OFFERING MEMORANDUM
DATED: MAY 6, 2022

$700,000,000
CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES

Consisting of:

$400,000,000
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES A (TAX-EXEMPT)
and
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES A (TAXABLE)
Liquidity Support Provided by
BANK OF AMERICA, N.A., as Lender

$200,000,000
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES B (TAX-EXEMPT)
and
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES B (TAXABLE)
Liquidity Support Provided by
STATE STREET BANK AND TRUST COMPANY, as Lender

$100,000,000
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES C (TAX-EXEMPT)
and
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES C (TAXABLE)
Liquidity Support Provided by
WELLS FARGO BANK, NATIONAL ASSOCIATION, as Lender

CITIGROUP,
as co-dealer (Series A, B, and C Notes)

J.P. MORGAN,
as co-dealer (Series A, B, and C Notes)

LOOP CAPITAL MARKETS,
as co-dealer (Series A, B, and C Notes)

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UPDATED OFFERING MEMORANDUM

Relating To:

$700,000,000
CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS

$400,000,000 **COMMERCIAL PAPER NOTES, SERIES A (TAX-EXEMPT)** **and** **COMMERCIAL PAPER NOTES, SERIES A (TAXABLE)**	**$200,000,000** **COMMERCIAL PAPER NOTES, SERIES B (TAX-EXEMPT)** **and** **COMMERCIAL PAPER NOTES, SERIES B (TAXABLE)**	**$100,000,000** **COMMERCIAL PAPER NOTES, SERIES C (TAX-EXEMPT)** **and** **COMMERCIAL PAPER NOTES, SERIES C (TAXABLE)**

INTRODUCTORY STATEMENT

This Updated Offering Memorandum (this "Offering Memorandum"), which includes the Appendices hereto, furnishes general information in connection with the issuance and sale of the captioned series of notes (the "Series A Notes", the "Series B Notes", and the "Series C Notes", respectively, or, individually, a "Series"; and collectively, the "Notes"). When appropriate, in the aggregate or by Series, Notes the interest on which is excluded from the gross income calculation of the owners thereof for purposes of federal income taxation are referred to as "Tax-Exempt Notes" and Notes the interest on which is not excluded from the gross income calculation of the owners thereof for purposes of federal income taxation are referred to as "Taxable Notes".

The Notes are authorized by the City of San Antonio, Texas (the "City") pursuant to an amended and restated ordinance adopted and approved by the City Council of the City (the "City Council") on April 11, 2019 (the "Note Ordinance"). Capitalized terms used but not defined herein shall have the meanings set forth in the Note Ordinance and the Revolving Credit Agreements (hereinafter defined). Except where the context otherwise requires, words imparting the singular number shall include the plural number and vice versa. Under the Note Ordinance, the City is authorized to issue the Notes in an aggregate principal amount not to exceed $700,000,000; under the Note Ordinance, the City has provided for liquidity support in the combined amount of $700,000,000, which covers principal of the Notes only, in the form of the hereinafter defined and described Revolving Credit Agreements. Each Series of Notes may be issued as either or both Tax-Exempt Notes or Taxable Notes and each Revolving Credit Agreement relating to a particular Series of Notes provides liquidity support for such Series, whether issued as Tax-Exempt Notes or Taxable Notes, to the stated credit limit thereunder. The issuance of the Notes is further supported by the following agreements, as amended from time to time, and involves the following related participants that have contracted with the City:

- Dealer Agreements, dated as of June 21, 2019, with Citigroup Global Markets Inc., J.P. Morgan Securities LLC, and Loop Capital Markets as co-dealers for each series of Notes;
- Revolving Credit Agreement, effective June 21, 2019, and expiring June 19, 2026 (and as amended, effective August 31, 2021), with Bank of America, N.A., as Lender, providing liquidity support to the Series A Notes in the amount of $400,000,000 (the "Series A Agreement"; such Lender thereunder, the "Series A Lender");
- Revolving Credit Agreement, effective June 21, 2019, and expiring June 21, 2023, with State Street Bank and Trust Company, as Lender, providing liquidity support to the Series B Notes in the amount of $200,000,000 (the "Series B Agreement"; such Lender thereunder, the "Series B Lender");
- Revolving Credit Agreement, effective June 21, 2019, and expiring June 21, 2025, with Wells Fargo Bank, National Association, as Lender, providing liquidity support to the Series C Notes in the amount of $100,000,000 (the "Series C Agreement", and, collectively with the Series A Agreement and the Series B Agreement, the "Revolving Credit Agreements"; such Lender thereunder, the "Series C Lender" and, collectively with the Series A Lender and the Series B Lender, the "Lenders"); and
- Issuing and Paying Agency Agreement, dated as of June 21, 2019, with U.S. Bank National Association, New York, New York, as issuing and paying agent for each series of Notes (the "Issuing and Paying Agent").

There follows in this Offering Memorandum a description of the electric and gas systems ("Systems") and its finances, the Notes and related provisions, and certain other applicable information. With respect to finances of the Systems, to view the basic financial statements of the City Public Service Board of San Antonio, Texas ("Board" or "CPS Energy") for the fiscal years ending January 31, 2021 and 2020, please refer to APPENDIX C, hereto. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

This Offering Memorandum also describes the Revolving Credit Agreements, copies of each which may be obtained from the Issuing and Paying Agent by electronic mail or upon payment of reasonable handling, mailing and delivery charges. **Upon the occurrence of certain events, as described herein, the obligation of the particular Lender under the related Revolving Credit Agreement to pay principal on outstanding Notes of the related series may terminate or suspend without notice or payment. See "REVOLVING CREDIT AGREEMENTS" herein. The Revolving Credit Agreements may not be drawn to pay interest when due. The Revolving Credit Agreements contain "most favored nations" provisions. See "REVOLVING CREDIT AGREEMENTS" herein.**

The statements contained herein and in any other information provided to or accessed by the reader hereof, that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. See "FORWARD-LOOKING STATEMENTS AND INFORMATION AVAILABLE FROM ONLINE SOURCES" herein for further information.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. The dynamic, unique, scope, and breadth of the impacts of the hereinafter-defined 2021 Winter Weather Event have further complicated CPS Energy's ability to provide precise data or complete information regarding the circumstances, their short, medium, and long-term impact, and CPS Energy's current and future responses thereto. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of CPS Energy. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate.

THE INFORMATION AND EXPRESSIONS OF OPINION IN THIS OFFERING MEMORANDUM ARE SUBJECT TO CHANGE WITHOUT NOTICE AFTER THE DATE HEREOF, AND FUTURE USE OF THIS OFFERING MEMORANDUM SHALL NOT OTHERWISE CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE SINCE THE DATE HEREOF IN THE MATTERS REFERRED TO IN THIS OFFERING MEMORANDUM.

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE NOTES.

TEXAS 2021 WINTER WEATHER EVENT

General

From February 12, 2021 through February 19, 2021, the continental United States experienced a severe winter storm (the "2021 Winter Weather Event") resulting from the southern migration of a polar vortex that meteorologists characterize as the most significant in terms of scope and duration since monitoring of these weather phenomena began in the 1950s. As a result of the 2021 Winter Weather Event, record breaking cold weather invaded the entire State, during which time the City experienced three consecutive days of record low temperatures, over 100 consecutive hours below freezing, and wind chills of -6 degrees Fahrenheit.

In anticipation of the 2021 Winter Weather Event, the Texas Governor, on February 12, 2021, declared a state of disaster for all 254 counties within the State, certifying in that declaration that severe winter weather posed an imminent threat of widespread and severe property damage, injury, and loss of life due to the prolonged freezing temperatures, heavy snow, and freezing rain statewide. In response to that declaration, and on the same date, the Railroad Commission of Texas ("RRCT") issued an Emergency Order approving a utilities curtailment program relating to and specifying an essential prioritization of the transportation, delivery and/or sale of natural gas in the State.

As the 2021 Winter Weather Event covered the State, the Electric Reliability Council of Texas ("ERCOT") implemented what were initially expected to be rotating outages to conserve electricity and address energy needs across the entirety of the State; however, due to the severity of the 2021 Winter Weather Event and the corresponding increase in demand on the Texas electric grid, combined with limited availability of generation, widespread and prolonged power outages began at 1:00 a.m., Central Time, on Monday, February 15, 2021, and continued throughout the week. Ultimately, approximately 4,000,000 Texas residents were without power for significant stretches of the week.

