

**CITY PUBLIC SERVICE  
OF SAN ANTONIO, TEXAS**

*(A Component Unit of the City of San Antonio)*

**BASIC FINANCIAL STATEMENTS**

**Fiscal Year Ended January 31, 2024 and 2023**

(With Independent Auditors' Report Thereon)



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# City Public Service of San Antonio, Texas

*(A Component Unit of the City of San Antonio)*

Basic Financial Statements

For the Fiscal Year Ended January 31, 2024 and 2023

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## **Independent Auditors' Report**

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

### **Report on the Audit of the Financial Statements**

#### *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 years ended January 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise CPS Energy's basic financial statements 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, 2024 and 2023, 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, 2023 and 2022 and for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and in 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.

#### *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 GAAS, 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

San Antonio, Texas  
April 25, 2024



## **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"), a component unit of the City of San Antonio ("City"). 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, 2024 ("FY2024"), compared to the fiscal year ended January 31, 2023 ("FY2023"). It also provides an overview of CPS Energy's general financial condition and results of operations for FY2023, compared to the previous fiscal year ended January 31, 2022 ("FY2022"). The MD&A should be read in conjunction with the basic financial statements, notes to the basic financial statements, and the required supplemental information that follows.

### **BASIC FINANCIAL STATEMENTS OVERVIEW**

In accordance with generally accepted accounting principles ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"), 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, 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 fuel hedges, unamortized losses on debt refundings, 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, unrealized future revenues, unamortized gains on debt refundings, and deferred inflows related to leases. 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 and capital contributions 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.

*See accompanying Independent Auditors' report.*

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. 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.

## OPERATIONAL HIGHLIGHTS

**Vision 2027** – In May 2022, CPS Energy launched a multi-year initiative focused on five strategic objectives to meet the company's mission in the rapidly changing utility industry. CPS Energy's mission statement reads "Serving our community through reliable, competitively priced, and sustainable energy services in an equitable manner." The initiative's five strategic objectives are: operational evolution, financial stability, customer experience, team culture and community partnership and growth.

**Customer accounts receivables** – CPS Energy continues to see lingering impacts of COVID-19, most notably related to past due customer accounts receivables. In October 2021, CPS Energy resumed disconnects for those customers not enrolled in a payment plan. However, disconnects were temporarily paused during the FY2023 summer months due to experiencing extreme temperatures but were resumed in September 2022 and continued through January 31, 2023. In FY2024, disconnects were paused due to the extreme summer temperatures but resumed as weather conditions improved and continued through fiscal year-end. The continuation of the standard collections and disconnects is part of the Vision 2027 customer experience core objective to develop a timely and effective communication with the customers and connect customers with support through the customer assistance programs available.

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 was allocated to assist CPS Energy customers. CPS Energy administered the funds to eligible customers and assisted with past due bills incurred from March 1, 2020, through September 30, 2021. In September 2023, CPS Energy received an additional \$1.3 million from the City related to ARPA, which assisted with past due bills incurred. As of January 31, 2024, all funds had been applied to qualifying past due customer accounts.

**Grant awards** – In October 2023, the U.S. Department of Energy ("DOE") selected CPS Energy to receive approximately \$30.2 million to enhance the utility's ongoing efforts to maintain grid reliability and resiliency. The DOE funds will advance CPS Energy's Community Energy Resiliency Program, focused on grid innovation such as installing microgrids to sustain the evolving needs of customers and businesses in the south and southwest portions of San Antonio. This federal fund includes a required CPS Energy matching commitment of \$30.2 million for an approximate combined total investment of \$60.4 million.

In May 2023, CPS Energy received an award of approximately \$5.0 million from the Federal Emergency Management Agency ("FEMA") to assist with COVID-19 related expenses. The FEMA award was recorded as other receivable and funds are expected to be received in calendar 2024.

**Wholesale revenue** – The summer of 2023 was the hottest summer on record in San Antonio with 74 days of triple digit temperatures, beating the previous record of 59 days set back in 2009. Additionally, the Electric Reliability Council of Texas ("ERCOT") set 10 new all time peak demand records and an all time peak demand record of 85,464 MW on August 10, 2023; however, despite the strain, CPS Energy's system performed reliably. As a result of the increased energy demand, CPS Energy's nonfuel wholesale revenue increased significantly during the FY2024

summer months due to the higher temperatures and greater opportunities to sell into the market at higher prices. The revenues are expected to be used to reinvest into CPS Energy, to provide direct assistance to customers via the Residential Energy Assistance Program, and to comply with regulatory requirements.

**CPS Energy rate case** – On December 7, 2023, City Council approved a 4.25% rate increase, which will be effective February 1, 2024, for both CPS Energy’s electric and natural gas base rates. The rate increase will address CPS Energy’s infrastructure resiliency, growth, technology and security needs, and workforce planning. This rate increase is part of the Vision 2027 multi-year financial stability core objective necessary to maintain and improve the utility for the community now and in the future.

## RESULTS OF OPERATIONS

### Summary of Revenues, Expenses and Changes in Net Position

(In thousands)

	January 31,		
	2024	2023	2022
Revenues and nonoperating income			
Operating revenues	\$ 3,359,249	\$ 3,383,403	\$ 2,762,548
Nonoperating income, net	97,040	62,301	34,250
Total revenues and nonoperating income	3,456,289	3,445,704	2,796,798
Expenses			
Operating expenses	2,503,976	2,738,146	2,196,293
Nonoperating expenses	709,682	636,767	513,340
Total expenses	3,213,658	3,374,913	2,709,633
Income before other changes in net position	242,631	70,791	87,165
Other payments to the City of San Antonio	(12,853)	(11,524)	(11,600)
Capital contributions	103,062	81,225	74,403
Change in net position	332,840	140,492	149,968
Net position – beginning	4,031,215	3,890,723	3,740,755
Net position – ending	\$ 4,364,055	\$ 4,031,215	\$ 3,890,723

### Total Revenues and Nonoperating Income

**FY2024** – Representing 97.2% of total revenues and nonoperating income, electric and gas revenues of \$3,359.2 million decreased by \$24.2 million, or 0.7%, compared to FY2023. This decrease was primarily due to lower electric retail and gas fuel recoveries partially offset by higher electric wholesale nonfuel recoveries. Even though San Antonio experienced record heat in the summer of FY2024, the hotter summer weather and the associated increase in electric consumption was not enough to offset the electric retail and gas fuel recoveries that were significantly lower in FY2024 as compared to FY2023 due to drastically lower electric retail and gas fuel prices which led to lower operating revenue in FY2024 as compared to FY2023.

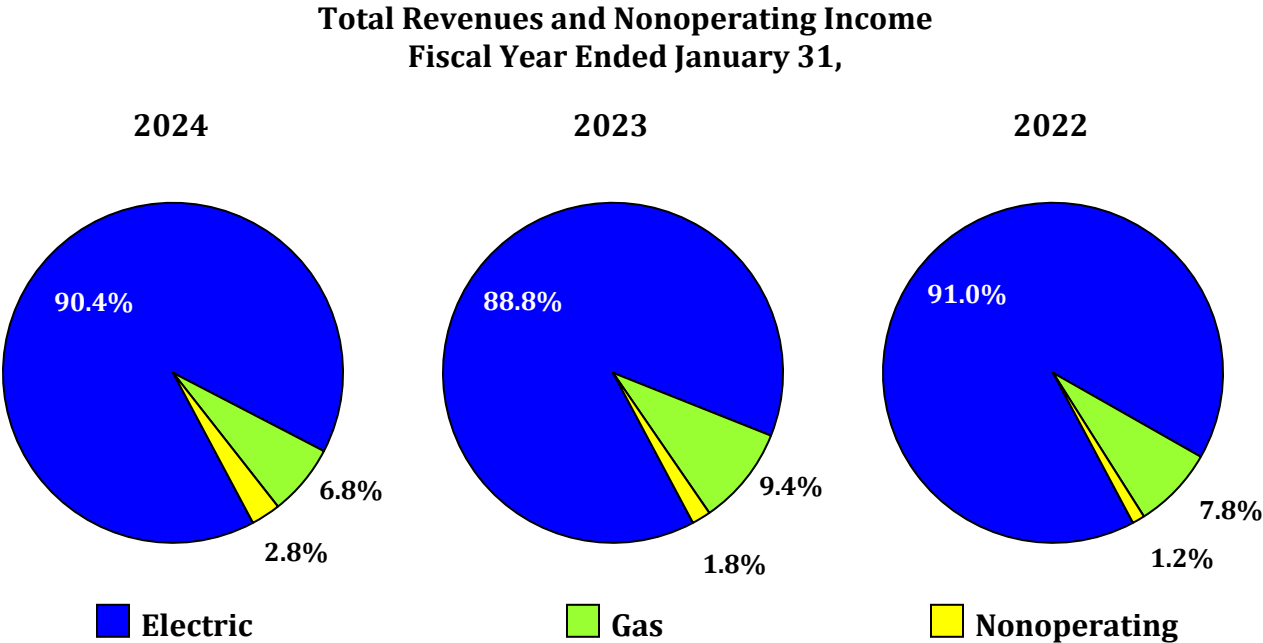
Net nonoperating income of \$97.0 million increased \$34.7 million from FY2023. This increase was primarily due to a positive change in the fair value of CPS Energy’s investments as compared to a negative change in the fair value of CPS Energy’s investments in FY2023.

**FY2023** – Representing 98.2% of total revenues and nonoperating income, electric and gas revenues of \$3,383.4 million increased by \$620.9 million, or 22.5%, compared to FY2022. This increase was primarily due to higher electric retail and gas recoveries in FY2023 coupled with an increase in sales. The higher fuel recoveries are due to an increase in the cost of electric fuel and distribution gas purchased for resale to consumers that directly



impacts electric and gas fuel recoveries. Additionally, the incredibly hot temperatures in the summer of FY2023 led to significantly higher electric sales as compared to FY2022.

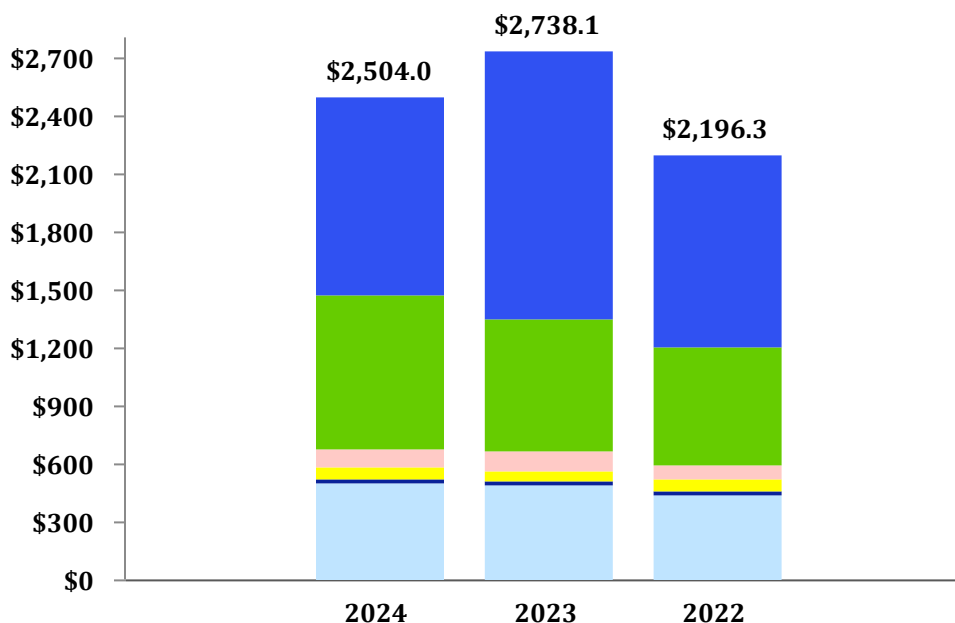
Net nonoperating income of \$62.3 million increased \$28.1 million from FY2022 due to \$20.0 million in American Rescue Plan Act funds received from the City. Other factors contributing to the increase include proceeds from the sale of properties, and an increase in investment income offset by a decrease in the fair value of investment holdings due to the higher interest rate environment in the current year.



**Operating Expenses**

**FY2024** – Operating expenses of \$2,504.0 million were approximately \$234.2 million, or 8.6%, below the FY2023 total of \$2,738.1 million. The variance is due to lower fuel costs of \$347.9 million due to lower fuel market prices, partially offset by higher operation and maintenance ("O&M") of \$98.9 million, depreciation expense of \$11.6 million and other expenses totaling \$3.2 million.

**FY2023** – Operating expenses of \$2,738.1 million were approximately \$541.9 million, or 24.7%, above the FY2022 total of \$2,196.3 million. The variance is primarily due to higher fuel costs of \$390.4 million, higher O&M of \$85.3 million, depreciation expense of \$49.6 million and other expenses totaling \$16.5 million.

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

	2024	2023	2022
Fuel, purchased power and distribution gas	\$ 1,031.6	\$ 1,379.5	\$ 989.1
Operation and maintenance	787.6	688.7	603.4
Regulatory assessments	99.8	99.9	79.5
Energy efficiency and conservation (STEP) & STEP net costs recoverable	54.8	49.9	55.7
Decommissioning	21.8	23.3	21.4
Depreciation and amortization	508.4	496.8	447.2

**Nonoperating Expenses**

**FY2024** – Nonoperating expenses of \$709.7 million were approximately \$72.9 million higher than FY2023 due to higher payments to the City of \$10.8 million due to increased electric revenues, higher interest expense and other debt related costs of \$28.7 million due to current year bond issuances, and by the effect of the South Texas Project ("STP") defined benefit plan funding obligation of \$33.4 million in the current fiscal year.

**FY2023** – Nonoperating expenses of \$636.8 million were approximately \$123.4 million higher than FY2022 primarily due to higher payments to the City of \$86.0 million due to increased electric and gas revenues, higher interest expense and other debt-related costs of \$20.2 million due to higher interest costs related to bond issuances, and by the effect of the STP defined benefit plan funding obligation of \$17.3 million higher than FY2022.

**Other Changes in Net Position**

**FY2024** – Other payments to the City totaled \$12.9 million and were comparable to FY2023. Capital contributions of \$103.1 million were approximately \$21.8 million higher than FY2023 due to an increase in customer growth projects.

**FY2023** – Other payments to the City totaled \$11.5 million and were comparable to FY2022. Capital contributions of \$81.2 million were approximately \$6.8 million higher than FY2022 due to an increase in customer growth projects.

See accompanying Independent Auditors' report.

**FINANCIAL POSITION****Statements of Net Position Summary**

(In thousands)

	January 31,		
	2024	2023	2022
<b>Assets</b>			
Current assets	\$ 1,204,611	\$ 1,285,994	\$ 1,157,287
Noncurrent assets	3,095,301	2,830,996	2,971,932
Capital assets, net	9,763,110	9,272,283	8,935,099
Total assets	14,063,022	13,389,273	13,064,318
Deferred outflows of resources	747,712	754,235	742,681
Total assets plus deferred outflows of resources	<u>\$ 14,810,734</u>	<u>\$ 14,143,508</u>	<u>\$ 13,806,999</u>
<b>Liabilities</b>			
Current liabilities	\$ 977,821	\$ 995,805	\$ 920,535
Long-term debt, net	7,175,452	6,930,755	6,537,067
Noncurrent liabilities	2,101,005	1,874,430	2,187,245
Total liabilities	10,254,278	9,800,990	9,644,847
Deferred inflows of resources	192,401	311,303	271,429
Total liabilities plus deferred inflows of resources	<u>10,446,679</u>	<u>10,112,293</u>	<u>9,916,276</u>
<b>Net position</b>			
Net investment in capital assets	2,682,503	2,672,442	2,593,090
Restricted	965,197	813,194	736,380
Unrestricted	716,355	545,579	561,253
Total net position	4,364,055	4,031,215	3,890,723
Total liabilities plus deferred inflows of resources plus net position	<u>\$ 14,810,734</u>	<u>\$ 14,143,508</u>	<u>\$ 13,806,999</u>

**Current Assets**

**FY2024** – Current assets totaled \$1,204.6 million as of January 31, 2024, a decrease of \$81.4 million compared to January 31, 2023, due to decreases of \$56.0 million in the General Fund primarily due to lower accounts payable, decreases in payables due to the City and STP payables, as well as customer advances for construction. Other impacts include decreases of \$36.2 million in customer accounts receivable related to suspending disconnects and an increase of \$4.7 million in Inventory and Prepayments.

**FY2023** – Current assets totaled \$1,286.0 million as of January 31, 2023, an increase of \$128.7 million compared to January 31, 2022, due to increases of \$48.7 million in the General Fund primarily due to higher accounts payable, an increase in payables due to the City and STP payables, as well as customer advances for construction. Other impacts include an increase of \$20.5 million in customer accounts receivable related to suspending disconnects and an increase of \$45.7 million in contract deposits.

**Noncurrent Assets**

**FY2024** – Noncurrent assets totaled \$3,095.3 million as of January 31, 2024, an increase of \$264.3 million compared to January 31, 2023. The overall variance was due to increases of \$132.4 million in the Repair and Replacement Account, \$64.1 million in the Decommissioning Trusts balance due to favorable market conditions, \$31.8 million in the

debt service balance, \$26.1 million in regulatory assets related to the pension and OPEB regulatory asset, and \$25.2 million in prepayments and other accounts. These increases were partially offset by a decrease of \$18.4 million due to the inventory related to the long-term service agreement being placed in service.

**FY2023** – Noncurrent assets totaled \$2,831.0 million as of January 31, 2023, a decrease of \$140.9 million compared to January 31, 2022. The overall variance was due to decreases of \$114.0 million in the Decommissioning Trusts balance due to unfavorable market conditions, \$51.1 million in the Capital Projects Fund due to construction funding, partially offset by tax-exempt commercial paper issuances, as well as \$34.7 million in noncurrent prepayments primarily due to fuel hedges, and \$30.0 million in the fuel costs regulatory asset related to Winter Storm Uri due to settlements with vendors. These decreases were partially offset by an increase of \$87.7 million in the Repair and Replacement Account.

## Capital Assets, Net

**FY2024** – As of January 31, 2024, net capital assets of \$9,763.1 million increased \$490.8 million from \$9,272.3 million at January 31, 2023. The increase was primarily due to a \$202.8 million increase in nondepreciable assets, a \$228.4 million increase in electric plant, and a \$91.7 million increase in gas plant. The increase was partially offset by a \$8.3 million decrease in general plant, a \$4.1 million decrease in nuclear fuel, and a \$29.0 million decrease in intangibles. Total depreciable/amortizable assets increased \$288.0 million.

Of the total plant-in-service and construction-in-progress additions, \$1,004.6 million was related to new construction and net removal costs. These additions included funding with \$531.7 million of debt, \$97.7 million from capital contributions and \$375.2 million from the Repair and Replacement Account. Included in capital assets is CPS Energy's 40% interest in STP Units 1 and 2.

**FY2023** – As of January 31, 2023, net capital assets of \$9,272.3 million increased \$337.2 million from \$8,935.1 million at January 31, 2022. The increase was primarily due to a \$307.2 million increase in nondepreciable assets, a \$34.8 million increase in general plant, and a \$34.4 million increase in gas plant. The increase was partially offset by a \$40.3 million decrease in electric plant, and a \$29.8 million decrease in intangibles. Total depreciable/amortizable assets increased \$30.0 million.

Of the total plant-in-service and construction-in-progress additions, \$788.3 million was related to new construction and net removal costs. These additions included funding with \$461.8 million of debt, \$75.3 million from capital contributions and \$251.2 million from the Repair and Replacement Account. Included in capital assets is CPS Energy's 40% interest in STP Units 1 and 2.

## Deferred Outflows of Resources

**FY2024** – Deferred outflows of resources decreased \$6.5 million, from \$754.2 million as of January 31, 2023, to \$747.7 million as of January 31, 2024, due to decreases of \$80.6 million in unamortized asset retirement obligation costs to reflect decommissioning cost study, \$14.4 million in unamortized losses on debt refundings, and \$5.5 million in unrealized losses on fuel hedges, partially offset by an increase of \$94.1 million of outflows related to pension and OPEB as a result of the new regulatory asset adoption.

**FY2023** – Deferred outflows of resources increased \$11.6 million, from \$742.7 million as of January 31, 2022, to \$754.2 million as of January 31, 2023, due to increases of \$20.6 million in unrealized losses on fuel hedges, \$4.5 million in unamortized asset retirement obligation costs, partially offset by a decrease of \$13.0 million in unamortized losses on debt refundings.

## Current Liabilities

**FY2024** – Excluding current maturities of debt of \$181.3 million, current liabilities decreased \$37.5 million, from \$834.0 million as of January 31, 2023, to \$796.5 million as of January 31, 2024. The decrease was primarily due to decreases of \$51.5 million in accounts payable and accrued liabilities, \$6.6 million in STP operating, maintenance and construction payables, and \$4.0 million in pollution remediation. These were partially offset by increases of \$12.3 million in interest and other debt-related payables, and \$7.0 million in current customer advances reclassified to long-term customer advances.

**FY2023** – Excluding current maturities of debt of \$161.8 million, current liabilities increased \$178.0 million, from \$656.0 million as of January 31, 2022, to \$834.0 million as of January 31, 2023. The increase was primarily due to increases of \$107.9 million in accounts payable and accrued liabilities, \$27.4 million in STP operating, maintenance and construction payables due to an increase in nuclear fuel, in \$19.4 million in current customer advances reclassified to long-term customer advances, and \$12.3 million in interest and other debt-related payables.

## **Noncurrent Liabilities**

**FY2024** – Excluding the noncurrent portion of debt of \$7,175.5 million, noncurrent liabilities increased \$226.6 million to \$2,101.0 million as of January 31, 2024, primarily due to an increase of \$237.9 million in net pension liability due to the annual updated actuarial study and an increase of \$41.5 million in decommissioning net costs refundable due to the favorable impact of the updated STP Units 1 and 2 decommissioning cost study. These increases were partially offset by a \$59.0 million decrease in asset retirement obligations due to the favorable impact of the updated decommissioning cost study and a \$14.1 million decrease in long-term service agreement payables due to a milestone payment becoming current.

