

Report from Management for the Second Quarter Ended July 31, 2021

Ongoing strategies see success to protect our customers

We have achieved many successes in our multi-faceted legislation, regulation, negotiation, and litigation strategy to protect customers from the financial impacts of systemic failures that occurred during the February 2021 declared Texas weather disaster. We filed lawsuits against certain natural gas suppliers and the state's grid operator, the Electric Reliability Council of Texas (ERCOT), and have achieved many successes early in our fight to protect our customers. We prevented an outflow of approximately \$300 million to a natural gas supplier that wanted to be prepaid for illegitimate charges before we were even invoiced. We fought back a \$17 million false charge from a natural gas pipeline company. We won initial protection in court from ERCOT and what we assessed to be unfair contract provisions, validated our right in court to sue ERCOT, prevailed in keeping our ERCOT lawsuit in Bexar County, and secured a Temporary Restraining Order against ERCOT. We executed on our financial strategy to refund commercial paper, at low rates, to create additional liquidity. We also secured new access to capital from the financial markets that can help support our liquidity for the next 12 to 24 months, if needed. We actively contributed to several new and important pieces of legislation that could potentially provide some benefits, and we continue to assess additional applicable bills for merit.

One year of Customer Outreach Resource Effort (CORE) shows results

As our neighbors found their financial situations uncertain because of lost jobs or unstable employment due to the global COVID-19 pandemic, in June of 2020, we formed CORE to proactively reach out to our customers and check on their well-being while making them aware of available resources. Just over one year later, CORE team members have spoken to 58,766 customers, provided agency referrals or payment arrangements to 51,719 customers, and worked with community partners to connect customers with more than \$32 million in assistance. The financial assistance has come from various funds provided by us, community agencies, and the City of San Antonio and Bexar County via the federal government's CARES Act. Our CORE program recently received top honors from industry organizations for excellence in response to the pandemic and using soft skills and cost-effective approaches to engage customers.

Resuming normal billing operations announced

In March 2020, we suspended service disconnections and we waived late fees for customers who participate in a payment plan as the Greater San Antonio community banded together to work through the unprecedented COVID-19 pandemic. We will resume normal collection activities in September 2021 with large and industrial commercial customers, and with residential customers in October. About 85% of commercial customers are current on their bills, while four out of five residential customers are current. We respectfully ask customers who are unable to pay their energy bill to contact us at (210) 353-2222 for assistance with resources and payment plans.

Paula Gold-Williams
President & CEO



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Interim Report

Second Quarter Ended July 31, 2021



Our Customer Engagement team members stand with Belinda Ramos, Manager Customer Contact Operations; Rudy Garza, Chief Customer & Stakeholder Engagement Officer; Virginia Hanes, Senior Teller; Teresa Meraz, Senior Clerk Customer Service Bilingual; Judith Comer, Supervisor Customer Service Center; Graciela Alderete, Lead Teller Bilingual; and Claudia Cerda, Teller Bilingual, and other team members who work tirelessly to serve our customers in our service centers and through our Customer Outreach Resource Effort (CORE).

Financial Review for the Second Quarter Ended July 31, 2021

Total operating revenues and nonoperating income of \$758.7 million for the second quarter of fiscal year 2022 increased by \$8.9 million, or 1.2%, compared to the same period last year.

- Electric operating revenue was \$712.8 million, which was \$3.1 million, or 0.4%, more than the same quarter last year. Primarily contributing to the increase were higher wholesale recoveries resulting from higher sales volumes and increased fuel costs, partially offset by decreased retail revenue resulting from lower sales volumes.
- Gas operating revenue of \$36.2 million was \$7.6 million, or 26.6%, higher than last year primarily due to lower gas costs in the prior year.
- Nonoperating income of \$9.7 million was lower by \$1.8 million, or 15.6%, compared to the same quarter last year primarily due to lower investment income as a result of the lower interest rate environment in the current year.

Total expenses of \$724.5 million were \$21.9 million, or 3.1%, higher than last year.

