabilities	$ 298,867	$ 366,808	$ (351,579)	**$ 314,096**	**$ 35,143**	**$ 278,953**

FY2021 Other Liabilities Rollforward

(In thousands)

	Balance Outstanding 02-01-2020	Additions During Year	Decreases During Year	Balance Outstanding 01-31-2021	Amounts Due within One Year	Noncurrent Balance Outstanding
Customer deposits	$ 38,108	$ 19,845	$ (21,925)	$ 36,028	$ 21,277	$ 14,751
Operating reserves	38,344	15,614	(12,140)	41,818	3,121	38,697
STP pension and OPEBs	87,622	29,028	(8,837)	107,813	—	107,813
Pollution remediation liability	3,674	3,981	(6,163)	1,492	229	1,263
Project Warm	7,870	144	(8,014)	—	—	—
Notes payable	2,117	—	(2,117)	—	—	—
Fuel hedges	34,706	9,034	(40,769)	2,971	1,353	1,618
Long-term service agreements	57,354	62,841	(76,790)	43,405	—	43,405
Communication towers	34,169	—	—	**34,169**	**—**	**34,169**
Other	21,725	111,522	(102,076)	**31,171**	**889**	**30,282**
Total other long-term liabilities	$ 325,689	$ 252,009	$ (278,831)	$ 298,867	$ 26,869	$ 271,998

Long-Term Service Agreements ("LTSAs") – CPS Energy has two LTSAs with General Electric, Inc. ("GE") for two of its combined-cycle power plants, Arthur Von Rosenberg ("AVR") and Rio Nogales.

AVR – In 2007, CPS Energy entered into a 20-year LTSA with GE to provide maintenance services and select replacement parts for the AVR power plant. In September 2015, the contract was amended primarily to add a provision for the advance purchase from GE of three new sets of Advanced Gas Path ("AGP") parts to eventually be installed at the AVR plant.

The balances of the AVR LTSA obligation at January 31, 2022 and January 31, 2021 totaled $11.7 million and $13.3 million , respectively, and were reported as a noncurrent liability on the Statements of Net Position.

Rio Nogales – In March 2017, the existing Rio Nogales power plant LTSA contract was amended primarily to add a provision for the advance purchase from GE of four new sets of AGP parts to eventually be installed at the power plant. At January 31, 2022, one set of parts was reported as inventory.

The balances of the Rio Nogales LTSA obligation at January 31, 2022 and January 31, 2021 totaled $27.7 million and $30.1 million , respectively, and were reported as a noncurrent liability, on the Statements of Net Position.

Communication Towers – In FY2014, the Company entered into an agreement to lease 62 of its communication towers to an independent third party with an additional five towers added in FY2017, which resulted in a total of 67 tower leases. Additionally, new licensing agreements were entered into between CPS Energy and the third party for CPS Energy's ongoing use of the towers and the third party's use of CPS Energy's communication buildings for a period of 40 years, with three five-year options to extend. The agreement included a $41.0 million prepayment by the third party as financing of the communication towers netted with a prepayment of $6.8 million for use of CPS Energy communication shelters for a total of $34.2 million. which has been reclassified as a long term liability until the end of the lease term. In addition, the parties agreed that no further cash payments would be paid by either party for the 40 year lease term. The balance of the communication towers liability was $34.2 million at January 31, 2022 and 2021.

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 $3.5 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 $1.0 million for nonpower plant/nonsubstation locations, $2.5 million for substations and $5.0 million for power plant 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 directors & officers, cyber insurance, commercial crime, employee travel and event insurance.

CPS Energy also manages its own workers' compensation program. To support this program, $35 million of excess workers' compensation coverage over a retention amount of $3 million is maintained. No claims exceeded insurance coverage and there were no decreases in coverage in FY2022 or FY2021.

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 completed in the fourth quarter of FY2022.

The remaining balance under the Property Reserves (Environmental) column at January 31, 2022, relates to estimated obligations for the cleanup, closure and post-closure care requirements of the CPS Energy's landfills. CPS Energy has seven landfill/impoundment 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 insurance related claims are recorded against the reserve, which is a component of operating reserves presented on the preceding tables describing Other Liabilities.

FY2022 and FY2021 Reserve Rollforward

(In thousands)

	Employee & Public Liability Claims	Property Reserves (Insurance)	Property Reserves (Environmental)	Total
Balance – FY2019	$ 20,803	$ —	$ 11,523	$ 32,326
Payments	(3,083)	—	—	(3,083)
Other claims adjustments	(1,781)	8,500	329	7,048
Balance – FY2020	$ 15,939	$ 8,500	$ 11,852	$ 36,291
Payments	(4,367)	(61)	—	(4,428)
Other claims adjustments	4,795	(4,124)	7,223	7,894
Balance – FY2021	16,367	4,315	19,075	39,757
Payments	(2,069)	—	—	(2,069)
Other claims adjustments	5,889	807	473	7,169
Balance – FY2022	**$ 20,187**	**$ 5,122**	**$ 19,548**	**$ 44,857**

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 the 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.

14. Derivative Instruments

Fuel Hedging – 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 are for the purposes of risk mitigation; therefore, these instruments are considered potential hedging derivative instruments under GASB Statement No. 53.

On December 14, 2020, 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 a Black-Scholes pricing model based on the New York Mercantile Exchange ("NYMEX") closing futures prices as of the last day of the reporting period. For fixed-price 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. See additional disclosures regarding fuel hedge fair values at Note 3 – Fair Value Measurement.

As of January 31, 2022, the total fair value of outstanding hedge instruments was a net asset of $53.7 million. Fuel hedging instruments with a fair value of $43.2 million and $(9.4) million are classified on the Statements of Net Position as a component of current assets and current accounts payable and accrued liabilities, respectively. Long-term fuel hedging instruments with a fair value of $26.3 million and $(6.4) million are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

As of January 31, 2021, the total fair value of outstanding hedge instruments was a net asset of $11.7 million. Fuel hedging instruments with a fair value of $7.9 million and $(1.4) million are classified on the Statements of Net Position as a component of current assets and current accounts payable and accrued liabilities, respectively. Long-term fuel hedging instruments with a fair value of $6.8 million and $(1.6) million are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

All hedging derivative instruments were evaluated for effectiveness at January 31, 2022 and January 31, 2021. 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 $15.1 million and $1.8 million at January 31, 2022 and 2021, respectively. The deferred inflows of resources related to fuel hedges totaled $59.5 million and $10.8 million at January 31, 2022 and 2021, respectively.

In FY2022 and FY2021, as a result of revisions to the expected volumes of some underlying physical transactions, it was determined that a group of existing financial hedge positions were no longer effective. Offsetting financial positions were executed, and fair value of the ineffective hedges resulted in (gains)/losses totaling $(0.2) million and $2.7 million, respectively, which were recognized as a reduction to investment income.

