



Calaveras Lake cools our power plants, while providing habitat for wildlife and recreational opportunities for our community.

Focus: Environment

Our commitment to the environment is embedded in our mission.
Page 7

New Energy Economy

Learn how we have linked clean energy investment to local job growth.
Page 3

THE
CPS ENERGY  **NEWS**

CPS Energy Annual Report

FY 2014

Fewer Customers Out for Less Time

We are proud to consistently report top-tier reliability.
Page 4

Less Emissions More Generation

Even as demand has risen, we have been able to reduce environmentally-regulated air emissions.
Page 5

STEP Programs Reduce Demand

Plan to save 771 MW of power and delay building a power plant is on track.
Page 6



CPS Energy crews install a new, nine-ton transformer into a vault to serve the growing needs of the Baptist Medical Center.

**SOUND FINANCIALS,
STRONG MANAGEMENT,
LOW RATES**



Customers get information from our employees in person at one of our Customer Care Fairs.

The Legacy Continues

Our performance and employee commitment continue to pay dividends to the community

We have a long history of outstanding performance, environmental stewardship, and community involvement; and once again, we have built on our foundation with one of the most successful years in our history.

For FY 2014, our electric service reliability ranked within the top tier of the industry, and our financial position remained strong, with enviable credit ratings from all three financial ratings agencies, as we invested in new assets, infrastructure and technologies.

The FY 2014 budget approved by the Board of Trustees held the line on operating costs, reflecting the results of improved processes, enhanced efficiencies and streamlined operations, while maintaining the level of operational excellence our community expects and deserves.

Following a year where streamlined business practices and improved efficiency allowed us to postpone a previously planned rate increase request, in FY 2014 we successfully

received approval for a 4.25 percent increase in our electric and natural gas base rates, effective in February 2014. Generation diversification and robust risk management remain the cornerstones of our strategy. That means ongoing strategic decisions which continue to reduce the carbon intensity of our generation fleet by moving away from unscrubbed coal and increasing the use of natural gas, clean coal, solar energy, and other clean low carbon sources.

Our legacy of environmental stewardship can be found in every sector of our company, from our clean generation assets to our waste disposal practices. In FY 2014, we recycled 95 percent of our waste, resulting in \$5 million in proceeds for our company and ratepayers.

We also continue to invest in innovative technologies, such as LED lighting, electrical grid upgrades, and demand management technologies. Those investments all have a strong economic development component

that is bringing good-paying, clean-energy jobs and investment capital to the greater San Antonio area. We will continue to leverage our investments to enhance the community, improve air quality, and build the local economy.

Our success rests on strong leadership and a motivated, professional, and engaged workforce that calls San Antonio home. In FY 2013, we were honored as United Way's Large Corporate Volunteer of the Year in San Antonio and Bexar County, and we continue to strive for leadership in corporate responsibility with almost 15,000 employee volunteer hours. Lisa Lewis, vice president of communications and media relations states, "As a publicly owned utility, our mission is to supply the community we serve with reliable, affordable energy. We have been able to fulfill that mission and achieve a remarkable level of success doing so, thanks to the dedication and professionalism of our employees."

Embracing industry change leads to success

A letter from the CEO

This year, CPS Energy enjoyed many successes. Thanks to the planning and decisions we've made in growing our no- and low-carbon emitting generation resources and to our investments in energy efficiency and peak demand reduction, our company is well positioned for the energy industry's changing requirements.

Utilities can fight the changes taking place in the energy industry, or create value with a new business model that embraces innovation and developing technologies. We at CPS Energy have chosen the latter path. We are working to find better ways to generate, distribute and manage energy, while spurring economic development.

Whether it's demand response, rooftop solar, the smart grid, battery storage, or electric vehicles, we continue to seek partnerships that will create more value for our customers and our community: so that our customers save money; our community delays the need to construct new power plants and enjoys the benefits of fewer pollutants in our air; and our state benefits from reduced energy

demand during times of peak use.

By doing so, we are positioning ourselves for the future, while continuing to deliver top-tier performance. Operationally in 2013, our power plants were available consistently during the hot summer months. Our electric reliability remained among the top ten percent of all utilities nationwide. Our environmental performance met or improved upon required standards. And most importantly for the third year in a row, our safety performance exceeded the previous year, improving our safety metrics by 70 percent since 2010.

Mission Solar Energy (formerly Nexolon America) broke ground in February 2013 on its highly anticipated manufacturing facility, and later this summer, the first panels will roll off the assembly line and go into installations around San Antonio and across Texas.

The first 50 MW of our "landmark" 400-MW agreement was brought online, bringing our total installed solar capacity to more than 100 MW – 90 MW of utility-scale solar and 15 MW of distributed generation. More recently, we've

announced plans to grow our solar programs, with \$21 million more allocated to rebates, solar leasing, and community solar initiatives. (page 3)

The Sierra Club and several Texas environmental groups lauded us for significantly reducing emissions. Thanks in large part to reductions in emissions by CPS Energy, San Antonio remains the largest U.S. city to avoid citation by the EPA for ozone. And with the expectation of new rules for greenhouse gas emissions, we found ourselves ahead of the curve and poised to weather the expected changes, with significant reductions since 2012. (page 5)

We continued to develop our programs for demand response (DR). With more than 100,000 customers participating in some type of DR program – from smart thermostats to home area networks to automated DR at commercial locations – and increased our peak energy reduction during hot summer days to more than 100 MW. (page 6)

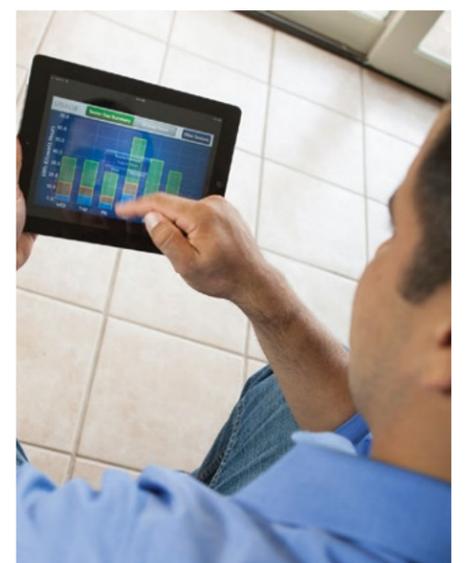
Our commitment to our community was honored with a Platts Global Energy Award for Corporate Responsibility, which recognized not

only our operational successes, but also our employees' volunteerism and financial support of everything from the American Heart Association to United Way. In particular, CPS Energy has been lauded for our corporate support of education in the fields of science, technology, engineering, and math, as well as our volunteer efforts that contribute to improving 2nd graders' reading levels and increasing high school graduation rates in Greater San Antonio. (page 8)

We have achieved these successes through the vision of our Board of Trustees; with the input of community stakeholders of all types; with the support of our regulator, the San Antonio City Council, who approved a rate increase in 2013 that allows us to continue on a path of growth and improvement; and thanks to the dedication of our employees who continue to bring vision and planning to reality.

All of them recognize the value in their municipal, vertically owned utility. It's thanks to them that we have grown to be recognized as one of the best utilities in the nation.

Doyle N. Beneby



Left, a CPS Energy field worker teaches Girl Scouts about electric distribution systems. Above right, the CPS Energy Home Manager enables customers to manage their energy remotely. Lower right, rooftop solar panels account for 15 MW of San Antonio's 100+ MW solar power.

Success in the New Energy Economy

To date, the New Energy Economy initiative has created 400 new jobs for the people of Greater San Antonio.

New Energy Economy initiative continues to expand job opportunities in Greater San Antonio

We leverage clean energy contracts to boost the local economy

Our decision in 2011 to leverage our buying power to bolster the region's clean technology sector continued to pay dividends in FY 2014.