By the middle of the 2021 Winter Weather Event, ERCOT announced that it had lost 46,000 megawatts ("MW") of generation, comprised of 28,000 MW of natural gas and coal generation and 18,000 MW of wind and solar. ERCOT stated that, in sum, approximately 185 generating units had tripped offline for one reason or another related to the 2021 Winter Weather Event. Additionally, during the time of year in which the 2021 Winter Weather Event occurred, various generating plants were offline for scheduled maintenance, in anticipation of energy loads needed during spring and summer months. The extreme cold weather also impacted natural gas delivery to some gas-fired power plants, resulting in them operating at reduced capacities due to limited gas supply, further reducing the level of available generation below what was needed to meet demand. As a result, ERCOT issued an Energy Emergency Alert 3 and ordered electric providers to begin "load shedding" to protect the ERCOT grid, an order with which CPS Energy was required to comply, based on its share of ERCOT load. By February 18, 2021, the cold weather began to moderate and on February 19, 2021, ERCOT announced the existence of sufficient electric system generation to allow a return to normal operating conditions, with remaining power outages primarily attributable to localized damage requiring repair.

Throughout the 2021 Winter Weather Event, Texas utilities on both a statewide and local basis realized significant operational and financial disruption. Beginning February 12, 2021, and continuing over the next several days, the natural gas and wholesale power markets experienced extreme price volatility and, at points, ceased functioning properly. Indeed, next day delivery natural gas spot prices at various delivery hubs skyrocketed from an average of less than $3 per million British thermal unit ("MMBtu") to as high as $1,250 per MMBtu (recorded at the Oneok Gas Transportation hub in Oklahoma) at their peak; and ERCOT set the price per megawatt hour ("MWh") of electricity in the ERCOT real time market at the market cap of $9,000 from February 15, 2021 through February 19, 2021. During this time, ancillary service charges (which are incremental to the $9,000 per MWh market cap and were not subject to any price limitation) pushed the actual per MWh price to a high of $25,000. These financial impacts during the 2021 Winter Weather Event were highly disruptive to the Texas electric utilities market and some market participants became insolvent, filed for bankruptcy or wound up exiting the market.

The ERCOT Market

Settlements and Market Participant Short Payments and Uplift. In the immediate aftermath of the 2021 Winter Weather Event and continuing today, ERCOT has experienced short payments from some of its market participants. Short payments occur when a market participant fails to make a complete payment for settlement invoices for power purchases. When market participants do not pay the amount owed, ERCOT in turn pays amounts to market participants that are less than what their settlement statements from ERCOT reflect (i.e., they are "short paid"). ERCOT previously estimated the cumulative aggregate short pay amount at $2.9 billion (which is a gross amount that does not factor ERCOT's stated application of $800 million in congestion revenue rights auction revenue funds to mitigate the short-pay impacts of some market participants' non-payment in the immediate aftermaths of the 2021 Winter Weather Event). This amount reflects payments received for previously short-paid invoices and the application of financial security to short-paid balances, where available. This information is provided through short payment notices issued to market participants.

All ERCOT market participants, including CPS Energy, could be exposed to the liability from non-paying or bankrupt ERCOT market participants. ERCOT is a membership-based nonprofit corporation, and thus revenue neutral (meaning that it has no independent revenue source and is a clearinghouse that passes on losses to other participants). If sufficient funds continue to be unavailable from short-paying entities, ERCOT also "uplifts" shortages to market participants on a pro-rata share as established through the ERCOT Protocols (this process is referred to as "Uplift"). Typical timelines of Uplift invoices are no earlier than 90 days and no more than $2.5 million per month until ERCOT uplifts the total short-paid amount. Such invoices must be at least 30 days apart. To address extraordinarily purchased power costs incurred during the storm, the 87th Texas Legislature passed Senate Bill 1580 ("SB 1580") and House Bill 4492 ("HB 4492"). SB 1580 sets forth the ability for electric cooperatives to securitize certain costs. HB 4492 pertains to the securitization of other ERCOT market participants (see "Relevant Policy and Legislation" below for additional information on HB 4492). Separately, the Texas Legislature passed House Bill 1520 ("HB 1520") to securitize the exceptionally high gas expenses incurred by investor-owned gas utilities and House Bill 1510 ("HB 1510") to assist electric utilities located within the State but outside of ERCOT by securitizing the elevated costs of power incurred during the 2021 Winter Weather Event.

In the 2020 calendar year, CPS Energy resources represented approximately 7.5% of total ERCOT generation (MWh) and peak native load (MW) represented approximately 6.8% of ERCOT peak load (MW). In 2021, because of other market participants' nonpayment, CPS Energy was short paid a cumulative amount of approximately $18.1 million. Through December 2021, CPS Energy received $3.1 million from ERCOT reducing the outstanding short payment amount to $15 million. This partial payment was the result of one of two securitization applications, filed by ERCOT pursuant to HB 4492 and approved by the Public Utility Commission of Texas ("PUCT") in October 2021, which resulted in the issuance of securitized bonds in the amount of $800 million. A portion of the bond proceeds was used by ERCOT to make partial payments to several market participants, including CPS Energy, that were short paid for generation sales during the 2021 Winter Weather Event. In February 2022, ERCOT received $637.3 million from Rayburn Country Electric Cooperative, Inc. ("Rayburn") as full payment for all outstanding settlement invoices related to its power purchases. This payment was the result of Rayburn's successful bond financing completed pursuant to the securitization process outlined in SB 1580. To date, ERCOT has paid CPS Energy an additional $5 million from the bond proceeds delivered by Rayburn reducing the outstanding short-payment amount to $10 million. This leaves Brazos Electric Power Cooperative, Inc. ("Brazos"), which is in bankruptcy, as the largest market participant that has not paid in full outstanding settlement invoices to ERCOT. Beyond the Brazos bankruptcy proceeding, CPS Energy does not have insight into other market participants that may cease to operate or that have outstanding settlement invoices from ERCOT and their ability to repay. For these reasons, CPS Energy cannot determine the scope or magnitude of its potential, purported Uplift liability.

State Response to the 2021 Winter Weather Event

In the aftermath created by the 2021 Winter Weather Event, the ERCOT market faced many challenges. The storm exposed deficiencies in the natural gas supply as well as deficiencies in the winterization programs implemented by the generator owners. As a result, numerous changes occurred at both the PUCT and ERCOT, including the following:

- All three commissioners of the PUCT resigned their positions. The PUCT was expanded from three to five commissioners and four new commissioners have been appointed by the Governor and confirmed by the Texas Senate: Peter Lake, Chair, Will McAdams, Lori Cobos, and Jimmy Glotfelty.
- All out-of-state board members of the ERCOT Board of Directors submitted letters of resignation from the ERCOT board; shortly thereafter, three other ERCOT board members resigned.
- The ERCOT board voted to terminate its CEO, Bill Magness.
- The ERCOT board selected Brad Jones to serve as interim President and CEO effective May 4, 2021.
- Paul Foster was named Chair of the ERCOT board.
- Bill Flores and Zin Smati were appointed to the ERCOT board.
- As of December 29, 2021, all seats on the ERCOT board have been filled.

The Texas Legislature also addressed events from the 2021 Winter Weather Event during the 87th Texas Legislature Regular Session, which ended on May 31, 2021. Senate Bill 3 ("SB 3") was the comprehensive bill approved by the Texas Legislature and signed into law by the Governor on June 8, 2021, addressing the vulnerabilities exposed during the 2021 Winter Weather Event. Among other items, SB 3 requires electric and other energy companies to implement a number of reforms, including (i) engaging in winterization measures for natural gas, electric generating facilities, water production, and supply systems, (ii) the mapping and identification of the electricity supply chain, including natural gas facilities, (iii) identification and processing of such systems and process as "critical loads", and (iv) implementing a statewide energy outage alert system. The City and CPS Energy are affected by a provision in the legislation that adds Section 38.075 to the Utilities Code. This new section (i) applies to municipal owned utilities ("MOUs") that provide transmission service in the ERCOT power region, (ii) requires the PUCT to adopt weatherization standards to prepare for weather emergencies, (iii) requires ERCOT to inspect the covered entities for compliance, (iv) requires ERCOT to inform the PUCT of violations, and (v) authorizes the PUCT to impose an administrative penalty for each violation, not to exceed $1 million for each day of noncompliance. SB 3 requires the PUCT to adopt the reliability standards within 6 months after June 8, 2021, the effective date of SB 3. The PUCT is implementing weatherization regulations in two phases. The first phase was completed in 2021 and the second phase is expected to be implemented in 2022. In addition, SB 3 calls on the PUCT to implement certain market reforms to increase the reliability of the ERCOT grid. On January 18, 2022, ERCOT issued an alert that it was ready for winter weather. The Governor directed the regulatory agency to rely on existing legislative authority to make additional market reforms to incentivize investment in new dispatchable generation.