- Comprising 32.2% of total expenses, fuel, purchased power and distribution gas costs increased \$27.4 million, or 13.3%, to \$233.5 million. Primarily contributing to the increase were lower gas costs experienced in the prior year, coupled with higher wholesale sales volumes and corresponding fuel costs in the current year. Distribution gas costs were higher due to a greater volume of purchases and lower gas costs in the prior year.
- Operation and maintenance (O&M) expenses of \$166.9 million for the quarter were \$13.2 million, or 7.3%, lower than last year primarily due to lower expenses related to the benefit trusts, partially offset by increased STP costs and outside services in the current year.
- Decommissioning expense of \$5.3 million was comparable to prior year, which was \$4.9 million.
- Regulatory assessments of \$10.2 million were \$15.1 million lower than last year primarily due to decreased transmission cost of service (TCOS) expenses. Regulatory assessments include all amounts paid and received associated with postage stamp pricing for transmission service in ERCOT.
- Depreciation and amortization expense of \$110.8 million was comparable to the prior year.
- Interest and debt-related expenses of \$52.7 million were higher than last year by \$9.1 million or 20.8%, primarily due to the implementation of new guidance in the current year that eliminates the use of allowance for funds used during construction (AFUDC) for government entities.
- Payments to the City of San Antonio (City) totaled \$145.0 million and were \$9.9 million higher than the same period last year primarily due to higher wholesale and gas fuel recoveries.

Income (loss) before other changes in net position of \$34.1 million was \$13.0 million unfavorable compared to last year’s net income of \$47.1 million; primarily due to a decrease in investment income as a result of the lower interest rate environment in the current year and elimination of AFUDC.

Contributed capital of \$18.6 million was comparable to last year’s second quarter. The **change in net position** was an increase of \$81.5 million compared to an increase of \$65.7 million for the same quarter last year, reflecting a favorable change of \$15.8 million resulting from the net income drivers explained previously.

As a result of the 2021 Winter Storm Uri event in February, CPS Energy incurred extraordinary fuel costs, for which it is legally disputing the unconscionable amounts to protect customers and will be seeking regulatory recovery for all vetted and legitimate costs to ensure financial stability. CPS Energy remains focused on executing its strategic initiatives consistent with its *Guiding Pillars* of *Reliability, Customer Affordability, Security, Safety, Environmental Responsibility*, and *Resiliency*, built on a *Foundation* of *Financial Responsibility*. Management is closely monitoring financial impacts from the pandemic and the 2021 Winter Storm Uri event, while remaining committed to affordability for our customers.

Cory Kuchinsky, CPA
CFO & Treasurer

Summary of Statements of Net Position Information - Unaudited

	July 31,	
	2021	2020
<i>(In thousands)</i>		
Assets		
Current assets	\$ 1,201,122	\$ 1,175,949
Noncurrent assets ¹	2,895,305	1,748,308
Capital assets, net	8,707,199	8,605,615
Total assets.....	12,803,626	11,529,872
Deferred outflows of resources	707,459	766,698
Total assets plus deferred outflows of resources	<u>\$ 13,511,085</u>	<u>\$ 12,296,570</u>
Liabilities		
Current liabilities.....	\$ 851,454	\$ 725,669
Long-term debt, net	6,295,805	5,900,127
Other noncurrent liabilities ²	2,366,767	1,762,599
Total liabilities	9,514,026	8,388,395
Deferred inflows of resources	166,017	137,325
Total liabilities plus deferred inflows of resources	9,680,043	8,525,720
Net position		
Net investment in capital assets	2,150,579	2,546,006
Restricted	686,843	601,764
Unrestricted.....	993,620	623,080
Total net position.....	3,831,042	3,770,850
Total liabilities plus deferred inflows of resources plus net position	<u>\$ 13,511,085</u>	<u>\$ 12,296,570</u>