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

Fuel Derivative Instrument Transactions as of January 31, 2022

(Dollars in thousands)

Type of Transaction	Referenced Index	Duration	Volumes (MMBtu)	Fair Value	FY2022 Change in Fair Value
Long Natural Gas Swap	Henry Hub	Feb 2022 through Dec 2023	9,367,531	$ 17,923	$ 16,566
Short Natural Gas Swap	Henry Hub	Feb 2022 through Dec 2022	2,535,767	(4,327)	(4,196)
Long Natural Gas Call Option	Henry Hub	Feb 2022 through Jan 2025	48,562,936	52,717	53,824
Short Natural Gas Put Option	Henry Hub	Feb 2022 through Mar 2023	9,082,893	(33)	1,019
Long HSC Basis Swap	Henry Hub	Feb 2022 through Dec 2023	8,747,531	(124)	(189)
Short HSC Basis Swap	Henry Hub	Feb 2022 through Dec 2022	235,767	(3)	20
Long WAHA Basis Swap	Henry Hub	Feb 2022 through Jan 2025	48,562,936	(12,449)	(17,812)
Short WAHA Basis Swap	Henry Hub	Feb 2022 through Mar 2022	4,880	6	6
Long WAHA Gas Daily Swap	Henry Hub	Feb 2022 through Feb 2022	5,600,000	—	—
				$ 53,710	$ 49,285

Fuel Derivative Instrument Transactions as of January 31, 2021

(Dollars in thousands)

Type of Transaction	Referenced Index	Duration	Volumes (MMBtu)	Fair Value	FY2021 Change in Fair Value
Long Natural Gas Swap	Henry Hub	Feb 2021 through Dec 2023	20,187,392	$ 1,357	$ 16,743
Short Natural Gas Swap	Henry Hub	Feb 2021 through Dec 2022	2,431,736	(131)	(1,516)
Long Natural Gas Call Option	Henry Hub	Feb 2021 through Jan 2024	30,373,943	6,153	6,470
Short Natural Gas Call Option	Henry Hub	Mar 2021 through Oct 2021	178,368	(47)	5
Long Natural Gas Put Option	Henry Hub	Feb 2021 through Mar 2021	76,956	—	17
Short Natural Gas Put Option	Henry Hub	Feb 2021 through Mar 2023	20,516,963	(1,052)	3,292
Long HSC Basis Swap	Henry Hub	Feb 2021 through Dec 2023	16,819,661	65	626
Short HSC Basis Swap	Henry Hub	Feb 2021 through Dec 2022	491,736	(24)	3
Long HSC Gas Daily Swap	Henry Hub	Feb 2021 through Feb 2021	33,404	—	—
Long WAHA Basis Swap	Henry Hub	Feb 2021 through Jan 2024	26,110,585	5,363	19,999
Short WAHA Basis Swap	Henry Hub	Feb 2022 through Mar 2022	4,880	(1)	39
Long WAHA Gas Daily Swap	Henry Hub	Feb 2021 through Feb 2021	654,080	—	(34)
				$ 11,683	$ 45,644

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, 2022, 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 be priced based on a pricing point (Houston Ship Channel "HSC" or Western Area Hub Association "WAHA") different than which the contracts are expected to settle (Henry Hub). For January 31, 2022, the HSC price was $4.66 per MMBtu, the WAHA price was $4.55 per MMBtu and the Henry Hub price was $4.02 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 derivative instruments 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 with the intent of selling them at the same auction at market price. In this case, the PCRRs are considered investments and the proceeds are reported as either investment gains or losses. There were no investment gains or losses on the sale of PCRRs and CRRs for FY2022 and FY2021.

15. South Texas Project

Units 1 and 2 – CPS Energy is one of three participant owners of STP, a two-unit nuclear power plant located in Matagorda County, Texas approximately 10 miles from the Texas gulf coast. The units have a combined nominal output of 2,633.1 MW. CPS Energy's ownership share (40%) in STP Units 1 and 2 represents approximately 1,053.3 MW of total plant capacity. In addition, STP is owned by NRG Energy (44%) and the City of Austin (16%).

The units, along with their support facilities and administrative offices, are located on a 12,220-acre site that is adjacent to the lower Colorado river in Matagorda County. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, STPNOC, a Texas nonprofit, nonmember corporation created by the owners, 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.

Units 1 and 2 Licenses Renewed – In September 2017, the NRC approved STPNOC's license renewal applications for STP Units 1 and 2, which extends the operating licenses to 2047 and 2048, respectively.

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. The 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 ("ISFSI" or the "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. STPNOC, on behalf of the owners of STP, and other utilities have reached settlement agreements with the DOE. In the most recent settlement agreement dated September 1, 2020, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through calendar year 2022.

Pursuant to STPNOC's analysis of NRC guidance, the first dry cask storage campaign was completed in calendar year 2019, with 12 dry casks stored at the ISFSI. On January 20, 2022, STP completed the dry cask loading prerequisites and commenced the second dry cask loading campaign. In total, STP plans to load 444 fuel assemblies into 12 casks (222 assemblies and 6 casks per unit). The loading campaign is scheduled to be completed in May 2022.

Ongoing costs for the spent fuel management project are being funded by the STP owners as expenditures are incurred. CPS Energy is entitled to request reimbursement at its discretion 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 to the owners by STP upon receipt of funds 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 O&M expense or capital costs.

Nuclear Insurance – STP maintains required insurance coverage pursuant to the Price-Anderson Act, providing limitations on liability and governmental indemnities with respect to nuclear incidents. Pursuant to the Price-Anderson Act, the maximum amount that each licensee may be assessed as secondary financial protection following a nuclear incident at any United States insured facility is $138 million, taking into account a 5% adjustment for administrative fees and subject to adjustment for inflation every 5 years, with the next adjustment expected to be effective no later than November 1, 2023, for the number of operating nuclear units and for each licensed reactor, payable at $20 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. Any funding needed in excess of these assessments are at the discretion of the United States Congress. 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 $450 million for each nuclear facility, provides primary protection from nuclear-related liability claims. A Master Worker Certificate policy, with a maximum limit of $450 million for the nuclear industry, provides protection from radiation tort liability claims of workers at nuclear facilities.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage nuclear accident stabilization and decontamination 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 nuclear property insurance at or above the regulatory required amount. CPS Energy also maintains accidental outage insurance through STP's NEIL membership that provides weekly indemnity payments for an insured property loss subject to an applied deductible period. The nuclear property and/or accidental insurance may be subject to a retrospective assessment being paid by members of Nuclear Electric Insurance Limited ("NEIL") and European Mutual Association for Nuclear Insurance ("EMANI"). A retrospective assessment could occur if losses, as a result of an accident at any nuclear plant insured by NEIL or EMANI, exceed the desired funds of NEIL and/or EMANI.

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.

In FY2009, CPS Energy determined that some pre-shutdown 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 pre-shutdown decommissioning activities. Additionally, funds in the Trusts applicable to spent fuel management were transferred to separate spent fuel management accounts so that they were not commingled with funds allocable to pre-shutdown or post-shutdown decommissioning costs. Based on projected costs, the spent fuel management accounts are currently fully funded; therefore, no contributions were made to these accounts in FY2022 or FY2021. In FY2022 and FY2021, no contributions were made to fund pre-shutdown decommissioning costs for CPS Energy's 28% ownership in STP. No pre-shutdown decommissioning expenses were incurred for the 28% ownership in calendar years 2021 or 2020. For the 12% Trust, pre-shutdown costs are funded by AEP's ratepayers. The 12% Trust incurred no pre-shutdown decommissioning expenses in the calendar years 2021 or 2020.

The most recent cost study, which was finalized in May 2018, estimated decommissioning costs for the 28% ownership in STP Units 1 and 2 at $694.1 million and $297.5 million for the 12% ownership in STP Units 1 and 2 in 2018 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 would be required to be deposited into the Trust.

As of December 31, 2021 and 2020, CPS Energy had accumulated $557.2 million and $513.9 million, respectively, in the 28% Trust. Total funds are allocated to decommissioning costs, pre-shutdown 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, 2020, the 28% Trust funds allocated to decommissioning costs totaled $329.0 million, which exceeded the calculated financial assurance amount of $118.3 million.

As of December 31, 2021 and 2020, $204.6 million and $189.5 million, respectively, had been accumulated in the 12% Trust. Total funds are allocated to decommissioning costs, pre-shutdown 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, 2020, the 12% Trust funds allocated to decommissioning costs totaled $131.4 million, which exceeded the calculated financial assurance amount of $50.7 million.

CPS Energy accounts for decommissioning in accordance with GASB Statement No. 83 by recognizing its pro rata share of an ARO based on the best estimate of the current values of outlays expected to be incurred, determined by the most recent cost study. A new cost study is performed every 5 years; in years subsequent to the latest study, the Statement requires the current value of the Company's ARO be adjusted for the effects of inflation or deflation, at least annually. In addition to the ARO, the Company has recorded a deferred outflow of resources that is being amortized over the remaining useful life of the plant.