Rulemaking proceedings at the PUCT for electric and water utilities, and at the RRCT for natural gas pipelines and gas distribution utilities, needed to implement the mandates of SB 3 began the summer of 2021. As the PUCT, RRCT, ERCOT, and other oversight bodies continue and complete their investigations, the ERCOT market continues to implement additional rules to mitigate market and fuel risks. The RRCT adopted rules that direct the designation of certain natural gas pipeline and gas distribution facilities as "critical" during an energy emergency as specified by SB 3 and House Bill 3648 ("HB 3648"). The adopted rules became effective December 20, 2021. Weatherization regulations applicable to critical gas facilities are expected to be implemented by the RRCT in the 2022-2023 time period.

Relevant Policy and Legislation

House Bill 16 ("HB 16") was approved by the Texas Legislature and signed into law by the Governor on May 26, 2021. HB 16 prohibits offering a wholesale indexed product to a residential customer.

Senate Bill 2 ("SB 2") was approved by the Texas Legislature and signed into law by the Governor on June 8, 2021. SB 2 changed the governance structure of the ERCOT Board of Directors. The bill reduces the ERCOT Board of Directors from 16 members to 11, eight of which now represent different professional fields instead of specific market segments. Furthermore, these eight seats were appointed by a newly created selection committee. The selection committee is composed of three people—one appointed by the Governor, one appointed by the Lieutenant Governor and one appointed by the Speaker of the House. The committee is also required to use an outside firm for recruiting members. Lastly, the bill requires that any rules or enforcement actions undertaken by ERCOT under the authority delegated to them by the PUCT must receive PUCT approval before taking effect.

Senate Bill 2154 ("SB 2154") was approved by the Texas Legislature and signed into law by the Governor on June 18, 2021. SB 2154 increased the number of PUCT Commissioners from three to five and all must be Texas residents. The Governor will continue to appoint the Commissioners with Senate confirmation. The bill restricts former PUCT Commissioners from lobbying the Commission for one year upon their departure and amends the criteria and qualifications for the Commissioners where at least two of the five commissioners must be "well-informed and qualified in the field of public utilities and utility regulation".

HB 4492 was approved by the Texas Legislature and signed into law by the Governor on June 16, 2021. HB 4492, among other things, authorizes a loan of up to $800 million to ERCOT from the State's Economic Stabilization (or "Rainy Day") fund through securitization. The proceeds from the securitization have been used by ERCOT to pay market participants that were short-paid for power purchases during the 2021 Winter Weather Event with the remainder going to reimburse an ERCOT fund that was temporarily used to make the initial short payments for power during the storm. Payment for the debt service of the securitized loan is being allocated to all market participants based on their pro-rata share of market activity going forward. CPS Energy has received from those proceeds $3.1 million of an outstanding $18 million owed to CPS Energy by ERCOT for power purchases made during the 2021 Winter Weather Event. In addition, CPS Energy received $5 million from ERCOT related to the Rayburn securitization financing transaction. After accounting for these additional payments, the outstanding short-payment is currently at $10 million.

HB 4492 also permits the securitization financing of $2.1 billion in exposure to reliability deployment price adder charges and ancillary services costs incurred by load-serving entities ("LSEs") that were in excess of the ERCOT System-wide Offer Cap ("SWOC") of $9,000/MWh associated with power purchases by the LSEs during the 2021 Winter Weather Event. The purpose of this securitized transaction is to reimburse customers that would otherwise be liable for the extremely high electricity prices related to the period of the 2021 Winter Weather Event. Payment for the debt service of this securitized loan will be allocated to each obligated LSE that receives securitized funds based on their respective load ratio-share of the ERCOT wholesale market. Certain LSEs (including CPS Energy) may opt out of participation in the securitization financing described above, if they have paid in full all invoices owed ERCOT during the 2021 Winter Weather Event. Both securitized transactions are to be implemented through PUCT issued debt obligation orders. CPS Energy timely filed a notice of opt-out of this securitization program. Both the $800 million and $2.1 billion securitized transactions have received authorization through PUCT issued debt obligation orders.

HB 1520 was approved by the Texas Legislature and signed into law by the Governor on June 16, 2021. HB 1520 pertains to the financing of certain extraordinary costs that were incurred by certain gas utilities by granting authority to issue bonds and authorizing fees. The bill applies to investor-owned gas utilities whose rates are subject to RRCT jurisdiction. Therefore, the securitization financing provided through this bill is not available to CPS Energy. Extraordinary costs incurred by CPS Energy to secure gas supply to provide service during the 2021 Winter Weather Event will need to be financed through traditional financing methods.

House Bill 2586 ("HB 2586") was approved by the Texas Legislature and signed into law on May 24, 2021 by the Governor. HB 2586 requires the PUCT to conduct an annual audit of ERCOT that would be sent to the Legislature and posted online for public viewing.

The legislation discussed above is not intended to be an exhaustive list of all legislation from the 87th Texas Legislature, but provides an explanation of salient laws that may impact the City or the Systems.

On July 6, 2021, the Governor sent a letter to the PUCT directing the PUCT to immediately take the following actions: (i) streamline incentives within ERCOT to foster the development and maintenance of adequate and reliable sources of power; (ii) allocate reliability costs to generation resources that cannot guarantee their own availability; (iii) instruct ERCOT to establish a maintenance schedule for non-renewable electricity generators; and (iv) order ERCOT to accelerate the development of transmission projects that increase connectivity between existing or new dispatchable generation plants and areas of need. The PUCT and ERCOT quickly responded to the directives outlined in the Governor's letter to outline the actions each entity had already undertaken, or planned to undertake, in-line with the Governor's directives. The PUCT has initiated several rulemaking proceedings to address market reforms in response to the directive from the Governor.

On March 4, 2021, the ERCOT market transitioned from the \$9,000/MWh SWOC to the Low System-wide Offer Cap ("LCAP"). The LCAP at that time was the greater of \$2,000/MWh or 50x the natural gas index price. In recognition of the extreme increase in natural gas prices during the 2021 Winter Weather Event, on June 24, 2021, the PUCT approved an amendment eliminating the 50x the natural gas price index component of the LCAP and replaced it with a provision that ensures resource entities are able to recover their actual marginal costs when the LCAP is in effect. The LCAP ended December 31, 2021. The SWOC returned to the High System-wide Offer Cap ("HCAP") value on January 1, 2022. On December 2, 2021, the PUCT modified the value of the HCAP by lowering it from the current \$9,000 to \$5,000/MWh.

On June 28, 2021, ERCOT approved Nodal Protocol Revision Request ("NPRR") 1080 that limits ancillary services prices at the SWOC. NPRR 1080 was proposed to correct the ERCOT protocols which allowed ancillary services prices to exceed the SWOC during the 2021 Winter Weather Event.

2021 Winter Weather Event's Direct Impact to the City and the Systems

General. As a result of the 2021 Winter Weather Event, demand for electricity and natural gas by CPS Energy customers was significantly above historical norms for February 2021. For its service area's combined gas distribution and gas-fired electric generation needs, CPS Energy saw (i) an increase in natural gas volumes of approximately 30% over the prior historical record, (ii) an all-time winter peak electric demand of 4,935 MW on February 14, 2021 (an approximate 14% increase over the prior historical winter record), and (iii) an all-time 24-hour usage record of 104,149 MWh on February 14, 2021 (an approximate 8% increase over the prior historical summer record).

Financial Implications. With the increasing demand for electricity and natural gas, prices also increased (with gas prices reaching unprecedented levels, as hereinbefore described). From its available sources, CPS Energy saw gas purchases that normally trade between \$2-\$4/MMBtu trade throughout the 2021 Winter Weather Event above \$100/MMBtu and, in some cases, up to \$500/MMBtu. In addition to natural gas purchases during the 2021 Winter Weather Event, CPS Energy incurred significant costs for the purchase of power from the ERCOT market. While there were periods of time CPS Energy was a net seller of power in the ERCOT market during this event, there were also periods of time when CPS Energy's generation plants were not producing power equivalent to CPS Energy's obligations. In those cases, CPS Energy incurred large purchased-power costs.