**FY2023** – Excluding the noncurrent portion of debt of \$6,930.8 million, noncurrent liabilities decreased \$312.8 million to \$1,874.4 million as of January 31, 2023, primarily due to decreases of \$137.7 million in decommissioning net costs refundable due to unfavorable market conditions, \$136.1 million in net pension liability due to an updated actuarial study, \$39.1 million in STP OPEB and pension liability due to adjustments for market data, \$18.5 million in long-term service agreement liability is due primarily to a large milestone payment becoming current at year end, and \$13.3 million in deferred fuel related to disputed costs as a result of Winter Storm Uri. These decreases were partially offset by an increase of \$28.2 million in asset retirement obligations primarily due to inflation adjustments for projected decommissioning costs for STP Units 1 and 2.

## **Deferred Inflows of Resources**

**FY2024** – Deferred inflows of resources decreased \$118.9 million, from \$311.3 million as of January 31, 2023, to \$192.4 million as of January 31, 2024, primarily due to decreases of \$126.7 million in deferred inflows related to pension and OPEB as a result of the updated actuarial studies, \$20.1 million in unrealized losses on fuel hedges, partially offset by an increase of \$32.6 million in unamortized gains on debt refundings due to the debt refunding transactions in FY2024.

**FY2023** – Deferred inflows of resources increased \$39.9 million, from \$271.4 million as of January 31, 2022, to \$311.3 million as of January 31, 2023, primarily due to an increase of \$83.1 million in deferred inflows related to pension and OPEB, partially offset by a decrease of \$39.4 million in unrealized losses on fuel hedges.

## **FINANCING AND DEBT COVENANTS COMPLIANCE**

### **Long-Term Debt (Excluding Commercial Paper and Flexible Rate Revolving Notes)**

**FY2024** – As of January 31, 2024, CPS Energy's total debt outstanding was \$6,579.5 million, excluding commercial paper, the flexible rate revolving note ("FRRN"), discounts and premiums. This long-term debt was composed of \$5,768.1 million in fixed-interest-rate instruments and \$811.4 million in variable-interest-rate instruments. Fixed-interest-rate long-term debt had an overall weighted-average yield of 4.0%. Separately, the variable-rate bonds had an annual weighted-average yield of 2.4%.

*Issuances* – CPS Energy issued a total of \$899.6 million in bonds in FY2024 through refunding and tender transactions.

*Reductions* – CPS Energy made principal payments of \$161.8 million in FY2024. Additional principal paydowns related to refunding transactions during the year totaled \$388.2 million.

**Summary of Debt Rollforward Activity<sup>1</sup>**

(In thousands)

Balance Outstanding February 1, 2023	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2024
\$ 6,229,780	\$ 899,635	\$ (549,940)	\$ 6,579,475

<sup>1</sup>Excludes commercial paper, the FRRN, discounts and premiums.

**FY2023** – As of January 31, 2023, CPS Energy’s total debt outstanding was \$6,229.8 million, excluding commercial paper, the FRRN, discounts and premiums. This long-term debt was composed of \$5,518.8 million in fixed-interest-rate instruments and \$711.0 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%.

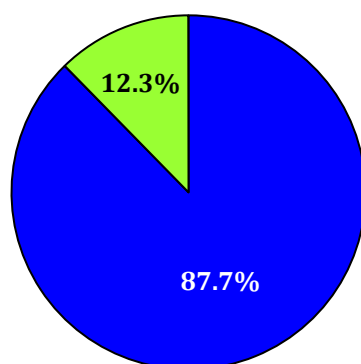
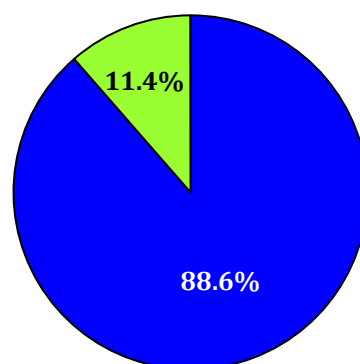
**Issuances** – CPS Energy issued a total of \$1,017.7 million in bonds in FY2023 through refunding and remarketing transactions.

**Reductions** – CPS Energy made principal payments of \$164.5 million in FY2023. Additional principal paydowns related to refunding and remarketing transactions during the year totaled \$263.5 million.

**Summary of Debt Rollforward Activity<sup>1</sup>**

(In thousands)

Balance Outstanding February 1, 2022	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2023
\$ 5,640,095	\$ 1,017,675	\$ (427,990)	\$ 6,229,780

<sup>1</sup>Excludes commercial paper, the FRRN, discounts and premiums.**Allocation of Debt  
at January 31,****2024****2023**

■ Fixed-Rate Instruments

■ Variable - Rate Instruments

**Note: Graphs exclude commercial paper and the FRRN.**

## Commercial Paper

**FY2024** – *Issuances* – CPS Energy issued a total of \$530.9 million in commercial paper during the fiscal year ended January 31, 2024, to fund construction costs.

*Reductions* – CPS Energy made reductions of \$635.0 million related to commercial paper refunding transactions and paydowns during the fiscal year ended January 31, 2024.

As of January 31, 2024, the outstanding commercial paper balance was \$351.4 million, all of which was issued tax-exempt.

### Summary of Commercial Paper Rollforward Activity

(In thousands)

Balance Outstanding February 1, 2023	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2024
\$ 455,500	\$ 530,900	\$ (635,000)	\$ 351,400

**FY2023** – *Issuances* – CPS Energy issued a total of \$601.9 million in commercial paper during the fiscal year ended January 31, 2023, to fund construction and fuel costs.

*Reductions* – CPS Energy made reductions of \$806.4 million related to commercial paper refunding transactions and paydowns during the fiscal year ended January 31, 2023.

As of January 31, 2023, the outstanding commercial paper balance was \$455.5 million, of which \$420.5 million was issued as tax-exempt, and \$35.0 million was issued as taxable.

### Summary of Commercial Paper Rollforward Activity

(In thousands)

Balance Outstanding February 1, 2022	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2023
\$ 660,000	\$ 601,927	\$ (806,427)	\$ 455,500

The weighted-average interest rate on outstanding commercial paper was 3.4% as of January 31, 2024, and 1.8% as of January 31, 2023. The weighted-average maturity of commercial paper as of January 31, 2024 and 2023, was 360 and 352 days, respectively.

## Flexible Rate Revolving Notes

**FY2024** – There were no note issuances or reductions under the FRRN programs during FY2024. As of January 31, 2024, there was no outstanding FRRN balance.

**FY2023** – On April 13, 2022, the outstanding balance of \$100.0 million was paid down through a revenue refunding bond transaction. As of January 31, 2023, there were no outstanding amounts under the FRRN program.

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  
as of January 31, 2024**

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	4.03x	3.89x
Senior and Junior lien debt	3.31x	3.18x

**Debt Service Coverage Ratios  
as of January 31, 2023**

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	3.60x	3.47x
Senior and Junior lien debt	2.94x	2.82x

The ratio of debt to debt and net position was 60.8% and 61.8% as of January 31, 2024 and 2023, respectively.

**Summary of CPS Energy's Bond and Commercial Paper Ratings  
as of January 31, 2024**

	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

During the fiscal year, Fitch Ratings, Moody's Investors Service, and S&P Global Ratings affirmed the ratings of CPS Energy; which reflect negative outlooks from Fitch Ratings and S&P Global Ratings, while, Moody's Investors Service reflects a stable outlook.

## **CURRENTLY KNOWN FACTS**

**Strategic Initiatives** – CPS Energy's mission is to serve our community through reliable, competitively priced, and sustainable energy services in an equitable manner. Our five strategic objectives are: Operational Evolution, Financial Stability, Customer Experience, Team Culture, and Community Partnership & Growth. We live our core values of Safety & Well-being, Transparency, One Team, Accountability, Integrity, and Excellence. We are connecting, listening, and engaging transparently with our community and stakeholders.

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.

We will continue our legacy of enhancing quality of life by providing equitable, affordable, reliable, and sustainable energy. San Antonio is one of the fastest-growing cities in America, and the utility industry is faced with integrating new technology while balancing societal and regulatory expectations, managing severe weather events, and remaining competitive in retaining and attracting talent.



**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.

The Environment Protection Agency ("EPA") proposed a carbon rule on May 23, 2023. The EPA is proposing to update and establish more stringent new source performance standards ("NSPS") for greenhouse gas ("GHG") emissions from new and reconstructed fossil fuel-fired stationary combustion turbine electric generating units ("EGUs") that are based on highly efficient generation, hydrogen co-firing, and carbon capture and sequestration ("CCS"). The EPA is also proposing to establish new emission guidelines for existing fossil fuel-fired steam-generating EGUs that reflect the application of CCS and the availability of natural gas co-firing. Simultaneously, the EPA proposes repealing the Affordable Clean Energy ("ACE") rule because the emissions guidelines established in the ACE do not reflect the best emissions reduction ("BSER") system for steam generating EGUs and are inconsistent with further aspects of section 111 of the Clean Air Act. To address GHG emissions from existing fossil fuel-fired stationary combustion turbines, the EPA is proposing emissions guidelines for large and frequently used existing stationary combustion turbines. Further, the EPA is soliciting comments on how the agency should approach its legal obligation to establish emissions guidelines for the remaining existing fossil fuel-fired combustion turbines not covered by this proposal, including smaller, frequently used, and less frequently used, combustion turbines. CPS Energy is actively participating with American Public Power Association ("APPA") and Large Public Power Council ("LPPC") in reviewing the rule. On February 29 2024, the EPA announced that it would be dropping the requirements covering existing natural gas-fired stationary combustion turbines in its final rule. The requirements for existing coal and natural gas steam boilers and new gas units are expected to be finalized in April 2024.

The Steam Electric Power Generating Effluent Guidelines and Standards for power plant wastewater was finalized in 2016, with a 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 added further regulations on coal combustion wastewater in 2022; however, there was little impact as CPS Energy had chosen to eliminate these discharges.

The EPA designated Bexar County as Marginal Nonattainment on September 24, 2018. 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. On April 13, 2022, the EPA proposed to change San Antonio area (Bexar County) from Marginal to Moderate nonattainment for the 2015 Ozone standard of 70 parts per billion ("ppb"). On November 7, 2022, the EPA published San Antonio as Moderate for Ozone Nonattainment. On May 31, 2023, the Texas Commission on Environmental Quality ("TCEQ") issued rules addressing the Moderate nonattainment designation for Bexar County. The TCEQ proposed to add Bexar County to the existing list of counties affected by the vehicle inspection and maintenance (I/M) program codified in Title 30 Texas Administrative Code (30 TAC) Chapter 114. These rules were adopted on November 29, 2023. Beginning November 1, 2026, all gasoline vehicles registered in Bexar County that are two to 24 years old must be subjected to an on-board diagnostics ("OBD") inspection and a gas cap integrity inspection as part of the annual safety and emissions inspection. This is in addition to the anti-tampering checks performed as part of the annual safety and emissions inspection. All inspection stations would be required to offer the OBD test. The attainment date for the Bexar County 2015 ozone National Ambient Air Quality Standards ("NAAQS") moderate nonattainment area is September 24, 2024. On December 15, 2023, the TCEQ published proposed rules for nonattainment areas classified as moderate and above are required to meet the mandates of the federal Clean Air Act ("FCAA"). FCAA requires that the State Implementation Plan ("SIP") incorporate all reasonably available control measures ("RACM"), including reasonably available control technology ("RACT"), as

expeditiously as practicable. The TCEQ is required to implement RACT requirement rules for all categories of stationary sources classified as major stationary sources of nitrogen oxides ("NOx") or volatile organic compounds ("VOC"). This proposed rulemaking would implement RACT requirements for major sources of NOx in Bexar County. This would include our generation facilities at Calaveras, Braunig, and Leon Creek. The rule would require a system wide NOx 30-day rolling average on all of our generation units located in Bexar County. CPS Energy submitted comments on the proposed NOx rules to the TCEQ on January 12, 2024.

On October 12, 2023, the Texas Governor sent a letter to the EPA requesting to voluntarily designate San Antonio, Dallas, and Houston Areas as Serious for Ozone Nonattainment ahead of schedule. Following this letter, the EPA published the Serious designation for Bexar County on January 26, 2024. Comments are due February 26, 2024. The attainment date for Bexar County remains September 24, 2027. Failure to attain the NAAQS by that date, or effectively the end of the 2026 ozone season, will result in Bexar County being designated up to Severe nonattainment.

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 was October 15, 2023. Prior to October 15th, CPS Energy completed construction of a new replacement CCR impoundment and ceased use/placement of material into the older CCR impoundment. In addition, Initiation of Closure Notification for each of the older CCR impoundments have been provided to the TCEQ and placed on the CPS Energy CCR public webpage. The EPA proposed the Legacy CCR Impoundments Rule and placed in Federal Register on May 18, 2023. The proposed rule does not affect the operation of the Spruce generating Units but would require additional ground water monitoring wells and reporting. In addition, four currently closed CCR landfills located on the Calaveras Power Station property may require additional cover requirements. Final version of the proposed Legacy CCR Impoundments Rule is expected in May 2024.

**Federal Budget Developments** – In December 2017, the U.S. 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.

In August 2022, Congress passed the Inflation Reduction Act ("IRA"). The IRA included several energy tax provisions, including extensions of the Production Tax Credit ("PTC"), Investment Tax Credit ("ITC"), and Carbon Capture Tax Credit, among others. The ITC was also expanded to additional types of renewable energy. The IRA further includes a variety of different tax incentives for existing nuclear, energy efficiency, clean fuels, electric vehicles, and environmental justice, among other provisions. Of particular importance, the IRA gives public power utilities and other tax-exempt entities access to refundable direct payment tax credits. The U.S. Department of the Treasury and Internal Revenue Service have initiated a series of Requests for Information ("RFI"s) to implement the various tax provisions within the IRA. CPS Energy is participating in this process through our national trade associations.

## 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.

## STATEMENTS OF NET POSITION

	January 31,	
	2024	2023
	(In thousands)	
Assets		
Current assets		
Cash and cash equivalents	\$ 394,213	\$ 480,957
Customer accounts receivable, less allowance for doubtful accounts of \$122.0 million at January 31, 2024, and \$138.8 million at January 31, 2023	323,114	359,265
Interest and other accounts receivable	119,256	101,462
Inventories, at average costs		
Materials and supplies, net	144,728	125,721
Fossil fuels	72,176	57,474
Prepayments and other	151,124	161,115
Total current assets	<u>1,204,611</u>	<u>1,285,994</u>
Noncurrent assets		
Restricted		
Cash and cash equivalents	454,945	452,476
Investments	1,361,837	1,136,832
Interest and other accounts receivable	8,645	6,452
Pension regulatory asset	244,586	218,490
Fuel costs regulatory asset	763,167	759,623
Other noncurrent assets	262,121	257,123
Capital assets, net	9,763,110	9,272,283
Total noncurrent assets	<u>12,858,411</u>	<u>12,103,279</u>
Total assets	<u>14,063,022</u>	<u>13,389,273</u>
Deferred outflows of resources		
Pension and OPEB related	235,270	141,187
Fuel hedges	30,243	35,783
Unamortized losses on debt refundings	47,459	61,890
Asset retirement obligations	434,740	515,375
Total deferred outflows of resources	<u>747,712</u>	<u>754,235</u>
Total assets and deferred outflows of resources	<u>\$ 14,810,734</u>	<u>\$ 14,143,508</u>

# STATEMENTS OF NET POSITION

	January 31,	
	2024	2023
	(In thousands)	
Liabilities		
Current liabilities		
Current maturities of debt	\$ 181,295	\$ 161,775
Accounts payable and accrued liabilities	796,526	834,030
Total current liabilities	977,821	995,805
Noncurrent liabilities		
Long-term debt, net	7,175,452	6,930,755
Asset retirement obligations	1,054,040	1,112,389
Decommissioning net costs refundable	96,237	54,727
Net pension liability	349,979	112,055
Fuel costs liability	362,251	362,251
Other noncurrent liabilities	238,498	233,008
Total noncurrent liabilities	9,276,457	8,805,185
Total liabilities	10,254,278	9,800,990
Deferred inflows of resources		
Fuel hedges	—	20,083
Pension and OPEB related	59,752	186,490
Unrealized future revenues	70,481	74,016
Leases	10,763	11,878
Unamortized gains on debt refundings	51,405	18,836
Total deferred inflows of resources	192,401	311,303
Total liabilities and deferred inflows of resources	10,446,679	10,112,293
Net position		
Net investment in capital assets	2,682,503	2,672,442
Restricted		
Debt service	173,427	153,856
Ordinance	791,770	659,338
Unrestricted	716,355	545,579
Total net position	4,364,055	4,031,215
Total liabilities, deferred inflows of resources and net position	\$ 14,810,734	\$ 14,143,508

See accompanying Notes to Basic Financial Statements.

# STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended January 31,	
	2024	2023
	(In thousands)	
Operating revenues		
Electric		
Retail	\$ 2,744,093	\$ 2,819,575
Wholesale	380,982	239,067
Total electric operating revenues	3,125,075	3,058,642
Gas	234,174	324,761
Total operating revenues	3,359,249	3,383,403
Operating expenses		
Fuel, purchased power and distribution gas	1,031,560	1,379,474
Operation and maintenance	787,631	688,700
Energy efficiency and conservation (STEP)	58,725	56,787
STEP net costs recoverable (refundable)	(3,979)	(6,854)
Regulatory assessments	99,828	99,948
Decommissioning	21,790	23,286
Depreciation and amortization	508,421	496,805
Total operating expenses	2,503,976	2,738,146
Operating income	855,273	645,257
Nonoperating income (expense)		
Interest and other income, net	75,250	39,015
Decommissioning Trusts investment income (loss)	64,086	(113,985)
Decommissioning net costs recoverable (refundable)	(42,296)	137,271
Interest and other expense	(287,828)	(257,661)
Amortization of debt-related costs	34,784	33,284
Effect of defined benefit plan funding obligations – STP	(7,287)	26,138
Payments to the City of San Antonio	(449,351)	(438,528)
Total nonoperating income (expense)	(612,642)	(574,466)
Income before other changes in net position	242,631	70,791
Other payments to the City of San Antonio	(12,853)	(11,524)
Capital contributions	103,062	81,225
Change in net position	332,840	140,492
Net position – beginning	4,031,215	3,890,723
Net position – ending	\$ 4,364,055	\$ 4,031,215

## STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 31,	
	2024	2023
	(In thousands)	
Cash flows from operating activities		
Cash received from customers	\$ 3,377,597	\$ 3,346,431
Cash received from City services billed	149,722	140,039
Cash payments to suppliers for goods and services	(1,734,842)	(1,844,218)
Cash payments to employees for service	(297,730)	(247,959)
Cash payments to the City for services billed	(147,534)	(140,169)
Net cash provided (used) by operating activities	1,347,213	1,254,124
Cash flows from capital and related financing activities		
Cash paid for additions to utility plant and net removal costs	(1,050,256)	(900,371)
Capital contributions	97,743	75,342
Proceeds from the sale of capital assets	5,169	29,500
Proceeds from issuance of revenue bonds and commercial paper	1,144,612	867,865
Principal payments on revenue bonds and cash defeasance of debt	(761,775)	(609,495)
Interest paid	(279,098)	(248,890)
Debt issue and cash defeasance costs paid	(7,244)	(7,798)
Net cash provided (used) by capital and related financing activities	(850,849)	(793,847)
Cash flows from noncapital financing activities		
Cash payments to the City of San Antonio	(457,098)	(443,895)
Proceeds from issuance of revenue bonds	—	411,156
Proceeds from issuance of commercial paper	—	181,427
Cash payments on commercial paper	(35,000)	(396,427)
Cash payments on flexible rate revolving note	—	(100,000)
Grant proceeds	6,346	24,295
Net cash provided (used) by noncapital financing activities	(485,752)	(323,444)
Cash flows from investing activities		
Purchases of investments	(469,654)	(503,377)
Proceeds from sales and maturities of investments	294,758	451,647
Interest and other income	80,009	67,823
Net cash provided (used) by investing activities	(94,887)	16,093
Net increase (decrease) in cash and cash equivalents	(84,275)	152,926
Cash and cash equivalents at beginning of period	933,433	780,507
Cash and cash equivalents at end of period	\$ 849,158	\$ 933,433

See accompanying Notes to Basic Financial Statements.