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 Post-Retirement Benefits – STPNOC maintains several pension and other post-retirement benefit plans covering most employees, including a noncontributory defined-benefit pension plan, defined-benefit post-retirement plan, supplementary nonqualified unfunded pension plan, supplemental retirement plan, deferred compensation program and a contributory savings plan. The owners of STPNOC, including CPS Energy, although not sponsors to the STPNOC plans, share in all plan costs in the same proportion as their respective ownership percentages.

The noncontributory defined-benefit pension plan covers certain employees. Effective January 1, 2007, STPNOC approved a change to the pension plan 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.

On June 4, 2019, STP's Board of Directors approved freezing the Retirement Plan for nonbargaining participants, effective December 31, 2021.

STPNOC also maintains a defined-benefit postretirement plan that provides postretirement health and welfare benefits. As of May 1, 2014, certain STPNOC employees voted to transition STPNOC's medical plan to a Taft-Hartley multiemployer health and welfare plan. During calendar 2018, there were additional plan design changes related to the STPNOC postretirement health and welfare benefits resulting in additional employees transitioning to the Taft-Hartley multiemployer plan, therefore, reducing STPNOC's OPEB liability as of December 31, 2019. STPNOC pays monthly premiums for the benefits, to be partially funded by participating employees.

Employees whose eligible compensation exceeds the limitations established under the 1974 Employee Retirement Income Security Act, $290 thousand for calendar 2021 and $285 thousand for calendar 2020, are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligations. The accruals for the costs 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.

The effect to CPS Energy of funding obligations related to the defined-benefit plans sponsored by STPNOC was $43.4 million and $(25.0) million for FY2022 and FY2021, respectively, and was reflected as an increase and decrease, respectively, in Other Changes in Net Position on the Statements of Revenues, Expenses and Changes in Net Position.

16. Commitments and Contingencies

Purchase and construction commitments were approximately $6,075.4 million at January 31, 2022. This amount includes construction commitments, provisions for coal purchases through December 2021 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 2038, solar power through 2044, landfill power through 2029, and raw uranium associated with STP fabrication and conversion services needed for refueling through December 2026.

On January 20, 2009, the Board approved a policy statement affirming 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 noncarbon emitting sources. As a community owned provider and as part of the *Flexible Path*℠ strategy, CPS Energy has a balanced approach of leveraging the community-owned assets with the emergence of new technology. CPS Energy's strategy is focused around energy considerations of *Reliability, Customer Affordability, Safety, Security, Environmental Responsibility,* and *Resiliency*. The *Flexible Path*℠ strategy has a foundational commitment of an 80% reduction in carbon emissions by 2040. In August 2019, the CPS Energy Board signed a resolution to support the City of San Antonio's Climate Action and Adaptation Plan ("CAAP") with a target of net-zero carbon emissions by 2050 through implementation of the *Flexible Path*℠. To be sustainable, CPS Energy needs to balance its financial viability, environmental commitments and social responsibility as a community-owned provider.

In FY2008, 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 since inception, through the middle of FY2028.

In FY2003, 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. At January 31, 2022, capital renewals and upgrades of $15.1 million have surpassed the $12.6 million commitment. BDA has met its obligation, net of annual interest, of $4.2 million.

In September 2010, CPS Energy and the University of Texas at San Antonio ("UTSA") entered into an agreement ("Strategic Alliance") whereby UTSA agreed to perform services for CPS Energy in support of its function as a provider of electric and gas utility services while supporting the progress of the City of San Antonio in renewable energy technologies and energy research. The original agreement under the Strategic Alliance called for CPS Energy to invest up to but not exceeding $50 million over 10 years. The original agreement expired September 2020 with all commitments met by CPS Energy. In October 2020, CPS Energy entered into a new annual research agreement with UTSA to continue the Strategic Alliance with no commitments on funding amounts and annual renewal terms. As of January 31, 2022, CPS Energy has renewed the annual agreement that is focused on UTSA conducting energy industry related research that will benefit both our utility and local community.

CPS Energy sells excess power into the wholesale market with a balanced portfolio that includes a mix of short-term (less than a month) and mid-term (one month to a year) transactions with market participants and long-term (one to five years) and super long-term (5 years or more) wholesale power agreements with other public power entities and cities. The Company currently has agreements to provide either full or partial requirements to six other public power entities. These agreements have varying terms expiring between December 2022 and December 2025. The capacities committed under these agreements represent approximately 5% of our current nameplate 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:

- CPS Energy offers customers the opportunity to better manage their home's energy use through the Wi-Fi Thermostat Rewards program. The program gives customers access to a wide choice of programmable thermostat options. Customers benefit from better control of their home's air conditioning use and the visibility to program settings from their mobile devices. Customers in Wi-Fi Thermostat Rewards can choose to have a CPS Energy contractor install a free programmable thermostat in their place of residence. Alternatively, they can purchase and self-install their own thermostat from a list of qualifying devices and receive a rebate from CPS Energy. In exchange for the rebate, customers allow CPS Energy to periodically control and interrupt service to manage peak energy periods. The program is funded through STEP. As of January 31, 2022, there were 149,329 CPS Energy customers enrolled in Wi-Fi Thermostat Rewards.

- The Company completed the replacement of approximately 23,500 high pressure sodium vapor streetlights with 250-Watt equivalent Light Emitting Diode ("LED") streetlights for the City. 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. The installation of an additional 1,500 LED streetlights is currently on hold pending direction from the City on lighting for the downtown area.

  The City also requested the replacement of 30,000 residential streetlights with 100-Watt equivalent LED streetlights. The Company began this project in City Districts 2 and 5 where a total of 5,100 replacement LED lights were installed in FY2017. A total of 4,275 were installed in FY2018. This project has been placed on hold at the request of the City until further notice. At this time, any new lights installed or replaced are done so on an exception basis upon request by the City.

  LED streetlights have become the standard for ongoing city-wide streetlight maintenance. As older sodium lights fail, they will be replaced with LED equivalents.

- In November 2011, the Company entered into a $77.0 million prepaid agreement 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 $47.6 million and $50.7 million at January 31, 2022 and 2021, respectively. The agreement expires in 2037, and the purchase of the balance of the output is on a pay-as-you-go basis.

- In July 2012, CPS Energy executed a Master Agreement with OCI Solar Power ("OCI") for approximately 400 MW from seven facilities. All seven facilities became operational by the end of 2017. In March 2017, CPS Energy and OCI executed an Amended and Restated Master Power Purchase and Economic Development Agreement. The original Master Agreement was replaced in order to simplify the agreement and reflect pertinent terms going forward. In addition, CPS Energy also executed two separate 25-year Purchase Power Agreements for Project Pearl and Project Ivory for 50 MW each.

The table below represents a total capacity of approximately 494 MW for all solar farm facilities included in 25-year power purchase agreements mentioned above:

Facility	Capacity in MW[1]	Achieved Commercial Operations
Alamo 1	39.2	December 2013
St. Hedwig (Alamo 2)	4.4	March 2014
Walzem (Alamo 3)	5.5	January 2015
Eclipse (Alamo 4)	37.6	August 2014
Helios (Alamo 5)	95.0	December 2015
Sirius 1 (Alamo 6)	108.3	March 2017
Solara (Alamo 7)	104.5	September 2016
Sirius 2 (Pearl)	49.1	October 2017
Lamesa 2 (Ivory)	50.0	December 2018
Total 25-year power purchase capacity	493.6	

[1] The original commissioned nameplate capacity shown in MW from facilities may vary from year to year based on revised annual output estimates.