The total purported charges for natural gas from a number of suppliers is currently estimated at approximately \$528 million (including amounts of disputed charges). This reflects a revised estimate. CPS Energy has continued to make progress in the negotiations with suppliers. Purchased power costs are currently estimated at approximately \$314 million (which includes the 30+ hours that CPS Energy claims in a lawsuit was overpriced by ERCOT). This revised estimate for purchased power costs reflects a reduction for ERCOT payments received from previous short payments. The fuel and purchased power costs associated with the 2021 Winter Weather Event are greater than the equivalent of what CPS Energy incurs for such expenditures on an annual basis. For comparison, the total costs incurred in Fiscal Year 2019 and Fiscal Year 2020, were \$825 million and \$693 million, respectively.

As of the date of this Offering Memorandum, CPS Energy has paid approximately \$239 million in purported purchased power costs and approximately \$156 million for natural gas costs related to the 2021 Winter Weather Event. CPS Energy is including related charges of approximately \$76 million, which includes legal costs, interim financing and other contractual charges, as part of the regulatory asset for which CPS Energy has secured approval from the Board and from City Council, as described under "Long-Term Financing Plan". As described under "CPS Energy Actions to Address Disputed Charges", CPS Energy currently is disputing charges for natural gas from a number of suppliers that have been deemed excessive and unlawful by CPS Energy.

Reconciliations and analysis of gas volumes delivered, and power transacted with ERCOT and other providers, are ongoing. CPS Energy continues to closely monitor communications concerning short payments from ERCOT. To date, outstanding short payment amounts to CPS Energy total approximately \$10.0 million.

Winterization of Generation Facilities. CPS Energy generation plants are weatherized during construction. Following an extended freeze event in February 2011, CPS Energy initiated a weatherization upgrade program and is currently updating its outage management system. Since that time over \$17 million has been invested in weatherization upgrades. An annual winter weather preparation program was also implemented and has been evaluated multiple times by ERCOT.

CPS Energy reviewed information gathered during this event as well as an independent engineering analysis to support a re-evaluation of the freeze protection program, understanding that regulatory discussions are underway to possibly set new weatherization standards, as noted in SB 3. Estimates to address conclusions of the re-evaluation effort, as well as any new regulatory mandates, will be developed as information becomes available. On February 22, 2021, Mayor Ron Nirenberg (the "Mayor") announced the formation of the Committee on Emergency Preparedness ("CEP"), which was comprised of City Council members and external community stakeholders. As of December 31, 2021, CPS Energy addressed all recommendations pertaining to CPS Energy that the CEP made, in response to the 2021 Winter Weather Event, to further strengthen reliability and resiliency for CPS Energy customers. These items were related to overall infrastructure and communications improvement as well as emergency preparedness and outage management.

CPS Energy further strengthened the resiliency of its power plants against sustained freezing temperatures. Plants received over $2 million in improvements, building on nearly $20 million invested following the extended freeze in 2011. Continued winterization efforts were funded as part of CPS Energy's rate increase approved by the Board and City Council on January 10, 2022 and January 13, 2022, respectively. Approximately $31 million of the revenue from the increase is allocated incrementally for infrastructure resiliency—power generation and distribution projects to support operations during extreme weather. CPS Energy estimates it spent $2 to $3 million in 2021 on these efforts and anticipates spending of up to $46 million during the next two to three years.

Since February 2021, CPS Energy has reevaluated its circuits to more precisely isolate the ones providing electricity to critical infrastructure such as hospitals, fire stations, and police substations. As a result, 155 circuits were added to the list of eligible circuits to rotate in the event of state-mandated outages. The approach will minimize the duration each customer is expected to experience during an outage cycle by rotating circuit outages among more customers. CPS Energy has taken freeze protection actions through the addition of heaters, temporary enclosures, and insulation, including the installation of enhanced insulation installation on lines and devices along with upgrades on selected systems.

ERCOT has made improvements that complement CPS Energy efforts in CPS Energy's service area. CPS Energy continues to work closely with the San Antonio Water System ("SAWS") to evaluate existing circuit redundancy and strategies for onsite generation as a means of greater resiliency for the most critical facilities and streamlined communication between CPS Energy and SAWS Operations Teams for greater responsiveness to the needs of both utilities.

In addition, corrective actions were completed at South Texas Nuclear Project ("STP") to ensure the station is ready for winter weather operations. These actions focused on heat trace systems and piping insulation, revising the station's Winter Readiness procedure, and training for Operations, Maintenance and Engineering personnel on the station's winter readiness. STP also submitted TAC 25.55 required Winter Weather Readiness Reports to ERCOT on December 1, 2021. ERCOT inspectors were onsite December 6, 2021 to tour the plant and confirm STP's compliance.

CPS Energy makes note that, because of the predominance of summer heat in comparison to winter cold that impacts its generation portfolio, its weatherization strategies generally focus on removal of heat from generating plants to avoid and prevent operational failures that are more prevalent throughout the summer.

Performance of CPS Energy Generation Assets. CPS Energy's deployed generation units were available over 85% of the time during the 2021 Winter Weather Event. One gas unit was on an ERCOT-approved, planned annual maintenance outage and, therefore, was not available for deployment. All other CPS Energy units were deployed during this event. The estimated 15% of unit unavailability was attributed to mechanical breakdown, natural gas pressure degradation, freezing weather, electrical and control failures, and low water pressure. Most of the problems were mechanical in nature, followed by low fuel pressure, then weather related frozen pipes.

As further described herein, CPS Energy owns 40% of STP. Those units are maintained and operated by a separate operating company. On February 15, 2021, an automatic reactor trip occurred in the hereinafter-defined STP1. The trip resulted from a loss of feedwater attributed to extreme cold weather-related failure of a pressure sensing line to the feedwater pumps. STP staff confirmed the issue did not exist in the hereinafter-defined STP2. STP1 was repaired, and the unit carefully came online on February 17, 2021, in accordance with standard established protocols. STP1 reached 100% power on February 18, 2021.

Liquidity and Short-Term Financing Plan. As of March 31, 2022, CPS Energy's cash and cash equivalents balance in its General Fund and Repair & Replacement Fund was $827.6 million. Additionally, approximately $665 million of the $700 million capacity of the hereinafter-defined Commercial Paper Program is currently available. CPS Energy also has $100 million in capacity of the Series A Flexible Rate Revolving Note Program (hereinafter-defined as the "Series A Flex Notes"). As of the date hereof, CPS Energy has an additional $500 million of unutilized borrowing capacity under the hereinafter-defined Series B Flex Notes that could potentially be used as liquidity to pay for any additional conceded or settled natural gas charges.

CPS Energy anticipates sufficient liquidity to accommodate worst-case financial projections (notwithstanding its commitment to determine and pay the portion of those costs that are justified and legitimate, as hereinafter-described) resulting from the 2021 Winter Weather Event and to address its operational and capital needs for the remainder of its current fiscal year.

Long-Term Financing Plan. After utilizing all options to reduce the costs associated with the 2021 Winter Weather Event as described below, CPS Energy anticipates addressing any final amount for the costs of purchased natural gas and power through two or more long-term financing transactions, replenishing cash and capacity under each of the Flex Note Programs as well as the Commercial Paper Program (by refunding Taxable Notes issued thereunder). On April 13, 2021, CPS Energy closed on its $413,720,000 Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022, which represents the first such transaction. Additionally, CPS Energy, on January 13, 2022 obtained approval from City Council for a regulatory asset for the unrecovered costs of purchased natural gas and power, plus legal, interim financing, and other contractual charges. The costs to be recorded in this regulatory asset, which are currently anticipated at $910 million, are expected to be amortized over a period of 25-years and recovered through fuel costs. This figure consists of $520 million in natural gas charges, purchased power in the amount of $314 million, and other charges of $76 million. The estimated average residential electric and gas customer bill impact for the financing of known costs is anticipated to be $1.26/month for the first ten years, as previously disclosed to the Rate Advisory Committee ("RAC"), Board, and City Council. The proceeds from this recovery will be available for payment of the debt service on the long-term debt that has previously been or will be issued to refinance obligations initially issued as short-term or interim financing. In the ordinance approving the regulatory asset, the City exempted CPS Energy from the City payment (as described in the hereinafter-defined Bond Ordinances as an amount not to exceed 14% of the Systems' gross revenues), on CPS Energy fuel and other 2021 Winter Weather Event costs through the regulatory asset.

CPS Energy Actions to Address Disputed Charges. Customer affordability remains a key focus area in any cost recovery or long-term financing plan. As such, CPS Energy continues to work to protect customers from costs from the 2021 Winter Weather Event that are unconscionable.

CPS Energy recently submitted a filing to the Federal Emergency Management Agency ("FEMA") of approximately $5.3 million of costs incurred related to the 2021 Winter Weather Event and is seeking reimbursement of 75% of those costs, per FEMA guidelines. As of April 2022, that filing remains under review by FEMA.