## STATEMENTS OF CASH FLOWS

Fiscal Year Ended January 31,

**2024****2023**

(In thousands)

### Reconciliation of operating income to net cash provided (used) by operating

#### Cash flows from operating activities

Operating income	\$	<b>855,273</b>	\$	645,257
Noncash items included				
Depreciation and amortization		<b>508,422</b>		496,805
Nuclear fuel amortization		<b>49,941</b>		49,440
Provision for doubtful accounts		<b>27,689</b>		86,305
Changes in current assets and liabilities				
(Increase) decrease in customer accounts receivable, net		<b>8,461</b>		(106,839)
(Increase) decrease in other receivables		<b>(18,435)</b>		(17,412)
(Increase) decrease in materials and supplies		<b>(19,007)</b>		(12,289)
(Increase) decrease in fossil fuels		<b>(14,702)</b>		23,093
(Increase) decrease in prepayments and other		<b>(15,060)</b>		(26,989)
Increase (decrease) in accounts payable and accrued liabilities		<b>(47,438)</b>		144,913
Changes in noncurrent and other assets and liabilities				
(Increase) decrease in other noncurrent assets and prepaid costs		<b>(2,995)</b>		14,106
(Increase) decrease in fuel costs recoverable		<b>(3,544)</b>		30,036
Increase (decrease) in customer service deposits payable		<b>633</b>		974
Increase (decrease) in asset retirement obligation		<b>(58,349)</b>		28,249
Increase (decrease) in deferred fuel		<b>—</b>		(13,328)
Increase (decrease) in noncurrent liabilities		<b>217,625</b>		(166,254)
Changes in deferred outflows of resources		<b>(13,448)</b>		(3,928)
Changes in deferred inflows of resources		<b>(127,853)</b>		81,985
Net cash provided (used) by operating activities	\$	<b><u>1,347,213</u></b>	\$	<b><u>1,254,124</u></b>

#### Noncash financing activities

Bond proceeds deposited into an escrow account for purposes of refunding long-term debt	\$	<b>365,704</b>	\$	131,354
Donated assets received and recorded	\$	<b>5,319</b>	\$	5,883

## STATEMENTS OF FIDUCIARY NET POSITION

	December 31,	
	2023	2022
	(In thousands)	
<b>Assets</b>		
Cash and cash equivalents	\$ 39,506	\$ 19,747
Receivables		
Accrued interest and dividends receivable	4,063	3,914
Receivable from federal government under Medicare Part D	170	135
Investment trades pending receivable	10,300	10,660
Receivable from property managers and others	919	922
Allowance for bad debt expense	(919)	(919)
Total receivables	14,533	14,712
Investments		
U.S. Government securities	94,115	105,285
Corporate bonds	227,815	227,717
Investment grade bond funds	36,220	—
Senior loan fund	105,725	93,495
Emerging market debt	54,469	50,190
Domestic equities	1,024,508	852,773
Low-volatility equities	194,290	182,301
International equities	228,967	197,462
Master limited partnerships	205,586	194,815
Alternative investments	123,078	114,202
Real estate	153,976	176,859
Investment in partnership	45,000	49,000
Total investments	2,493,749	2,244,099
Total assets	\$ 2,547,788	\$ 2,278,558
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 463	\$ 453
Investment trades pending payable	25,827	1,783
Investment and administrative expenses payable	552	596
Accrued health claims payable	5,207	5,022
Total liabilities	32,049	7,854
Net position restricted for pension and other postemployment benefits	2,515,739	2,270,704
Total liabilities and net position	\$ 2,547,788	\$ 2,278,558

See accompanying Notes to Basic Financial Statements.



## STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	December 31,	
	2023	2022
	(In thousands)	
Additions		
Contributions		
Employer	\$ 94,307	\$ 94,929
On-behalf payments from federal government	996	985
Participants	29,250	27,188
Total contributions	124,553	123,102
Investment income (loss)		
Interest and dividend income	32,567	24,765
Real estate rental income	5,153	4,820
Net realized and unrealized gain (loss) on investments	295,617	(287,212)
Miscellaneous income	24	94
Total investment income (loss)	333,361	(257,533)
Investment expenses	(6,764)	(6,229)
Net investment income (loss)	326,597	(263,762)
Total additions	451,150	(140,660)
Deductions		
Benefits paid	201,573	187,533
Administrative expenses	4,542	4,280
Bad debt expense	—	519
Total deductions	206,115	192,332
Change in fiduciary net position	245,035	(332,992)
Fiduciary net position – beginning	2,270,704	2,603,696
Fiduciary net position – ending	\$ 2,515,739	\$ 2,270,704

# NOTES TO BASIC FINANCIAL STATEMENTS

## January 31, 2024 and 2023

### 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 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 revenue bond ordinances, CPS Energy 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 its financial statements 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, leases and subscription based information technology agreements ("SBITAs"), net of accumulated depreciation/amortization, reduced by the outstanding balances of any debt or liability 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 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 prepared on the accrual basis of accounting in conformity with 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 deferred outflows of resources, liabilities and deferred inflows of resources, 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. These reclassifications had no effect on the reported results of operations.

**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 month. Also included in unbilled revenue are the (over)/under-recoveries of electric and gas fuel costs and regulatory assessments. Unbilled revenue recorded as of January 31, 2024 and 2023 including estimates for electric fuel and gas costs, were \$28.4 million and \$50.7 million, respectively.

An adjustment clause in CPS Energy's rate tariffs also permits recovery of regulatory assessments. CPS Energy recovers assessments from the Public Utility Commission of Texas ("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, 2024 and 2023, were \$99.8 million and \$99.9 million, respectively.

**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 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. Unrestricted funds are generally used for current operations.

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.

**Customer Accounts Receivables** - 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 \$122.0 million and \$138.8 million for fiscal years ended January 31, 2024 and 2023, respectively.

In June 2020, CPS Energy established the Customer Outreach Resource Effort program to expand efforts to contact customers by proactively calling those 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 Housing and Urban Development low income qualified census tract will not be scheduled for disconnect. In FY2023, CPS Energy began residential customer disconnects and continued through the entire fiscal year to mitigate outstanding past due accounts. In FY2024, CPS Energy paused residential customer disconnects during the extreme summer weather conditions, but they were resumed as conditions improved and continued through the end of the fiscal year.

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 \$27.7 million and \$86.3 million for the periods ended January 31, 2024 and 2023, respectively. As of January 31, 2024 and 2023, customer accounts receivables, net were \$323.1 million and \$359.3 million, respectively.

**Inventories** – CPS Energy maintains inventories for its materials, supplies and fossil fuels. In total, CPS Energy reported ending inventories of \$216.9 million and \$183.2 million as of January 31, 2024 and 2023, 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 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 \$7.3 million and \$6.9 million as of January 31, 2024 and 2023, respectively.

**Regulatory Accounting** – Regulatory accounting applies to governmental entities with rate-regulated operations, such as CPS Energy, that fall within the scope of the 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 the GASB Codification Section RE10. 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/other postemployment benefits ("OPEB"), Save for Tomorrow Energy Plan ("STEP") net costs recoverable and fuel costs regulatory asset. See Note 5 – Regulatory Assets for further discussion.

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

*Purchased Power 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. As of January 31, 2024, \$3.1 million was classified as current and \$38.3 million was classified as noncurrent of the remaining prepayment balance. As of January 31, 2023, \$3.1 million was classified as current and \$41.4 million was classified as noncurrent of the remaining prepayment balance. The balance of the output is purchased on a pay-as-you-go basis.

*Purchased Gas Prepayments* – In FY2024 and FY2023, the Company entered into agreements for natural gas that require prepayments. In connection with these agreements, CPS Energy made prepayments of \$3.4 million in FY2024 and \$15.1 million in FY2023. As of January 31, 2024 and 2023, CPS Energy had net prepaid balances of \$8.5 million and \$31.4 million, respectively. Of the prepaid amount, \$5.2 million and \$23.1 million, respectively, were classified as current assets and \$3.3 million, respectively, were classified 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.

*Sustainable 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 845 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 CPS Energy's Board of Trustees ("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. In June 2022, the City authorized the funding of a new energy efficiency and conservation program STEP to reduce 410 MW customer demand through energy efficiency and conservation programs by calendar year 2027.

Annually, approximately \$10 million of STEP expenses are funded through the electric base rate and reported as operation and maintenance ("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 independently validated. These STEP recoveries are accrued as a regulatory asset referred to as STEP net costs recoverable. As of January 31, 2024 and 2023, the net costs recoverable was \$58.7 million and \$56.8 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 the 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 was \$41.4 million and \$50.4 million as of 2024, and 2023. For additional information, see Note 12 – Other Postemployment Benefits.

**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.

Proceeds from customers to partially fund construction expenditures are reported as capital contributions 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*. Capital contributions consist of donated assets and contributions received from customers as payments for utility extensions and services, as well as funding for community initiatives and other local partnership projects.

### Capital Contributions

(In thousands)

	January 31,	
	2024	2023
Donated assets	\$ 5,319	\$ 5,883
Contributions	97,743	75,342
Total capital contributions	<u>\$ 103,064</u>	<u>\$ 81,227</u>

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 3.2% and 3.3% for FY2024 and FY2023, respectively.

The estimated useful lives of depreciable capital assets for FY2024 and FY2023 were as follows:

Depreciable Capital Asset	Estimated Useful Life
Buildings and structures	45 years
Systems and improvements	
Generation	34–59 years
Transmission and distribution	6–63 years
Gas	30–65 years
Intangibles - software	8 years
Intangibles - other	20–30 years
Machinery and equipment	4–20 years
Mineral rights and other	20–40 years
Nuclear fuel	Units of Production

In FY2023, CPS Energy engaged an independent third-party consulting firm to conduct a depreciation study, which is performed generally every five years. The new depreciation rates resulting from the study were retroactively applied to the beginning of FY2023. As a result of the study, based on the plant in service as of January 31, 2022, total annual depreciation increased by approximately 7.6% based on the updated estimated useful lives and increases in plant-in-service balances.

Separately, right-to-use lease assets and subscription assets are 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 FY2024 and FY2023 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*, in 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 and SBITAs for additional information regarding leases.

**Subscription Based Information Technology Agreements** – CPS Energy adopted GASB Statement No. 96, *Subscription Based Information Technology Agreements ("SBITAs")*, during FY2023. GASB Statement No. 96 establishes an accounting model for subscription assets. Under this statement, CPS Energy is required to recognize a SBITA liability and an intangible right-to-use subscription asset. See Note 17 – Leases and SBITAs for additional information regarding subscription assets.

**Compensated Absences** – Employees earn vacation benefits based upon their employment status and years of service. As of January 31, 2024 and 2023, the accrued liabilities for those vested benefits were \$29.5 million and \$26.0 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.

**Long-Term Debt** – To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2024 and 2023, 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 by 5.9% for the period of October 1, 2020, through September 30, 2021, and 5.7% for the period October 1, 2021, 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 included in Note 8 – Revenue Bonds.

**Decommissioning** – CPS Energy accounts for its legal obligation to decommission STP Units 1 and 2 in accordance with GASB Statement No. 83. The Company recognized its pro rata share of an asset retirement obligation ("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 performed in May 2023. 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, at least annually, for the effects of inflation or deflation. In addition to the ARO, the Company recorded deferred outflows of resources that are being amortized over the remaining useful life of the plant. See Note 18 – 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, a deficit would be reported as decommissioning net costs recoverable and would be receivable from customers.

**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 \$350.0 million and \$112.1 million as of January 31, 2024 and 2023, 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 Outflows and Deferred Inflows of Resources** – Certain items applicable to future reporting periods are reported as deferred outflows of resources (consumption) and deferred inflows of resources (acquisition).

*Pension and OPEB* – CPS Energy reports as deferred inflows or deferred outflows of resources as the differences between expected and actual experience, projected and actual investment earnings on pension plan investments, and CPS Energy's contributions to the pension system subsequent to the measurement date. See Note 11 – Employee Pension Plan.

CPS Energy reports the changes in CPS Energy's net OPEB liability (asset) that have not been included in OPEB expense as deferred inflows or deferred outflows of resources. Amounts included would result from changes of assumptions, the net difference between projected and actual earnings on the OPEB Trusts, and CPS Energy's contributions subsequent to the measurement date. See Note 13 – Other Postemployment Benefits.

*Fuel Hedges* – 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.

*Unamortized gains/losses on refundings* – Deferred charge on refunding represents the difference between the reacquisition price and the net carrying amount of the old debt that 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.

*Asset Retirement Obligations* – 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. CPS Energy reports AROs associated with the decommissioning of STP Units 1 and 2, and the retirement of the fuel storage tanks, and vaults. See Note 18 – Asset Retirement Obligations.

*Unrealized Future Revenues* – Primarily related to future recoveries associated with the FY2020 Joint Base San Antonio ("JBSA") agreement, which totaled \$70.4 million and \$73.9 million as of January 31, 2024 and 2023, respectively.

*Leases* – GASB Statement No. 87, *Leases*, requires CPS Energy, as a lessor, to recognize leases related to future revenue as a deferred inflow.

**Rates** – Rates are set by the Board and approved by the San Antonio City Council. On December 7, 2023, City Council approved a 4.25% increase in both CPS Energy's electric and natural gas base rates, which became effective February 1, 2024.

**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 FY2024, 69% of distribution and 30% of generation natural gas volumes were hedged. In FY2023, 49% of distribution and 31% of generation natural gas volumes were hedged. See Note 14 – Derivative Instruments.

**Pension Plan** – The financial statements of the Pension Plan are separately audited and reported as of December 31, 2023, with comparative totals as of December 31, 2022. The financial results of the Pension Plan are included as part of the basic financial statements and 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 included in Note 11 – Employee Pension Plan and in Required Supplementary Information.

**Postemployment Benefits Other Than Pension** – The Employee Benefit Plans are separately audited and reported as of December 31, 2023, with comparative totals as of December 31, 2022. The financial results of the Employee Benefit Plans are included as part of the basic financial statements and 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 included in Note 12 – Other Postemployment Benefits and in Required Supplementary Information.

**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 allowable costs 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 capital assets are recognized as capital contributions on the Statements of Revenues, Expenses, and Changes in Net Position and reflected as part of Capital Assets, net on the Statements of Net Position. 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.

#### **FY2023 GASB pronouncement implementations:**

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements ("SBITAs")*, requires the recognition of an intangible right-to-use subscription asset with a corresponding subscription liability for contracts that convey control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this statement, a SBITA lease liability and an intangible right-to-use SBITA lease asset, and a deferred inflow of resources have been reported.

#### **Future GASB pronouncement implementations:**

- GASB Statement No. 101, *Compensated Absences*, establishes accounting and financial reporting requirements for compensated absences and associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB). This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2025. CPS Energy has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.
- GASB Statement No. 102, *Certain Risk Disclosures*, requires a government to assess whether a concentration or constraint makes the primary government reporting unit that reports a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, a government is required to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact has occurred. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2025. CPS Energy has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.

## 2. Cash, Cash Equivalents and Investments

CPS Energy's cash deposits as of January 31, 2024 and 2023, 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,	
	2024	2023
Cash		
Petty cash funds on hand (current)	\$ 43	\$ 43
Deposits with financial institutions		
Unrestricted CPS Energy deposits (current)	23,903	52,506
Restricted CPS Energy deposits (noncurrent)		
Capital projects	72	153
Debt service	318,295	287,069
Total cash	342,313	339,771
Cash equivalents		
Investments with original maturities of 90 days or less		
CPS Energy unrestricted (current)	370,267	428,408
CPS Energy restricted (noncurrent)	108,275	140,965
Decommissioning Trusts – restricted (noncurrent)	28,303	24,289
Total cash equivalents	506,845	593,662
Total cash and cash equivalents	\$ 849,158	\$ 933,433

**Summary of Cash, Cash Equivalents and Investments**

(In thousands)

	January 31,	
	2024	2023
Cash and cash equivalents		
CPS Energy – unrestricted and restricted	\$ 820,855	\$ 909,144
Decommissioning Trusts – restricted	28,303	24,289
Total cash and cash equivalents	849,158	933,433
Gross investments – current and noncurrent CPS Energy – unrestricted and restricted	1,161,405	1,087,182
Decommissioning Trusts – restricted	707,277	643,312
Total gross investments	1,868,682	1,730,494
Investments with original maturities of 90 days or less included in cash and cash equivalents		
CPS Energy – unrestricted and restricted	(478,542)	(569,373)
Decommissioning Trusts – restricted	(28,303)	(24,289)
Total cash equivalents	(506,845)	(593,662)
Total gross investments less cash equivalents	1,361,837	1,136,832
Total cash, cash equivalents and investments	\$ 2,210,995	\$ 2,070,265

**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% fixed income, 27% equities and 9% U.S. real estate investment trusts.

**Permissible Investments**

<b>Investment Description</b>	<b>CPS Energy Investments</b>	<b>Decommissioning Trusts Investments</b>
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,	
	2024	2023
Unrestricted		
Cash and cash equivalents	\$ 394,213	\$ 480,957
Total unrestricted (current)	394,213	480,957
Restricted		
Debt service		
Cash and cash equivalents	320,431	288,594
Total debt service	320,431	288,594
Capital projects		
Cash and cash equivalents	1,337	17
Total capital projects	1,337	17
Ordinance		
Cash and cash equivalents	104,874	139,576
Investments	682,863	517,809
Total ordinance	787,737	657,385
Decommissioning Trusts		
Cash and cash equivalents	28,303	24,289
Investments	678,974	619,023
Total Decommissioning Trusts	707,277	643,312
Total restricted		
Cash and cash equivalents	454,945	452,476
Investments	1,361,837	1,136,832
Total restricted (noncurrent)	1,816,782	1,589,308
Total cash, cash equivalents and investments (unrestricted and restricted)	\$ 2,210,995	\$ 2,070,265

**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<sup>1</sup>**  
(In thousands)

	January 31,	
	<u>2024</u>	<u>2023</u>
CPS Energy investments		
U.S. Treasuries, U.S. Agencies, municipal bonds, CDs, commercial paper, investment pools and money market mutual funds	<u>\$ 1,161,405</u>	<u>\$ 1,087,182</u>
Decommissioning Trusts		
U.S. Treasuries, U.S. Agencies, municipal bonds and money market mutual funds	316,704	283,483
Corporate bonds	112,558	121,259
Foreign bonds	12,640	12,311
Subtotal	<u>441,902</u>	<u>417,053</u>
Common stock	201,703	168,740
Real estate investment trusts	62,895	56,746
Preferred stock	777	773
Total Decommissioning Trusts	<u>707,277</u>	<u>643,312</u>
Total investments	<u>\$ 1,868,682</u>	<u>\$ 1,730,494</u>

<sup>1</sup> Excludes cash of \$342.3 million and \$339.8 million as of January 31, 2024 and 2023, 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, 2024				January 31, 2023			
	Carrying Value	Fair Value	Allocation	WAM <sup>1</sup>	Carrying Value	Fair Value	Allocation	WAM <sup>1</sup>
U.S. Treasuries	\$ 13,701	\$ 13,701	1.18%	2.6	\$ 18,157	\$ 18,157	1.67%	2.9
U.S. Agencies								
Federal Agriculture Mortgage Corp	9,701	9,701	0.84%	0.9	11,482	11,482	1.06%	1.4
Federal Farm Credit Bank	282,571	282,571	24.32%	3.5	109,109	109,109	10.04%	4.1
Federal Home Loan Bank	131,025	131,025	11.28%	2.7	118,531	118,531	10.90%	2.5
Federal Home Loan Mortgage Corp	51,932	51,932	4.47%	2.7	30,608	30,608	2.82%	3.1
Federal National Mortgage Assn	56,876	56,876	4.90%	2.4	68,922	68,922	6.34%	2.8
Small Business Administration	2,981	2,981	0.26%	5.8	5,364	5,364	0.49%	5.1
Municipal bonds	134,076	134,076	11.54%	2.6	155,636	155,636	14.32%	2.8
Investment pools	452,117	452,117	38.93%	—	534,151	534,151	49.12%	—
Money market mutual funds	26,425	26,425	2.28%	—	35,222	35,222	3.24%	—
Total fixed-income portfolio	<u>\$1,161,405</u>	<u>\$ 1,161,405</u>	100.00%	1.6	<u>\$ 1,087,182</u>	<u>\$ 1,087,182</u>	100.00%	1.5

<sup>1</sup>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, 2024 and 2023, 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, 2024			January 31, 2023		
	Carrying Value	Fair Value	Allocation	Carrying Value	Fair Value	Allocation
U.S. Treasuries (AA+)	\$ 13,701	\$ 13,701	1.20%	\$ 18,157	\$ 18,157	1.70%
AAA / Aaa	533,333	533,333	45.90%	633,945	633,945	58.30%
AA+ / Aa1	559,744	559,744	48.20%	368,797	368,797	33.90%
AA / Aa2	28,048	28,048	2.40%	37,972	37,972	3.50%
AA- / Aa3	6,462	6,462	0.60%	8,069	8,069	0.70%
Not rated <sup>1</sup>	20,117	20,117	1.70%	20,242	20,242	1.90%
Total fixed-income portfolio	<u>\$ 1,161,405</u>	<u>\$ 1,161,405</u>	100.00%	<u>\$ 1,087,182</u>	<u>\$ 1,087,182</u>	100.00%

<sup>1</sup>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, 2023 and 2022. 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 6.24 years and 6.17 years for the period ending December 31, 2023 and 2022, 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 29.3% and 32.7% of the fixed-income portfolio for the 28% Decommissioning Trust as of December 31, 2023 and 2022, respectively. Total other debt securities (corporate and foreign issuers) amounted to 25.8% and 30.3% of the fixed-income portfolio for the 12% Decommissioning Trust as of December 31, 2023 and 2022, respectively.

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

(Dollars in thousands)						
<b>Investment Type – 28% Trust</b>	<b>December 31, 2023</b>			<b>December 31, 2022</b>		
	<b>Fair Value</b>	<b>Allocation</b>	<b>*WAD</b>	<b>Fair Value</b>	<b>Allocation</b>	<b>WAD</b>
U.S. Treasuries	\$ 83,406	26.00%	8.6	\$ 69,296	22.91%	5.3
U.S. Agencies						
Federal Home Loan Mortgage Corp	46,008	14.34%	5.6	45,375	15.00%	3.1
Federal National Mortgage Assn	54,095	16.87%	5.5	53,287	17.62%	4.4
Government National Mortgage Assn	7,723	2.41%	2.6	6,846	2.26%	2.5
Small Business Administration	7,840	2.45%	4.8	4,698	1.56%	4.1
Municipal bonds – Texas	859	0.27%	8.2	575	0.19%	8.9
Municipal bonds – other states	6,932	2.16%	7.6	6,767	2.24%	8.4
Corporate bonds	82,914	25.84%	5.7	88,231	29.17%	5.0
Foreign bonds	11,043	3.45%	4.4	10,602	3.51%	4.7
Money market mutual funds	19,933	6.21%	—	16,758	5.54%	—
Total 28% Trust fixed-income portfolio	<u>320,753</u>	<u>100.00%</u>	<u>6.4</u>	<u>302,435</u>	<u>100.00%</u>	<u>4.7</u>
<b>Investment Type – 12% Trust</b>						
U.S. Treasuries	37,085	30.61%	8.3	29,794	25.99%	5.6
U.S. Agencies						
Federal Home Loan Mortgage Corp	14,322	11.82%	5.5	13,906	12.13%	2.7
Federal National Mortgage Assn	21,154	17.46%	5.5	21,565	18.81%	3.4
Government National Mortgage Assn	1,764	1.46%	5.3	1,630	1.42%	4.6
Small Business Administration	4,013	3.31%	4.9	2,539	2.22%	4.3
Municipal bonds – Texas	412	0.34%	8.2	270	0.24%	8.9
Municipal bonds – other states	2,789	2.30%	7.4	2,646	2.31%	8.2
Corporate bonds	29,644	24.47%	5.4	33,028	28.82%	4.5
Foreign bonds	1,597	1.32%	5.7	1,709	1.49%	6.0
Money market mutual funds	8,369	6.91%	—	7,531	6.57%	—
Total 12% Trust fixed-income portfolio	<u>121,149</u>	<u>100.00%</u>	<u>6.4</u>	<u>114,618</u>	<u>100.00%</u>	<u>4.5</u>
Total Trusts fixed-income portfolio	<u>\$ 441,902</u>			<u>\$ 417,053</u>		

\* The aggregate portfolio of debt securities of the trusts are limited to + / - 1.5 years of the effective durations of the specified debt security index.