OCI Solar Power broke ground on three of seven planned solar farms that will ultimately comprise 400 MW of utility-scale solar energy to our customers through 25-year purchase power agreements. The remaining planned solar farms will be supplied with solar panels by the Mission

Solar Energy LLC (previously Nexolon America LLC) manufacturing plant being constructed in San Antonio as part of OCI Solar Power's consortium of partners. The consortium includes solar tracker and inverter manufacturing plants, also created in San Antonio. "All in all, the consortium expects to sustain over 800 permanent jobs when the project reaches maturity, with an estimated annual impact of \$700 million,"

states Cris Eugster, executive vice president and chief generation and strategy officer.

By the first quarter of 2013, OCI Solar Power and Mission Solar Energy had opened offices in San Antonio. In December 2013 and March 2014, OCI Solar Power had completed construction on the first and second solar farms, the 41-MW Alamo 1 in Southeast Bexar County and the 4.4-MW Alamo 2 northeast of down-

town San Antonio, respectively, and has broken ground on a third farm. Mission Solar Energy is near completion of its manufacturing plant at Brooks City Base in San Antonio.

In February 2013, we signed an agreement with Silver Spring Networks, a leading platform and solutions provider for smart grid energy networks. Silver Spring Networks will build the communication network necessary

continued on page 4



OCI Solar Power

Catherine Perez, 34, is an administrative assistant with OCI Solar Power. Catherine provides administrative support to the office manager at OCI Solar Power's downtown headquarters as well as to three executives: vice president of operations; vice president of engineering, procurement and construction; and the senior counsel.



GreenStar

Mark Balderas, 41, is a line leader at LED lighting company GreenStar. Balderas began more than two years ago as an assembly worker for the company, which was started in Boerne, then moved to San Antonio before becoming a wholly owned subsidiary of Toshiba Lighting & Technology Corporation.



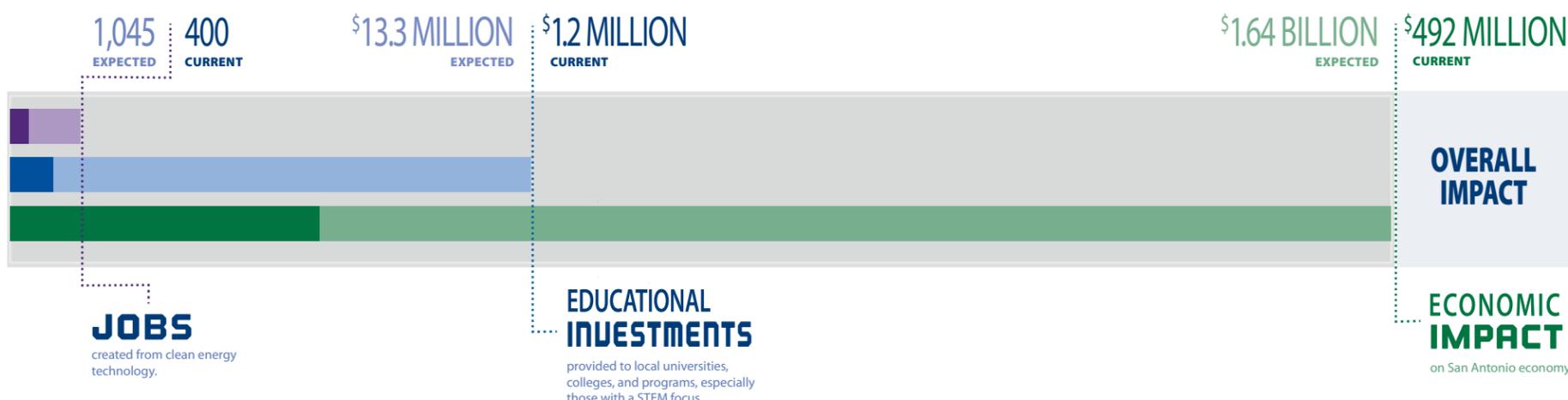
KACO

Irene Gamez, 38, is an assembly technician for KACO new energy. Irene is trained to do just about every one of the delicate and precise jobs on the assembly line at KACO new energy's 56,000-square-foot manufacturing plant, which just opened on Binz-Engleman Road, from putting inverter assembly kits together to wiring up components.



OCI Solar Power

Edward Holder, 40, is a network engineer with OCI Solar Power, Nexolon America and Ercam Trackers. Edward supports computer users at all three companies, building out new network systems at each new facility. The companies are consortium partners in the deal to build and supply 400 MW of solar power to CPS Energy.



New Energy Economy *continued from page 3*

for us to update our electric grid and metering system in ways that will increase reliability, reduce costs, and give customers unprecedented control over their energy use. As with several other New Energy Economy partners, Silver Spring Networks plans to open a permanent San Antonio office and is establishing a science, technology, engineering, and mathematics (STEM) scholarship and intern training program.

In October 2013, Landis+Gyr was added as a New Energy Economy partner. Landis+Gyr, a subsidiary of Toshiba Corporation, was contracted to provide roughly 700,000 new electric meters manufactured with

Silver Spring Networks' technology. These companies will work together to provide smart grid technology across our service area.

OCI Solar Power, Silver Spring Networks and Landis+Gyr join our other New Energy Economy partners, which have committed a combined \$13.3 million to local education, with the goal of creating permanent, new energy jobs in the San Antonio area.

Those partners also include GreenStar, an LED lighting company acquired in May 2013 by Japan's Toshiba Lighting & Technology Corporation. SunEdison, which built and maintains 30.4 MW of utility-scale solar energy in San Antonio, is another

New Energy Economy partner.

Consert, which moved its headquarters from Raleigh, NC, to San Antonio, was acquired by Toshiba Corporation in February 2013 and is currently being managed by Landis+Gyr. Consert's Home Manager system, already in use by more than 16,000 of our customers, is projected to be installed for up to 140,000 residential and commercial customers, with the goal of reducing our peak electrical demand by up to 250 MW.

Once all New Energy Economy partner commitments are achieved, the estimated economic impact to San Antonio is over \$1.6 billion, long-term. Our plan to link our

formidable buying power with New Energy Economy development has been hailed by business and environmental groups alike. Platts Energy Week has highlighted our President and CEO Doyle Beneby's bold initiative, while the Environmental Defense Fund (EDF) named us an "energy innovator" for our plan.

"Community-owned utilities like CPS Energy are in prime positions to affect not just their own activity, but also that of the broader economy," wrote Jim Marston, director of the EDF's Texas office. "It's exciting to see them take a thoughtful approach and a leadership position in the industry."

"Fewer customers out for less time"

We remain in top tier the industry for electric service reliability

We benchmark our electric service reliability performance nationally and once again ranked in the top tier for key industry measures.

The System Average Interruption Duration Index (SAIDI) is commonly used as a reliability indicator by electric power utilities, tracking average total outage time. We ranked in the top 10 percent for shortest outage times out of a representative sample of 56 utilities across the country in FY 2014, thanks to efficient and well-trained crews who were able to restore power in most cases in about an hour.

We also ranked in the top quartile in FY 2014 among utilities in the Customer Average Interruption Duration Index (CAIDI), a reliability index used to track the average outage duration that any given customer would experience. (CAIDI can also be viewed as the average restoration time per customer per year.) In another

key category, the System Average Interruption Frequency Index (SAIFI), which measures the units of interruptions per customer, we ranked in the top quartile – and that's where higher benchmarks have already been set.

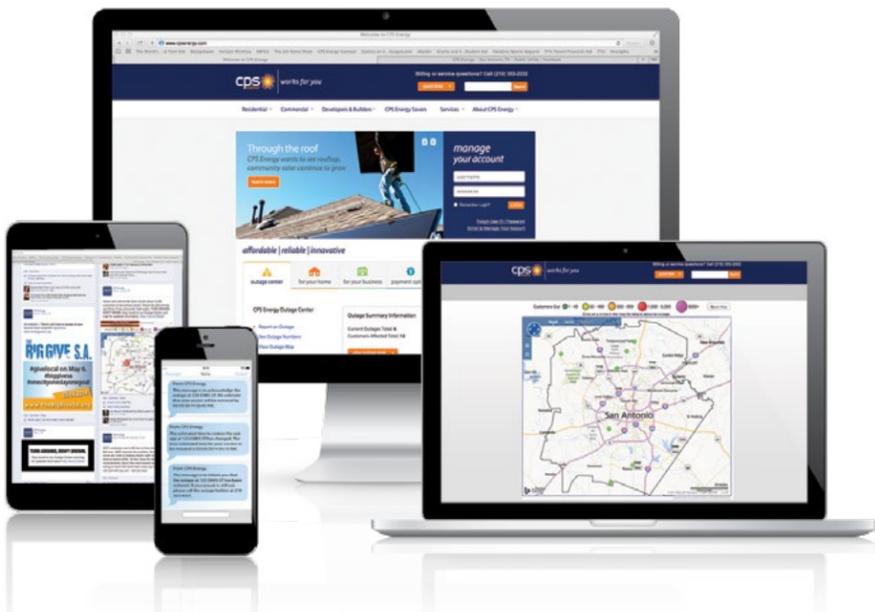
"Overall, we've done very well," states Jelynn LeBlanc-Burley, our executive vice president and chief delivery officer. "We're trending down, with fewer customers out for less time."