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

CPS Energy purchases natural gas from its suppliers pursuant to market standard contracts promulgated by the North American Energy Standards Boards. Pursuant to these market standard contracts, CPS Energy, in the event of a dispute concerning the payment, is permitted to pay the undisputed portion of amounts invoiced for natural gas delivered and withhold the balance pending resolution of the payment dispute (the "Disputed Payment Provision"). As stated above, CPS Energy was charged exorbitant amounts for natural gas deliveries throughout the gubernatorially-declared disaster that was the 2021 Winter Weather Event, with some suppliers charging more than $500/MMBtu. CPS Energy believes that these charges, reflective in some cases representing a 15,000% price increase compared to the pre-storm price of the same commodity, are unconscionable and reflect predatory pricing for items essential to its customers during and after declared disasters, such as the 2021 Winter Weather Event. CPS Energy has challenged these prices under the Disputed Payment Provision and anticipates continuing to use this contractual procedure when appropriate for each of its natural gas supply contracts.

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

CPS Energy is currently engaged in litigation against four of its natural gas suppliers, in which CPS Energy is disputing (under the Disputed Payment Provision) approximately $364 million in natural gas prices charged by those suppliers for natural gas in the 2021 Winter Weather Event as being unconscionable and violative of public policy in Texas. The pending gas supplier cases have been consolidated into the Multi District Litigation ("MDL") Panel and have been assigned to a judge in Bexar County for pre-trial proceedings. CPS Energy makes no guarantee or prediction regarding the outcome of these disputes.

Investor and Community Communication and Outreach. Since February 25, 2021, CPS Energy filed voluntary event notices with the MSRB through EMMA concerning matters associated with the 2021 Winter Weather Event and its operational and financing impact on CPS Energy. CPS Energy also provided incurrence of a material financial obligation filings related to the Flex Notes (defined herein); and material event notices concerning resultant rating actions on CPS Energy by Fitch Ratings, Inc. ("Fitch") and S&P Global Ratings ("S&P"), respectively. In addition, CPS Energy issued press releases regarding its position and resultant actions in response to the 2021 Winter Weather Events. These press releases are available at www.cpsenergy.com.

Though the substance of the event notices is included in this Offering Memorandum in summarized form, investors are directed to those notices for additional information regarding the covered events. The substance of these event notices, however, is not incorporated herein by reference.

City Committees. The Mayor formed the CEP on 2021 Winter Storm Preparedness and Response consisting of four City Council members and three community stakeholders. The objective of the CEP was to determine what caused the electrical and water outages within the City and its community and what can be done to be better prepared in the future. The CEP's report was presented to the City Council on June 24, 2021 and included recommendations for improvements as it relates to CPS Energy. As of the end of 2021, all items the CEP identified related to the 2021 Winter Weather Event had been addressed to ensure a much better response to any future severe winter event. The delivery of the final report concludes the work of the CEP.

Following the election of several new City Council members and the conclusion of the efforts by the CEP, the Mayor formed the City's Municipal Utilities Committee (the "Utilities Committee"), which first met on August 24, 2021 to discuss the broad challenges faced in the aftermath of the 2021 Winter Weather Event and the COVID-19 pandemic (discussed hereinafter) and continues to meet periodically. Chaired by Councilmember John Courage, the Utilities Committee includes City Councilmembers Mario Bravo, Adriana Rocha Garcia, Melissa Cabello Havrda, and Ana Sandoval, and oversees the implementation of programs and policies at CPS Energy, including the recommendations from the CEP.

Legal Actions Related to the 2021 Winter Weather Event

After the 2021 Winter Weather Event, the City, acting by and through CPS Energy, was named as a defendant in various lawsuits alleging wrongful death and property damage because of the 2021 Winter Weather Event. CPS Energy is currently analyzing its potential exposure, as well as its defense in these matters. All these lawsuits were transferred to the Texas state-wide MDL Panel in Harris County, Texas. This court will handle all pretrial matters with each case being transferred back to its county of origin for trial if not disposed of at the pre-trial stage. While the court has held several status conferences, all activities in these cases remained stayed until a schedule is entered by the court.* The majority of the plaintiffs in the MDL have amended their pleadings to include all generators across the state including CPS Energy. These actions significantly increased the number of cases in which CPS Energy is directly named. The MDL Panel selected representative cases that will serve as test cases on several points of law including dispositive motions.

Summary

Except for the ERCOT short pay and Uplift invoicing process, the results of which CPS Energy cannot predict, CPS Energy is confident that it has identified the upward limits of its exposure to financial and operational impacts of the 2021 Winter Weather Event. As described above, CPS Energy has identified adequate sources of liquidity to accommodate its operational and capital needs, considering the possibility that this worst-case financial consequence is realized. Prior to conceding this worst-case financial scenario, CPS Energy is committed to exploring all options and taking advantage of applicable Texas law and provisions of its contractual arrangements to shield its customers and other stakeholders from paying charges that are unconscionable and violative of public policy in Texas. CPS Energy cannot predict the timing for resolution of these matters or the response of its counterparties but can state that it has taken appropriate action to preserve and ensure that its operations are not interrupted or otherwise compromised as a result of these efforts.

Based on historical performance, CPS Energy believes that its efforts to respond to, mitigate the impacts of, and ultimately accommodate the final financial and operating results of the 2021 Winter Weather Event will prove successful, but success has multiple measures and, in some instances, is dependent on circumstances over which CPS Energy has no control. Accordingly, CPS Energy makes no predictions concerning its future operating results or its ability to accommodate any additional (but currently unknown) consequences of the 2021 Winter Weather Event.

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[*] *Jesus Rodriguez v. City of San Antonio by and through City Public Service Board D/B/A CPS Energy* was listed in the Systems Litigation section in prior offering documents. This matter arises from the 2021 Winter Weather Event and thus is included in this section.

Application of Disclosure to the Remainder of this Offering Memorandum

Much of the information and financial data included in this Offering Memorandum is based on historical data that does not include the impact of, but will prospectively be impacted by, the result of the 2021 Winter Weather Event and the various responses thereto. Readers are directed to revert to the disclosure written in this section, as all information included herein is qualified by the application of these impacts, and the scope and breath, for the reasons hereinbefore discussed, remain fully unknown.

COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, spread very quickly across the globe. On March 11, 2020, the World Health Organization declared a global pandemic (the "Pandemic"). After several prior actions, including a March 2, 2020 declaration of a local state of disaster and public health emergency and a March 16, 2020 declaration prohibiting mass gatherings, the Mayor and the Bexar County Judge issued declarations on March 23, 2020 ordering non-essential businesses to close and residents to remain at home except for limited purposes for a period beginning March 25, 2020. The State began incrementally reopening businesses in mid-May 2020, and the City and Bexar County (the "County") incorporated that same strategy and approach in their local declarations and orders. City and County officials now primarily rely on the Texas Governor's Executive Orders for reopening and limiting capacity of businesses, though decisions made within the authority of local control (which has ebbed and flowed throughout the duration of the Pandemic) take into account local conditions and impact. The Texas Governor has since issued a series of executive orders related to COVID-19 protocols, prohibitions on mask and vaccine mandates, and the opening of various businesses. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at http://gov.texas.gov/. Neither the information on this website, nor the information accessed through it, is incorporated by reference (expressly or by implication), into this Offering Memorandum.

On May 18, 2021, Governor Abbott issued Executive Order GA-36, which supersedes Executive Order GA-34 in part. Executive Order GA-36 prohibits governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to $1,000 for noncompliance, subject to certain exceptions. Governor Abbott has since issued three additional Executive Orders. Executive Order GA-38, issued on July 29, 2021, specifically prohibits a governmental entity from compelling any individual to be vaccinated with a vaccine being administered under an emergency use authorization from the U.S. Food and Drug Administration, and further prohibits governmental entities from issuing or requiring vaccine passports for a person to gain entry into facilities or to receive services. GA-39 was issued on August 25, 2021 and further prohibits vaccine mandates and vaccine passports. GA-40 broadly prohibits vaccine mandates by any entity. These Executive Orders also suspend certain statutes that provide authority to health authorities to require immunization as a control measure to respond to a communicable disease outbreak and local government officials from issuing their own executive orders and declarations. The scope of the suspensions of State law, and the prohibitions imposed on local officials by GA-38 and GA-39 are being challenged in multiple legal actions across the State, including by the City and the County. On November 10, 2021, the Fourth Court of Appeals for the State of Texas (the "Fourth Court of Appeals") ruled in favor of the City and the County in affirming a temporary injunction against GA-38 issued by the 45th District Court in Bexar County. That same day, the United States District Court for the Western District of Texas (the "Western District") issued an opinion finding GA-38 violates the Americans with Disabilities Act of 1990 because it puts children with disabilities at risk. However, on November 24, 2021, the United States Court of Appeals for the Fifth Circuit (the "Fifth Circuit") issued an opinion that stays the Western District order, thus reinstated GA-38 while the Fifth Circuit considers the appeal. The Fifth Circuit since upheld the mask ban. Litigation on these matters will likely continue to proceed. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at http://gov.texas.gov/. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference, either expressly or by implication, into this Offering Memorandum.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and could potentially continue to negatively affect economic output worldwide and within the City and the County. Future negative impacts may reduce or otherwise negatively affect Net Revenues of the Systems which are pledged as security for the Notes. Neither the City nor CPS Energy, however, can predict the effect of the continued spread of COVID-19 on the finances or operations and maintenance of the City or the Systems, respectively.