**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, 2023 and 2022.

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

(Dollars in thousands)	December 31, 2023		December 31, 2022	
Credit Rating – 28% Trust	Fair Value	Allocation	Fair Value	Allocation
U.S. Treasuries (AA+)	\$ 83,406	26.00 %	\$ 69,296	22.91 %
AAA / Aaa	25,555	7.97 %	22,213	7.34 %
AA+ / Aa1	119,063	37.11 %	113,087	37.42 %
AA/Aa2	2,013	0.63 %	2,101	0.69 %
AA- / Aa3	2,019	0.63 %	2,100	0.69 %
A+ / A1	1,791	0.56 %	2,492	0.82 %
A/A2	4,050	1.26 %	4,108	1.36 %
A-/A3	19,379	6.04 %	22,236	7.35 %
BBB+/Baa1	24,856	7.75 %	24,847	8.22 %
BBB / Baa2	24,216	7.55 %	21,330	7.05 %
BBB-/Baa3	7,152	2.23 %	8,813	2.91 %
BB+/Ba1	916	0.29 %	2,023	0.67 %
B+/B1	153	0.05 %	125	0.04 %
Not Rated <sup>1</sup>	6,184	1.93 %	7,664	2.53 %
Total 28% Trust fixed-income portfolio	320,753	100.00 %	302,435	100.00 %
Credit Rating – 12% Trust				
U.S. Treasuries (AA+)	37,085	30.61 %	29,796	26.00 %
AAA /Aaa	10,851	8.96 %	9,856	8.60 %
AA+/Aa1	42,986	35.47 %	41,076	35.84 %
AA / Aa2	1,418	1.17 %	1,150	1.00 %
AA-/Aa3	251	0.21 %	328	0.29 %
A+/A1	194	0.16 %	566	0.49 %
A/A2	1,353	1.12 %	1,662	1.45 %
A-/A3	8,376	6.91 %	10,661	9.30 %
BBB+/Baa1	7,653	6.32 %	7,496	6.54 %
BBB/Baa2	6,767	5.59 %	5,981	5.22 %
BBB-/Baa3	1,146	0.95 %	1,844	1.61 %
BB+/Ba1	29	0.02 %	28	0.02 %
Not Rated <sup>1</sup>	3,040	2.51 %	4,174	3.64 %
Total 12% Trust fixed-income portfolio	121,149	100.00 %	114,618	100.00 %
Total Trusts fixed-income portfolio	\$ 441,902		\$ 417,053	

<sup>1</sup> 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 \$12.6 million at December 31, 2023, and \$12.3 million at December 31, 2022. In accordance with the Investment Policy, investments in international equity securities are limited to international commingled funds, American Depositary 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 14.4% and 13.4% of the 28% Trust's total portfolio as of December 31, 2023 and 2022, respectively.

Total foreign equity securities held by the 12% Trust amounted to 12.7% and 12.1% of the Trust's portfolio as of December 31, 2023 and 2022, respectively.

## Fiduciary Funds' Investments

As mentioned previously, the fiduciary financial statements include the CPS Energy Pension Plan, the CPS Energy Group Health Plan, the 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, 2023 and 2022.

**Employee Benefit Plans cash and cash equivalents** – Deposits consist of cash and cash equivalents held through irrevocable trusts and through approved depository institutions. Beginning, in calendar 2023, the Plans invest most of their temporary cash surpluses overnight in money market mutual funds that meet the requirements of the investment policy of the Plans.

**Custodial credit risk** – Custodial credit risk for deposits is the risk that, in event of a failure of a depository institution, the Plans would not be able to recover deposits. Deposits not held through the trusts are covered by federal depository insurance through the Federal Deposit Insurance Corporate.

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 used as a benchmark. Certain investments included below, which include the global bond fund, are managed through mutual funds or commingled funds that 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,	
	2023	2022
Barclays Aggregate (Total investment grade)	6.20	6.20
Bloomberg U.S. Aggregate Index (Investment grade bond funds)	6.10	—
Bloomberg Barclays High-yield (High-yield corporate bonds)	3.20	3.90
Bloomberg U.S. Corporate High-yield	3.29	4.05
Credit Suisse Leveraged Loan Index (Senior loan funds)	0.25	0.25
JPMorgan Emerging Market Bond Index Global Diversified Index	6.90	6.80

The following table presents the weighted-average effective duration of debt security asset classes:  
(Dollars in thousands)

<b>Investment Type – Pension Plan</b>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Fair Value</b>	<b>WAD</b>	<b>Fair Value</b>	<b>WAD</b>
U.S. Treasury and Agency:				
Notes and bonds	\$ 38,647	9.82	\$ 36,285	8.27
Collateralized mortgage obligations	8,360	4.28	7,722	3.50
Mortgage pass-through securities	42,629	4.64	28,578	5.86
Commercial mortgage-backed securities	3,869	3.06	11,325	2.97
Municipal bonds	610	9.93	413	13.62
Asset-backed securities	14,476	2.25	12,845	1.88
Collateralized debt obligations	656	0.03	688	0.02
Corporate bonds	37,018	6.39	43,694	6.45
High-yield corporate bonds	147,738	3.16	131,325	3.85
Emerging market debt fund	44,436	6.97	39,851	6.80
Senior loan fund (floating rate)	87,899	0.64	77,321	0.67
Total Pension Plan investments in debt securities	426,338		390,047	
<b>Investment Type – Health Plan</b>				
U.S. Treasury and Agency:				
Notes and bonds	\$ —	—	\$ 5,930	7.46
Collateralized mortgage obligations	—	—	574	3.14
Mortgage pass-through securities	—	—	7,217	6.11
Commercial mortgage-backed securities	—	—	2,885	2.90
Asset-backed securities	—	—	1,045	1.06
Investment grade bond fund	29,152	5.92	—	—
Corporate bonds	—	—	10,485	6.33
High-yield corporate bonds	12,324	2.97	11,100	3.85
High-yield bond fund	11,102	3.30	9,891	4.20
Emerging market debt fund	8,661	6.90	8,691	6.80
Senior loan fund (floating rate)	15,551	0.64	13,680	0.67
Total Health Plan investments in debt securities	76,790		71,498	

(Dollars in thousands)

<b>Investment Type – Life Plan</b>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Fair Value</b>	<b>WAD</b>	<b>Fair Value</b>	<b>WAD</b>
U.S. Treasury and Agency:				
Notes and bonds	—	—	1,742	7.04
Collateralized mortgage obligations	—	—	156	2.97
Mortgage pass-through securities	—	—	1,442	6.07
Commercial mortgage-backed securities	—	—	580	2.94
Asset-backed securities	—	—	212	1.06
Investment grade bond fund	<b>6,381</b>	5.92	—	—
Corporate bonds	—	—	2,048	6.33
Senior loan fund (floating rate)	<b>2,018</b>	0.64	2,266	0.67
Emerging market debt fund	<b>1,155</b>	6.90	1,455	6.80
High-yield corporate bonds	<b>2,019</b>	2.98	1,880	3.87
High-yield bond fund	<b>2,026</b>	3.30	1,868	4.20
Total Life Plan investments in debt securities	<b>13,599</b>		13,649	
<b>Investment Type – Disability Plan</b>				
U.S. Treasury and Agency:				
Notes and bonds	—	—	288	6.23
Collateralized mortgage obligations	—	—	20	3.10
Mortgage pass-through securities	—	—	129	6.06
Asset-backed securities	—	—	20	1.00
Corporate bonds	—	—	209	6.09
Investment grade bond fund	<b>687</b>	5.92	—	—
Senior loan fund (floating rate)	<b>257</b>	0.64	228	0.67
Emerging market debt fund	<b>217</b>	6.90	193	6.80
High-yield bond fund	<b>456</b>	3.30	406	4.20
Total Disability Plan investments in debt securities	<b>1,617</b>		1,493	4.20
Total investments in debt securities for the Plans	<b>\$ 518,344</b>		<b>\$ 476,687</b>	

**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. As of December 31, 2023 and 2022, 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)

<b>Credit Rating – Pension Plan</b>	<b>December 31, 2023</b>		<b>December 31, 2022</b>	
	<b>Fair Value</b>	<b>Allocation</b>	<b>Fair Value</b>	<b>Allocation</b>
AAA	\$ 10,556	2.50 %	\$ 16,243	4.20 %
AA	99,976	23.40 %	82,150	21.10 %
A	27,529	6.50 %	30,482	7.80 %
BBB	38,096	8.90 %	35,057	9.00 %
Less than BBB	247,571	58.10 %	222,110	56.90 %
Not Rated	2,610	0.60 %	4,005	1.00 %
Total Pension Plan investments in debt securities	<u>426,338</u>	<u>100.00 %</u>	<u>390,047</u>	<u>100.00 %</u>
<b>Credit Rating – Health Plan</b>				
AAA	14,987	19.50 %	5,189	7.30 %
AA	7,370	9.60 %	14,864	20.80 %
A	4,518	5.90 %	6,629	9.20 %
BBB	8,506	11.10 %	7,468	10.40 %
Less than BBB	40,233	52.40 %	36,440	51.00 %
Not Rated	1,176	1.50 %	908	1.30 %
Total Health Plan investments in debt securities	<u>76,790</u>	<u>100.00 %</u>	<u>71,498</u>	<u>100.00 %</u>
<b>Credit Rating – Life Plan</b>				
AAA	3,220	23.70 %	994	7.28 %
AA	1,569	11.50 %	3,548	25.99 %
A	893	6.60 %	1,296	9.50 %
BBB	1,538	11.30 %	1,375	10.07 %
Less than BBB	6,185	45.50 %	6,277	45.99 %
Not Rated	194	1.40 %	159	1.16 %
Total Life Plan investments in debt securities	<u>13,599</u>	<u>100.00 %</u>	<u>13,649</u>	<u>100.00 %</u>
<b>Credit Rating – Disability Plan</b>				
AAA	372	23.00 %	82	5.50 %
AA	174	10.80 %	447	29.90 %
A	106	6.60 %	138	9.20 %
BBB	204	12.60 %	164	11.00 %
Less than BBB	728	45.00 %	640	42.90 %
Not Rated	33	2.00 %	22	1.50 %
Total Disability Plan investments in debt	<u>1,617</u>	<u>100.00 %</u>	<u>1,493</u>	<u>100.00 %</u>
Total investment in debt securities for the Plans	<u>\$ 518,344</u>		<u>\$ 476,687</u>	

**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, 2023 and 2022, 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)

Issuer – Plan	December 31, 2023			December 31, 2022		
	Fair Value	% Debt Securities	Policy Limit %	Fair Value	% Debt Securities	Policy Limit %
Federal National Mortgage Assn. – Pension	\$ 23,588	5.53%	50%	\$ 19,945	5.11%	50%
Federal National Mortgage Assn. – Health	—	0.00%	50%	3,761	5.30%	50%
Federal National Mortgage Assn. – Life	—	0.00%	50%	729	5.34%	50%

As of December 31, 2023 and 2022, 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, 2023 and 2022. All non-dollar 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.

### 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 or published 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). Valuations are derived from other valuation methodologies, including discounted cash flows and similar techniques, and are not based on market exchange, dealer, or broker traded transactions.

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 investment in partnerships 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 the partnerships' assets, 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 pages presents fair value balances and their levels within the fair value hierarchy for CPS Energy as of January 31, 2024 and 2023, and Decommissioning Trusts investment balances as of December 31, 2023 and 2022. 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, 2024 and 2023

(In thousands)

	January 31, 2024				January 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
<b>Fair Value Investments</b>								
<b><u>CPS Energy</u></b>								
U.S. Treasuries	\$ —	\$ 13,701	\$ —	\$ 13,701	\$ —	\$ 18,157	\$ —	\$ 18,157
U.S. Agencies								
Federal Agricultural Mortgage Corp	—	9,701	—	9,701	—	11,482	—	11,482
Federal Farm Credit Bank	—	282,571	—	282,571	—	109,109	—	109,109
Federal Home Loan Bank	—	131,025	—	131,025	—	118,531	—	118,531
Federal Home Loan Mortgage Corp	—	51,932	—	51,932	—	30,608	—	30,608
Federal National Mortgage Assn	—	56,876	—	56,876	—	68,922	—	68,922
Small Business Administration	—	2,981	—	2,981	—	5,364	—	5,364
Municipal bonds	—	134,076	—	134,076	—	155,636	—	155,636
Total CPS Energy fair value investments	\$ —	\$ 682,863	\$ —	\$ 682,863	\$ —	\$ 517,809	\$ —	\$ 517,809



	December 31, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Decommissioning Trusts Investments</b>								
<b>28% Trust</b>								
U.S. Treasuries	\$ —	\$ 83,406	\$ —	\$ 83,406	\$ —	\$ 69,296	\$ —	\$ 69,296
U.S. Agencies								
Federal Home Loan Mortgage Corp	—	46,008	—	46,008	—	45,375	—	45,375
Federal National Mortgage Assn	—	54,095	—	54,095	—	53,287	—	53,287
Government National Mortgage Assn	—	7,723	—	7,723	—	6,846	—	6,846
Small Business Administration	—	7,840	—	7,840	—	4,698	—	4,698
Municipal bonds – Texas	—	859	—	859	—	575	—	575
Municipal bonds – other states	—	6,932	—	6,932	—	6,767	—	6,767
Corporate bonds	—	82,914	—	82,914	—	88,231	—	88,231
Foreign bonds	—	11,043	—	11,043	—	10,602	—	10,602
Total 28% Trust fair value fixed-income portfolio	—	300,820	—	300,820	—	285,677	—	285,677
Equity securities								
Common stock	148,955	—	—	148,955	125,270	—	—	125,270
Real estate investment trusts	46,667	—	—	46,667	41,872	—	—	41,872
Preferred stock	—	777	—	777	—	773	—	773
Total 28% Trust fair value investments	195,622	301,597	—	497,219	167,142	286,450	—	453,592
<b>12% Trust</b>								
U.S. Treasuries	—	37,085	—	37,085	—	29,794	—	29,794
U.S. Agencies								
Federal Home Loan Mortgage Corp	—	14,322	—	14,322	—	13,906	—	13,906
Federal National Mortgage Assn	—	21,154	—	21,154	—	21,565	—	21,565
Government National Mortgage Assn	—	1,764	—	1,764	—	1,630	—	1,630
Small Business Administration	—	4,013	—	4,013	—	2,539	—	2,539
Municipal bonds – Texas	—	412	—	412	—	270	—	270
Municipal bonds – other states	—	2,789	—	2,789	—	2,646	—	2,646
Corporate bonds	—	29,644	—	29,644	—	33,028	—	33,028
Foreign bonds	—	1,597	—	1,597	—	1,709	—	1,709
Total 12% Trust fair value fixed-income portfolio	—	112,780	—	112,780	—	107,087	—	107,087
Equity securities								
Common stock	52,747	—	—	52,747	43,470	—	—	43,470
Real estate investment trusts	16,228	—	—	16,228	14,874	—	—	14,874
Total 12% Trust fair value investments	68,975	112,780	—	181,755	58,344	107,087	—	165,431
Total Trusts fair value investments	264,597	414,377	—	678,974	225,486	393,537	—	619,023
Total fair value investments	\$ 264,597	\$ 1,097,240	\$ —	\$ 1,361,837	\$ 225,486	\$ 911,346	\$ —	\$ 1,136,832

	January 31, 2024				January 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
<b>Financial Instruments</b>								
Current fuel hedges	\$ 3,149	\$ 1,065	\$ —	\$ 4,214	\$ 13,229	\$ 14,689	\$ —	\$ 27,918
Noncurrent fuel hedges	3,799	11,311	—	15,110	245	20,990	—	21,234
Total financial instruments - Assets	<u>\$ 6,948</u>	<u>\$ 12,376</u>	<u>\$ —</u>	<u>\$ 19,324</u>	<u>\$ 13,474</u>	<u>\$ 35,679</u>	<u>\$ —</u>	<u>\$ 49,152</u>
<b>Liabilities</b>								
<b>Financial Instruments</b>								
Current fuel hedges	\$ (6,666)	\$ —	\$ —	\$ (6,666)	\$ (22,775)	\$ (77)	\$ —	\$ (22,851)
Noncurrent fuel hedges	(4,593)	(247)	—	(4,840)	(12,978)	—	—	(12,978)
Total financial instruments - (Liabilities)	<u>\$ (11,259)</u>	<u>\$ (247)</u>	<u>\$ —</u>	<u>\$ (11,506)</u>	<u>\$ (35,752)</u>	<u>\$ (77)</u>	<u>\$ —</u>	<u>\$ (35,829)</u>
Total financial instruments	<u><u>\$ (4,311)</u></u>	<u><u>\$ 12,129</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 7,818</u></u>	<u><u>\$ (22,278)</u></u>	<u><u>\$ 35,602</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 13,323</u></u>

## 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, 2023 and 2022. The Plans' investment balances presented exclude amounts related to cash collateral related to securities lending.

### Fair Value Measurements as of December 31, 2023 and 2022

(In thousands)

	December 31, 2023				December 31, 2022			
<b>Pension Plan</b>	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
U.S. Government securities	\$ —	\$ 94,115	\$ —	\$ 94,115	\$ —	\$ 84,323	\$ —	\$ 84,323
Corporate bonds	—	199,889	—	199,889	—	188,552	—	188,552
Domestic equities	23,698	845,168	—	868,866	19,954	698,269	—	718,223
Low-volatility equities	—	81,886	—	81,886	—	75,581	—	75,581
International equities	110,334	—	—	110,334	96,782	—	—	96,782
Investment in partnership	—	—	45,000	45,000	—	—	49,000	49,000
Total Pension Plan investments by fair value level	134,032	1,221,058	45,000	1,400,090	116,736	1,046,725	49,000	1,212,461
Investments measured at net asset value (NAV):								
Emerging market debt				44,436				39,851
Senior loan fund				87,899				77,321
Low-volatility equity fund				84,648				76,567
International equities fund				82,448				69,774
Master limited partnership fund				179,743				168,208
Alternative investments – multi-strategy hedge fund				5,478				53,054
Alternative investments – absolute return fund				46,440				42,733
Alternative investments – direct lending hedge fund				51,396				—
Real estate funds – open end				136,873				157,687
Total investments measured at NAV				719,361				685,195
Total Pension Plan fair value investments				2,119,451				1,897,656
<b>Health Plan</b>	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
U.S. Government securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 16,606	\$ —	\$ 16,606
Investment grade bond fund	29,152	—	—	29,152	—	—	—	—
Corporate bonds	11,102	12,324	—	23,426	9,891	22,630	—	32,521
Emerging market debt	8,661	—	—	8,661	8,691	—	—	8,691
Domestic equities	91,739	38,668	—	130,407	79,610	33,651	—	113,261
Low-volatility equities	—	23,257	—	23,257	—	25,440	—	25,440
International equities	9,080	—	—	9,080	7,931	—	—	7,931
Total Health Plan investments by fair value level	149,734	74,249	—	223,983	106,123	98,327	—	204,450
Investments measured at NAV:								
Senior loan fund				15,551				13,680
International equities fund				21,196				17,937
Master limited partnership fund				21,698				22,634
Alternative investments – multi-strategy hedge fund				1,082				10,475
Alternative investments – absolute return fund				5,509				5,070
Alternative investments – direct lending hedge fund				10,147				—
Real estate fund - open end				13,502				15,038
Total investments measured at NAV				88,685				84,834
Total Health Plan fair value investments				312,668				289,284

	December 31, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Life Plan</b>								
U.S. Government securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,920	\$ —	\$ 3,920
Investment grade bond fund	6,381	—	—	6,381	—	—	—	—
Corporate bonds	2,026	2,019	—	4,045	1,868	4,140	—	6,008
Emerging market debt	1,155	—	—	1,155	1,455	—	—	1,455
Senior loan fund	2,018	—	—	2,018	2,266	—	—	2,266
Domestic equities	15,583	6,813	—	22,396	13,343	5,646	—	18,989
Low-volatility equities	—	4,027	—	4,027	—	4,266	—	4,266
International equities	1,592	—	—	1,592	1,383	—	—	1,383
Alternative investments	2,649	—	—	2,649	2,514	—	—	2,514
Total Life Plan investments by fair value level	31,404	12,859	—	44,263	22,829	17,972	—	40,801
Investments measured at NAV:								
International equities fund				3,588				3,037
Master limited partnerships				3,717				3,612
Real estate fund – open end				3,173				3,640
Total investments measured at NAV				10,478				10,289
Total Life Plan fair value investments				54,741				51,090
<b>Disability Plan</b>								
U.S. Government securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 436	\$ —	\$ 436
Investment grade bond fund	687	—	—	687	—	—	—	—
Corporate bonds	456	—	—	456	406	230	—	636
Emerging market debt	217	—	—	217	193	—	—	193
Senior loan fund	257	—	—	257	228	—	—	228
Domestic equities	2,839	—	—	2,839	2,300	—	—	2,300
Low-volatility equities	472	—	—	472	447	—	—	447
International equities	728	—	—	728	618	—	—	618
Alternative investments	377	—	—	377	357	—	—	357
Total Disability Plan investments by fair value level	6,033	—	—	6,033	4,549	666	—	5,215
Investments measured at NAV:								
Master limited partnerships				427				361
Real estate fund – open end				429				493
Total investments measured at NAV				856				854
Total Disability Plan fair value investments				6,889				6,069
Total investments at fair value for the Plans	\$ 321,203	\$ 1,308,166	\$ 45,000	\$ 2,493,749	\$ 250,237	\$ 1,163,690	\$ 49,000	\$ 2,244,099

The following table shows quantitative information about unobservable inputs related to the Level 3 fair value measurements used to derive values at December 31, 2023 and 2022. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurements respectively.