- Simply Solar is the trademarked name for CPS Energy's Roofless Solar and SolarHostSA programs. Roofless Solar was launched by CPS Energy in 2015 in partnership with Clean Energy Collective ("CEC"). CEC built a 1 MW community solar farm in the CPS Energy service territory and sold 107.5-Watt panels in the array to customers who wanted to enjoy the benefits of solar power without having to install their own system. On June 18, 2015, CPS Energy entered into an agreement to purchase the output from the solar farm for 25 years. During FY2021, CPS Energy opted to purchase the solar farm from CEC and assumed maintenance and operational responsibility for the solar farm. On December 17, 2018, CPS Energy entered into a 25-year agreement with Big Sun SA 1 ("Big Sun") to expand the Roofless Solar program by 5 MW. Big Sun successfully installed community solar panels on carports at commercial businesses across San Antonio. The panels were sold to customers who will receive bill credits from CPS Energy for their share of the solar production. For the SolarHostSA program, CPS Energy partnered with PowerFin Partners to install up to 5 MW of rooftop systems on customer homes and businesses. The program provides participating customers a monthly credit for hosting the systems on their rooftops. The program makes solar accessible to more customers by eliminating the significant upfront cost of traditional rooftop systems. On August 12, 2015, CPS Energy entered into an agreement to purchase the output from the rooftop systems for an initial term of 20 years.

In FY2018, CPS Energy entered into a 50-year Utilities Privatization Contract ("Contract") with the Defense Logistics Agency to operate and maintain the natural gas and the electric utility systems at three JBSA installations: JBSA Randolph, JBSA Lackland and JBSA Chapman Training Annex (formerly Lackland Training Annex). The DOD will reimburse CPS Energy for the costs to operate, maintain and upgrade these systems throughout the contract term. Should the contract be terminated, the assets associated with the utility systems at the three JBSA installations owned by CPS Energy would be transferred back to Department of Defense ownership. Additionally, CPS Energy would be reimbursed by the Government for any unrealized investments made into the systems prior to the contract termination date.

In December 2021, ERCOT completed the Public Utility Regulatory Act Chapter 39, Subchapter M, disbursement of an $800 million securitization to market participants that were owed due to short payments for operating days February 12 to 20, 2021. Over the next 25 to 30 years, ERCOT is requiring CPS Energy to make monthly payments of its share of the $800 million, which are expected to total $16 million, and CPS Energy is currently making these payments under protest. Additionally, ERCOT claims that CPS Energy may be responsible for additional market uplifts related to other market participants that are in default with ERCOT. The amount of CPS Energy's share of these possible uplifts, which are currently being disputed, cannot be estimated at this time.

On March 12, 2021, CPS Energy filed suit against ERCOT in the Bexar County District Court seeking, among other things, a declaratory judgment to prevent ERCOT from wrongfully declaring a default by CPS Energy based on a force majeure event and due to ERCOT's prior material breach for $18 million in short payments to CPS Energy, of which approximately $10 million remains outstanding. The requested judgment also seeks to prevent ERCOT from requiring CPS Energy and its customers to pay for other market participants' default (i.e., Uplift) based on excessive prices and to prevent ERCOT from charging CPS Energy for any amounts associated with the Pricing Errors identified in the Potomac report issued by the Independent Market Monitor. In December 2021, the Fourth Court of Appeals dismissed CPS Energy's petition on procedural grounds, without addressing the merits of the case, stating that the PUCT has exclusive original jurisdiction. On January 27, 2022, CPS Energy filed its petition for review to the Texas Supreme Court. On February 15, 2022, the Texas Supreme Court requested that ERCOT file a response, which it did on April 18, 2022. The outcome of this pending litigation remains uncertain as of the issuance of these financial statements.

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

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

CPS Energy is currently engaged in litigation against four natural gas suppliers, in which CPS Energy is disputing (under the Disputed Payment Provision) approximately $364 million in natural gas prices charged by those suppliers for natural gas during Winter Storm Uri as being unconscionable and in violation of public policy in Texas. The pending gas supplier lawsuits have been consolidated and assigned to a judge in Bexar County for pretrial proceedings. The outcomes of these pending cases remains uncertain as of the issuance of these financial statements.

CPS Energy has also been named as one of many defendants in various other lawsuits arising out of the Winter Storm. The outcomes of these pending lawsuits are uncertain as of the issuance of these financial statements. Additionally, CPS Energy is involved in a number of other lawsuits unrelated the Winter Storm. The outcomes of these pending lawsuits are uncertain as of the issuance of these financial statements.

17. Leases

Lessee – CPS Energy leases buildings and equipment from third parties. Lease terms range from 2 to 15 years. Several leases have an option to extend the lease term after completion of the contracted term. CPS Energy leased assets and associated accumulated amortization are included in capital assets as intangibles. There were no payments recorded in the current period that were not included in the measurement of the lease liability, no commitments prior to the commencement of the lease contracts, and no lease impairments as of January 31, 2022.

The following tables summarize lease balances as of January 31, 2022 and 2021 and activity for FY2022 and 2021:

FY2022 Leases Rollforward

(In thousands)

	February 1, 2021	Additions/ Increases	Deletions/ Decreases	**January 31, 2022**
Leases				
Buildings	$ 2,884	$ —	$ —	**$ 2,884**
Equipment	2,247	—	—	**2,247**
Total	5,131	—	—	**5,131**
Amortization				
Buildings	(481)	(503)	—	**(984)**
Equipment	(319)	(315)	—	**(634)**
Total	(800)	(818)	—	**(1,618)**
Leases, net	$ 4,331	$ (818)	$ —	**$ 3,513**

FY2021 Leases Rollforward

(In thousands)

	February 1, 2020	Additions/ Increases	Deletions/ Decreases	January 31, 2021
Leases				
Buildings	$ 2,450	$ 434	$ —	$ 2,884
Equipment	1,284	963	—	2,247
Total	3,734	1,397	—	5,131
Amortization				
Buildings	(38)	(443)	—	(481)
Equipment	(38)	(281)	—	(319)
Total	(76)	(724)	—	(800)
Leases, net	$ 3,658	$ 673	$ —	$ 4,331

The following table summarizes future principal and interest payments as of January 31, 2022:

(In thousands)

Year Ended January 31,	Principal	Interest	Total
2023	$ 890	$ 131	$ 1,021
2024	654	94	748
2025	400	73	473
2026	341	57	398
2027	281	45	325
2028-2033	906	101	1,007
2034-2039	41	1	42
Total	$ 3,513	$ 501	$ 4,015

Lessor – CPS Energy leases buildings to third parties with terms ranging from 2 to 19 years, which include options to extend the term. There were no receipt of variable or other lease payments as of FY2022. The total lease interest and revenue was $1.2 million for the year ended January 31, 2022. In addition, the total leased asset receivable was $7.7 million and the corresponding deferred inflow of resources was $13.0 million as of January 31, 2022.

Leases – CPS Energy leases space on poles and street light poles to third party communication providers. In an effort to adhere to state and federal laws, CPS Energy established the Pole Attachment Standards, which includes contract terms and rates formula. The standard terms includes a five-year initial contract and successive automatic one-year renewals until contract is terminated by either party by providing six (6) months written notice. The pole standards, standard contract, and rate formula are accessible to all applicants via CPS Energy website. The total amount of lease revenue for the year ended January 31, 2022 was $7.1 million, which included an allowance for doubtful accounts of $1.3 million. There were no other or variable lease payments received in FY2022. In addition, CPS Energy does not issue debt that relies on the receipt of regulated lease payments to pay the debt principal and interest payments.

Communication Shelters Lease – In FY2014, the Company entered into an agreement to lease 62 of its communication towers to an independent third party and an additional five in FY2017, which resulted in a total of 67 tower leases. Additionally, the provisions of the agreement allowed for the third party's ongoing use of communication shelters for a period of 40 years, with three five-year options by the third party to extend the agreement. The third party prepaid the entire contracted lease amount for the term of the agreement and the parties agreed that no further cash payments would be paid by either party for the 40 year lease term.