CPS Energy continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic on the Systems. As part of its business continuity protocols, CPS Energy has implemented measures to protect the health of its employees, contractors, and customers and to ensure the continuity of its business operations and the delivery of electric and gas services to the San Antonio community. Many of the Systems' employees who do not work directly in the continuous provision of electric and gas services to CPS Energy customers continue to work remotely from home.

Notwithstanding the foregoing, CPS Energy has conducted updated analyses of impacts to certain of its operations and taken actions in response thereto. A summary of these operational impacts and CPS Energy responses are included herein under the caption "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO" herein.

COMMERCIAL PAPER PROGRAM

Pursuant to the Note Ordinance, and consistent with its historical practice, CPS Energy maintains an interim financing program to provide short-term, variable rate financing for certain Systems expenditures (as further described below) in the form of taxable or tax-exempt commercial paper notes (such program, the "Commercial Paper Program") issued from time to time thereunder as the heretofore defined Notes. Since its inception in 1983, the Commercial Paper Program has been amended multiple times, the most recent of such amendments occurring as a result of the City's adoption of the Note Ordinance. Under the Note Ordinance, which affirmed the City's prior establishment of the Commercial Paper Program and amended certain terms with respect thereto, the City is authorized to issue Notes in multiple series, as Tax-Exempt Notes or Taxable Notes, in an aggregate principal amount at any time outstanding not to exceed $700,000,000 (but further limited by the amount of liquidity support at any time available). Under the Note Ordinance, interest on Notes is calculated on the basis of actual days elapsed and a 365/366-day year, as applicable. Notes may be issued in authorized denominations of $100,000 or any integral multiple of $5,000 in excess thereof and having individual maturities not in excess of 270 days. The Notes are also not subject to redemption prior to maturity.

The Note Ordinance authorized the City's respective execution of the Revolving Credit Agreements, as each may be amended from time to time. Pursuant to each Revolving Credit Agreement, the Lender identified therein has agreed to provide liquidity support for the subject Series of Notes (principal only and without provision for an interest component, which is the sole responsibility of the City to be paid from identified (and pledged) Systems revenues described below) in the applicable maximum amount identified on page 1 of this Offering Memorandum. The Note Ordinance provides that, notwithstanding the stated maximum amount of Notes that may be issued from time to time thereunder, the City shall not issue Notes in a principal amount that exceeds then-available liquidity support therefor. The Note Ordinance provides that the City can, from time to time, enter into substitute liquidity facilities relating to the Notes (but not to be effective with respect to then-outstanding Notes marketed and sold pursuant to a predecessor liquidity facility). The Revolving Credit Agreements now provide liquidity support for the Notes ($400,000,000 in support of the Series A Notes, whether issued as Tax-Exempt Series A Notes, Taxable Series A Notes, or both; $200,000,000 in support of the Series B Notes, whether issued as Tax-Exempt Series B Notes, Taxable Series B Notes, or both; and $100,000,000 in support of the Series C Notes, whether issued as Tax-Exempt Series C Notes, Taxable Series C Notes, or both) in the combined amount of $700,000,000, which is the maximum aggregate amount of Notes authorized to be at any one time outstanding pursuant to the Note Ordinance.

The purpose of the Commercial Paper Program is to (i) assist in the financing of capital improvements to the Systems; (ii) provide working capital and funds for fuel acquisition; (iii) refund outstanding Notes at maturity; and (iv) redeem other obligations of the Systems which are secured by and payable from a lien on and a pledge of Net Revenues of the Systems as described herein. Under the Note Ordinance, scheduled maturities of the Notes may not extend past April 11, 2049 (the "Maximum Maturity Date"). See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Debt and Asset Management Program" and "– Capital Program" herein.

Notes issued under the Commercial Paper Program are equally and ratably secured by and are payable from (i) the Net Revenues of the Systems, such pledge being subordinate and inferior to the pledge of Net Revenues securing the payment of the currently outstanding Senior Lien Obligations and Junior Lien Obligations and any Additional Senior Lien Obligations, Additional Junior Lien Obligations, or Prior Lien Bonds (as each of these terms are defined in each of the City ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations (the "Senior Lien Ordinances")); (ii) the proceeds from the sale of additional bonds issued for that purpose or borrowings under the Commercial Paper Program; and (iii) borrowings under and pursuant to the applicable Revolving Credit Agreement. The obligations of the City under the Revolving Credit Agreements are secured by and payable on a parity basis with the pledge of the Net Revenues that secures the Notes. See "REVOLVING CREDIT AGREEMENTS" herein.

As stated above, the Notes are permitted to be issued as Tax-Exempt Notes, being obligations the interest on which is excludable from gross income for federal income tax purposes, or as Taxable Notes, being obligations that are not described in section 103(a) of the Code (defined herein) or are obligations which constitute "specified private activity bonds" within the meaning of section 141(b) of the Code (being obligations the interest on which is considered as income of the holders thereof for purposes of federal income taxation). See "TAX MATTERS" herein.

The Notes that are the subject of this Offering Memorandum are issued either as Tax-Exempt Notes or as Taxable Notes, as designated in the style of a particular Note.

AUTHORITY

The City is authorized, pursuant to Chapters 1371 and 1502, as amended, Texas Government Code, and the Note Ordinance, to issue the Notes in an aggregate principal amount not to exceed $700,000,000 outstanding at any one time.

SECURITY

As stated above, the Notes are payable from and equally and ratably secured by a lien on and pledge of (i) the proceeds from (a) the sale of other Notes issued for such purpose, and (b) the sale of a series or issue of bonds by the City for the purpose of repaying Notes, (ii) loans under and pursuant to the Revolving Credit Agreement relating to the particular Series of Notes, which loans are to be evidenced by a Bank Note (under the applicable Revolving Credit Agreement); provided, however, that the proceeds of such bank loans made under a Revolving Credit Agreement may only be used to pay the principal of such applicable Series of Notes, (iii) the amounts held in the Note Payment Fund until the amounts deposited therein are used for authorized purposes; provided, however, that amounts in the Note Payment Fund (or separate accounts therein) attributable to and derived from loans shall be used only to pay, prior to any application to the payment of any Bank Note, the principal of (but not the interest on or redemption premium of) the Notes of the Series to which the Revolving Credit Agreement under which the subject loans were made relates in full, and (iv) the amounts remaining on deposit in the Note Construction Fund (or separate accounts therein) after the payment of all Project Costs. The Note Ordinance provides for the establishment of separate accounts within each of the Note Payment Fund and the Note Construction Fund, each such account to relate specifically to a particular Series of Notes. Amounts shall be deposited to such accounts from time to time for payment of the particular Series of Notes in the manner hereinbefore described with respect to each such respective Fund. To provide additional security for the payment of the principal of and interest on the Notes, the Bank Notes, and other amounts due under the Revolving Credit Agreements as the same shall become due and payable, the Note Ordinance grants a lien on and pledge of the Net Revenues, such lien thereon and pledge thereof, however, being subordinate to the lien on and pledge of the Net Revenues securing the payment of the currently outstanding Parity Bonds (as defined herein), the Junior Lien Obligations, and Prior Lien Bonds issued from time to time by the City. The City has the right to issue Additional Parity Bonds, Additional Junior Lien Obligations, and Prior Lien Bonds without limitation as to principal amount that may be secured by a lien on and pledge of the Net Revenues superior to the lien securing the Notes; provided, however, that the City has covenanted in each Revolving Credit Agreement to not issue any Prior Lien Bonds other than Additional Parity Bonds and Additional Junior Lien Obligations (which covenant is effective for so long as the Revolving Credit Agreements remain valid and binding contracts of the City).