(Dollars in thousands)

<b>December 31, 2023</b>				
	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Rate</u>
<u>Type – Pension Plan</u>				
Investment in partnership	\$ 45,000	Income Approach – Discounted Cash Flow	Discount Rate	9.75%
			Terminal Capitalization	8.25%
Total Pension Plan	<u><u>\$ 45,000</u></u>			
<b>December 31, 2022</b>				
	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Rate</u>
<u>Type – Pension Plan</u>				
Investment in partnership	\$ 49,000	Income Approach – Discounted Cash Flow	Discount Rate	9.25%
			Terminal Capitalization	8.25%
Total Pension Plan	<u><u>\$ 49,000</u></u>			

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, 2023**

(Dollars in thousands)

	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if currently eligible)</b>	<b>Redemption Notice Period</b>
<b>Type – Pension Plan</b>				
Emerging market debt	\$ 44,436	\$ —	Daily	3 days
Senior loan fund	87,899	—	Monthly	20 days
Low-volatility equity fund	84,648	—	Daily/Monthly	30 days
International equities fund	82,448	—	Monthly	30 days
Master limited partnerships	179,743	—	Monthly	30 days
Multi-strategy hedge fund	5,478	—	Quarterly	90 days
Absolute return fund	46,440	—	Quarterly	90 days
Real estate fund - open end	136,873	—	Quarterly	30–60 days
Direct lending hedge fund	51,396	—	Semi-Annual	June / December
Total Pension Plan	<u>719,361</u>	<u>—</u>		
<b>Type – Health Plan</b>				
Senior loan fund	15,551	—	Monthly	20 days
International equities fund	21,196	—	Monthly	30 days
Master limited partnerships	21,698	—	Monthly	30 days
Multi-strategy hedge fund	1,082	—	Quarterly	90 days
Absolute return fund	5,509	—	Quarterly	90 days
Real estate fund - open end	13,502	—	Quarterly	45 days
Direct lending hedge fund	10,147	—	Semi-Annual	June / December
Total Health Plan	<u>88,685</u>	<u>—</u>		
<b>Type – Life Plan</b>				
International equities fund	3,588	—	Monthly	30 days
Master limited partnerships	3,717	—	Monthly	30 days
Real estate fund - open end	3,173	—	Quarterly	45 days
Total Life Plan	<u>10,478</u>	<u>—</u>		
<b>Type – Disability Plan</b>				
Master limited partnerships	427	—	Monthly	30 days
Real estate fund - open end	429	—	Quarterly	45 days
Total Disability Plan	<u>856</u>	<u>—</u>		
Total Plans	<u>\$ 819,380</u>	<u>\$ —</u>		

**Investments Measured at the Net Asset Value at December 31, 2022**

(Dollars in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
<b>Type – Pension Plan</b>				
Emerging market debt	\$ 39,851	\$ —	Daily	3 days
Senior loan fund	\$ 77,321	\$ —	Monthly	20 days
Low-volatility equity fund	76,567	—	Daily/Monthly	30 days
International equities fund	69,774	—	Monthly	30 days
Master limited partnerships	168,208	—	Monthly	30 days
Multi-strategy hedge fund	53,054	—	Quarterly	90 days
Absolute return fund	42,733	—	Quarterly	90 days
Real estate fund - open end	157,687	—	Quarterly	30–60 days
Total Pension Plan	685,195	—		
<b>Type – Health Plan</b>				
Senior loan fund	13,680	—	Monthly	20 days
International equities fund	17,937	—	Monthly	30 days
Master limited partnerships	22,634	—	Monthly	30 days
Multi-strategy hedge fund	10,475	—	Quarterly	90 days
Absolute return fund	5,070	—	Quarterly	90 days
Real estate fund - open end	15,038	—	Quarterly	45 days
Total Health Plan	84,834	—		
<b>Type – Life Plan</b>				
International equities fund	3,037	—	Monthly	30 days
Master limited partnerships	3,612	—	Monthly	30 days
Real estate fund - open end	3,640	—	Quarterly	45 days
Total Life Plan	10,289	—		
<b>Type – Disability Plan</b>				
Master limited partnerships	361	—	Monthly	30 days
Real estate fund - open end	493	—	Quarterly	45 days
Total Disability Plan	854	—		
Total Plans	\$ 781,172	\$ —		

#### 4. Disaggregation of Current Accounts Receivable and Accounts Payable

**Accounts Receivable:** Current accounts receivable consists of the following:

(In thousands)	January 31,	
	2024	2023
Billed utility services	\$ 294,694	\$ 308,588
Unbilled revenue receivable	28,420	50,677
Other miscellaneous receivables	99,027	82,949
Regulatory-related	20,229	18,513
Total current accounts receivable	<u>\$ 442,370</u>	<u>\$ 460,727</u>

**Accounts Payable:** Current accounts payable consists of the following:

(In thousands)	January 31,	
	2024	2023
Supplier and vendor, including fuel	\$ 348,999	\$ 384,621
Employee	45,278	37,544
Customer	114,963	108,477
STP	52,605	59,244
Other miscellaneous	234,681	244,144
Total current accounts payable	<u>\$ 796,526</u>	<u>\$ 834,030</u>

#### 5. Regulatory Assets

The Board 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 provisions of GASB Codification Section Re10, *Regulated Operations*, are applied. This guidance provides that regulatory assets are rights to additional revenues or deferred expenses, which are expected to be recovered through rates over some future period. The below describes the balances of the approved regulatory assets as of January 31, 2024 and 2023.

**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 established a regulatory asset 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. As of January 31, 2024 and 2023, debt issuance costs to be recovered in future years, classified as other noncurrent assets, were \$43.1 million and \$39.7 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, which 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, City Council 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 the Board and City Council. As of



January 31, 2024 and 2023, fuel costs to be recovered in future years totaled \$763.2 million and \$759.6 million, respectively.

**Pension and Other Post Employment 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 amortized over a rate-recovery period of 50 years. At January 31, 2023, pension benefit costs to be recovered in future years was \$218.5 million.

On December 4, 2023, and December 7, 2023, the Board and City Council, respectively, approved expanded regulatory accounting, superseding the 2015 pension regulatory asset. With the authorized use of regulatory accounting for both pension and OPEB costs, a new regulatory asset was established and the amortization expense related to the 2015 pension regulatory asset ceased to be recorded in FY2024. As a result, any current year contributions to fund the Pension and OPEB Plans are reflected as pension and OPEB expense included in O&M on the Statements of Revenues, Expenses and Changes in Net Position and any difference between the funding and the respective GASB pension or OPEB expense will be deferred as a regulatory asset on the Statements of Net Position. The established regulatory accounting for pension and OPEB costs establishes a regulatory asset to match the pension and OPEB expense to the funded amounts and the cost recovery through rates. As of January 31, 2024, pension and OPEB benefit costs to be recovered in future years was \$244.6 million. See Note 11 – Employee Pension Plan and Note 12 – Other Post Employment Benefits 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 achieved its original goal by reducing demand by 845 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. In June 2022, the City authorized the funding of a new energy efficiency and conservation program, tentatively referred to as the "New Program", which will be operational from August 1, 2022 through July 31, 2027. Annually, approximately \$10 million of STEP expenses are funded through the base rate and reported as O&M expenses. Amounts 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. As of January 31, 2024 and 2023, STEP costs to be recovered within a year were \$20.0 million and \$17.9 million, respectively. As of January 31, 2024 and 2023, STEP costs classified as noncurrent were \$58.7 million and \$56.8 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. Although the plant-in-service generation portfolio did not change for FY2024, CPS Energy has publicly committed to transitioning away from coal generation by calendar year 2028.

CPS Energy has two solar generating units, one of 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, 2024:

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, leases, SBITAs and other intangible items.

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. In January 2023, CPS Energy sold the Jones Avenue facility for \$29.5 million.

**Impairments** – There were no capital asset impairments identified for FY2024 and FY2023.

**Investment in STP Units 1 and 2** – STP is a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by South Texas Project Nuclear Operating Company ("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,	
	2024	2023
STP capital assets, net		
Land	\$ 5,701	\$ 5,701
Construction-in-progress	15,620	11,594
Electric and general plant	799,533	813,192
Intangibles	9,879	9,879
Nuclear fuel	147,208	151,314
Total STP capital assets, net	<u>\$ 977,941</u>	<u>\$ 991,680</u>
Total CPS Energy capital assets, net	<u>\$ 9,763,110</u>	<u>\$ 9,272,283</u>
STP capital investment as a percentage of total CPS Energy capital assets, net	10.0 %	10.7 %

**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 FY2024 and FY2023:

### FY2024 Capital Asset Rollforward

(In thousands)

	February 1, 2023	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	January 31, 2024
<b>Nondepreciable assets</b>					
Land	\$ 113,949	\$ 143	\$ 7,580	\$ —	\$ 121,672
Land easements	107,517	—	94	—	107,611
Construction-in-progress	1,025,312	847,550	(652,588)	—	1,220,274
Total nondepreciable assets	<u>1,246,778</u>	<u>847,693</u>	<u>(644,914)</u>	<u>—</u>	<u>1,449,557</u>
<b>Depreciable/amortizable assets</b>					
Electric plant	12,577,706	95,011	510,994	(15,704)	13,168,007
Gas plant	1,272,678	18,354	101,523	(657)	1,391,898
General plant	810,446	15,646	17,138	(36,528)	806,702
<b>Intangibles</b>					
Software	221,993	—	15,259	(32,997)	204,255
Other	38,572	—	—	(25,503)	13,069
Leases	4,025	2,936	—	(1,142)	5,819
Subscription based assets	35,250	16,329	—	(3,351)	48,228
Nuclear fuel	1,237,499	45,834	—	—	1,283,333
Total depreciable/ amortizable assets	<u>16,198,169</u>	<u>194,110</u>	<u>644,914</u>	<u>(115,882)</u>	<u>16,921,311</u>
<b>Accumulated depreciation and amortization</b>					
Electric plant	(6,293,161)	(398,020)	—	36,168	(6,655,013)
Gas plant	(489,861)	(29,866)	—	2,353	(517,374)
General plant	(180,580)	(40,410)	—	35,844	(185,146)
<b>Intangibles</b>					
Software	(95,850)	(27,821)	—	32,997	(90,674)
Other	(11,449)	(1,020)	—	10,101	(2,368)
Leases	(2,415)	(931)	—	1,142	(2,204)
Subscription based assets	(13,163)	(10,353)	—	4,663	(18,853)
Nuclear fuel	(1,086,185)	(49,941)	—	—	(1,136,126)
Total accumulated depreciation and amortization	<u>(8,172,664)</u>	<u>(558,362)</u>	<u>—</u>	<u>123,268</u>	<u>(8,607,758)</u>
Capital assets, net	<u>\$ 9,272,283</u>	<u>\$ 483,441</u>	<u>\$ —</u>	<u>\$ 7,386</u>	<u>\$ 9,763,110</u>

Cash flow information – Cash paid for additions and net removal costs totaled \$996.3 million. This amount includes \$980.3 million in additions to construction-in-progress and electric, gas and general plant, partially offset by \$5.3 million in donated assets.

Depreciation and amortization expense for the period totaled \$508.4 million, while amortization of nuclear fuel of \$49.9 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

**FY2023 Capital Asset Rollforward**

(In thousands)

	February 1, 2022	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	January 31, 2023
<b>Nondepreciable assets</b>					
Land	\$ 112,823	\$ 116	\$ 1,748	\$ (738)	\$ 113,949
Land easements	106,765	—	752	—	107,517
Construction-in-progress	719,988	686,197	(380,873)	—	1,025,312
Total nondepreciable assets	939,576	686,313	(378,373)	(738)	1,246,778
<b>Depreciable/amortizable assets</b>					
Electric plant	12,220,150	65,120	307,005	(14,569)	12,577,706
Gas plant	1,212,376	18,766	42,266	(730)	1,272,678
General plant	833,371	9,901	26,477	(59,303)	810,446
<b>Intangibles</b>					
Software	255,796	117	2,625	(36,545)	221,993
Other	38,572	—	—	—	38,572
Leases	5,131	—	—	(1,106)	4,025
Subscription based assets	30,373	4,974	—	(97)	35,250
Nuclear fuel	1,151,055	86,444	—	—	1,237,499
Total depreciable/amortizable assets	15,746,824	185,322	378,373	(112,350)	16,198,169
<b>Accumulated depreciation and amortization</b>					
Electric plant	(5,895,318)	(383,684)	—	(14,159)	(6,293,161)
Gas plant	(463,950)	(28,265)	—	2,354	(489,861)
General plant	(238,268)	(42,337)	—	100,025	(180,580)
<b>Intangibles</b>					
Software	(100,838)	(31,557)	—	36,545	(95,850)
Other	(10,429)	(1,020)	—	—	(11,449)
Leases	(1,618)	(817)	—	20	(2,415)
Subscription based assets	(4,135)	(9,125)	—	97	(13,163)
Nuclear fuel	(1,036,745)	(49,440)	—	—	(1,086,185)
Total accumulated depreciation and amortization	(7,751,301)	(546,245)	—	124,882	(8,172,664)
Capital assets, net	\$ 8,935,099	\$ 325,390	\$ —	\$ 11,794	\$ 9,272,283

**Cash flow information** – Cash paid for additions and net removal costs totaled \$822.1 million . This amount includes \$773.0 million in additions to construction-in-progress and electric, gas and general plant, partially offset by \$5.9 million in donated assets.

Depreciation and amortization expense for the period totaled \$496.8 million, while amortization of nuclear fuel of \$49.4 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, 2024, 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 like 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, 2024, the commercial paper ordinances contain, among others, the following provisions: authorized capacity of \$1 billion, ability to issue tax-exempt or taxable commercial paper, ability to issue multiple series notes and final maturity on April 20, 2053.

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

- Proceeds from
  - The sale of Bonds issued for such purpose, and
  - The sale of Project Notes;
- Borrowings under a related Credit Agreement; and
- Amounts held in payment funds used specifically for payment of commercial paper principal and interest balances; and
- The Net Revenues of the Systems; however, being subordinate to the pledge securing payment of the Systems Revenue Priority 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 FY2024 and FY2023, CPS Energy did not default on any terms of its debt agreements.

## 8. Revenue Bonds

On June 22, 2023, CPS Energy issued \$459.5 million of Series 2023A Revenue Refunding Bonds. Proceeds, including the \$50.7 million premium associated with the bonds, were used to refund \$325.0 million and \$175.0 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 2024 through 2050, is 4.4%.

On June 22, 2023, CPS Energy issued \$177.1 million of New Series 2023B Revenue Refunding Bonds. Proceeds, including the \$15.4 million premium associated with the bonds, were used to tender \$89.6 million par value of Taxable New Series 2020 Revenue Refunding Bonds and \$129.3 million par value of Taxable New Series 2022 Revenue Refunding Bonds. The true interest cost for this issue, which has maturities ranging between 2028 and 2044 is 4.2%.

Also on June 22, 2023, CPS Energy issued \$100.3 million of Series 2023 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds were used to refund \$5.0 million and \$95.0 million par value of the Tax-Exempt Commercial Paper Series A 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 2051 through 2053, is 7.0%. The bonds were issued as multi-modal variable-rate instruments with initial term rates of 3.7% and a stepped rate of 8.0%, which is only applicable if the bonds are not remarketed before their expiration date.

On November 7, 2023, CPS Energy issued \$162.7 million of New Series 2023C Revenue Refunding Bonds. Proceeds, including the \$9.8 million premium associated with the bonds, were used to refund \$169.2 million par value of Series 2014 Revenue Refunding Bonds. The true interest cost for this issue, which has maturities in 2024 and 2026 through 2042, is 4.3%.

**Revenue Bond Summary**

(Dollars in thousands)

	Issues	Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2024	January 31,	
				2024	2023
Tax-exempt new series bonds	2012, 2015, 2016, 2017, 2018, 2018A, 2019, 2020, 2022, 2023A, 2023B, and 2023C	2024-2050	4.2%	\$ 2,851,475	\$ 2,205,590
Taxable new series bonds	2009C <sup>1</sup> , 2010A <sup>1</sup> , 2012, 2020, and 2022	2024-2048	3.8%	1,663,900	1,891,200
Total new series bonds			4.1%	4,515,375	4,096,790
Taxable series bonds	2010A <sup>1</sup>	2038-2041	3.8%	300,000	300,000
Tax-exempt variable-rate series bonds	2015A, 2015C, 2015D, 2018, 2020, 2022, and 2023	2029-2033 2038-2049 2051-2053	2.4%	811,380	711,040
Tax-exempt series bonds	2014, 2015B, 2019, 2021A, and 2022	2026-2049	3.9%	952,720	1,121,950
Total series bonds			3.8%	2,064,100	2,132,990
Total long-term revenue bonds				6,579,475	6,229,780
Less: Current maturities of bonds				181,295	161,775
Total revenue bonds outstanding, net of current maturities				\$ 6,398,180	\$ 6,068,005

<sup>1</sup>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 reduced the BABs subsidy through sequestration reduction. For the years ended January 31, 2024, and January 31, 2023, 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, 2024, 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
2025	\$ 181,295	\$ 291,155	\$ (18,443)	\$ 454,007
2026	187,160	289,415	(18,443)	458,132
2027	168,025	290,782	(18,443)	440,364
2028	196,140	294,821	(18,443)	472,518
2029	205,300	291,011	(18,443)	477,868
2030-2034	1,133,706	1,322,406	(95,068)	2,361,044
2035-2039	1,578,523	995,514	(72,595)	2,501,442
2040-2044	1,624,896	565,936	(12,558)	2,178,274
2045-2049	1,057,035	224,287	—	1,281,322
2050-2054	247,395	34,611	—	282,006
Totals	\$ 6,579,475	\$ 4,599,938	\$ (272,436)	\$ 10,906,977

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 is 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 and 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 2019 and utilize an interest rate of 1.75% through their term rate period's expiration in 2024. A stepped rate of 7.0% is assumed in the previous table for this 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 2015C and Series 2015D Junior Lien Bonds were issued as multi-modal variable-rate bonds. The Series 2015C Junior Lien Bonds were remarketed in 2019 and utilize an interest rate of 1.75% through their term rate period's expiration in 2024. 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 2020 and utilize an interest rate of 1.125% through their term rate period's expiration in 2026. A stepped rate of 7.0% is assumed in the previous table for this 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 2018 Junior Lien Bonds were issued as multi-modal variable-rate bonds. The bonds were remarketed in 2022 as multi-modal variable-rate bonds issued in a SIFMA Index Mode with an applicable spread of 0.87% through their term rate period's expiration in 2025 and at a stepped rate of 8.0% thereafter through applicable final maturity. In the table above, interest on these variable-rate bonds is calculated at an assumed rate of 3.5% for the applicable initial interest period and at an assumed stepped rate of 8.0% thereafter through stated maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

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 2025. 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.

The Series 2022 Junior Lien Bonds were issued as multi-modal variable-rate bonds that utilize an interest rate of 2.0% through their term rate period's expiration in 2027. 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.

The Series 2023 Junior Lien Bonds were issued as multi-modal variable-rate bonds that utilize an interest rate of 3.65% through their term rate period's expiration in 2026. 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.

Pursuant to guidance provided in GASB Statement No. 65, debt reacquisition costs meet neither the definition of an asset or a liability and are therefore required to be classified as deferred outflows (*unamortized loss on debt refunding*) and deferred inflows (*unamortized gain on debt refunding*) of resources on the Statements of Net Position. The debt refundings that occurred in FY2024 and FY2023 resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$35.2 million and \$2.5 million in deferred inflows of resources, respectively. Debt reacquisition costs reported as deferred outflows of resources totaled \$47.5 million as of January 31, 2024, and \$61.9 million as of January 31, 2023. Debt reacquisition costs reported as deferred inflows of resources totaled \$51.4 million as of January 31, 2024, and \$18.8 million as of January 31, 2023. 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 with application of regulatory accounting, establishes regulatory assets for debt issuance costs that would otherwise be required to be expensed. 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 \$43.1 million as of January 31, 2024, and \$39.7 million as of January 31, 2023.