18. Asset Retirement Obligations ("AROs")

CPS Energy accounts for AROs in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations*, by recognizing the obligations as a liability based on the best estimate of the current value of outlays expected to be incurred once the assets are retired. Asset retirement obligations recognized under GASB Statement No. 83 were estimated utilizing information provided by the Company's environmental and engineering staff, external consultants, and costs based on an external cost study for decommissioning.

The Statement requires the AROs be adjusted for the effects of inflation or deflation at least annually and to evaluate factors to determine if one or more factors is expected to significantly increase or decrease the estimated outlays. In addition to the AROs, the Company has recorded associated deferred outflows of resources that are being amortized over the remaining useful life of the respective asset groups. The following asset groups have been included in the ARO reflected on the Statements of Net Position:

- **STP Units 1 and 2** – CPS Energy is one of three participants in STP, currently a two-unit nuclear power plant located in Matagorda County, Texas. The Code of Federal Regulations provides the main decommissioning requirements mandated by the Nuclear Regulatory Commission ("NRC") that issues the operational license of the site. The asset retirement obligation is based on an external cost study performed every five years. The most recent study was finalized in May 2018 and estimates costs in 2018 dollars. The associated costs are being amortized utilizing a straight-line method over the estimated remaining useful lives of the units. Total asset lives for the units are 60 years based on the operating license extensions. The deferred outflows of resources are based on the estimated remaining useful life of the assets at the time of implementation. CPS Energy has established two decommissioning trusts that are reported as blended component units combined into the CPS Energy financial statements to cover the eventual decommissioning associated with STP Units 1 and 2. At January 31, 2022 and January 31, 2021, the ARO related to STP Units 1 and 2 was $1,068.8 million and $1,042.4 million, respectively.

- **Vaults** – CPS Energy has approximately 198 underground vaults with useful lives of 46 years. The vaults have regulatory requirements to be met prior to removal and after retirement under the Code of Federal Regulations and the Texas Commission on Environmental Quality ("TCEQ"). Methods and assumptions to determine the associated liability were based on an internal calculation of cost per square foot of each vault which includes assessment, remediation, transportation and disposal costs. The associated costs are being amortized utilizing a straight-line method over the average estimated remaining useful life of the vaults. At January 31, 2022 and January 31, 2021, the ARO related to the vaults was $10.7 million and $10.0 million, respectively.

- **Fuel Storage Tanks** – CPS Energy has 14 underground fuel storage tanks with useful lives of 30 years. The storage tanks have regulatory requirements to be met for removal or permanent closure after retirement under the Texas Administrative Code. The methods and assumptions used to determine the liability associated with the tanks were based on a cost analysis performed by an outside engineering consulting firm in July 2018. The associated retirement costs are being amortized utilizing a straight-line method over the average estimated remaining useful life of the storage tanks. At January 31, 2022 and January 31, 2021, the ARO related to the storage tanks was $4.6 million and $3.8 million, respectively.

19. Subsequent Events

Bond Issuances

On February 15, 2022, CPS Energy issued $234.5 million of Series 2022 Junior Lien Revenue Refunding Bonds. Proceeds, including the $52.1 million premium associated with the bonds, were used to refund $230.0 million and $55.0 million par value of the Tax-Exempt Commercial Paper Series A and Tax-Exempt Commercial Paper Series B, respectively. The true interest cost for this issue, which has maturities in FY2026 through FY2044, is 2.8%.

On February 15, 2022, CPS Energy issued $125.0 million of Series 2022 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the $0.7 million premium associated with the bonds, were used to refund $105.0 million and $20.0 million par value of the Tax-Exempt Commercial Paper Series B and Tax-Exempt Commercial Paper Series C, respectively. Reflecting stepped interest rate provisions applicable to the bonds, the true interest cost for this issue, which has maturities in FY2045 through FY2049, is 5.2%. The bonds were issued as multi-modal variable-rate instruments with initial term rates of 2.0% and a stepped rate of 7.0%, which is only applicable if the bonds are not remarketed before their expiration date.

On February 26, 2022, the FRRN note purchase agreement with JPMorgan Chase Bank, as the note purchaser, expired and was not renewed. On February 25, 2022, CPS Energy entered into a new agreement and issued $100 million taxable Series A Flex Rate note with Wells Fargo Bank, National Association, as the note purchaser, by contractual agreement in effect through February 24, 2023. The proceeds from the note were used to pay down the $100 million Series A Flex Rate Note that had been previously issued under the agreement with JPMorgan Chase Bank.

REQUIRED SUPPLEMENTARY INFORMATION ("RSI")
January 31, 2022 and 2021
(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 are presented on a net pension liability measurement date basis for the following periods:

(Dollars in thousands)

	Measurement Period Ended January 31,									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Total pension liability										
Service cost	**$ 35,403**	$ 36,861	$ 37,175	$ 32,569	$ 31,547	$ 30,183	$ 32,591	$ 33,417	$ 33,470	$ 31,420
Interest cost	**148,068**	143,079	137,954	132,861	128,991	122,800	117,802	116,155	112,356	105,013
Changes in assumptions	**28,832**	(4,940)	(10,129)	77,574	—	—	38,296	—	—	—
Differences between expected and actual experience	**(846)**	(2,685)	(19,385)	6,025	(18,647)	19,691	(35,634)	(24,410)	25,158	(13,581)
Benefit payments	**(106,825)**	(101,037)	(96,969)	(93,550)	(91,230)	(91,293)	(84,319)	(74,352)	(70,677)	(66,147)
Net change in total pension liability	**104,632**	71,278	48,646	155,479	50,661	81,381	68,736	50,810	100,307	56,705
Total pension liability, beginning of period	**2,060,241**	1,988,963	1,940,317	1,784,838	1,734,177	1,652,796	1,584,060	1,533,250	1,432,943	1,376,238
Total pension liability, end of period	**2,164,873**	2,060,241	1,988,963	1,940,317	1,784,838	1,734,177	1,652,796	1,584,060	1,533,250	1,432,943
Plan fiduciary net position										
Employer contributions	**(56,025)**	(73,435)	(58,700)	(46,200)	(44,500)	(46,000)	(55,800)	(44,400)	(39,016)	(37,687)
Participant contributions	**(13,890)**	(14,758)	(13,363)	(13,039)	(12,144)	(11,563)	(12,140)	(12,569)	(12,332)	(11,745)
(Earnings) loss on Plan assets	**(187,600)**	(169,004)	48,316	(246,772)	(207,196)	52,945	(85,520)	(145,883)	(110,529)	(22,510)
Benefit payments	**106,825**	101,037	96,969	93,550	91,230	91,293	84,319	74,352	70,677	66,147
Administrative expenses	**510**	476	391	389	—	—	—	—	—	—
Net change in Plan fiduciary net position	**(150,180)**	(155,684)	73,613	(212,072)	(172,610)	86,675	(69,141)	(128,500)	(91,200)	(5,795)
Plan fiduciary net position, beginning of period	**(1,766,519)**	(1,610,835)	(1,684,448)	(1,472,376)	(1,299,766)	(1,386,441)	(1,317,300)	(1,188,800)	(1,097,600)	(1,091,805)
Plan fiduciary net position, end of period	**(1,916,699)**	(1,766,519)	(1,610,835)	(1,684,448)	(1,472,376)	(1,299,766)	(1,386,441)	(1,317,300)	(1,188,800)	(1,097,600)
Net pension liability, end of period	**$ 248,174**	$ 293,722	$ 378,128	$ 255,869	$ 312,462	$ 434,411	$ 266,355	$ 266,760	$ 344,450	$ 335,343
Plan fiduciary net position as a percentage of the total pension liability	**88.5 %**	85.7 %	81.0 %	86.8 %	82.5 %	74.9 %	83.9 %	83.2 %	77.5 %	76.6 %
Covered payroll	**$ 286,959**	$ 282,302	$ 271,449	$ 254,241	$ 242,477	$ 235,360	$ 256,236	$ 261,085	$ 260,730	$ 251,136
Net pension liability as a percentage of covered payroll	**86.5 %**	104.0 %	139.3 %	100.6 %	128.9 %	184.6 %	103.9 %	102.2 %	132.1 %	133.5 %