The Notes do not constitute a general indebtedness of the City, the Systems, the State, or any political subdivision of the State within the meaning of any constitutional, statutory, or charter provision or limitation. Neither the faith and credit nor the taxing power of the City, the State or any other political subdivision of the State is pledged to the payment of the Notes.

PERFECTION OF SECURITY FOR THE NOTES

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Notes and the pledge of the Net Revenues to secure the Notes, and such pledge is therefore, valid, effective and perfected. Should Texas law be amended while the Notes are outstanding and unpaid, the result of such amendment being that the pledge of the Net Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, as amended, in order to preserve to the registered owners of the Notes a security interest in such pledge, the City has agreed in the Note Ordinance to take such measures as it determines reasonable and necessary to enable a filing of a security interest in said pledge to occur.

REGISTERED OWNER'S REMEDIES

If the City defaults in the payment of principal, interest, or redemption price on the Notes when due, or if it fails to make payments into any fund or funds created in the Note Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Note Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Notes, if there is no other available remedy at law to compel performance of the Notes or the Note Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Notes in the event of default (though Bank Notes are subject to acceleration). The Note Ordinance does not provide for the appointment of a trustee to represent the interest of the noteholders upon any failure of the City to perform in accordance with the terms of the Note Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas Legislature has effectively waived the City's sovereign immunity from a suit for money damages, noteholders may not be able to bring such a suit against the City for breach of the Notes or the Note Ordinance covenants. Furthermore, Tooke, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of the municipality.

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("Wasson"), the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between governmental and proprietary functions is not clear, the Wasson opinion held that the Proprietary-Governmental Dichotomy applies in a contract-claims context. The Court reviewed Wasson for a second time on October 5, 2018 and issued an opinion clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship.

Notwithstanding the foregoing case law issued by the Wasson Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing the issuance of securities such as the Notes. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with its establishment of the Commercial Paper Program and issuance from time to time of the Notes (as further described in "COMMERCIAL PAPER NOTES – Authority" herein), the City has not waived the defense of sovereign immunity with respect thereto. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the Net Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or noteholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of either federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel notes that all opinions relative to the enforceability of the Note Ordinance and the Notes are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK'S BOOK-ENTRY SYSTEM

This section describes how ownership of the Notes is to be transferred and how the principal of and interest on the Notes are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the Notes are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Offering Memorandum. The City and the Board believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Notes, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Notes), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Offering Memorandum. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (the "SEC"), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each series of the Notes, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC provides custody and asset servicing for about 3.5 million issues of United States and non-United States equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both United States and non-United States securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both, United States and non-United States securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings' rating of "AA+". The DTC Rules applicable to its participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of the Notes ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as: redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices are provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Issuing and Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuing and Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, Notes are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Notes will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City and the Board believe to be reliable, but neither the City nor the Board take responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Notes, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State of Texas, duly organized and existing under the laws of the State of Texas, including the City's Home Rule Charter. The City was incorporated in 1837 and first adopted its Home Rule Charter in 1951, which became effective on January 1, 1952, and was last amended at an election held on May 1, 2021. The City operates under a Council/Manager form of government with a city council comprised of the Mayor and ten Council members (previously defined herein as the "City Council"). The City Manager is the chief administrative officer for the City. The 2010 Census population for the City was initially 1,327,407, and later revised to 1,326,539. The 2020 Census population for the City was 1,434,625 and for Bexar County was 2,009,324.The City's Information Technology Services Department has estimated the City's population to be 1,552,150 in 2021. The City covers approximately 518 square miles in south central Texas.

REVOLVING CREDIT AGREEMENTS

As previously stated, the City, as authorized by the Note Ordinance, has entered into a Revolving Credit Agreement with each Lender. Each Revolving Credit Agreement, as amended from time to time, relates to a particular Series of Notes and provides liquidity support therefor in the amount specified. The Series A Agreement, as amended, under which Bank of America, N.A. provides $400,000,000 in liquidity support for the Series A Notes, is effective June 21, 2019 through June 19, 2026 (unless earlier terminated in accordance with its terms). The Series B Agreement, as amended, under which State Street Bank and Trust Company provides $200,000,000 in liquidity support for the Series B Notes, is effective June 21, 2019 through June 21, 2023 (unless earlier terminated in accordance with its terms). The Series C Agreement, as amended, under which Wells Fargo Bank, National Association, provides $100,000,000 in liquidity support for the Series C Notes, is effective June 21, 2019 through June 21, 2025 (unless earlier terminated in accordance with its terms). At this time and under the Revolving Credit Agreements, the City has made available $700,000,000 in liquidity support for the Notes, which is the maximum principal amount of Notes authorized to be at any one time outstanding pursuant to the Note Ordinance. While in effect, the City is authorized, provided it has satisfied certain conditions precedent identified therein, to borrow up to the maximum amount specified under the particular Revolving Credit Agreement, in immediately available funds and on a revolving basis, to pay maturing Notes of the Series to which such Revolving Credit Agreement relates.

The obligation of a Lender to make any loan under the related Revolving Credit Agreement is subject to receipt by such Lender of a written borrowing request and a determination that no Special Event of Default (as defined in the related Revolving Credit Agreement) or Suspension Event (as defined in the related Revolving Credit Agreement) has occurred and is continuing. Special Events of Default include the following:

1) the City shall fail to pay any scheduled interest on any Notes when due or any scheduled principal or interest due under the related Bank Note;

2) a final unappealable judgment or order for the payment of money in excess of $25,000,000 payable from the Net Revenues shall be rendered against the Board or the City and such judgment or order shall continue unsatisfied and unstayed for a period of 60 days;

3) default by the City in the payment of any Specified Debt (as defined in the related Revolving Credit Agreement) when due or within any applicable grace period or the occurrence of any event under any ordinance, resolution, or instrument giving rise to any Specified Debt, which results in or would entitle the obligee thereof or a trustee on behalf of such obligee to pursue any remedies against the City, including the right to declare the acceleration of any maturity thereof, or upon the lapse of time or the giving of notice or both would entitle the obligee thereof or a trustee on behalf of such obligee to accelerate any maturity thereof, in each case, as a result of a payment default of any nature;

4) the City shall commence a voluntary case or other proceeding seeking (i) liquidation, reorganization, or other relief with respect to the City (unless such case or other proceeding expressly excludes the Systems and the Systems' indebtedness), any of the Systems or any of the Systems' Bonds (as defined in the related Revolving Credit Agreement) under any bankruptcy, insolvency, or other similar law now or hereafter in effect or (ii) the appointment of a receiver, liquidator, custodian, or other similar official with respect to the City (unless such appointment expressly excludes the Systems and the Systems' indebtedness), any of the Systems or any of the Systems' Bonds, or shall consent to or acquiesce in such relief or the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it;

5) a receiver, liquidator, custodian, or other official, appointed in an involuntary case or proceeding commenced against the City, appointed without consent or acquiescence of the City, takes charge of a substantial part of the Systems and such action as to the Systems is not stayed, discharged, or vacated for a period of sixty (60) days;

6) the City shall make a general assignment for the benefit of creditors, or declare a moratorium with respect to the City's debts (unless such assignment or moratorium, as applicable, expressly excludes the Systems and the Systems' indebtedness) or the Systems' debts, or shall fail generally to pay the Systems' debts as they become due, or shall take any action to authorize any of the foregoing;

7) an involuntary case or other proceeding shall be commenced against the City seeking (i) liquidation, reorganization, or other relief with respect to the City's Bonds under any bankruptcy, insolvency, or other similar law now or hereafter in effect, or (ii) the appointment of a custodian, receiver, liquidator, trustee or other similar official of the Systems, or any substantial part thereof, and such proceeding or case shall not be dismissed or stayed within sixty (60) days after the filing thereof or an order of relief shall be entered against the City under the federal bankruptcy laws as now or hereafter in effect;

8) any provision of the subject Revolving Credit Agreement or any other Related Document (as defined in the related Revolving Credit Agreement) relating to the City's ability to repay any Loan Advance (as defined in the related Revolving Credit Agreement) or Term Loan (as defined in the related Revolving Credit Agreement) to the related Lender, to make payments on the related Notes or to raise funds to meet such payment obligations or relating to the validity or enforceability of the Lien (as defined in the related Revolving Credit Agreement) on and pledge of Net Revenues shall at any time for any reason cease to be valid and binding on the City as a result of federal or state legislative or administrative action, or shall be declared in a final non-appealable judgment by any court having jurisdiction over the City to be null and void, invalid or unenforceable;

9) the powers of the City or the Board shall be limited in any way or the Note Ordinance shall be modified or amended in any way without the prior written consent of the Lenders, in either case, which prevents the City or the Board from fixing, charging or collecting rates and charges for the use and services of the Systems in an amount sufficient to pay its Debts (as defined in the related Revolving Credit Agreement) as they become due; or

10) Fitch, Moody's and S&P, shall have (i) assigned any of the related Notes a rating below "F3" (Fitch), "P-3" (Moody's), and "A-3" (S&P), (ii) assigned any Debt secured by a lien on Net Revenues that is senior to or on a parity with the related Notes a rating below "BBB-" (Fitch), "Baa3" (Moody's) and "BBB-" (S&P), or (iii) suspended or withdrawn ratings of the Notes or any other Debt secured by a lien on Net Revenues that is senior to or on a parity with the related Notes for credit related reasons.