**FY2024 Long-Term Debt Activity**

(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding Beginning FY2024	Additions During Year	Decreases During Year	Balance Outstanding Ending FY2024
Revenue and refunding bonds							
2009C taxable - Senior Lien	\$ 375,000	2039	6.051	\$ 375,000	\$ —	\$ —	\$ 375,000
2010A taxable - Senior Lien	380,000	2041	3.834	280,000	—	—	280,000
2010A taxable - Junior Lien	300,000	2041	3.399	300,000	—	—	300,000
2012 taxable - Senior Lien	521,000	2042	4.382	404,225	—	—	404,225
2012 tax-exempt - Senior Lien	655,370	2025	2.552	315,685	—	(78,950)	236,735
2014 tax-exempt - Junior Lien	200,000	2044	4.142	200,000	—	(169,230)	30,770
2015A tax-exempt - Junior Lien	125,000	2033	Variable	124,205	—	—	124,205
2015B tax-exempt - Junior Lien	125,000	2033	1.4277	104,150	—	—	104,150
2015 tax-exempt - Senior Lien	320,530	2032	2.992	237,700	—	(19,290)	218,410
2015 tax-exempt - Senior Lien	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 - Senior Lien	544,260	2034	2.144	343,375	—	(8,435)	334,940
2017 tax-exempt - Senior Lien	267,320	2047	3.804	267,320	—	—	267,320
2017 tax-exempt - Senior Lien	194,980	2047	3.619	194,980	—	—	194,980
2018 tax-exempt - Senior Lien	218,285	2028	2.745	122,425	—	—	122,425
2018A tax-exempt - Senior Lien	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 - Senior Lien	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 - Senior Lien	134,580	2049	3.132	134,580	—	—	134,580
2020 tax-exempt - Junior Lien	127,770	2049	Variable	127,770	—	—	127,770
2020 taxable - Senior Lien	418,255	2048	2.8636	418,255	—	(89,620)	328,635
2021A tax-exempt - Junior Lien	330,700	2049	3.1389	330,700	—	—	330,700
2022 tax-exempt - Junior Lien	125,005	2049	Variable	125,005	—	—	125,005
2022 tax-exempt - Junior Lien	234,460	2044	2.7815	234,460	—	—	234,460
2022 taxable - Senior Lien	413,720	2047	4.3147	413,720	—	(137,680)	276,040
2022 tax-exempt - Senior Lien	109,620	2025	2.2643	109,620	—	(46,735)	62,885
2023A tax-exempt - Senior Lien	459,450	2050	4.382	—	459,450	—	459,450
2023B tax-exempt - Senior Lien	177,130	2044	4.209	—	177,130	—	177,130
2023 tax-exempt - Junior Lien	100,340	2053	Variable	—	100,340	—	100,340
2023C tax-exempt - Senior Lien	162,715	2042	4.336	—	162,715	—	162,715
Bonds outstanding				6,229,780	899,635	(549,940)	6,579,475
Current maturities				(161,775)	(19,520)	—	(181,295)
(Discount) premium				407,251	75,891	(57,269)	425,873
Revenue bonds, net				6,475,256	956,006	(607,209)	6,824,053
Commercial paper, taxable and tax-exempt			Variable	455,500	530,900	(635,000)	351,400
Long-term debt, net				<u>\$ 6,930,756</u>	<u>\$ 1,486,906</u>	<u>\$ (1,242,209)</u>	<u>\$ 7,175,453</u>

**FY2023 Long-Term Debt Activity**

(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding Beginning FY2023	Additions During Year	Decreases During Year	Balance Outstanding Ending FY2023
Revenue and refunding bonds							
2009C taxable - Senior Lien	\$ 375,000	2039	6.051	\$ 375,000	\$ —	\$ —	\$ 375,000
2010A taxable - Senior Lien	380,000	2041	3.834	280,000	—	—	280,000
2010A taxable - Junior Lien	300,000	2041	3.399	300,000	—	—	300,000
2012 taxable - Senior Lien	521,000	2042	4.382	404,225	—	—	404,225
2012 tax-exempt - Senior Lien	655,370	2025	2.552	579,615	—	(263,930)	315,685
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	1.428	104,150	—	—	104,150
2015 tax-exempt - Senior Lien	320,530	2032	2.992	237,700	—	—	237,700
2015 tax-exempt - Senior Lien	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 - Senior Lien	544,260	2034	2.144	372,565	—	(29,190)	343,375
2017 tax-exempt - Senior Lien	267,320	2047	3.804	267,320	—	—	267,320
2017 tax-exempt - Senior Lien	194,980	2047	3.619	194,980	—	—	194,980
2018 tax-exempt - Senior Lien	218,285	2028	2.745	122,425	—	—	122,425
2018A tax-exempt - Senior Lien	130,220	2048	3.654	130,220	—	—	130,220
2018 tax-exempt - Junior Lien	134,870	2048	Variable	134,870	134,870	(134,870)	134,870
2019 tax-exempt - Senior Lien	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 - Senior Lien	134,580	2049	3.132	134,580	—	—	134,580
2020 tax-exempt - Junior Lien	127,770	2049	Variable	127,770	—	—	127,770
2020 taxable - Senior Lien	418,255	2048	2.864	418,255	—	—	418,255
2021A tax-exempt - Junior Lien	330,700	2049	3.139	330,700	—	—	330,700
2022 tax-exempt - Junior Lien	125,005	2049	Variable	—	125,005	—	125,005
2022 tax-exempt - Junior Lien	234,460	2044	2.782	—	234,460	—	234,460
2022 taxable - Senior Lien	413,720	2047	4.315	—	413,720	—	413,720
2022 tax-exempt - Senior Lien	109,620	2025	2.264	—	109,620	—	109,620
Bonds outstanding				5,640,095	1,017,675	(427,990)	6,229,780
Current maturities				(164,495)	—	2,720	(161,775)
(Discount) premium				401,467	57,921	(52,137)	407,251
Revenue bonds, net				5,877,067	1,075,596	(477,407)	6,475,256
Commercial paper, taxable and tax-exempt			Variable	660,000	601,927	(806,427)	455,500
Long-term debt, net				<u>\$ 6,537,067</u>	<u>\$ 1,677,523</u>	<u>\$ (1,283,834)</u>	<u>\$ 6,930,756</u>

**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 commercial paper through various separate series of notes to provide funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed \$1 billion. As of January 31, 2024, there was a total of \$1 billion in liquidity facility support, which serves as a back-stop to the commercial paper program.

The ordinances allow for the issuance of taxable and 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. The original commercial paper program has a final maturity of April 11, 2049 and the new series commercial paper program as a final maturity date of April 20, 2053.

The commercial paper has been classified as long-term in accordance with the refinancing terms under various revolving credit agreements with a consortium of banks, that serve as liquidity facility support for the commercial paper programs. Each revolving credit agreement relates to a particular series of notes and provides liquidity facility 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 19, 2026. The Series B agreement provided \$200 million in liquidity support for the Series B Notes. The Series B agreement was renewed for up to six months from the initial termination date of June 21, 2023 meanwhile replacement capacity was effectuated. The renewed agreement was terminated on July 26, 2023. The Series C agreement provides \$100 million in liquidity support for Series C Notes and is effective through June 21, 2025. The New Subseries A1 agreement replaces the Series B capacity of \$200 million in liquidity support through the New Subseries A1 Notes and is effective through July 31, 2031. The New Series B agreement provides \$150 million in liquidity support for the New Series B Notes and is effective through July 31, 2028. The New Series C agreement provides \$150 million in liquidity support for the New Series C Notes and is effective through October 12, 2025. Under the terms of these revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed \$1 billion for the purpose of paying principal due under the commercial paper programs. As of January 31, 2024, and since inception of the programs, there have been no back-stop options exercised under the revolving credit agreements.

During FY2024, CPS Energy issued a total of \$530.9 million in new commercial paper. As of January 31, 2024, the outstanding commercial paper balance was \$351.4 million which was issued as tax-exempt. As of January 31, 2023, the outstanding commercial paper balance was \$455.5 million, of which \$420.50 million was issued as tax-exempt to fund construction and \$35.0 million was issued as taxable to fund fuel costs.

**Commercial Paper Summary**  
(Dollars in thousands)

	January 31	
	2024	2023
Commercial paper outstanding	\$ 351,400	\$ 455,500
New commercial paper issued	\$ 530,900	\$ 601,927
Weighted-average commercial paper outstanding	\$ 339,018	\$ 196,041
Weighted-average interest rate	3.4%	1.8%
Number of days outstanding	360	352

**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 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.

**Compliance** – Under the terms of the FRRN purchase agreements, the credit facility is tax-exempt or 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 bonds or Project Notes, the amounts held in a payment fund, for taxable Flexible Rate Notes only; amounts held in the related Program Note Security Fund, and the amounts remaining on deposit for the Program Note Construction Fund. The outstanding notes under the Series B Flex Note agreement are secured by proceeds of the sale of bonds (other than Inferior Lien Obligations) or Project Notes, the amounts held in a payment fund, and the amounts remaining on deposit for the Program Note Construction Fund.

As of January 31, 2024 and 2023, CPS Energy was in compliance with the terms and provisions of the documents related the FRRN programs.

On February 24, 2023, the City entered into a note purchase agreement under the Series A Flex Notes program, with Truist Bank and Truist Commercial Equity, Inc. replacing the note purchase agreement with Wells Fargo Bank, National Association. The stated expiration of the note purchase agreement with Truist Bank and Truist Commercial Equity, Inc. is November 1, 2028. As of January 31, 2024, there were no Series A Flex Notes outstanding.

On April 12, 2023, 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 4, 2028, 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 new revenue of the Systems and the proceeds of sale. There are no Series B Flex Notes outstanding as of January 31, 2024.

## 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 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 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](http://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 note and in the accompanying RSI. The Pension Plan and 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 are 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, 2024 and 2023, were:

	January 31,	
	2024	2023
Active participants	2,759	2,900
Participants currently receiving benefits	2,678	2,600
Participants entitled to deferred benefits	258	235
Total plan participants	5,695	5,735

**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, 2022, valuation is the basis for contributions in FY2024. 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, 2018, through December 31, 2021, the employee contribution interest crediting rate was 5.25%. Beginning January 1, 2022, the employee contribution interest crediting rate was 5.00%.

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 FY2024 and FY2023, 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, 2024 and 2023, was measured as of January 31, 2023 and 2022, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2022 and 2021, rolled forward using generally accepted actuarial procedures to the January 31, 2023 and 2022, measurement dates, respectively.

**Changes in Net Pension Liability**

(In thousands)

	Fiscal Year Ended January 31,	
	2024	2023
<u>Total pension liability</u>		
Service cost	\$ 40,271	\$ 41,129
Interest cost	155,015	150,633
Effect of plan changes	(12)	—
Changes in assumptions	51,083	(9,825)
Differences between expected and actual experience	394	2,174
Benefit payments	(123,427)	(114,484)
Net change in total pension liability	123,324	69,627
Total pension liability, beginning of period	2,234,500	2,164,873
Total pension liability, end of period	2,357,824	2,234,500
<u>Plan fiduciary net position</u>		
Employer contributions	(58,986)	(62,100)
Participant contributions	(14,970)	(14,054)
(Earnings) loss on Plan assets	64,655	(244,563)
Benefit payments	123,427	114,484
Administrative expenses	474	487
Net change in Plan fiduciary net position	114,600	(205,746)
Plan fiduciary net position, beginning of period	(2,122,445)	(1,916,699)
Plan fiduciary net position, end of period	(2,007,845)	(2,122,445)
Net pension liability, end of period	\$ 349,979	\$ 112,055

For the fiscal year ended January 31, 2024, with the approval of regulatory accounting for pension and OPEB costs, pension expense recognized and the amount included in rates was \$56.7 million equal to the funding. CPS Energy recorded \$15.9 million in pension expense for the fiscal year ended January 31, 2023. Pension expense, as calculated under GASB Statement No. 68, for the years ended January 31, 2024, and 2023, was \$81.0 million and \$15.9 million, respectively.

**Actuarial Assumptions** – Significant actuarial assumptions used in the January 1, 2022, 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%, and annual post-retirement cost-of-living increases of 1.25%. Annual projected salary increases averaging 5.65% and 5.54% per year for FY2024 and FY2023, respectively. The projected salary increases include an inflation rate of 2.30% and 2.20% for FY2024 and FY2023, respectively. Mortality rates were based on the Pri-2012 Employee / Retiree mortality table (fully generational) with mortality improvement scale MP-2021 for FY2024 and Pri-2012 Employee / Retiree mortality table (fully generational) with mortality improvement scale MP-2020 for FY2023. Separate tables are used for disabled participants and contingent annuitants for both FY2024 and FY2023.

The actuarial assumptions used in the January 1, 2022 and 2021, valuations for amounts reported in FY2024 and FY2023, respectively, 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. An actuarial experience study was completed in calendar 2023 covering the period January 1, 2020, through December 31, 2022, any change in assumptions as a result of the latest study will be reflected in the January 1, 2023, actuarial valuation with a measurement date of January 31, 2024, to be recorded in the fiscal year ending January 31, 2025.

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	54.5%	4.9%
Debt securities	23.5%	3.4%
Alternative investments	22.0%	4.4%
Total investments	100.0%	

**Discount Rate** – The discount rate used to measure the total pension liability for FY2024 and FY2023 was 7.00%. 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,	
	2024	2023
1% decrease - 6.00%	\$ 637,950	\$ 388,871
Current discount rate - 7.00%	349,979	112,055
1% increase - 8.00%	108,204	(119,920)

**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 as of January 31, 2024 and 2023:

(In thousands)	January 31,	
	2024	2023
<u>Deferred outflows of resources</u>		
Differences between projected and actual earnings on pension assets	\$ 67,286	\$ —
Changes in assumptions	66,624	41,054
Differences between expected and actual experience in the measurement of total pension liability	2,593	3,514
Employer's contributions to the Plan subsequent to the measurement of total pension liability	56,717	58,986
Total deferred outflows of resources	<u>\$ 193,220</u>	<u>\$ 103,554</u>
<u>Deferred inflows of resources</u>		
Differences between projected and actual earnings on pension assets	\$ —	\$ (113,070)
Changes in assumptions	(9,422)	(13,718)
Differences between expected and actual experience in the measurement of total pension liability	(4,055)	(10,641)
Total deferred inflows of resources	<u>\$ (13,477)</u>	<u>\$ (137,429)</u>

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,	
2025	\$ 16,675
2026	19,636
2027	32,006
2028	50,895
2029	3,814
Total	<u>\$ 123,026</u>

## 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 note 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, 2024 and 2023, were:

	January 31, 2024		
	Health	Life	Disability
Active participants	2,759	2,759	2,809
Inactive participants receiving benefits	1,951	2,509	74
Inactive participants with deferred benefits	—	—	—
Total plan participants	4,710	5,268	2,883
	January 31, 2023		
	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

**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, 2022, valuation was the basis for contributions in FY2024.

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 FY2024 and FY2023.

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 \$1.0 million for FY2024 and FY2023, 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. The Company contributions in both FY2024 and FY2023 were approximately \$0.9 million.

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 0.2% of covered-employee payroll in both FY2024 and FY2023. The Company contributions in both FY2024 and FY2023 were approximately \$0.6 million.

**Net OPEB (Asset) Liability** – CPS Energy's net OPEB (asset) liability at January 31, 2024 and 2023, was measured as of January 31, 2023 and 2022, respectively. The total OPEB liability used to calculate the net OPEB (asset) liability was determined by actuarial valuations as of January 1, 2022 and 2021, rolled forward using generally accepted actuarial procedures to the January 31, 2023 and 2022, measurement dates, respectively. As of January 31, 2024 and 2023, the net OPEB asset was \$41.4 million and \$50.4 million, respectively, and is reflected as part of the other noncurrent assets on the Statements of Net Position.

**FY2024 Changes in Net OPEB (Asset) Liability**

(In thousands)

	Health	Life	Disability	Total
<u>Total OPEB liability</u>				
Service cost	\$ 4,302	\$ 586	\$ 680	\$ 5,568
Interest cost	17,092	3,688	490	21,270
Changes in assumptions	(970)	820	142	(8)
Differences between expected and actual experience	(29,153)	561	468	(28,124)
Benefit payments	(18,104)	(4,204)	(1,049)	(23,357)
Net change in total OPEB liability	(26,833)	1,451	731	(24,651)
Total OPEB liability, beginning of period	277,924	57,208	6,363	341,495
Total OPEB liability, end of period	251,091	58,659	7,094	316,844
<u>Plan fiduciary net position</u>				
Employer contributions	—	(925)	(559)	(1,484)
Participant contributions	—	(1,131)	(287)	(1,418)
Medicare Part D payment	(985)	—	—	(985)
(Earnings) loss on Plan assets	10,701	1,950	191	12,842
Benefit payments	18,104	4,204	1,049	23,357
Administrative expense	1,300	17	12	1,329
Net change in Plan fiduciary net position	29,120	4,115	406	33,641
Plan fiduciary net position, beginning of period	(326,859)	(57,987)	(7,041)	(391,887)
Plan fiduciary net position, end of period	(297,739)	(53,872)	(6,635)	(358,246)
Net OPEB (asset) liability, end of period	\$ (46,648)	\$ 4,787	\$ 459	\$ (41,402)

**FY2023 Changes in Net OPEB (Asset) Liability**

(In thousands)

	Health	Life	Disability	Total
<u>Total OPEB liability</u>				
Service cost	\$ 4,905	\$ 614	\$ 712	\$ 6,231
Interest cost	18,604	3,612	457	22,673
Changes in assumptions	(385)	985	(4)	596
Differences between expected and actual experience	26,691	252	(665)	26,278
Benefit payments	(11,915)	(4,255)	(1,230)	(17,400)
Net change in total OPEB liability	37,900	1,208	(730)	38,378
Total OPEB liability, beginning of period	240,024	56,000	7,093	303,117
Total OPEB liability, end of period	277,924	57,208	6,363	341,495
<u>Plan fiduciary net position</u>				
Employer contributions	—	(900)	(726)	(1,626)
Participant contributions	—	(1,156)	(276)	(1,432)
Medicare Part D payment	(977)	—	—	(977)
(Earnings) loss on Plan assets	(41,220)	(6,526)	(782)	(48,528)
Benefit payments	11,915	4,255	1,230	17,400
Administrative expense	1,251	26	17	1,294
Net change in Plan fiduciary net position	(29,031)	(4,301)	(537)	(33,869)
Plan fiduciary net position, beginning of period	(297,828)	(53,686)	(6,504)	(358,018)
Plan fiduciary net position, end of period	(326,859)	(57,987)	(7,041)	(391,887)
Total OPEB (asset) liability, end of period	<u>\$ (48,935)</u>	<u>\$ (779)</u>	<u>\$ (678)</u>	<u>\$ (50,392)</u>

For the fiscal year ended January 31, 2024, with the approval of regulatory accounting for pension and OPEB costs, OPEB expense recognized and the amount included in rates was \$0.6 million related to the funding of the Disability Plan. CPS Energy recorded \$2.5 million in OPEB contra expense for the fiscal year ended January 31, 2023, as detailed below.

The OPEB expense/(contra expense), as calculated under GASB Statement No. 75, for the years ended January 31, 2024, and 2023, was as follows:

(In thousands)	January 31,	
	2024	2023
Health	\$ (919)	\$ (3,514)
Life	2,620	570
Disability	690	456
Total	<u>\$ 2,391</u>	<u>\$ (2,488)</u>

**Actuarial Assumptions** – Significant actuarial assumptions used in the January 1, 2022, valuation included: (a) a rate of return on the investment of present and future assets of 7.0% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 2.3% per year for the Health, Life and Disability Plans, (c) projected annual base salary increases for the Health Plan ranging from 3.30% to 11.58% depending on age, and (d) overall average medical and prescription cost increases of 5.70% in 2022, decreasing to 3.7% long term for pre-65 participants; for post-65 participants, increases of 5.50% in 2022, decreasing to 3.70% 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 mortality improvement scale MP-2021, with sex-distinct

employee rates before termination and healthy annuitant rates after termination and separate tables for contingent annuitants.

The actuarial assumptions used in the January 1, 2022 and 2021, valuations for amounts reported in FY2024 and FY2023, 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. An actuarial experience study was completed in calendar 2023 covering the period January 1, 2020, through December 31, 2022, any change in assumptions as a result of the latest study will be reflected in the January 1, 2023, actuarial valuations with a measurement date of January 31, 2024, to be recorded in the fiscal year ending January 31, 2025.

Significant actuarial assumptions used in the calculations for the January 1, 2021, actuarial valuation for FY2023 included: (a) a rate of return on the investment of present and future assets of 7.0% 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 Plan ranging from 3.20% to 11.47% depending on age, and (d) overall average medical and prescription cost increases of 5.9% in 2021, decreasing to 3.7% long term for pre-65 participants; for post-65 participants, increases of 5.6% in 2021, decreasing to 3.7% 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 mortality improvement scale MP-2020, with sex-distinct employee rates before termination and healthy annuitant rates after termination and separate tables for contingent annuitants.

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	56.5%	4.9%
Debt securities	26.5%	3.3%
Alternative investments	17.0%	4.7%
Total investments	100.0%	

**Discount Rate and Healthcare Cost Trend Rates** – The discount rate used to measure the total OPEB liability for FY2024 and FY2023 was 7.00%. 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, 2024			
	Health	Life	Disability	Total
Discount rate				
1% decrease - 6.00%	\$ (20,702)	\$ 12,165	\$ 670	\$ (7,867)
Current discount rate - 7.00%	(46,648)	4,787	459	(41,402)
1% increase - 8.00%	(69,021)	(1,241)	262	(70,000)

	Net OPEB (Asset) Liability at January 31, 2023			
	Health	Life	Disability	Total
Discount rate				
1% decrease - 6.00%	\$ (20,409)	\$ 6,415	\$ (493)	\$ (14,487)
Current discount rate - 7.00%	(48,935)	(779)	(678)	(50,392)
1% increase - 8.00%	(73,464)	(6,656)	(853)	(80,973)

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,	
	2024	2023
Healthcare Cost Trend Rates		
1% decrease	\$ (73,640)	\$ (78,527)
Current healthcare cost trend rates	(46,648)	(48,935)
1% increase	(14,262)	(13,330)

**Employee Benefit Plans' Fiduciary Net Position** – The financial results of the Employee Benefit Plans 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 as of January 31, 2024 and 2023:

(In thousands)

	January 31, 2024			
	Health	Life	Disability	Total
<u>Deferred outflows of resources</u>				
Changes in assumptions	\$ 1,380	\$ 3,117	\$ 1,266	\$ 5,763
Differences between expected and actual experience in the measurement of total OPEB liability	19,155	4,315	396	23,866
Employer's contributions to the Plan subsequent to the measurement of total OPEB liability	—	—	602	602
Total deferred outflows of resources	<u>\$ 29,619</u>	<u>\$ 9,905</u>	<u>\$ 2,526</u>	<u>\$ 42,050</u>
<u>Deferred inflows of resources</u>				
Changes in assumptions	\$ (6,552)	\$ (65)	\$ (2)	\$ (6,619)
Differences between projected and actual earnings on OPEB assets	—	—	—	—
Differences between expected and actual experience in the measurement of total OPEB liability	(38,480)	(216)	(960)	(39,656)
Total deferred inflows of resources	<u>\$ (45,032)</u>	<u>\$ (281)</u>	<u>\$ (962)</u>	<u>\$ (46,275)</u>
	January 31, 2023			
	Health	Life	Disability	Total
<u>Deferred outflows of resources</u>				
Changes in assumptions	\$ 2,759	\$ 3,431	\$ 1,493	\$ 7,683
Differences between expected and actual experience in the measurement of total OPEB liability	23,473	4,957	36	28,466
Employer's contributions to the Plan subsequent to the measurement of total OPEB liability	—	925	559	1,484
Total deferred outflows of resources	<u>\$ 26,232</u>	<u>\$ 9,313</u>	<u>\$ 2,088</u>	<u>\$ 37,633</u>
<u>Deferred inflows of resources</u>				
Changes in assumptions	\$ (7,666)	\$ (131)	\$ (3)	\$ (7,800)
Differences between projected and actual earnings on OPEB assets	(18,737)	(2,146)	(283)	(21,166)
Differences between expected and actual experience in the measurement of total OPEB liability	(18,448)	(360)	(1,287)	(20,095)
Total deferred inflows of resources	<u>\$ (44,851)</u>	<u>\$ (2,637)</u>	<u>\$ (1,573)</u>	<u>\$ (49,061)</u>

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,				
2025	\$ (6,655)	\$ 1,902	\$ 122	\$ (4,631)
2026	(5,789)	2,433	192	(3,164)
2027	(3,051)	2,455	281	(315)
2028	4,286	2,385	296	6,967
2029	(1,886)	342	24	(1,520)
Thereafter	(2,318)	107	47	(2,164)
Total	<u>\$ (15,413)</u>	<u>\$ 9,624</u>	<u>\$ 962</u>	<u>\$ (4,827)</u>

### 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 84.4% as of January 31, 2024, and 77.6% as of January 31, 2023.