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

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

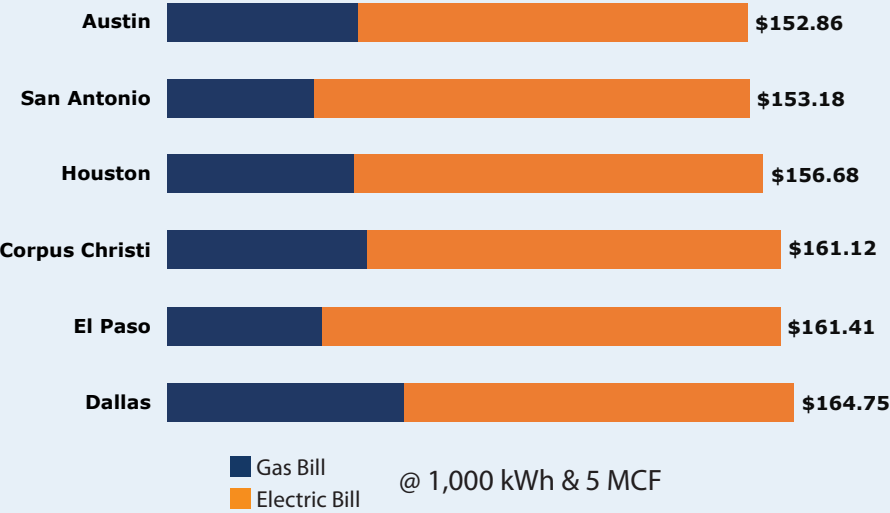
	Quarter Ended		Twelve Months Ended	
	July 2021	July 2020	July 2021	July 2020
<i>(In thousands)</i>				
Revenues				
Electric.....	\$ 712,785	\$ 709,692	\$2,397,845	\$2,439,255
Gas	36,154	28,559	172,270	146,242
Total operating revenues	748,939	738,251	2,570,115	2,585,497
Nonoperating income, net	9,729	11,523	31,423	59,271
Total revenues and nonoperating revenues	<u>758,668</u>	<u>749,774</u>	<u>2,601,538</u>	<u>2,644,768</u>
Expenses				
Fuel, purchased power and distribution gas ¹	233,542	206,101	803,261	696,492
Operation and maintenance ²	166,924	180,113	714,466	738,169
Decommissioning	5,340	4,902	20,487	18,805
Regulatory assessment	10,239	25,290	85,216	88,574
Depreciation and amortization.....	110,840	107,547	439,594	427,708
Interest and debt-related	52,676	43,596	203,911	196,465
Payments to the City of San Antonio	144,981	135,106	338,553	343,971
Total expenses	<u>724,542</u>	<u>702,655</u>	<u>2,605,488</u>	<u>2,510,184</u>
Income (loss) before other changes in net position	34,126	47,119	(3,950)	134,584
Other payments to the City of San Antonio.....	—	—	(12,018)	(11,979)
Contributed capital	18,559	18,583	72,326	60,205
Effect of defined benefit plan funding obligations - STP	28,855	—	3,834	(18,668)
Change in net position	<u>81,540</u>	<u>65,702</u>	<u>60,192</u>	<u>164,142</u>
Net position - beginning	3,749,502	3,705,148	3,770,850	3,606,708
Net position - ending	<u>\$3,831,042</u>	<u>\$3,770,850</u>	<u>\$3,831,042</u>	<u>\$3,770,850</u>

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

Statistical Highlights - Unaudited

	Quarter Ended		Twelve Months Ended	
	July 2021	July 2020	July 2021	July 2020
ELECTRIC SYSTEM				
Retail sales (thousands of MWh).....	6,331	6,714	22,445	23,189
Wholesale sales (thousands of MWh)	2,374	1,130	6,041	5,010
Total sales (thousands of MWh)	8,705	7,844	28,486	28,199
Customers (average number for period)	894,765	870,612	885,751	861,698
Maximum electric demand (MW)	4,722	5,066	5,080	5,159
GAS SYSTEM				
Sales (MMCF).....	4,507	4,576	26,394	26,004
Customers (average number for period)	369,869	361,981	366,849	358,867
GENERATION BY FUEL SOURCE AND OTHER POWER				
Gas	31 %	35 %	30 %	35 %
Coal	25 %	18 %	23 %	19 %
Nuclear.....	25 %	28 %	29 %	28 %
Purchased power – Renewables	10 %	16 %	14 %	15 %
Purchased power – Other	9 %	3 %	4 %	3 %

Texas Cities Combined Residential Bill Comparison
Trailing Twelve Months Ending July 2021



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