We invested more than \$69 million in system reliability upgrades in FY 2014, including four new substations.

We also began installing the mesh network that will be the framework for our Smart Grid Initiative. Up to 45,000 smart meters are planned for installation in 2014. Our Smart Grid Initiative will provide precise system outage location identification and reduce repair response time, improving reliability even more.



Linemen install a capacitor, which regulates voltage and increases system reliability.



Customers rely on multiple communication channels for on demand outage notification.

LESS EMISSIONS, MORE GENERATION



The William R. Sinkin Centennial Solar Farms contribute to our goal of 1,500 MW of renewable capacity by the end of 2020.

We continue to build our clean generation portfolio

The Electric Reliability Council of Texas (ERCOT), which operates most of the state's electrical grid, estimates that electricity reserves could drop below the preferred 13.75 percent margin by 2017, based on ERCOT's 2014 Report on the Capacity, Demand, and Reserves in the ERCOT Region.

We remain, however, long on generation.

"Following the FY 2013 purchase of the 800-MW Rio Nogales combined-cycle natural gas plant," states Richard Peña, senior vice president of energy supply, "we continued in FY 2014 to build our clean generation portfolio with the addition of new solar farms that will ultimately yield an additional 400 MW of power."

Power from new generation assets will replace power from our two oldest coal units, known as J.T. Deely, which began operations in the 1970s and are scheduled to be suspended indefinitely beginning in 2018. The switch enables us to avoid more than \$1 billion in projected costs to keep the aging units operational and compliant with ever-toughening environmental regulations.

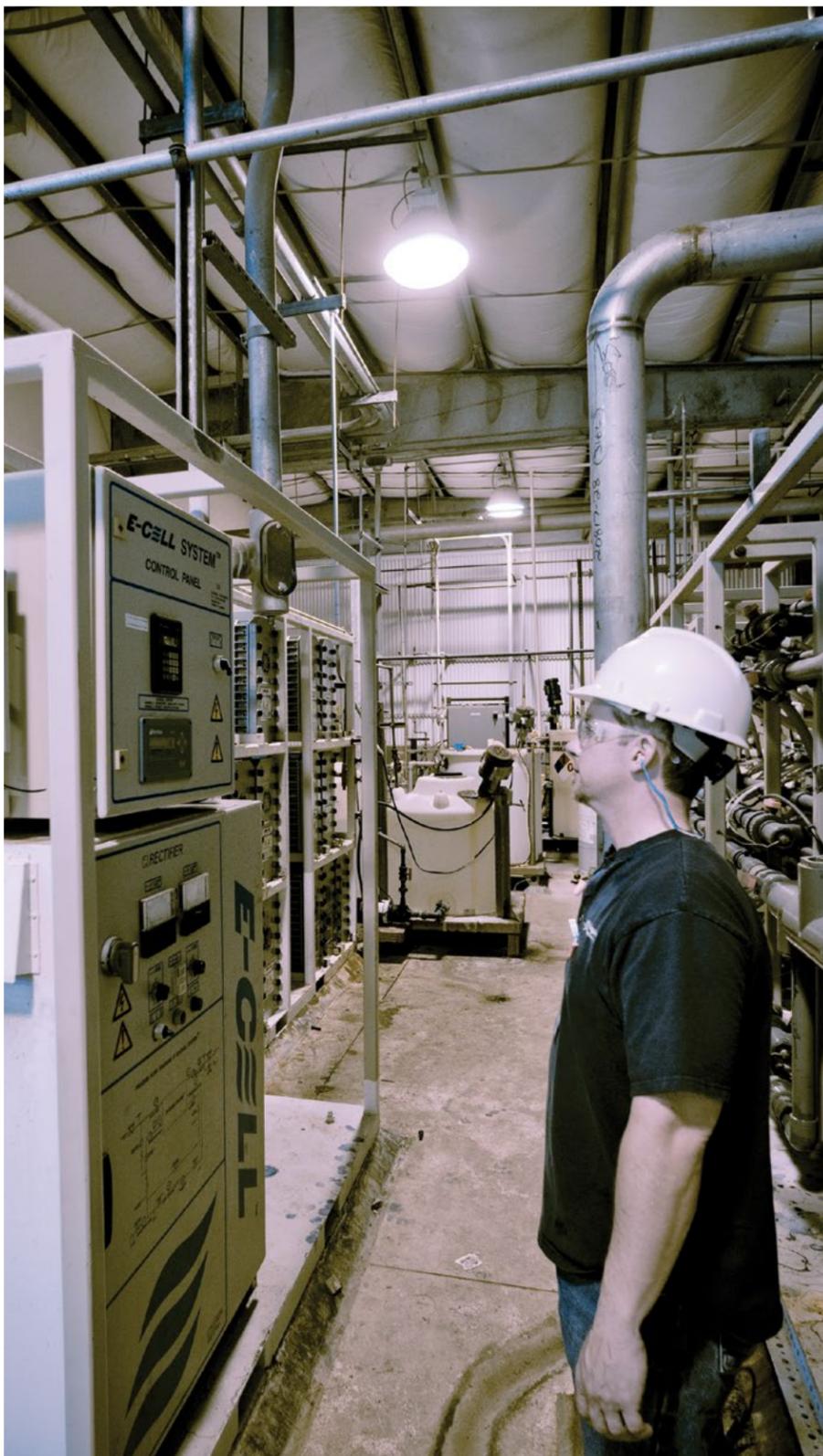
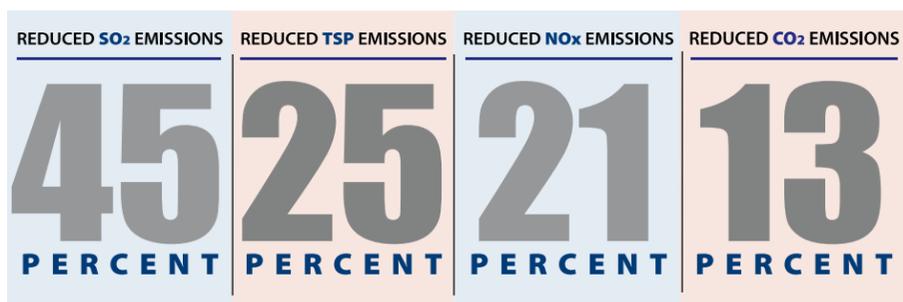
Projected to be operational for

the next 30-40 years, the Rio Nogales plant emits virtually no particulate matter, mercury, or sulfur dioxide and uses roughly half the amount of water needed to run the Deely units. The solar plants require no water and are emission-free.

The transition to natural gas and renewable energy sources is part of our strategy of diversifying our generation resources and brings the vertically integrated utility's total nameplate capacity to 6,573 MW, and renewable power generation capacity to 1,153 MW. We have an additional 363.5 MW of solar power under contract, bringing our total renewable capacity under contract to 1,517 MW, exceeding our renewable energy goal of 1,500 MW of renewable capacity by the end of 2020.

To deliver power to customers, we have continued to invest in new infrastructure and make upgrades to existing structures and systems. In our 1,515-square-mile service territory, on January 31, 2014, we owned and operated 1,508 miles of transmission line; 12,659 miles of distribution line – 7,744 overhead, 4,915 underground; and more than 100 substations/switchyards.