**FY2024 Other Liabilities Rollforward**  
(In thousands)

	Balance Outstanding 02-01-2023	Additions During Year	Decreases During Year	Balance Outstanding 01-31-2024	Amounts Due within One Year	Noncurrent Balance Outstanding
Customer deposits	\$ 37,525	\$ 22,882	\$ (21,968)	\$ 38,439	\$ 21,524	\$ 16,915
Operating reserves	47,047	25,292	(7,501)	64,838	3,303	61,535
STP pension and OPEBs	19,135	6,830	(4,851)	21,114	—	21,114
Pollution remediation liability	5,869	800	(4,864)	1,805	1,624	181
Fuel hedges	35,818	24,471	(48,767)	11,522	6,486	5,036
Long-term service agreements	35,464	7,017	(25,278)	17,203	10,360	6,843
Communication towers	34,169	—	—	34,169	—	34,169
Other	85,373	190,672	(182,416)	93,629	924	92,705
Total other long-term liabilities	<u>\$ 300,400</u>	<u>\$ 277,964</u>	<u>\$ (295,645)</u>	<u>\$ 282,719</u>	<u>\$ 44,221</u>	<u>\$ 238,498</u>



**FY2023 Other Liabilities Rollforward**

(In thousands)

	Balance Outstanding 02-01-2022	Additions During Year	Decreases During Year	Balance Outstanding 01-31-2023	Amounts Due within One Year	Noncurrent Balance Outstanding
Customer deposits	\$ 36,103	\$ 21,951	\$ (20,529)	\$ 37,525	\$ 21,243	\$ 16,282
Operating reserves	46,972	17,358	(17,283)	47,047	2,547	44,500
STP pension and OPEBs	58,276	2,063	(41,204)	19,135	—	19,135
Pollution remediation liability	1,565	4,748	(444)	5,869	5,660	209
Fuel hedges	15,656	112,625	(92,463)	35,818	22,840	12,978
Long-term service agreements	39,442	15,016	(18,994)	35,464	14,500	20,964
Communication towers	34,169	—	—	34,169	—	34,169
Other	89,857	216,542	(221,026)	85,373	602	84,771
Total other long-term liabilities	<u>\$ 322,040</u>	<u>\$ 390,303</u>	<u>\$ (411,943)</u>	<u>\$ 300,400</u>	<u>\$ 67,392</u>	<u>\$ 233,008</u>

**Long-Term Service Agreements (“LTSAs”)** – CPS Energy has two LTSAs with 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 AGP parts to eventually be installed at the AVR plant.

The balance of the AVR LTSA obligation as of January 31, 2024 totaled \$6.7 million of which \$5.7 million and \$1.0 million were reported on the Statements of Net Position as a current and noncurrent liability, respectively. The balance of the AVR LTSA obligation as of January 31, 2023 totaled \$10.2 million and was 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. As of January 31, 2024, all four sets of AGP parts are installed and operational at the plant.

The balance of the Rio Nogales LTSA obligation as of January 31, 2024, totaled \$10.5 million of which \$4.7 million and \$5.8 million were reported on the Statements of Net Position as a current and noncurrent liability, respectively. The balance of the Rio Nogales LTSA obligation as of January 31, 2023, totaled \$25.3 million of which \$14.5 million and \$10.8 million were reported on the Statements of Net Position as a current and noncurrent liability, respectively.

**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 \$6.3 million for use of CPS Energy communication shelters for a total of \$34.2 million which has been recorded 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 as of January 31, 2024 and 2023.

**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 \$2.0 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 FY2024 or FY2023.

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 FY2023.

The remaining balance under the Property Reserves (Environmental) column as of January 31, 2024, 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.

### FY2024 and FY2023 Reserve Rollforward

(In thousands)

	Employee & Public Liability Claims	Property Reserves (Insurance)	Property Reserves (Environmental)	Total
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
Payments	(3,064)	—	—	(3,064)
Other claims adjustments	2,586	737	(238)	3,085
Balance – FY2023	19,709	5,859	19,310	44,878
Payments	(6,334)	—	—	(6,334)
Other claims adjustments	6,477	4,700	12,691	23,868
Balance – FY2024	<u>\$ 19,852</u>	<u>\$ 10,559</u>	<u>\$ 32,001</u>	<u>\$ 62,412</u>

**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 October 31, 2022, 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, 2024, the total fair value of outstanding hedge instruments was a net asset of \$7.8 million. Fuel hedging instruments with a fair value of \$4.2 million and \$6.5 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 \$15.3 million and \$4.7 million are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

As of January 31, 2023, the total fair value of outstanding hedge instruments was a net asset of \$13.3 million. Fuel hedging instruments with a fair value of \$27.9 million and \$22.8 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 \$21.2 million and \$13.0 million are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

All hedging derivative instruments were evaluated for effectiveness as of January 31, 2024 and 2023. 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 \$30.2 million and \$35.8 million as of January 31, 2024 and 2023, respectively. No deferred inflow of resources related to fuel hedges were reported as of January 31, 2024. The deferred inflows of resources related to fuel hedges totaled \$20.1 million as of January 31, 2023.

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

### Fuel Derivative Instrument Transactions as of January 31, 2024

(Dollars in thousands)

Type of Transaction	Referenced Index	Duration	Volumes (MMBtu)	Fair Value	FY2024 Change in Fair Value
Long Natural Gas Swap	Henry Hub	Feb 2024 through Sep 2024	1,898,835	\$ (2,600)	\$ 1,232
Short Natural Gas Swap	Henry Hub	Feb 2024 through Feb 2024	1,402,500	1,873	(2,449)
Long Natural Gas Call Option	Henry Hub	Feb 2024 through Jan 2027	76,898,917	12,377	(2,694)
Short Natural Gas Call Option	Henry Hub	Apr 2024 through Apr 2026	981,254	\$ (247)	\$ 39
Long HSC Basis Swap	Henry Hub	Feb 2024 through Sep 2024	380,000	(48)	999
Long HSC Gas Daily Swap	Henry Hub	Feb 2024 through Feb 2024	3,404,600	—	—
Long WAHA Basis Swap	Henry Hub	Feb 2024 through Jan 2027	72,241,876	(3,190)	18,533
Short WAHA Basis Swap	Henry Hub	Apr 2024 through Apr 2026	2,106,767	\$ (347)	\$ (347)
Long WAHA Gas Daily Swap	Henry Hub	Feb 2024 through Feb 2024	3,001,500	—	—
				<u>\$ 7,818</u>	<u>\$ 15,313</u>

**Fuel Derivative Instrument Transactions as of January 31, 2023**

(Dollars in thousands)

Type of Transaction	Referenced Index	Duration	Volumes (MMBtu)	Fair Value	FY2023 Change in Fair Value
Long Natural Gas Swap	Henry Hub	Feb 2023 through Jan 2024	13,851,186	\$ (3,831)	\$ (21,755)
Short Natural Gas Swap	Henry Hub	Feb 2023 through Feb 2023	1,970,000	4,323	8,650
Long Natural Gas Call Option	Henry Hub	Feb 2023 through Jan 2026	66,922,339	33,808	2,065
Long Natural Gas Put Option	Henry Hub	Feb 2023 through Mar 2023	719,000	\$ 1,871	\$ 2,579
Short Natural Gas Put Option	Henry Hub	Feb 2023 through Mar 2023	275,000	(77)	(68)
Long HSC Basis Swap	Henry Hub	Feb 2023 through Dec 2023	3,744,000	(1,047)	(923)
Long HSC Gas Daily Swap	Henry Hub	Feb 2023 through Feb 2023	2,875,600	—	—
Long WAHA Basis Swap	Henry Hub	Feb 2023 through Jan 2026	76,999,525	(21,723)	(9,274)
Long WAHA Gas Daily Swap	Henry Hub	Feb 2023 through Feb 2023	4,029,200	—	—
				<u>\$ 13,324</u>	<u>\$ (18,726)</u>

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, 2024 and 2023, 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, 2024, the HSC price was \$2.49 per Metric Million British Thermal Unit ("MMBtu"), the WAHA price was \$1.86 per MMBtu and the Henry Hub price was \$2.62 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 FY2024 and FY2023.

## 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 2,700 MW. CPS Energy's ownership share (40%) in STP Units 1 and 2 represents approximately 1,080 MW of total plant capacity. In addition, STP is owned by Constellation South Texas, LLC ("Constellation")(44%) and the City of Austin (16%). In November 2023, Constellation acquired NRG South Texas LP's 44% ownership stake in STP. The ownership transfer was approved on October 30, 2023, by the NRC, which was the final regulatory approval needed before closing the acquisition. As a result, Constellation became one of the three owner-investors in STP.

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. No changes in the Participation Agreement resulted from Constellation's acquisition of NRG South Texas LP's STP ownership transfer and STPNOC continues to operate the plant.

**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 ("NWPAA"), 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** – 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 NWPAA. 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 March 2023, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through December 31, 2025.

Pursuant to STPNOC's analysis of the NRC guidance, the first dry cask storage campaign was completed in calendar year 2019, with 12 dry casks stored at the Dry Cast Storage Project. STP reported the Dry Cask Storage Project loading campaign was completed on July 15, 2022. The calendar year 2022 Dry Cask Storage campaign included the loading of four casks for Unit 1 and six casks for Unit 2. The next loading campaign is scheduled for 2025 and the plan is to load eight casks for Unit 1 and six for Unit 2. Ongoing costs for the spent fuel management project are being funded by the STP owners (CPS Energy; the City of Austin; and Constellation South Texas, LLC, a wholly owned subsidiary of Constellation Energy Corporation) 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 ("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. Spent fuel management costs that do not qualify for reimbursement by the DOE or the Trusts are recorded as 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 \$166 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, 2028, for the number of operating nuclear units and for each licensed reactor, payable at \$25 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 is 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 \$500 million for each nuclear facility, provides primary protection from nuclear-related liability claims. A master worker certificate policy, with a maximum limit of \$500 million for the nuclear industry, provides protection from radiation tort liability claims of workers at nuclear facilities.

The 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. The 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 Nuclear Electric Insurance Limited ("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 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. 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 FY2024 or FY2023. In FY2024 and FY2023, 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 2023 or 2022. 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 2023 or 2022.

The most recent cost study, which was finalized in May 2023, estimated decommissioning costs for the 28% ownership and 12% ownership in STP Units 1 and 2 are \$725.9 million and \$311.1 million, respectfully, in 2023 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 12% Trust and an analysis of this cost study, the Company determined that no further decommissioning contributions would be required to be deposited into the Trusts.

As of December 31, 2023 and 2022, CPS Energy accumulated \$520.5 million and \$473.7 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, 2022, the 28% Trust funds allocated to decommissioning costs totaled \$302.5 million, which exceeded the calculated financial assurance amount of \$126.9 million.

As of December 31, 2023 and 2022, \$191.3 million and \$174.1 million, respectively, was 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, 2022, the 12% Trust funds allocated to decommissioning costs totaled \$120.4 million, which exceeded the calculated financial assurance amount of \$54.4 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. The most recent study was finalized in May 2023 and estimates costs in 2023 dollars. 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 non-bargaining participants, effective December 31, 2021.

STPNOC also maintains a defined-benefit postretirement plan that provides postretirement health and welfare benefits. On May 1, 2014, certain STPNOC employees voted to transition STPNOC's medical plan to a Taft-Hartley multiemployer health and welfare plan. During calendar year 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, \$330.0 thousand for calendar 2023 and \$305.0 thousand for calendar 2022, 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 reflected as a decrease of \$7.3 million for FY2024 and an increase of \$26.1 million for FY2023, respectively, in nonoperating income (expense).

## **16. Commitments and Contingencies**

Purchase and construction commitments were approximately \$8,399.6 million as of January 31, 2024. This amount includes construction commitments, provisions for coal purchases through December 2026 and natural gas purchases through May 2053; 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 gas toll energy through 2028, 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 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 Generation Planning 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 system reliability and climate resiliency, customer affordability, environmental sustainability, system flexibility and workforce impact. In August 2019, the 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. The CAAP also has two interim goals, a 41% reduction by 2030 and a 71% reduction by 2040 and CPS Energy is working towards these goals. On January 23, 2023, the Board voted for a generation planning portfolio that will include gas, wind, solar and energy storage options. The blended portfolio increases reliability, reduces system risk and continues progress towards the City's CAAP goals. The chosen portfolio balances reliability and affordability, continues the transition to low carbon future, retains experienced workforce to support transition, retains fuel diversity to manage risks, supports expansion of renewables while balancing extreme weather risks, and aligns with community input.

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, through the middle of FY2028.

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. CPS Energy also has



long-term (greater than one year) wholesale agreements with three public power entities and cities, providing full or partial requirements. These long-term agreements have varying terms expiring through December 2027. The capacities committed under these agreements represent approximately 3% 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 the remaining commitments:

- 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, 2024, there were 146,639 CPS Energy customer devices 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 City authorized CPS Energy to perform residential streetlight LED conversions. This project began in January 2023 and was completed in June 2023. CPS Energy completed replacing 873 100W High-Pressure Sodium residential lights to LED.
- The City authorized CPS Energy to replace downtown streetlights with Decorative Valmont poles and LED lights. This project began in February 2023 and is still in progress. Currently, 235 downtown streetlights have been replaced.
- 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 \$41.4 million and \$44.5 million as of January 31, 2024 and 2023, 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 <sup>1</sup>	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	

<sup>1</sup> 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. In 2015 *Roofless Solar* was launched by CPS Energy in partnership with Clean Energy Collective ("CEC"). CEC built a 1 MW community solar farm in the CPS Energy service territory. The program 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. 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. In 2015 the *SolarHostSA* program was launched by CPS Energy in partnership 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. 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 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 the DOD ownership. Additionally, CPS Energy will be reimbursed by the DOD for any unrealized investments made into the systems prior to the contract termination date.

On March 12, 2021, following Winter Storm Uri, CPS Energy filed suit against ERCOT in the Bexar County District Court alleging breach of contract, claiming damages in the amount of \$15 million in short-payments, seeking 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 short payments to CPS Energy. The requested judgment also sought to prevent ERCOT from requiring CPS Energy and its customers to pay for other market participants' default (i.e., Uplift charges) 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. After district court granted a temporary injunction, in December 2021, the Fourth Court of Appeals (the "Fourth Court") terminated the injunction and dismissed CPS Energy's petition on procedural grounds, and without addressing the merits of the case, reasoning that the PUCT has exclusive original jurisdiction over CPS Energy's claims. On January 27, 2022, CPS Energy filed its petition for review with the Texas Supreme Court, which was granted and oral argument were held on January 9, 2023. On June 23, 2023, the Texas Supreme Court affirmed the Fourth Court's dismissal of CPS Energy's petition on procedural grounds and held further that ERCOT is entitled to sovereign immunity. Despite the outcome of the

litigation, CPS Energy successfully recovered most of its \$15 million short-payment claim primarily through securitization authorized by the Texas Legislature and implemented by market participants that defaulted on their financial obligations to ERCOT in the aftermath of Winter Storm Uri, including Rayburn and Brazos electric cooperatives. In December 2021, the PUCT authorized ERCOT to implemented securitization of \$800 million pursuant to PURA Chapter 39, Subchapter M to reimburse short payments for operating days February 12 to 20, 2021, during Winter Storm Uri. The proceeds of these securitized transactions by ERCOT and these market participants resulted in repayment of their outstanding short-payments to ERCOT, which in turn have been used to reimburse short-pay claimants such as CPS Energy.

The \$800 million in securitized debt was reduced to \$200.3 million as a result of a settlement authorized on November 14, 2022, by the United States Bankruptcy Court in the Brazos Chapter 11 Plan of Reorganization. On December 15, 2022, a disbursement of \$1,151.4 million from the bankruptcy settlement was paid to ERCOT, of which \$599.7 million went to reduce the \$800 million securitization debt. Pursuant to provision in Subchapter M, over the next 25 to 30 years, ERCOT is requiring CPS Energy to make monthly payments of its share of the remaining \$200.3 million, which are expected to total approximately \$5.4 million. 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.

CPS Energy is currently engaged in litigation against three of its natural gas suppliers, in which CPS Energy is disputing (under disputed payment provision) approximately \$350 million in natural gas prices charged by those suppliers for natural gas during Winter Storm Uri as being unconscionable and volatile of public policy in Texas. The pending gas supplier cases have been consolidated into the Multi District Litigation Panel and have been assigned to a judge in Bexar County for pretrial proceedings. The outcome of this pending litigation 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 Winter Storm Uri. The outcomes of these pending lawsuits are uncertain as of the issuance of these financial statements. Additionally, CPS Energy is involved in other lawsuits unrelated to Winter Storm Uri. The outcomes of these pending lawsuits are uncertain as of the issuance of these financial statements.

## 17. Leases and Subscription Based Information Technology Arrangements

**Leases** – CPS Energy accounts for Leases in accordance with GASB Statement No. 87, *Leases*, which 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.

CPS Energy, as lessee, 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's leased assets and associated accumulated amortization are included as intangible capital assets. 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, 2024.

**Subscription Based Information Technology Arrangements** – CPS Energy adopted GASB Statement No. 96, *Subscription Based Information Technology Arrangements*, during FY2023. GASB Statement No. 96 establishes an accounting model for subscription assets and requires the recognition of a SBITA liability and an intangible right-to-use subscription asset.

The following tables summarize leases and SBITAs balances as of January 31, 2024 and 2023, and activity for FY2024 and FY2023:

### FY2024 Leases and SBITAs Rollforward

(In thousands)

	February 1, 2023	Additions/ Increases	Deletions/ Decreases	January 31, 2024
<b>Right-to-use assets</b>				
Leases				
Buildings	\$ 2,884	\$ 1,018	\$ —	\$ 3,902
Equipment	1,142	1,918	(1,142)	1,918
SBITAs	35,250	17,748	(4,771)	48,227
Total	39,276	20,684	(5,913)	54,047
<b>Amortization</b>				
Leases				
Buildings	(1,488)	(687)	—	(2,175)
Equipment	(931)	(243)	1,142	(32)
SBITAs	(13,163)	(9,995)	4,305	(18,853)
Total	(15,582)	(10,925)	5,447	(21,060)
Leases and SBITAs, net	\$ 23,694	\$ 9,759	\$ (466)	\$ 32,987

### FY2023 Leases and SBITAs Rollforward

(In thousands)

	February 1, 2022	Additions/ Increases	Deletions/ Decreases	January 31, 2023
<b>Right-to-use assets</b>				
Leases				
Buildings	\$ 2,884	\$ —	\$ —	\$ 2,884
Equipment	2,248	—	(1,106)	1,142
SBITAs	30,373	4,974	(97)	35,250
Total	35,505	4,974	(1,203)	39,276
<b>Amortization</b>				
Leases				
Buildings	(985)	(503)	—	(1,488)
Equipment	(635)	(309)	13	(931)
SBITAs	(4,135)	(9,125)	97	(13,163)
Total	(5,755)	(9,937)	110	(15,582)
Leases and SBITAs, net	\$ 29,750	\$ (4,963)	\$ (1,093)	\$ 23,694

The following table summarizes future principal and interest payments related to leases as of January 31, 2024:

(In thousands)

Year Ended January 31,	Principal	Interest	Total
2025	\$ 924	\$ 120	\$ 1,044
2026	925	84	1,009
2027	875	48	923
2028	633	20	653
Total	<u>\$ 3,357</u>	<u>\$ 272</u>	<u>\$ 3,629</u>

The following table summarizes future principal and interest payments related to SBITAs payments as of January 31, 2024:

(In thousands)

Year Ended January 31,	Principal	Interest	Total
2025	\$ 5,361	\$ 332	\$ 5,693
2026	4,058	148	4,206
2027	1,366	27	1,393
2028	14	—	14
Total	<u>\$ 10,799</u>	<u>\$ 507</u>	<u>\$ 11,306</u>

**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 receipts of variable or other lease payments as of FY2024. The total lease interest and revenue was \$1.4 million for both the years ended January 31, 2024 and 2023. In addition, the total leased asset receivable was \$6.1 million and the corresponding deferred inflow of resources was \$10.8 million as of January 31, 2024. The total leased asset receivable was \$7.0 million and the corresponding deferred inflow of resources was \$11.9 million as of January 31, 2023.