Notes to Schedule

For FY2022, the annual investment rate of return underlying the calculation of total pension liability was assumed to be 7.00%. For FY2021 and FY2020, the annual investment rate of return was assumed to be 7.25%. For FY2019 and FY2018 the annual investment return was assumed to be 7.50%. For the previous years presented, the rate used was 7.75%. The FY2022 valuation results include the impact of revised inflation rate and the use of updated mortality tables. No other actuarial assumptions were modified in FY2022. Other actuarial assumptions were modified in FY2018 based on the previous experience study that include the impact of other revised actuarial assumptions including salary increases and updated mortality tables . There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, 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 Pension 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)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarially determined contribution	**$ 62,050**	$ 56,025	$ 53,435	$ 58,657	$ 46,234	$ 44,532	$ 46,001	$ 48,696	$ 44,362	$ 39,016
Contributions in relation to the actuarially determined contribution	**62,100**	56,025	73,435	58,700	46,200	44,500	46,000	55,800	44,400	39,016
Contribution deficiency (excess)	**$ (50)**	$ —	$ (20,000)	$ (43)	$ 34	$ 32	$ 1	$ (7,104)	$ (38)	$ —
Covered payroll	**$286,959**	$ 282,302	$ 271,449	$ 254,241	$ 242,477	$ 235,360	$ 256,236	$ 261,085	$ 260,730	$ 251,136
Contributions as a percentage of covered payroll	**21.6%**	19.8%	27.1%	23.1%	19.1%	18.9%	18.0%	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 percent; layered periods
Remaining amortization period	27 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	2.20% for FY2022 and for 3.0% previous years presented per year, compounded annually
Salary increases	Average, including inflation: 5.54% for FY 2022, 5.36% for FY2021 and FY2020, 4.72% for FY2019, 4.66% for FY2018, 4.78% for FY2017, 5.01% for FY2016, 5.03% for FY2015, 5.07% for FY2014, 5.18% for FY2013
Investment rate of return	7.00% per year, compounded annually, for FY2022, 7.25% for FY2021 through FY2019, 7.50% for FY2018 and FY2017; 7.75% for prior years
Mortality	Based on Pri-2012 Mortality Table projected forward (fully generational) with MP-2019 for 2022, RP-2014 Mortality Table adjusted backwards to 2006 with Mortality Improvement Scale MP-2014 and projected (fully generational) with MP-2018 for FY2021;RP-2014 Mortality Table adjusted backwards to 2006 with Mortality Improvement Scale MP-2014 and projected (fully generational) with MP-2017 for FY2020; RP-2016 Combined Healthy, with No Collar Adjustment, Male and Female Tables; with MP-2016 Mortality Improvement Scale for FY2019; RP-2000 Combined Healthy Annuitant Mortality Table for Males or Females, projected using Scale BB for FY2017 and FY2016; RP-2000 Combined Healthy Annuitant Mortality Table for Males or Females, projected using Scale AA for prior years.
Cost-of-living increases	1.25% for FY2022; 1.50% for previous years presented per year

Other information: In FY2020, an additional $20.0 million was contributed to the pension plan in excess of the actuarially determined contribution. Based on an experience study completed in 2017, the FY2019 valuation results include the impact of other revised actuarial assumptions including salary increases and the use of updated mortality tables. There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, or other factors that significantly affected trends from year to year in the amounts reported above.

Schedules of Changes in CPS Energy Net OPEB Liability and Related Ratios – The following schedules present multiyear trend information that demonstrates the components of change in the net OPEB (asset) 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 are presented on a net OPEB (asset) liability measurement date basis for the following periods:

Health Plan

(Dollars in thousands)

	Measurement Period Ended January 31,						
	2021	2020	2019	2018	2017	2016	2015
Total OPEB liability							
Service cost	**$ 3,772**	$ 4,300	$ 4,466	$ 3,376	$ 3,435	$ 3,319	$ 3,207
Interest cost	**17,089**	17,624	18,032	17,182	18,176	17,601	17,050
Changes in Plan benefits	**—**	—	—	415	(19,185)	—	—
Changes in assumptions	**(5,962)**	(4,246)	(2,190)	9,657	—	—	—
Differences between expected and actual experience	**(11,592)**	(19,010)	1,763	—	475	—	—
Benefit payments	**(13,398)**	(12,475)	(11,390)	(12,197)	(14,001)	(12,756)	(13,275)
Net change in total OPEB liability	**(10,091)**	(13,807)	10,681	18,433	(11,100)	8,164	6,982
Total OPEB liability, beginning of period	**250,115**	263,922	253,241	234,808	245,908	237,744	230,762
Total OPEB liability, end of period	**240,024**	250,115	263,922	253,241	234,808	245,908	237,744
Plan fiduciary net position							
Employer contributions	**—**	—	—	—	(8,500)	(8,806)	(3,200)
Medicare Part D payment	**(924)**	(842)	(872)	(998)	(933)	(976)	(933)
(Earnings) loss on Plan assets	**(26,613)**	(30,260)	10,571	(41,718)	(38,949)	9,765	(12,536)
Benefit payments	**13,398**	12,475	11,390	12,197	14,001	12,756	13,275
Administrative expense	**1,297**	1,150	1,223	1,346	1,622	1,456	1,137
Net change in Plan fiduciary net position	**(12,842)**	(17,477)	22,312	(29,173)	(32,759)	14,195	(2,257)
Plan fiduciary net position, beginning of period	**(284,986)**	(267,509)	(289,821)	(260,648)	(227,889)	(242,084)	(239,827)
Plan fiduciary net position, end of period	**(297,828)**	(284,986)	(267,509)	(289,821)	(260,648)	(227,889)	(242,084)
Net OPEB (asset) liability, end of period	**$ (57,804)**	$ (34,871)	$ (3,587)	$ (36,580)	$ (25,840)	$ 18,019	$ (4,340)
Plan fiduciary net position as a percentage of the total OPEB liability	**124.1 %**	113.9 %	101.4 %	114.4 %	111.0 %	92.7 %	101.8 %
Covered-employee payroll	**$ 257,608**	$ 254,996	$ 244,010	$ 228,240	$ 220,522	$ 223,523	$ 242,652
Net OPEB (asset) liability as a percentage of covered-employee payroll	**(22.4)%**	(13.7)%	(1.5)%	(16.0)%	(11.7)%	8.1 %	(1.8)%

Notes to Schedule

The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.00% for FY2022 and 7.25% for FY2021 through FY2019. A rate of 7.50% was assumed for the previous years presented. In FY2022, the salary scale and mortality assumptions were changed to more properly reflect actual experience. The Plan was amended to eliminate the CPS Energy contribution to participants' Health Reimbursement Account and the actuary valuation used for FY2019 reflects the impact of this change. In FY2019 and FY2018, claim costs were updated to reflect plan changes and to reflect recent experience. Medical and prescription trend was reset in all years presented.