EMISSIONS REDUCTION FROM FY 2012 - FY 2014:



Checking the system at Rio Nogales during planned maintenance to keep the plant running safely and efficiently.



A welder works on the Braunig Plant machinery overhaul, maintaining one of our natural gas generation assets.

**WE REDUCED
DEMAND BY
343 MW TO DATE
(THROUGH FY 2014)
TOWARD OUR
GOAL OF 771MW
BY 2020.**



A Casa Verde weatherization worker seals a qualified customer's door frame.

STEP Programs successfully reduce demand

We plan to reduce demand by 771 MW by 2020

Our flagship program to reduce demand by 771 MW of power by 2020 had another successful year.

The Save for Tomorrow Energy Plan, or STEP, launched in 2009, seeks to save enough energy to allow us to delay building our next power plant – the cost of which could easily top \$1 billion.

We will spend \$849 million, which we collect through the fuel adjustment charge on customer bills, to implement aggressive energy efficiency and conservation measures. These include a free weatherization program for qualifying low-income customers; rebates for commercial and residential retrofits for lighting, heating, air conditioning and other systems; and innovative Demand Response programs.

In FY 2014, all the STEP programs combined saved 112+ MW. Of the total, more than 70 MW of

peak power – the most expensive kind – was saved.

“Demand Response has been an increasingly important and successful part of STEP,” says Jelynn LeBlanc-Burley, executive vice president and chief delivery officer. “The voluntary program for commercial and industrial customers offers a rebate for immediately reducing demand when we put out the call.” Enrollment jumped again in FY 2014, and even though we called just 15 “events” during the summer, the program saved 70 MW of energy.

Our residential Demand Response efforts continue to ramp up. Home Manager, a home area network that allows customers to control their air conditioner, water heater, and pool pump with a computer or smart phone, launched in 2012 but gained substantial momentum in 2013. The program saves money for customers

who partner with us to raise their air conditioner temperature three degrees for a brief period when a conservation event is called.

Another STEP program, Casa Verde, launched in 2010, is our low-income home weatherization program. Casa Verde was first funded with federal stimulus money through the City of San Antonio. In FY 2013, we contributed \$5.1 million to the program.

Beginning in FY 2014, the program is being funded exclusively through STEP, and we weatherized more than 3,200 homes. Casa Verde is on track to weatherize more than 30,000 qualifying homes through 2020. Measures include installing insulation, caulking and weather stripping, solar screens, and compact fluorescent lighting.



CPS Energy employees replace an aging street light in San Antonio with new high efficiency LED lighting.

Recycling success part of larger environmental commitment

We have a history of environmental awareness

Our commitment to the environment is deeply embedded in our ethos, from our plan to increase the use of renewable power and reduce the carbon intensity of our fleet to community tree giveaways.

In FY 2014, we recycled 95 percent, or roughly 467,000 tons, of our waste. The recycling included a diversion of more than 35 million pounds of construction debris from landfills, which were recycled into base material and asphalt, avoiding disposal costs. The total proceeds from all of our recycling streams totaled about \$5 million.

“Thanks to the foresight employed decades ago, we have a diversified and adequate water supply to weather extreme droughts and accommodate

future expansion,” says Cris Eugster, executive vice president and chief generation and strategy officer.

“To preserve Edwards Aquifer water for potable use, beginning in the 1960s, attention was focused on the treatment of sewage effluent discharged from San Antonio’s wastewater plants and used as cooling water for power plants.”

The shift from groundwater supply to recycled water saved an estimated 1 million acre feet, or 330 billion gallons, of Edwards Aquifer water between 1966 and 2013.

As part of our emission reduction strategy, we now have 14 plug-in hybrid electric vehicles that are part of our fleet. Using electricity powered by our present fuel mix, these vehicles produce 40 percent less emissions

than a traditional internal combustion vehicle when operating on electricity.

Electric vehicle drivers accessed our 120 public electric vehicle charging stations across Greater San Antonio almost 4,500 times in FY 2014, reducing vehicle greenhouse gas emissions by roughly 13,000 pounds. Since their installation through FY 2014, the stations have been used more than 7,600 times, charging in excess of 42 MW and avoiding the creation of nearly 17,500 pounds of greenhouse gases.

Through our environmental outreach and education initiatives, we provided rebates and gave away thousands of trees while promoting programs that will allow us to reach our goal of saving 771 MW of demand by 2020.

Demand reduction efforts included home weatherization for low-income customers, programmable thermostats, and a home area network that allows customers to program their energy use and participate in Demand Response Programs – all at no cost to customers – as well as commercial demand response and rebate programs to increase energy efficiency.

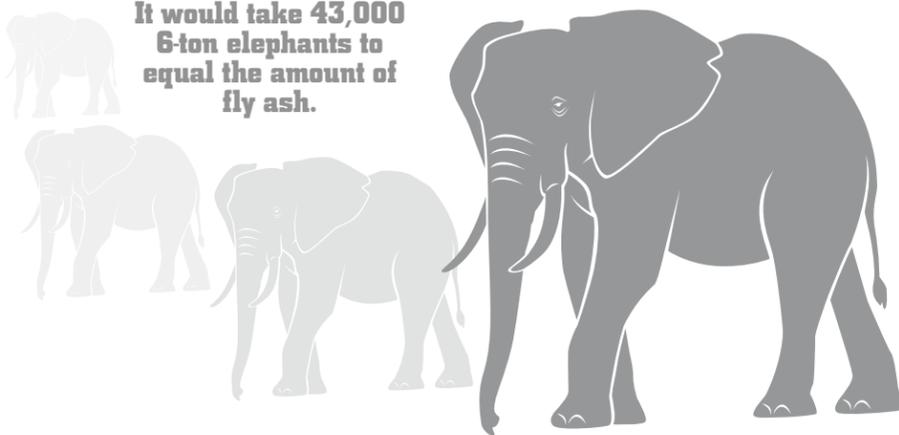


ELECTRIC VEHICLE DRIVERS ACCESSED OUR 120+ CHARGING STATIONS ALMOST 4,500 TIMES IN FY 2014 ALONE.

RECYCLING FY 2014

FLY ASH 519M LBS

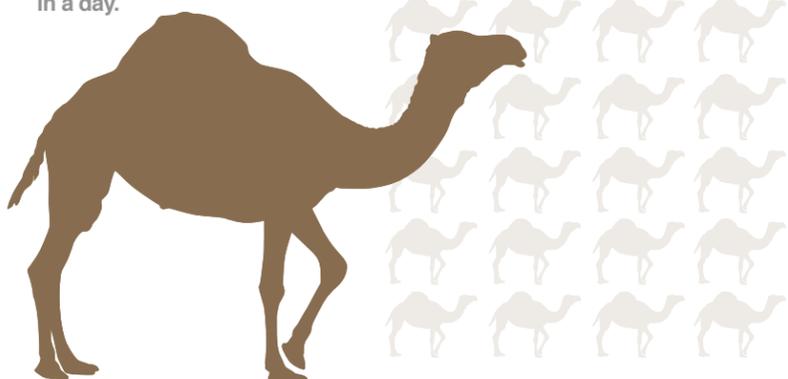
It would take 43,000 6-ton elephants to equal the amount of fly ash.