**Pole Attachment Leases** – CPS Energy leases space on poles and streetlight 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 pole attachment lease revenue for the years ended January 31, 2024 and 2023, was \$8.8 million and \$8.5 million, respectively. There were no other or variable lease payments received in FY2024 and FY2023. 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 Leases** – 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

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 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 2023 and estimates costs in 2023 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. 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. As of January 31, 2024 and 2023, the ARO related to STP Units 1 and 2 was \$1,037.0 million and \$1,095.9 million, respectively.
- **Vaults** – CPS Energy has approximately 200 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. 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. As of January 31, 2024 and 2023 the ARO related to the vaults was \$12.0 million and \$11.5 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. As of January 31, 2024 and 2023, the ARO related to the storage tanks was \$5.1 million and \$4.9 million, respectively.

## 19. Subsequent Events

On March 27, 2024, CPS Energy and Talen Energy Corporation (“Talen”) announced an agreement for CPS Energy to purchase Talen’s approximately 1,710 MW natural gas fired generation portfolio for approximately \$785.0 million, subject to customary net working capital adjustments at closing. Under the terms of the agreement, CPS Energy will acquire all assets associated with Talen’s 897 MW Barney M. Davis and 635 MW Nueces Bay natural gas fired generation facilities located in Corpus Christi, Texas, as well as its 178 MW Laredo facility located in Laredo, Texas. There are a combined total of approximately 65 operations employees at these sites, and they will have the opportunity to become CPS Energy employees at the closing of the acquisition. The transaction is expected to close in the second quarter of calendar 2024 and CPS Energy plans to finance the purchase with short-term liquidity with later plans to convert to long-term bonds. The addition of these units aligns with CPS Energy’s generation plan and Vision 2027 strategy, which includes the retirement of older units and the addition of a blend of gas, solar, wind and energy storage.

CPS Energy has evaluated subsequent events through April 25, 2024, which is the date the financial statements were available to be issued and determined there are no other items to disclose.

## REQUIRED SUPPLEMENTARY INFORMATION (“RSI”)

### January 31, 2024 and 2023

### (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,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>										
Service cost	\$ 40,271	\$ 41,129	\$ 35,403	\$ 36,861	\$ 37,175	\$ 32,569	\$ 31,547	\$ 30,183	\$ 32,591	\$ 33,417
Interest cost	155,015	150,633	148,068	143,079	137,954	132,861	128,991	122,800	117,802	116,155
Effect of plan changes	(12)	—	—	—	—	—	—	—	—	—
Changes in assumptions	51,083	(9,825)	28,832	(4,940)	(10,129)	77,574	—	—	38,296	—
Differences between expected and actual experience	394	2,174	(846)	(2,685)	(19,385)	6,025	(18,647)	19,691	(35,634)	(24,410)
Benefit payments	(123,427)	(114,484)	(106,825)	(101,037)	(96,969)	(93,550)	(91,230)	(91,293)	(84,319)	(74,352)
Net change in total pension liability	123,324	69,627	104,632	71,278	48,646	155,479	50,661	81,381	68,736	50,810
Total pension liability, beginning of period	2,234,500	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
Total pension liability, end of period	2,357,824	2,234,500	2,164,873	2,060,241	1,988,963	1,940,317	1,784,838	1,734,177	1,652,796	1,584,060
<b>Plan fiduciary net position</b>										
Employer contributions	(58,986)	(62,100)	(56,025)	(73,435)	(58,700)	(46,200)	(44,500)	(46,000)	(55,800)	(44,400)
Participant contributions	(14,970)	(14,054)	(13,890)	(14,758)	(13,363)	(13,039)	(12,144)	(11,563)	(12,140)	(12,569)
(Earnings) loss on Plan assets	64,655	(244,563)	(187,600)	(169,004)	48,316	(246,772)	(207,196)	52,945	(85,520)	(145,883)
Benefit payments	123,427	114,484	106,825	101,037	96,969	93,550	91,230	91,293	84,319	74,352
Administrative expenses	474	487	510	476	391	389	—	—	—	—
Net change in Plan fiduciary net position	114,600	(205,746)	(150,180)	(155,684)	73,613	(212,072)	(172,610)	86,675	(69,141)	(128,500)
Plan fiduciary net position, beginning of period	(2,122,445)	(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)
Plan fiduciary net position, end of period	(2,007,845)	(2,122,445)	(1,916,699)	(1,766,519)	(1,610,835)	(1,684,448)	(1,472,376)	(1,299,766)	(1,386,441)	(1,317,300)
Net pension liability, end of period	\$ 349,979	\$ 112,055	\$ 248,174	\$ 293,722	\$ 378,128	\$ 255,869	\$ 312,462	\$ 434,411	\$ 266,355	\$ 266,760
<b>Plan fiduciary net position as a percentage of the</b>										
total pension liability	85.2 %	95.0 %	88.5 %	85.7 %	81.0 %	86.8 %	82.5 %	74.9 %	83.9 %	83.2 %
Covered payroll	\$ 304,482	\$ 293,669	\$ 286,959	\$ 282,302	\$ 271,449	\$ 254,241	\$ 242,477	\$ 235,360	\$ 256,236	\$ 261,085
Net pension liability as a percentage of covered payroll	114.9 %	38.2 %	86.5 %	104.0 %	139.3 %	100.6 %	128.9 %	184.6 %	103.9 %	102.2 %

#### Notes to Schedule

**Changes of benefit terms:** Changes of benefit terms reflect the effect of changes in the Employee’s Contribution Accumulation rate during FY2017 (from 5.75% to 5.50%), FY2020 (from 5.50% to 5.25%), and FY2024 (from 5.25% to 5.00%).

**Changes of assumptions:** Changes of assumptions and other inputs reflect the effects of changes in the discount rate during FY2019 and FY2022 and changes to the mortality improvement scale during each period; and a change in the earnings progression during FY2024; FY2022 amounts reflect the effects of the 2020 experience study updates, including updating to the Pri-2012 Mortality Table; FY2019 amounts reflect the effects of the 2017 experience study updates.

**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)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 56,717	\$ 58,986	\$ 62,050	\$ 56,025	\$ 53,435	\$ 58,657	\$ 46,234	\$ 44,532	\$ 46,001	\$ 48,696
Contributions in relation to the actuarially determined contribution	56,717	58,986	62,100	56,025	73,435	58,700	46,200	44,500	46,000	55,800
Contribution deficiency (excess)	\$ —	\$ —	\$ (50)	\$ —	\$ (20,000)	\$ (43)	\$ 34	\$ 32	\$ 1	\$ (7,104)
Covered payroll	\$ 304,482	\$ 293,669	\$ 286,959	\$ 282,302	\$ 271,449	\$ 254,241	\$ 242,477	\$ 235,360	\$ 256,236	\$ 261,085
Contributions as a percentage of covered payroll	18.6%	20.1%	21.6%	19.8%	27.1%	23.1%	19.1%	18.9%	18.0%	21.4%

**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	25 years
Asset valuation method	Market value gains/losses recognized over 5 years
Inflation	2.30% for FY2024, 2.20% for FY2023 and FY2022 and 3.0% for previous years presented per year, compounded annually
Salary increases	Average, including inflation: 5.65% for FY2024, 5.54% for FY2023 and FY2022, 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 FY2024, FY2023, and 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-2021 for 2024, MP-2020 for 2023, 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 FY2024, FY2023 and 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. 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,								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
<u>Total OPEB liability</u>									
Service cost	\$ 4,302	\$ 4,905	\$ 3,772	\$ 4,300	\$ 4,466	\$ 3,376	\$ 3,435	\$ 3,319	\$ 3,207
Interest cost	17,092	18,604	17,089	17,624	18,032	17,182	18,176	17,601	17,050
Changes in Plan benefits	—	—	—	—	—	415	(19,185)	—	—
Changes in assumptions	(970)	(385)	(5,962)	(4,246)	(2,190)	9,657	—	—	—
Differences between expected and actual experience	(29,153)	26,691	(11,592)	(19,010)	1,763	—	475	—	—
Benefit payments	(18,104)	(11,915)	(13,398)	(12,475)	(11,390)	(12,197)	(14,001)	(12,756)	(13,275)
Net change in total OPEB liability	(26,833)	37,900	(10,091)	(13,807)	10,681	18,433	(11,100)	8,164	6,982
Total OPEB liability, beginning of period	277,924	240,024	250,115	263,922	253,241	234,808	245,908	237,744	230,762
Total OPEB liability, end of period	251,091	277,924	240,024	250,115	263,922	253,241	234,808	245,908	237,744
<u>Plan fiduciary net position</u>									
Employer contributions	—	—	—	—	—	—	(8,500)	(8,806)	(3,200)
Medicare Part D payment	(985)	(977)	(924)	(842)	(872)	(998)	(933)	(976)	(933)
(Earnings) loss on Plan assets	10,701	(41,220)	(26,613)	(30,260)	10,571	(41,718)	(38,949)	9,765	(12,536)
Benefit payments	18,104	11,915	13,398	12,475	11,390	12,197	14,001	12,756	13,275
Administrative expense	1,300	1,251	1,297	1,150	1,223	1,346	1,622	1,456	1,137
Net change in Plan fiduciary net position	29,120	(29,031)	(12,842)	(17,477)	22,312	(29,173)	(32,759)	14,195	(2,257)
Plan fiduciary net position, beginning of period	(326,859)	(297,828)	(284,986)	(267,509)	(289,821)	(260,648)	(227,889)	(242,084)	(239,827)
Plan fiduciary net position, end of period	(297,739)	(326,859)	(297,828)	(284,986)	(267,509)	(289,821)	(260,648)	(227,889)	(242,084)
Net OPEB (asset) liability, end of period	\$ (46,648)	\$ (48,935)	\$ (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	118.6 %	117.6 %	124.1 %	113.9 %	101.4 %	114.4 %	111.0 %	92.7 %	101.8 %
Covered-employee payroll	\$ 273,551	\$ 263,640	\$ 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	(17.1)%	(18.6)%	(22.4)%	(13.7)%	(1.5)%	(16.0)%	(11.7)%	8.1 %	(1.8)%

**Notes to Schedule**

*Changes of benefit terms:* Changes in plan deductibles were updated accordingly for each period; FY2019 amounts reflect updates to the HRA contributions; FY2021 amounts reflect the addition of the HSA contributions.

*Changes of assumptions:* Changes of assumptions and other inputs reflect the effects of changes in the discount rate during FY2019 and FY2022 and changes to the mortality improvement scale during each period; FY2022 amounts reflect the effects of the 2020 experience study updates, including updating to the Pri-2012 Mortality Table; FY2019 amounts reflect the effects of the 2017 experience study updates.

**Life Plan**

(Dollars in thousands)

	Measurement Period Ended January 31,								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
<b>Total OPEB liability</b>									
Service cost	\$ 586	\$ 614	\$ 517	\$ 511	\$ 473	\$ 349	\$ 336	\$ 325	\$ 313
Interest cost	3,688	3,612	3,400	3,308	3,284	3,432	3,256	3,244	3,228
Changes in assumptions	820	985	4,044	309	594	(457)	—	—	—
Differences between expected and actual experience	561	252	4,766	840	(936)	—	2,378	—	—
Benefit payments	(4,204)	(4,255)	(3,987)	(3,895)	(4,028)	(3,813)	(3,469)	(3,358)	(3,313)
Net change in total OPEB liability	1,451	1,208	8,740	1,073	(613)	(489)	2,501	211	228
Total OPEB liability, beginning of period	57,208	56,000	47,260	46,187	46,800	47,289	44,788	44,577	44,349
Total OPEB liability, end of period	58,659	57,208	56,000	47,260	46,187	46,800	47,289	44,788	44,577
<b>Plan fiduciary net position</b>									
Employer contributions	(925)	(900)	—	—	—	—	—	—	—
Participant contributions	(1,131)	(1,156)	(1,077)	(1,053)	(1,030)	(1,000)	(972)	(930)	(911)
(Earnings) loss on Plan assets	1,950	(6,526)	(4,031)	(5,702)	2,135	(8,066)	(6,936)	2,102	(2,460)
Benefit payments	4,204	4,255	3,987	3,895	4,028	3,813	3,469	3,358	3,313
Administrative expenses	17	26	25	30	28	30	27	21	16
Net change in Plan fiduciary net position	4,115	(4,301)	(1,096)	(2,830)	5,161	(5,223)	(4,412)	4,551	(42)
Plan fiduciary net position, beginning of period	(57,987)	(53,686)	(52,590)	(49,760)	(54,921)	(49,698)	(45,286)	(49,837)	(49,795)
Plan fiduciary net position, end of period	(53,872)	(57,987)	(53,686)	(52,590)	(49,760)	(54,921)	(49,698)	(45,286)	(49,837)
Net OPEB (asset) liability, end of period	\$ 4,787	\$ (779)	\$ 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	91.8%	101.4%	95.9 %	111.3 %	107.7 %	117.4 %	105.1 %	101.1 %	111.8 %
Covered-employee payroll	\$ 273,551	\$ 263,640	\$ 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	1.7 %	(0.3)%	0.9 %	(2.1)%	(1.5)%	(3.7)%	(1.1)%	(0.3)%	(2.7)%

**Notes to Schedule***Changes of benefit terms:* None.

*Changes of assumptions:* Changes of assumptions and other inputs reflect the effects of changes in the discount rate during FY2019 and FY2022 and changes to the mortality improvement scale during each period, and a change in the earnings progression during FY2024; FY2022 amounts reflect the effects of the 2020 experience study updates, including updating to the Pri-2012 Mortality Table; FY2019 amounts reflect the effects of the 2017 experience study updates.

**Disability Plan**

(Dollars in thousands)

	Measurement Period Ended January 31,								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
<u>Total OPEB liability</u>									
Service cost	\$ 680	\$ 712	\$ 557	\$ 580	\$ 620	\$ 516	\$ 527	\$ 509	\$ 492
Interest cost	490	457	384	402	475	473	455	448	426
Changes in assumptions	142	(4)	1,993	11	189	94	—	—	—
Differences between expected and actual experience	468	(665)	(156)	(673)	(656)	—	255	—	—
Benefit payments	(1,049)	(1,230)	(1,142)	(977)	(880)	(1,012)	(974)	(775)	(559)
Net change in total OPEB liability	731	(730)	1,636	(657)	(252)	71	263	182	359
Total OPEB liability, beginning of period	6,363	7,093	5,457	6,114	6,366	6,295	6,032	5,850	5,491
Total OPEB liability, end of period	7,094	6,363	7,093	5,457	6,114	6,366	6,295	6,032	5,850
<u>Plan fiduciary net position</u>									
Employer contributions	(559)	(726)	(614)	(769)	(1,000)	(1,300)	(700)	(175)	(175)
Participant contributions	(287)	(276)	(276)	(291)	(274)	(265)	(260)	(248)	(211)
(Earnings) loss on Plan assets	191	(782)	(539)	(603)	205	(627)	(501)	158	(177)
Benefit payments	1,049	1,230	1,142	977	880	1,012	974	775	559
Administrative expenses	12	17	21	14	19	18	15	14	18
Net change in Plan fiduciary net position	406	(537)	(266)	(672)	(170)	(1,162)	(472)	524	14
Plan fiduciary net position, beginning of period	(7,041)	(6,504)	(6,238)	(5,566)	(5,396)	(4,234)	(3,762)	(4,286)	(4,300)
Plan fiduciary net position, end of period	(6,635)	(7,041)	(6,504)	(6,238)	(5,566)	(5,396)	(4,234)	(3,762)	(4,286)
Net OPEB (asset) liability, end of period	\$ 459	\$ (678)	\$ 589	\$ (781)	\$ 548	\$ 970	\$ 2,061	\$ 2,270	\$ 1,564
Plan fiduciary net position as a percentage of the									
total OPEB liability	93.5 %	110.7 %	91.7 %	114.3 %	91.0 %	84.8 %	67.2 %	62.4 %	73.3 %
Covered-employee payroll	\$ 276,105	\$ 268,773	\$ 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 %	(0.3)%	0.2 %	0.4 %	1.0 %	1.1 %	0.8 %

**Notes to Schedule**

*Changes of benefit terms:* FY2019 reflects updates for the 2017 amendment to the minimum benefit, eligibility requirement, and maximum age for benefit receipt tiered schedule.

*Changes of assumptions:* Changes of assumptions and other inputs reflect the effects of changes in the discount rate during FY2019 and FY2022 and changes to the mortality improvement scale during each period, and a change in the earnings progression during FY2024; FY2022 amounts reflect the effects of the 2020 experience study updates, including updating to the Pri-2012 Mortality Table; FY2019 amounts reflect the effects of the 2017 experience study updates.

**Schedules of Employer Contributions to CPS Energy OPEB Plans** – The following schedules present multiyear 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)

	2024	2023	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	\$ 273,551	\$ 263,640	\$ 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	25 years
Asset valuation method	Market value gains/losses recognized over 5 years
Healthcare cost trend rates	5.5% initial, decreasing to an ultimate rate of 3.7% for FY2024; 5.6% initial, decreasing to an ultimate rate of 3.7% for FY2023; 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	5.5% initial, decreasing to an ultimate rate of 3.7% for FY2024; 5.6% initial, decreasing to an ultimate rate of 3.7% for FY2023; 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 3.30% to 11.58% for FY2024, 3.20% to 11.47% for FY2023 and FY2022; 3.1% to 11.6% for FY2021, FY2020 and FY2019; and ranging from 4.0% to 9.5% for previous years
Investment Rate of Return	7.00% per year, compounded annually, for FY2024, FY2023, and FY2022; 7.25% for FY2021, FY2020, and FY2019; 7.50% for FY2018 and FY2017; 7.75% for
Mortality	Pri-2012 Employee / Retiree Mortality (headcount weighted) projected forward (fully generational) with mortality improvement scale MP-2021 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 Employee/Retiree Mortality (headcount weighted) projected forward (fully generational) with MP-2021, separate tables for disabled participants and contingent annuitants.

*Other information:* Changes in plan deductibles were updated accordingly for each period; FY2019 amounts reflect updates to the HRA contributions; FY2021 amounts reflect the addition of the HSA contributions.

# CPS Energy FY2024 Basic Financial Statements

## Life Plan

(Dollars in thousands)

	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ —	\$ 925	\$ 924	\$ —	\$ —	\$ 435	\$ 515	\$ 145	\$ 561
Contributions in relation to the actuarially determined contribution	—	925	900	—	—	—	—	—	—
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 24</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 435</u>	<u>\$ 515</u>	<u>\$ 145</u>	<u>\$ 561</u>
Covered-employee payroll	\$273,551	\$ 263,640	\$ 257,608	\$ 254,996	\$ 244,010	\$ 218,003	\$ 210,631	\$ 198,704	\$ 191,984
Contributions as a percentage of covered-employee payroll	— %	0.4 %	0.3 %	— %	— %	— %	— %	— %	— %

## 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	3 years
Asset valuation method	Market value gains/losses recognized over 5 years
Inflation	2.30% for FY2024, 2.20% for FY2023 and 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 3.30% to 11.58% for for FY2024; 3.20% to 11.47 for FY2023 and FY2022; 5.36% average for FY2021 and FY2020; 4.54% average, including inflation for FY2019; and 4.78% average, including inflation, in prior years
Investment rate of return	7.00% per year, compounded annually, for FY2024, FY2023 and 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 mortality improvement scale MP-2021; 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 Employee/Retiree Mortality (headcount weighted) projected forward (fully generational) with MP-2021, separate tables for disabled participants and contingent annuitants.

*Other information:* 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)

	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 602	\$ 559	\$ 726	\$ 614	\$ 769	\$ 1,045	\$ 1,035	\$ 886	\$ 793
Contributions in relation to the actuarially determined contribution	602	559	726	614	769	1,000	1,300	700	175
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 45	\$ (265)	\$ 186	\$ 618
Covered-employee payroll	\$ 276,105	\$ 268,773	\$ 260,739	\$ 259,520	\$ 251,482	\$ 224,137	\$ 216,558	\$ 212,904	\$ 205,704
Contributions as a percentage of covered-employee payroll	0.2%	0.2%	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	3 years
Inflation	2.30% for FY2024, 2.20% for FY2023 and 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 3.30% to 11.58% for FY2024; 3.20% to 11.47% for FY2023 and FY2022; 5.36% average for FY2021 and FY2020; 4.72% average, including inflation for FY2019; and 4.78% average, including inflation for previous years
Investment rate of return	7.00% per year, compounded annually for FY2024, FY2023, and 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 mortality improvement scale MP-2021 Disabled mortality based on Pri-2012 Employee/Retiree Mortality (headcount weighted) projected forward (fully generational) with MP-2021, separate tables for disabled participants and contingent annuitants. Healthy mortality based on Pri-2012 Employee / Retiree Mortality (headcount weighted) projected forward (fully generational) with mortality improvement scale MP-2020 Disabled mortality based on Pri-2012 Private Retirement Plans Disabled Mortality Table (headcount weighted) projected with Mortality Improvement Scale MP-2020

*Other information:* FY2019 reflects updates for the 2017 amendment to the minimum benefit, eligibility requirement, and maximum age for benefit receipt tiered schedule.

**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,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<u>Plan</u>										
Pension	<b>14.3%</b>	(10.8)%	15.6 %	8.8 %	17.9%	(4.5)%	14.6 %	10.2%	(1.1)%	5.7 %
Health	<b>13.6%</b>	(11.4)%	14.5 %	6.9 %	16.7%	(5.5)%	14.0 %	11.1	—	—
Life	<b>14.8%</b>	(11.1)%	14.9 %	7.4 %	18.9%	(5.5)%	14.1 %	9.7	—	—
Disability	<b>13.5%</b>	(10.3)%	14.7 %	7.7 %	18.5%	(5.8)%	13.8 %	8.9	—	—