Life Plan

(Dollars in thousands)

	Measurement Period Ended January 31,						
	2021	2020	2019	2018	2017	2016	2015
Total OPEB liability							
Service cost	**$ 517**	$ 511	$ 473	$ 349	$ 336	$ 325	$ 313
Interest cost	**3,400**	3,308	3,284	3,432	3,256	3,244	3,228
Changes in assumptions	**4,044**	309	594	(457)	—	—	—
Differences between expected and actual experience	**4,766**	840	(936)	—	2,378	—	—
Benefit payments	**(3,987)**	(3,895)	(4,028)	(3,813)	(3,469)	(3,358)	(3,313)
Net change in total OPEB liability	**8,740**	1,073	(613)	(489)	2,501	211	228
Total OPEB liability, beginning of period	**47,260**	46,187	46,800	47,289	44,788	44,577	44,349
Total OPEB liability, end of period	**56,000**	47,260	46,187	46,800	47,289	44,788	44,577
Plan fiduciary net position							
Participant contributions	**(1,077)**	(1,053)	(1,030)	(1,000)	(972)	(930)	(911)
(Earnings) loss on Plan assets	**(4,031)**	(5,702)	2,135	(8,066)	(6,936)	2,102	(2,460)
Benefit payments	**3,987**	3,895	4,028	3,813	3,469	3,358	3,313
Administrative expenses	**25**	30	28	30	27	21	16
Net change in Plan fiduciary net position	**(1,096)**	(2,830)	5,161	(5,223)	(4,412)	4,551	(42)
Plan fiduciary net position, beginning of period	**(52,590)**	(49,760)	(54,921)	(49,698)	(45,286)	(49,837)	(49,795)
Plan fiduciary net position, end of period	**(53,686)**	(52,590)	(49,760)	(54,921)	(49,698)	(45,286)	(49,837)
Net OPEB (asset) liability, end of period	**$ 2,314**	$ (5,330)	$ (3,573)	$ (8,121)	$ (2,409)	$ (498)	$ (5,260)
Plan fiduciary net position as a percentage of the total OPEB liability	**95.9 %**	111.3 %	107.7 %	117.4 %	105.1 %	101.1 %	111.8 %
Covered-employee payroll	**$ 257,608**	$ 254,996	$ 244,010	$ 218,003	$ 210,631	$ 198,704	$ 191,984
Net OPEB (asset) liability as a percentage of covered-employee payroll	**0.9 %**	(2.1)%	(1.5)%	(3.7)%	(1.1)%	(0.3)%	(2.7)%

Notes to Schedule

The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.00% for FY2022 and 7.25% for FY2021 through FY2019. A rate of 7.50% was assumed for the previous years presented. In FY2022, the salary scale and mortality assumptions were changed to more properly reflect actual experience. There were no other changes in benefit terms, in the size or composition of the population covered by the benefit terms that significantly affected trends from year to year in the amounts reported above.

Disability Plan

(Dollars in thousands)

	Measurement Period Ended January 31,						
	2021	2020	2019	2018	2017	2016	2015
Total OPEB liability							
Service cost	**$ 557**	$ 580	$ 620	$ 516	$ 527	$ 509	$ 492
Interest cost	**384**	402	475	473	455	448	426
Changes in assumptions	**1,993**	11	189	94	—	—	—
Differences between expected and actual experience	**(156)**	(673)	(656)	—	255	—	—
Benefit payments	**(1,142)**	(977)	(880)	(1,012)	(974)	(775)	(559)
Net change in total OPEB liability	**1,636**	(657)	(252)	71	263	182	359
Total OPEB liability, beginning of period	**5,457**	6,114	6,366	6,295	6,032	5,850	5,491
Total OPEB liability, end of period	**7,093**	5,457	6,114	6,366	6,295	6,032	5,850
Plan fiduciary net position							
Employer contributions	**(614)**	(769)	(1,000)	(1,300)	(700)	(175)	(175)
Participant contributions	**(276)**	(291)	(274)	(265)	(260)	(248)	(211)
(Earnings) loss on Plan assets	**(539)**	(603)	205	(627)	(501)	158	(177)
Benefit payments	**1,142**	977	880	1,012	974	775	559
Administrative expenses	**21**	14	19	18	15	14	18
Net change in Plan fiduciary net position	**(266)**	(672)	(170)	(1,162)	(472)	524	14
Plan fiduciary net position, beginning of period	**(6,238)**	(5,566)	(5,396)	(4,234)	(3,762)	(4,286)	(4,300)
Plan fiduciary net position, end of period	**(6,504)**	(6,238)	(5,566)	(5,396)	(4,234)	(3,762)	(4,286)
Net OPEB (asset) liability, end of period	**$ 589**	$ (781)	$ 548	$ 970	$ 2,061	$ 2,270	$ 1,564
Plan fiduciary net position as a percentage of the total OPEB liability	**91.7 %**	114.3 %	91.0 %	84.8 %	67.2 %	62.4 %	73.3 %
Covered-employee payroll	**$ 260,739**	$ 259,520	$ 251,482	$ 224,137	$ 216,558	$ 212,904	$ 205,704
Net OPEB (asset) liability as a percentage of covered-employee payroll	**0.2 %**	(0.3)%	0.2 %	0.4 %	1.0 %	1.1 %	0.8 %

Notes to Schedule

The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.00% for FY2022 and 7.25% for FY2021 through FY2019. A rate of 7.50% was assumed for the previous years presented. In FY2022, the salary scale and mortality assumptions were changed to more properly reflect actual experience. There were no other changes in benefit terms, in the size or composition of the population covered by the benefit terms that significantly affected trends from year to year in the amounts reported above.

Schedules of Employer Contributions to CPS Energy OPEB Plans – The following schedules present multi year trend information regarding employer contributions to the OPEB Plans. 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:

Health Plan

(Dollars in thousands)

	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	**$ —**	$ —	$ —	$ —	$ —	$ —	$ —
Contributions in relation to the actuarially determined contribution	**—**	—	—	—	—	8,500	8,806
Contribution deficiency (excess)	**$ —**	$ —	$ —	$ —	$ —	$ (8,500)	$ (8,806)
Covered-employee payroll	**$ 257,608**	$ 254,996	$ 244,010	$ 228,240	$ 220,522	$ 223,523	$ 215,964
Contributions as a percentage of covered-employee payroll	**— %**	— %	— %	— %	— %	3.8%	4.1%

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 percent; layered periods
Remaining amortization period	27 years
Asset valuation method	Market value gains/losses recognized over 5 years
Healthcare cost trend rates	6.7% initial, decreasing to an ultimate rate of 3.8% for FY2022; 5.8% initial, decreasing to an ultimate rate of 4.0% for FY2021, 8.7% initial, decreasing to an ultimate rate of 4.1% for FY2020;7.0% initial, decreasing to an ultimate rate of 5.0% for FY2019 and FY2018, 7.5% initial, decreasing to an ultimate of 5.0% for FY2017 and FY2016
Prescription cost trend rates	6.7% initial, decreasing to an ultimate rate of 3.8% for FY2022; 5.8% initial, decreasing to an ultimate rate of 4.0% for FY2021, 8.7% initial, decreasing to an ultimate rate of 4.1% for FY2020; 7.0% initial, decreasing to an ultimate rate of 5.0% for FY2019 and FY2018, 8.5% initial, decreasing to an ultimate of 5.0% for FY2017 and FY2016
Salary increases	Projected average annual base salary increases from 3.2% to 11.47% for FY2022; 3.1% to 11.6% for FY2021, FY2020 and FY2019; ranging from 4.0% to 9.5% for previous years
Investment Rate of Return	7.00% per year, compounded annually, for FY2022; 7.25% for FY2021, FY2020, and FY2019; 7.50% for FY2018 and FY2017; 7.75% for previous years
Mortality	Pri-2012 Employee/Retiree Mortality (headcount weighted) projected forward (fully generational) with MP-2019 FY2021; RP-2014 Mortality Table adjusted backwards to 2006 with Mortality Scale MP-2014 and projected with Mortality Improvement Scale MP-2017 (separate tables for males/females) for FY2020; Based on RP-2000 Combined Healthy, with No Collar Adjustment, Projected to 2020 using Scale BB for previous years; Male and Female Tables for Active and Retirees; Based on Pri-2012 Private Retirement Plans Disabled Mortality Table (headcount weighted) projected with Mortality Improvement Scale MP-2020 (adopted January 1, 2021).