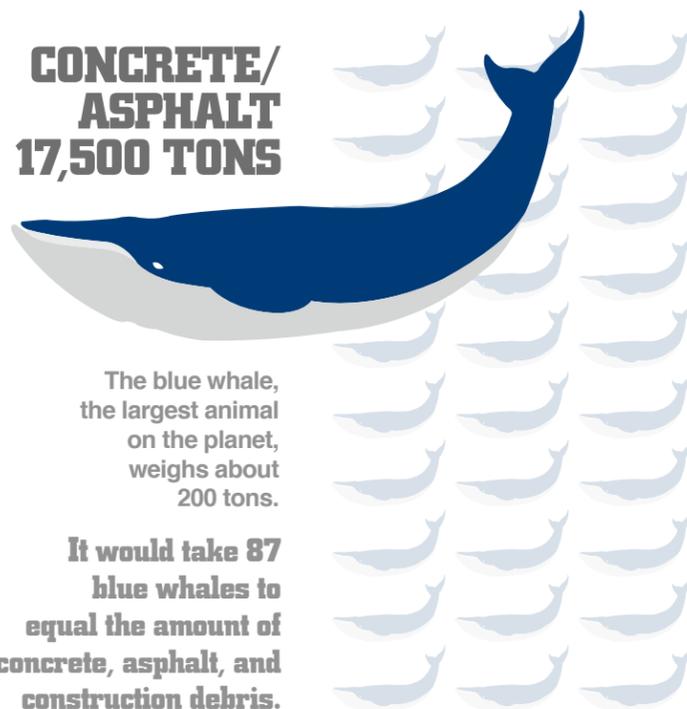
Transformer oil - 152,500 gals
Lubricating oil - 28,000 gals
Antifreeze - 880 gals

181,000 GALS

CPS Energy recycled the equivalent amount of water 3,600 camels would drink in a day.



CONCRETE/ ASPHALT 17,500 TONS



The blue whale, the largest animal on the planet, weighs about 200 tons.

It would take 87 blue whales to equal the amount of concrete, asphalt, and construction debris.

Office paper - 239,275 lbs
Oil filters - 38,025 lbs
Cardboard - 7,820 lbs
Plastic bottles - 2,973 lbs

288,000 LBS

Which is the equivalent weight of 48 average pickup trucks.



Working for the community

Volunteerism, educational initiatives part of our ethos to serve

We don't just serve the Greater San Antonio community – our approximately 3,300 employees are an integral part of it.

Through literally thousands of volunteer hours and almost \$1 million in donations in FY 2014, our employees helped improve the lives of our neighbors in need. We also take a keen interest in education, offering internships and mentoring programs, focusing in large part on STEM – science, technology, engineering, and math.

For the past decade, we have contributed \$1 million or more annually to the Residential Energy Assistance Partnership (REAP) program. REAP funds are provided to those who demonstrate the need for assistance in paying their utility bill. In 2013, REAP helped more than 7,600 customer households, most of which included seniors, those with disabilities, and children, with \$1.6 million in assistance.

Each year, current and retired employees support the United Way of San Antonio and Bexar County.

In October 2013, we were honored at the Platts Global Energy Awards with an Award of Excellence in the area of Corporate Social Responsibility. In FY 2014, our volunteer corps

completed nearly 15,000 community service hours. Also in FY 2014, "CPS Energy and partner IBEW Local 500 raised more than \$982,000 through employee and retiree donations and proceeds from the CPS Energy/ IBEW Local 500 United Way Golf Tournament and agency sponsorships," says Lisa Lewis, "beating the previous year and making CPS Energy once again among the region's top United Way contributors."

In 2013, we doubled the number of employees who volunteered with the San Antonio Youth Literacy (SAYL) Reading Buddy Program. The Reading Buddy Program pairs a volunteer mentor with a second grader reading below grade level. Students who spent 30 minutes a week reading with their mentors improved their skills by an average of 1.5 grade levels – crucial for future success, as students who can read at grade level by third grade have an 80 percent higher chance of graduating from high school than those who cannot.

We began participating in the Reading Buddy Program during the 2010-2011 school year, with 16 volunteers, at Sarah King Elementary School in the San Antonio Independent School District (SAISD). To encourage field employees to volunteer as Reading

Buddies, a new program was piloted that would accommodate their work and family time.

Based on the success of the pilot program, there are now three service centers supporting the Reading Buddy Program through their volunteer time at elementary schools close to their work locations. By the end of the 2012-2013 school year, nearly 60 of our employees had volunteered 30 minutes to an hour every week reading with 2nd grade students at three SAISD elementary schools.

During the 2013-2014 school year, 62 employee mentors read in 10 schools. We are proud to have the largest group of mentors in SAYL's Reading Buddy Program in SAISD.

Through our Donate to Education fundraising drive, employees donated nearly \$7,000 to support a free, two-day book fair at Sarah King Elementary School to encourage students to grow their personal libraries. Additionally, during the 2012-2013 school year, we installed reading nooks in three elementary schools.

SAYL's Reading Buddy Program is now a Signature Sponsorship for our company, with an annual contribution of \$20,000. The Reading Buddy Program will also receive \$100,000 through the New Energy Economy

Partnership Education Initiatives over the next five years (\$20,000 annually).

Through other educational programs, we have worked with more than 50 high school students, either as mentors, internships, or summer work programs. Mentors meet with their students at least twice monthly to provide educational, career planning, and personal support. Mentors work with students who are at risk to encourage and support them as they work toward their high school graduation. These students may also apply for a summer job with us. This experience continues the mentoring support process while providing work skills and job experience.

Through the Student Assistance for Education Program (SAFE), we awarded almost \$60,000 in scholarships and provided approximately 10,000 hours of work experience and mentoring for college and college-bound students. Our emphasis on education goes beyond our own programs. We secured commitments from our New Energy Economy partners to contribute \$13.3 million to educational initiatives, from elementary through higher education, beginning in 2012 through 2022; thus far, \$1.2 million has been collected and applied to programs.



EMPLOYEES CONTRIBUTED

\$900,000+

to United Way



CPS Energy employees give their time throughout the year to a variety of causes. Top left, a solar demonstration intrigues middle schoolers at a local science, technology, engineering, and math (STEM) conference. Top right, Girl Scouts learn about Smart Meters. Bottom right, CPS Energy field workers construct special reading spaces for San Antonio Youth Literacy students.

Management Reports Successful Audit

The FY 2014 financial audit was successful. Based on procedures they conducted, our external auditors, Baker Tilly Virchow Krause, LLP; Garza, Preis & Co., L.L.C.; and Robert J. Williams, CPA, issued an unmodified opinion indicating that our financial statements were found to be free of reporting deficiencies.

The audited basic financial statements were prepared by our Management Team in conformity with accounting principles generally accepted in the United States of America, and the statements are presented fairly in all material respects. We have also prepared other financial information presented in the annual report and have ensured that it is consistent with information

in the audited financial statements.

Our Management Team maintains accounting, financial reporting and administrative internal controls designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that assets are appropriately accounted for and adequately safeguarded. These controls are supported by formal policies and procedures readily communicated throughout our Company. Additionally, CPS Energy has an internal audit function that assists in evaluating the adequacy and effectiveness of the control environment.

CPS Energy's independent Board of Trustees is responsible

for reviewing and accepting both the audited financial statements and Management's Discussion and Analysis (MD&A). The Board of Trustees, primarily through two of their members who comprise the Audit Committee, ensures our Management Team fulfills our responsibilities for financial reporting. The Board of Trustees also approves the engagement or reappointment of the external auditors.

The Audit Committee meets regularly with our Management Team, and with the internal and external auditors, to discuss internal control and financial reporting issues and to ensure each party is properly discharging its responsibilities. The Audit Committee reviews the audited

financial statements and the external auditors' report and considers the statements for review and acceptance by all members of the Board.

CPS Energy's external auditors have audited the financial statements in accordance with auditing standards generally accepted in the United States of America. They performed procedures to obtain audit evidence deemed sufficient and appropriate to provide a basis for their opinion on the fairness of the audited financial statements. In support of the external auditors' procedures, our Management Team gave them full and free access to the accounting records.

Doyle N. Beneby
President &
Chief Executive Officer

April 28, 2014

Paula Gold-Williams
Executive Vice President,
Chief Financial Officer
& Treasurer

Our CPS Energy audited financial statements can be found at www.cpsenergy.com. The Three-Year Highlights presented below and on the following pages contain supplementary, unaudited information.

THREE-YEAR HIGHLIGHTS - UNAUDITED

(in thousands)

For Fiscal Year Ended January 31,

| | 2014 | 2013 ¹ | 2012 ¹ |
|--|---------------------|-------------------|-------------------|
| FINANCIAL SUMMARY | | | |
| Revenue | | | |
| Electric | \$ 2,211,568 | \$ 2,039,422 | \$ 2,059,299 |
| Gas | 212,503 | 174,064 | 199,097 |
| Nonoperating | 34,194 | 43,045 | 59,783 |
| Total revenue | \$ 2,458,265 | \$ 2,256,531 | \$ 2,318,179 |
| Operation and maintenance expenses ² | \$ 1,548,062 | \$ 1,397,740 | \$ 1,444,864 |
| Total payments to City of San Antonio | 317,505 | 283,786 | 303,482 |
| OTHER FINANCIAL DATA | | | |
| Decommissioning Trusts | \$ 505,375 | \$ 471,325 | \$ 442,761 |
| Repair and Replacement Account | 460,213 | 356,850 | 509,810 |
| Total assets | 10,458,498 | 10,069,760 | 9,561,941 |
| Net position | 3,383,625 | 3,321,444 | 3,319,215 |
| DEBT | | | |
| Outstanding | | | |
| Bonds | \$ 5,131,925 | \$ 4,940,535 | \$ 4,654,615 |
| Commercial paper | 360,000 | 296,500 | 130,000 |
| Weighted-average interest rate | | | |
| Senior lien fixed-rate bonds | 4.303% | 4.292% | 4.402% |
| Senior & junior lien fixed-rate bonds | 4.319% | 4.219% | 4.293% |
| Variable-rate instruments ³ | 0.466% | 0.547% | 0.479% |
| Debt service ⁴ | | | |
| Senior lien fixed-rate bonds | \$ 330,922 | \$ 366,474 | \$ 363,339 |
| Junior lien fixed-rate bonds | 30,049 | 19,526 | 19,526 |
| Variable-rate instruments | 7,886 | 5,406 | 3,814 |
| Debt service coverage - Senior lien bonds ⁵ | 2.72x | 2.27x | 2.44x |
| RATINGS - Bonds and Commercial Paper | | | |
| Fitch | - Senior lien bonds | AA+ | AA+ |
| | - Junior lien bonds | AA+ / F1+ | AA+ / F1+ |
| | - Commercial paper | F1+ | F1+ |
| Moody's | - Senior lien bonds | Aa1 | Aa1 |
| | - Junior lien bonds | Aa2 / VMIG 1 | Aa2 / VMIG 1 |
| | - Commercial paper | P-1 | P-1 ⁶ |
| Standard & Poor's | - Senior lien bonds | AA | AA |
| | - Junior lien bonds | AA- / A-1+ | AA- / A-1+ |
| | - Commercial paper | A-1+ | A-1+ |

¹ Certain amounts in prior years have been reclassified to conform to the current-year presentation.

² Excludes depreciation and amortization expenses.

³ Variable-rate instruments include commercial paper, 2003 VRDOs, flexible rate revolving note and floating rate notes.

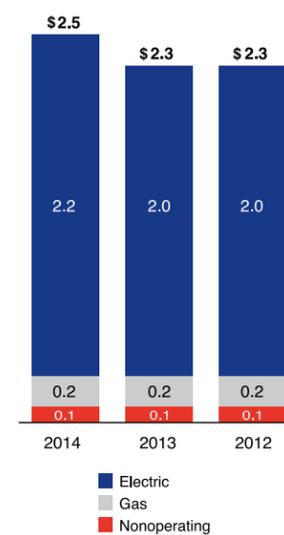
⁴ Debt service on senior and junior lien bonds is calculated net of the Build America Bonds ("BABs") direct subsidy.

⁵ Debt service coverage on senior lien bonds is calculated net of the BABs direct subsidy.

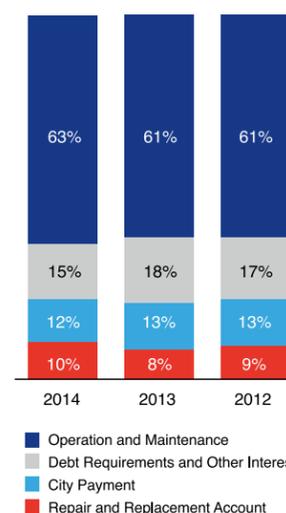
⁶ On June 21, 2012, Moody's lowered the short-term rating on the commercial paper program to P-2 from P-1 as a result of the downgrade to Bank of America N.A., the provider of liquidity support for the program under the Revolving Credit Agreement. On October 17, 2012, the liquidity providers for the program changed and the rating was restored to P-1.

⁷ On October 25, 2012, Standard & Poor's lowered the short-term rating on the 2004 VRDO obligation (only one of the securities in the Junior Lien category) to A-1 from A-1+ as a result of the downgrade to BNP Paribas, the provider of liquidity support for the 2004 VRDOs under the Standby Bond Purchase Agreement. On December 23, 2012, the rating was restored when the 2004 VRDOs were refunded and the new Variable-Rate Junior Lien Revenue Refunding Bonds were issued.

TOTAL REVENUE
Fiscal Year Ended January 31
(In Billions)



APPLICATION OF REVENUE
Fiscal Year Ended January 31



Sound financial management contributes to outstanding performance

Our payments to the City of San Antonio totaled a record high \$317.5 million

The close of the 2014 fiscal year once again found us on enviable financial footing. We maintained our strong credit ratings from all three major agencies: Aa1 from Moody's, AA+ from Fitch and AA from Standard & Poor's. Bond sales, too, reflected our strong position.

In July 2013, we issued \$375 million of tax-exempt revenue bonds. The proceeds are being used to fund a variety of construction projects, including the Smart Grid Initiative project with an estimated \$200 million commitment. Strong investor interest sparked high demand for these bonds and a true interest cost – 4.75 percent – which will benefit us, and our ratepayers.

Thanks to successfully holding the line on costs, increasing efficiencies, and continued best management practices, we have not had a rate increase since FY 2011. In FY 2014, we received approval for electric and gas

base rate increases of 4.25 percent, effective FY 2015.

In January 2014, we sold substantially all of our existing communication towers to Crown Castle, a leading independent owner and operator of shared wireless communications infrastructure, for \$41 million. Proceeds from the sale contributed to replenishing cash used for the June 2013 defeasance of revenue and refunding bonds that technically voided \$63.5 million of our debt.

Also in January 2014, we reached an agreement with Exelon and other parties to the transaction to terminate the lease/leaseback of our Spruce 1 unit. The parties finalized the termination in February 2014. The termination of the lease/leaseback arrangement resulted in a noncash gain of approximately \$43 million that will be reported as a special item on our Statements of Revenues, Expenses and Changes in Net Position in FY 2015.

“Our FY 2014 payments to our owner, the City of San Antonio, totaled a record high of \$317.5 million,” states Paula Gold-Williams, executive vice president, chief financial officer, and treasurer “Since 1942, we have paid a total of \$5.9 billion to the City.”

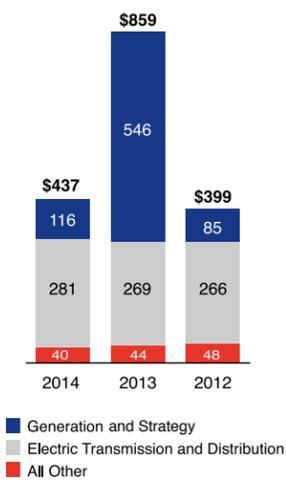
Compared to other utility companies on a nationwide basis, we have paid to our municipal owner the highest total amounts at the greatest percentage of our revenues, while maintaining some of the lowest utility rates for our customers.



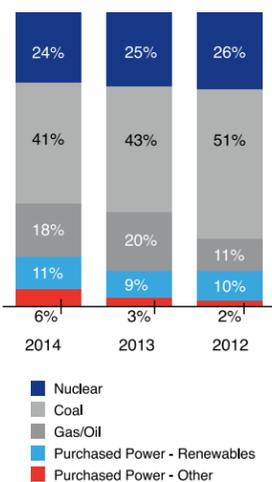
Our investment in the Smart Grid Initiative will increase efficiencies and improve reliability.