Other information: For FY2021, medical and dental costs and inflation (trend) were updated to reflect recent experience and future expectations. The Plan was amended to eliminate the CPS Energy contribution to participants' Health Reimbursement Account and the actuary valuation used for FY2019 reflects the impact of this change. For FY2019 and FY2018 claim costs were updated to reflect plan changes and to reflect recent experience. The medical and prescription trend was reset in FY2018. For FY2017 and FY2016 claim costs were updated to reflect recent experience, and the medical and prescription trend was reset.

Life Plan

(Dollars in thousands)

	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	**$ 924**	$ —	$ —	$ 435	$ 515	$ 145	$ 561
Contributions in relation to the actuarially determined contribution	**—**	—	—	—	—	—	—
Contribution deficiency (excess)	**$ 924**	$ —	$ —	$ 435	$ 515	$ 145	$ 561
Covered-employee payroll	**$ 257,608**	$ 254,996	$ 244,010	$ 218,003	$ 210,631	$ 198,704	$ 191,984
Contributions as a percentage of covered-employee payroll	**— %**	— %	— %	— %	— %	— %	— %

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; layered periods
Remaining amortization period	5 years
Asset valuation method	Market value gains/losses recognized over 5 years
Inflation	2.20% for FY2022; 3.00% for FY2021, 2.30% for FY2020 and 3.0% for previous years presented per year, compounded annually
Salary increases	Projected average annual base salary increases from 3.20% to 11.47% for FY2022, 5.36% average for FY2021 and FY2020; 4.54% average, including inflation for FY2019; 4.78% average, including inflation, in prior years
Investment rate of return	7.00% per year, compounded annually, for FY2022, 7.25% for FY2021 through FY2019, 7.50% for previous years
Mortality	Based on Pri-2012 Employee/Retiree Mortality (headcount weighted) projected forward (fully generational) with MP-2019; RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2018 for FY2021; RP-2014 Mortality Table adjusted backwards to 2006 with Mortality Scale MP-2014 and projected with Mortality Improvement Scale MP-2017 (separate tables for males/females) for FY2020; RP-2000 Combined Healthy, with No Collar Adjustment, Projected to 2020 using Scale BB for FY2020, Male and Female Tables for Active and Retirees; Based on Pri-2012 Private Retirement Plans Disabled Mortality Table (headcount weighted) projected with Mortality Improvement Scale MP-2020 (adopted January 1, 2021).

Other information: In FY2022, FY2021, FY2020, and FY2019, the salary scale and mortality assumptions were changed to more properly reflect actual experience. There were no other changes in benefit terms, in the size or composition of the population covered by the benefit terms that significantly affected trends from year to year in the amounts reported above.

Disability Plan

(Dollars in thousands)

	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	$ 726	$ 614	$ 769	$ 1,045	$ 1,035	$ 886	$ 793
Contributions in relation to the actuarially determined contribution	726	614	769	1,000	1,300	700	175
Contribution deficiency (excess)	$ —	$ —	$ —	$ 45	$ (265)	$ 186	$ 618
Covered-employee payroll	**$ 260,739**	$ 259,520	$ 251,482	$ 224,137	$ 216,558	$ 212,904	$ 205,704
Contributions as a percentage of covered-employee payroll	**0.3%**	0.2%	0.3%	0.4%	0.6%	0.3%	0.1%

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; layered periods
Asset valuation method	Market value gains/losses recognized over 5 years
Remaining amortization period	5 years
Inflation	2.20% for FY2022; 3.00% for FY2021, 2.30% for FY2020; 3.0% for previous years presented per year, compounded annually
Salary increases	Projected average annual base salary increases from 3.2% to 11.47% for FY2022, 5.36% average for FY2021 and FY2020; 4.72% average, including inflation for FY2019; 4.78% average, including inflation for previous years
Investment rate of return	7.00% per year, compounded annually for FY2022, 7.25% for FY2021 through FY2019, 7.50% for previous years
Mortality	Healthy mortality based on Pri-2012 Employee/Retiree Mortality (headcount weighted) projected forward (fully generational) with MP-2019 Disabled mortality based on Pri-2012 Private Retirement Plans Disabled Mortality Table (headcount weighted) projected with Mortality Improvement Scale MP-2020 (adopted January 1, 2021). Healthy mortality based on RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2018 Disabled mortality based on 1987 Commissioners Group Disable Life Mortality Table for 2021.

Other information: The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.00% for FY 2022 and 7.25% for FY2021 through FY2019. A rate of 7.50% was assumed for the previous years presented. In FY2022, FY2021, FY2020 and FY2019, the salary scale and mortality assumptions were also changed to more properly reflect actual experience. During FY2016, plan changes to provide employees with immediate coverage and an option to increase the benefit from 50% of pay to 70% of pay, less Social Security Disability Benefits and other offsets were reflected in the valuation.

Schedules of Investment Returns for CPS Energy Fiduciary Funds – The following schedules present the annual money-weighted rate of return, net of investment expense for the investments held by the Plans.

	Fiscal Year Ended December 31,								
	2021	2020	2019	2018	2017	2016	2015	2014	2013
Plan									
Pension	**15.6 %**	8.8 %	17.9 %	-4.5%	14.6 %	10.2 %	-1.1%	5.7 %	19.9 %
Health	**14.5 %**	6.9 %	16.7 %	-5.5%	14.0 %	11.1 %	—	—	—
Life	**14.9 %**	7.4 %	18.9 %	-5.5%	14.1 %	9.7 %	—	—	—
Disability	**14.7 %**	7.7 %	18.5 %	-5.8%	13.8 %	8.9 %	—	—	—

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. Changes to federal tax law in late calendar 2017 eliminated the ability of governments to issue tax-exempt advance refunding bonds. Taxable advance refundings of tax-exempt or taxable bonds are still permitted.

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.

Assets: Resources with present service capacity that a governmental entity presently controls.

Asset Retirement Obligation ("ARO"): A legally enforceable liability associated with the retirement of a tangible capital asset.

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.

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 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 Instrument: In finance, a security for which price is dependent upon or derived from one or more underlying assets. The derivative instrument itself is merely a contract between two or more parties. Examples of derivative instruments 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") applicable to private sector entities in the United States.

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.

Flexible Path SM: CPS Energy's strategic approach to thoughtfully discover, explore, and implement new power generation and demand-side solutions to transform the utility to lower and non-emitting energy sources over the next 20 years and beyond.

Flex*POWER Bundle** SM: An initiative supporting the ***Flexible Path SM strategy; envisioning adding 900 MWs of generation capacity by adding solar, storage, and firming capacity to the utility's power generation mix.

***Flex*STEP** SM: A dynamic, flexible program for promoting energy efficiency, conservation, and new technology that builds on CPS Energy's proven STEP model for delivering energy savings and empowering customer choice.

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.

Hedging: The process of buying and selling fuel oil; natural gas; diesel fuel; and electric energy futures, options or similar contracts to limit risk of loss caused by price fluctuations.

Lease: A legal agreement to pay rent to the lessor for a stated period of time.

Liabilities: Present obligations to sacrifice resources that a governmental entity has little or no discretion to avoid.

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 basic financial statements 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.

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 (Asset) Liability: The difference between the actuarial total OPEB liability and an OPEB plan's fiduciary net position of as the measurement date.

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 Company's electric and gas 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 all or a portion of 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. (Also see "Wholesale Sales.")

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 PFC 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.

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.

South Texas Project 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.

Weighted-Average Duration ("WAD"): The weighted-average time to return a dollar of principal and interest and 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.

Weighted-Average Maturity ("WAM"): The weighted-average time to return a dollar of principal based on an investment's stated final maturity. It is used as an estimate of the interest rate risk of a fixed-income investment.

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