THREE-YEAR HIGHLIGHTS - UNAUDITED

NEW CONSTRUCTION AND NET REMOVAL COST EXPENDITURES Fiscal Year Ended January 31 (In Millions)



ELECTRIC GENERATION AND OTHER POWER Fiscal Year Ended January 31



CAPITAL ASSETS (in thousands)

| | For Fiscal Year Ended January 31, | | |
|--|-----------------------------------|--------------|--------------|
| | 2014 | 2013 | 2012 |
| Capital assets, net ¹ | \$ 7,817,280 | \$ 7,796,040 | \$ 7,278,151 |
| Depreciation and amortization | 390,215 | 375,440 | 352,333 |
| New construction and net removal costs | 437,117 | 858,990 | 398,788 |

FUNDING FOR NEW CONSTRUCTION and NET REMOVAL COSTS (in thousands)

| | 2014 | 2013 | 2012 |
|---|------------|------------|------------|
| Debt | \$ 315,189 | \$ 713,115 | \$ 249,846 |
| Repair and Replacement Account | 87,613 | 114,602 | 121,285 |
| Community Infrastructure and Economic Development | 669 | 3,717 | 6,584 |
| Contributed capital | 33,646 | 27,556 | 21,073 |

ELECTRIC GENERATION (MWh)

| | 2014 | 2013 | 2012 |
|---------------------------------------|------------|------------|------------|
| Generation | 25,249,716 | 26,204,769 | 26,296,115 |
| Renewables and other energy purchases | 5,270,932 | 3,799,698 | 3,440,541 |
| Total generation and other power | 30,520,648 | 30,004,467 | 29,736,656 |

Capacity (MW)

| | 2014 | 2013 | 2012 |
|----------------|-------|-------|-------|
| Gas | 3,313 | 3,305 | 2,622 |
| Coal | 2,180 | 2,180 | 2,206 |
| Nuclear | 1,080 | 1,080 | 1,080 |
| Wind | 1,059 | 1,059 | 859 |
| Solar | 85 | 45 | 14 |
| Landfill gas | 10 | 10 | 10 |
| Total capacity | 7,727 | 7,679 | 6,791 |

ELECTRIC PEAK DEMAND (MW)

| | | | |
|--|-------|-------|-------|
| | 4,809 | 4,852 | 4,911 |
|--|-------|-------|-------|

DISTRIBUTION GAS PURCHASES (MMCF)

| | | | |
|--|--------|--------|--------|
| | 25,094 | 21,338 | 21,996 |
|--|--------|--------|--------|

RESIDENTIAL AVERAGES

(unbilled revenue not included)

Electric

| | | | |
|----------------------------|-------------|-------------|-------------|
| Revenue per customer | \$ 1,382.40 | \$ 1,316.91 | \$ 1,421.76 |
| kWh per customer (average) | 14,035 | 14,248 | 15,375 |
| Revenue per kWh | 9.85¢ | 9.24¢ | 9.25¢ |

Gas

| | | | |
|----------------------|-----------|-----------|-----------|
| Revenue per customer | \$ 350.13 | \$ 294.38 | \$ 351.45 |
| MCF per customer | 34.6 | 27.8 | 31.8 |
| Revenue per MCF | \$ 10.11 | \$ 10.58 | \$ 11.03 |

RELIABILITY INDICES

System Average Interruption

| | | | |
|-----------------------------------|-------|-------|-------|
| Duration Index (SAIDI) (in hours) | 0.857 | 1.088 | 0.983 |
|-----------------------------------|-------|-------|-------|

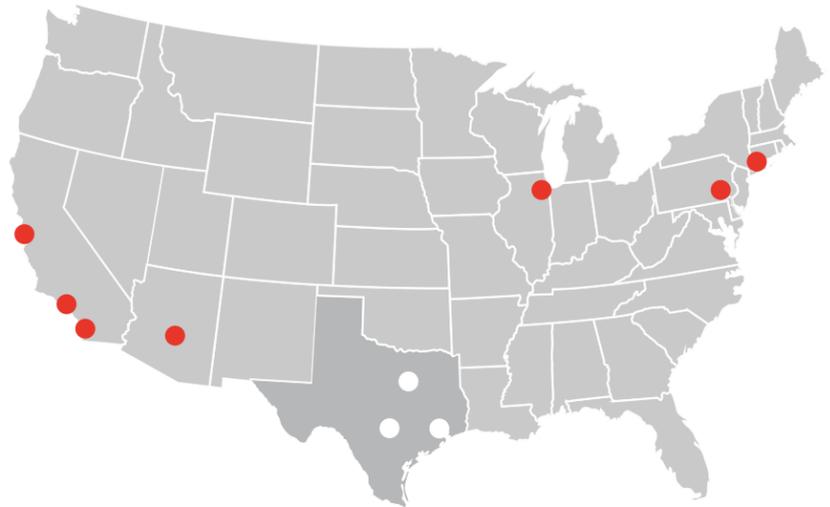
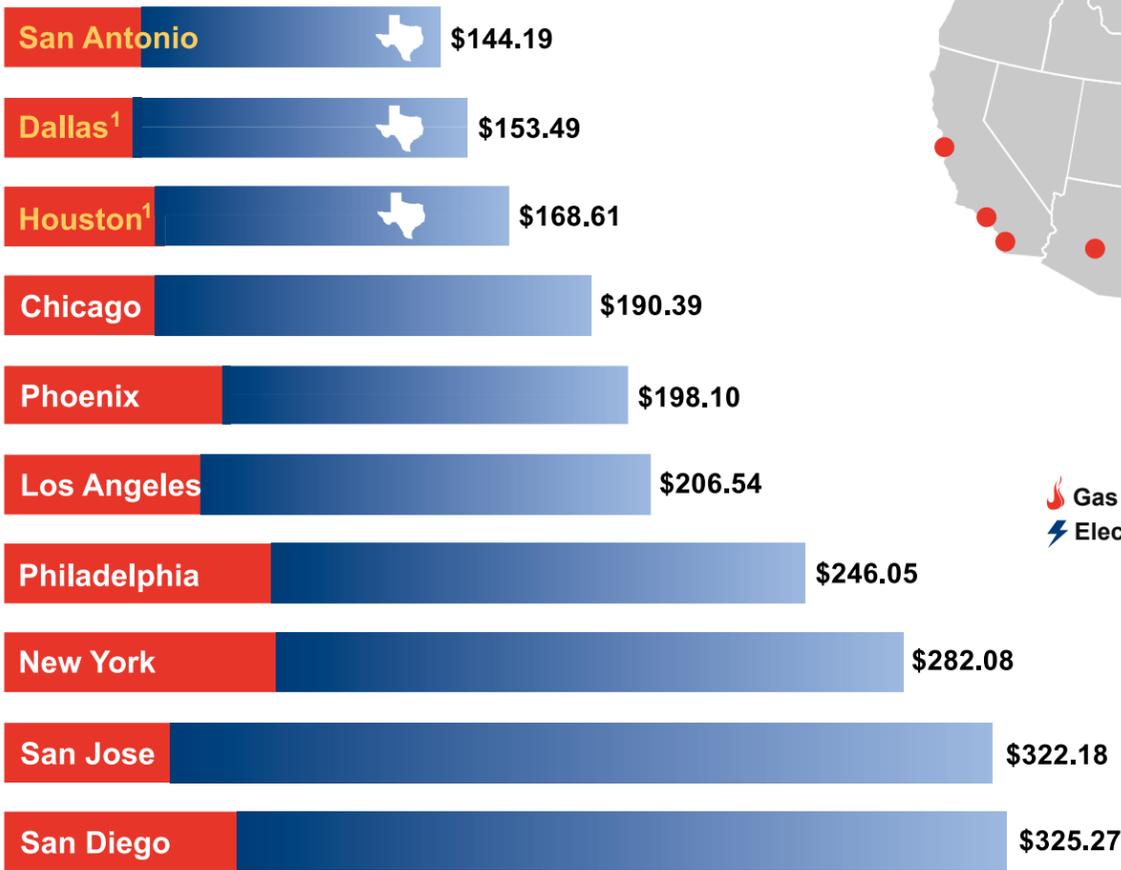
System Average Interruption

| | | | |
|-------------------------|-------|-------|-------|
| Frequency Index (SAIFI) | 0.790 | 1.030 | 0.940 |
|-------------------------|-------|-------|-------|

¹ Capital assets, net for FY 2012 includes a reclassification of intangible assets from noncurrent assets in the amount of \$2.754 million.

Comparison of residential electric and gas bills for the 10 largest U.S. cities

Based on 1,000 KWh and 5 MCF usage in FY 2014



CPS Energy is the nation's largest municipally owned natural gas and electric utility, providing service to approximately 757,000 electric customers and 334,000 natural gas customers in and around the city of San Antonio. We rank among the nation's lowest-cost energy providers while ranking number one in wind-energy capacity among municipally owned utilities.

¹The electric amounts used for Dallas and Houston are an average of all REPs in their area.

THREE-YEAR HIGHLIGHTS - UNAUDITED

For Fiscal Year Ended January 31,

OPERATING REVENUE¹ (in thousands)

| | 2014 | 2013 | 2012 |
|---------------------------|---------------------|---------------------|---------------------|
| Electric | | | |
| Residential | \$ 912,203 | \$ 851,722 | \$ 903,511 |
| Commercial and industrial | 739,914 | 684,753 | 694,048 |
| Public authorities | 197,604 | 183,340 | 189,782 |
| Sales for resale | 30,682 | 28,455 | 28,650 |
| Street lighting and ANSL | 19,480 | 19,557 | 19,627 |
| Unbilled revenue | 1,628 | 25,502 | (6,954) |
| Other | 14,761 | 9,507 | 10,788 |
| Subtotal Retail | 1,916,272 | 1,802,836 | 1,839,451 |
| Wholesale | 295,296 | 236,586 | 219,848 |
| Total | \$ 2,211,568 | \$ 2,039,422 | \$ 2,059,299 |

| | 2014 | 2013 | 2012 |
|---------------------------|-------------------|-------------------|-------------------|
| Gas | | | |
| Residential | \$ 109,144 | \$ 90,783 | \$ 107,367 |
| Commercial and industrial | 76,379 | 66,064 | 80,992 |
| Public authorities | 16,952 | 14,044 | 17,510 |
| Unbilled revenue | 8,517 | 1,835 | (8,226) |
| Other | 1,511 | 1,338 | 1,454 |
| Total | \$ 212,503 | \$ 174,064 | \$ 199,097 |

SALES

| | 2014 | 2013 | 2012 |
|---------------------------|-------------------|-------------------|-------------------|
| Electric (MWh) | | | |
| Residential | 9,261,181 | 9,215,167 | 9,770,589 |
| Commercial and industrial | 8,957,746 | 8,912,486 | 8,917,799 |
| Public authorities | 2,700,156 | 2,695,445 | 2,772,423 |
| Sales for resale | 457,551 | 444,698 | 452,782 |
| Street lighting and ANSL | 108,020 | 112,445 | 109,094 |
| Unbilled | 147,318 | 73,443 | (5,970) |
| Subtotal Retail | 21,631,972 | 21,453,683 | 22,016,717 |
| Wholesale | 7,685,346 | 7,277,786 | 6,426,177 |
| Total | 29,317,318 | 28,731,469 | 28,442,894 |

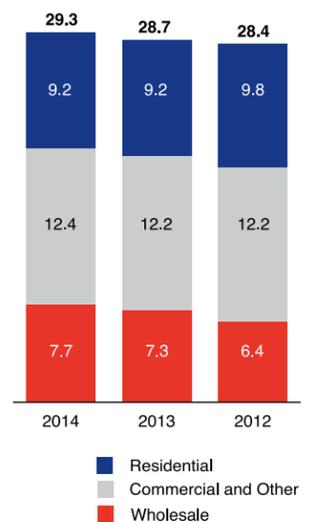
| | 2014 | 2013 | 2012 |
|-------------------------------|---------------|---------------|---------------|
| Gas (thousands of MCF) | | | |
| Residential | 10,798 | 8,584 | 9,730 |
| Commercial and industrial | 11,164 | 10,244 | 10,650 |
| Public authorities | 2,635 | 2,244 | 2,421 |
| Unbilled | 819 | 290 | (636) |
| Total | 25,416 | 21,362 | 22,165 |

| | 2014 | 2013 | 2012 |
|--|---------|---------|---------|
| NUMBER OF CUSTOMERS (at year-end) | | | |
| Electric | 756,545 | 741,467 | 728,307 |
| Gas | 334,023 | 331,192 | 328,300 |

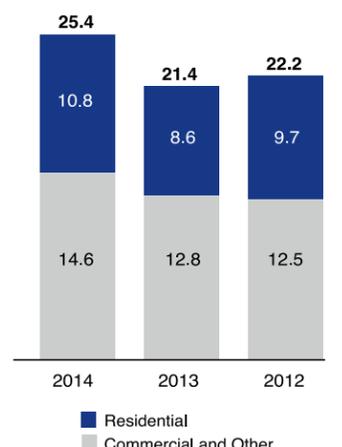
| | 2014 | 2013 | 2012 |
|----------------------------|--------------|--------------|--------------|
| NUMBER OF EMPLOYEES | 3,344 | 3,476 | 3,587 |

¹Includes unbilled electric and gas revenues.

ELECTRIC SALES Fiscal Year Ended January 31 (In Million MWh)



GAS SALES Fiscal Year Ended January 31 (In Million MCF)



Board of Trustees



Dr. Homer Guevara
Chairman
Operations Oversight Committee
Personnel Committee



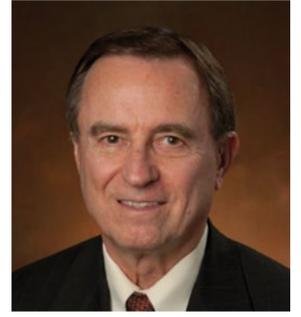
The Honorable Julián Castro
Mayor, City of San Antonio
Ex-Officio Trustee



Nora Chávez
Vice Chairman
Audit Committee
Oversight Committee (Benefits)
Risk Management Committee



Derrick Howard
Trustee
Operations Oversight Committee
Personnel Committee



Edward Kelley
Trustee
Audit Committee
Oversight Committee (Benefits)
Risk Management Committee

Executive Leadership Team



Doyle N. Beneby
President &
Chief Executive Officer



Cris Eugster
Executive Vice President
Chief Generation &
Strategy Officer



Paula Gold-Williams
Executive Vice President,
Chief Financial Officer
& Treasurer



Jelynne LeBlanc-Burley
Executive Vice President
& Chief Delivery Officer



Carolyn E. Shellman
Executive Vice President
& General Counsel

Senior Leadership Team

John Benedict
Senior Vice President
Chief Administrative
Officer

David C. Herbst
Senior Vice President
Power Generation

Frederick A. James
Senior Vice President
Energy Delivery Services

Maria Koudouris
Senior Vice President
Customer Service &
Solutions

Richard Peña
Senior Vice President
Energy Supply

Frank T. Almaraz
Vice President
Energy Supply &
Market Operations

Rudy Garza
Vice President
External Relations

Lisa D. Lewis
Vice President
Communications & Media
Relations

Justin Locke
Vice President
Finance &
Assistant Treasurer

Les Real
Vice President
Human Resources

Gregory Sarich
Vice President & Chief
Information Officer

David Medrano
Senior Director
Chief Audit, Ethics &
Compliance Officer

Citizens Advisory Committee

Kyle Lindsey
CAC Chair and Member
at Large

Katrina A. Glavan-Heise
CAC Vice Chair and
Member at Large

Michael Moczygemba
Member at Large

Pilar Pinilla
Member at Large

Klaus Weiswurm
Member at Large

Esther De Leon
District 1 Representative

William B. Johnson
District 2 Representative

Lulu Avitua
District 3 Representative

George L. Britton Jr.
District 4 Representative

Vacant
District 5 Representative

Alvaro "Al" Rodriguez
District 6 Representative

Roger Plasse
District 7 Representative

Vacant
District 8 Representative

Ram Khatti
District 9 Representative

Corina Castillo-Johnson
District 10 Representative