Suspension Events include the following:

1) the City shall publicly contest any provision of the related Revolving Credit Agreement or any other Related Document (as defined in such Revolving Credit Agreement) relating to the City's ability to make payments of principal or interest on the related Notes as provided in the related Revolving Credit Agreement or relating to the validity or enforceability of the lien on and pledge of Net Revenues, or the City shall publicly deny that it has any obligation to make payments on the related Notes;

2) a receiver, liquidator, custodian, or other official, appointed in an involuntary case or proceeding commenced against the City, appointed without consent or acquiescence of the City, takes charge of a substantial part of the Systems and such action as to the Systems is not stayed, discharged, or vacated for a period of sixty (60) days; or

3) an involuntary case or other proceeding shall be commenced against the City seeking (i) liquidation, reorganization, or other relief with respect to the City's Bonds under any bankruptcy, insolvency, or other similar law now or hereafter in effect, or (ii) the appointment of a custodian, receiver, liquidator, trustee or other similar official of the Systems, or any substantial part thereof, and such proceeding or case shall not be dismissed or stayed within sixty (60) days after the filing thereof or an order of relief shall be entered against the City under the federal bankruptcy laws as now or hereafter in effect.

During the Revolving Credit Period (as defined in the related Revolving Credit Agreement), the City may, upon at least three Business Days' notice to the related Lender, and any Rating Agency which has issued a rating on the related Notes, and subject to the terms and provisions of the related Fee Agreement (as defined in the related Revolving Credit Agreement), reduce from time to time by an aggregate amount of $1,000,000 or any integral multiple of $100,000 in excess thereof, the aggregate unused portion of the related Commitment (as defined in the related Revolving Credit Agreement) under the related Revolving Credit Agreement at the time, provided that the City may not reduce a portion of the related Commitment if the unused portion of the related Commitment as proposed to be reduced would be less than the sum of the aggregate principal of the related outstanding Notes.

Under a related Revolving Credit Agreement, the related Lender, as applicable thereunder, may deliver a notice (a "No-Issuance Notice") at any time that such Lender, as applicable, shall have determined that (a) a Default (as defined in the related Revolving Credit Agreement) shall have occurred and be continuing; or (b) the representations and warranties of the City set forth in Article IV of the related Revolving Credit Agreement are not true and correct in all material respects on and as of the date of the No-Issuance Notice with the same effect as though made on and as of the date of such No-Issuance Notice. Upon receipt of a No-Issuance Notice the City must not issue any additional related Notes unless and until the No-Issuance Notice is rescinded by the notifying Lender, as applicable in writing. Such No-Issuance Notice in and of itself will not render the subject Revolving Credit Agreement ineffective with respect to Notes of such Series outstanding prior to the instance of such No-Issuance Notice. **THE LENDER IS NOT REQUIRED TO MAKE ANY LOAN UNDER THE RELATED REVOLVING CREDIT AGREEMENT WITH RESPECT TO NOTES OF SUCH SERIES ISSUED IN VIOLATION OF A NO-ISSUANCE NOTICE.**

The City has agreed, in the Revolving Credit Agreements, to use its best efforts to obtain an Alternate Credit Facility (as defined in the related Revolving Credit Agreement) in the event the Lender decides not to extend the Revolving Credit Agreement's final date, or the City does not request an extension; the Lender accelerates the obligations owed to it following an Event of Default; or the minimum ratings assigned to the related Notes are not maintained. An Alternate Credit Facility cannot become effective without the prior written consent of the Lender.

In addition, each of the Revolving Credit Agreements contains a "most favored nations" provision that automatically amends the applicable Revolving Credit Agreement to incorporate certain changes if the City enters into another agreement giving, generally, more favorable rights and provisions to the counterparty of such other agreement in comparison to the Lender's (or Lenders') under the applicable Revolving Credit Agreement, so long as such Lender or Lenders has not failed to honor a "Notice of Loan" under its applicable Revolving Credit Agreement or it has not rejected such provision upon its receipt of notice thereof. Notwithstanding the foregoing, no such amendment shall be effective if (i) such incorporation causes the interest on the series of Notes related to such Revolving Credit Agreement to be includable in the gross income of the owners thereof for federal tax purposes, (ii) such incorporation would necessitate the Texas Attorney General's approval as a condition precedent to its effectiveness, or (iii) it relates to Special Events of Default and/or Suspension Events, unless and until each rating agency then providing a rating on the related series of Notes has confirmed that the incorporation of any such provision will not, by itself, cause a reduction, suspension or withdrawal of the rating then assigned to the related Notes by such rating agency.

Holders of Notes will receive no notice of an amendment to the related Revolving Credit Agreement resultant from the application of this "most favored nations" provision.

For information on the Lenders, refer to APPENDIX B hereto.

SENIOR LIEN OBLIGATIONS

The City's debt obligations payable from a first and prior lien on and pledge of Net Revenues are referred to as the "Senior Lien Obligations" or "Parity Bonds". As stated, these obligations are payable from and secured by a first and prior lien on and pledge of the Net Revenues of the Systems, which lien and pledge is senior and superior to the liens thereon and pledges thereof securing the payment of the Junior Lien Obligations, the Prior Lien Bonds, the Commercial Paper Obligations (which includes the Notes and the Bank Notes), and the Inferior Lien Obligations. As of the date hereof, Senior Lien Obligations are currently outstanding in an aggregate principal amount of $4,096,790,000. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Capital Program" herein. The Senior Lien Ordinances permit the issuance of additional obligations of the City payable from a first lien on and pledge of the Net Revenues on parity with the lien thereon and pledge thereof securing the then-outstanding Senior Lien Obligations (such additional obligations, the "Additional Senior Lien Obligations" or "Additional Parity Bonds") if certain historical earnings tests and other conditions are satisfied. The Senior Lien Ordinances also provide that no obligations of the City shall be issued that are payable from a lien on and pledge of the Net Revenues of the Systems that is senior and superior to the lien thereon and pledge thereof securing the payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued.

See table appearing under “DEBT SERVICE REQUIREMENTS – Outstanding Senior Lien Obligations and Junior Lien Obligations” for the City’s Senior Lien Obligations’ debt service requirements.

JUNIOR LIEN OBLIGATIONS

The City’s debt obligations equally and ratably secured by and payable from a lien on and pledge of Net Revenues, which lien and pledge is directly junior and subordinate to the first and prior lien on and pledge of Net Revenues that secures the Senior Lien Obligations (but prior and superior to the lien on and pledge of the Net Revenues securing the payment of the Commercial Paper Obligations or any Flex Rate Notes to be issued pursuant to the FRRN) (the “Junior Lien Pledged Revenues”), are referred to herein (and have heretofore been defined) as the “Junior Lien Obligations”. The Junior Lien Ordinances permit the issuance of additional City obligations payable from and secured by a parity lien on and pledge of the Junior Lien Pledged Revenues (the “Additional Junior Lien Obligations”) if certain historical earnings tests and other conditions are satisfied. The Junior Lien Ordinances also provide that no obligations of the City shall be issued that are payable from a lien on and pledge of the Net Revenues of the Systems that is senior and superior to the lien thereon and pledge thereof securing the payment of the Junior Lien Obligations, except for the first and prior lien on and pledge of Net Revenues that secures the repayment of the Senior Lien Obligations.

The Junior Lien Ordinances, in comparison to the Senior Lien Ordinances, provide for less restrictive debt-related covenants to be complied with by the City in connection with their issuance and while they remain outstanding (such as no requirement to maintain a debt service reserve fund with respect to Junior Lien Obligations and an additional bonds test of one times average annual debt service of all then-outstanding Senior Lien Obligations and Junior Lien Obligations, plus any contemplated series of additional debt, as a condition to the issuance of Additional Junior Lien Obligations). The City has utilized this lien level to diversify its debt portfolio and has, historically, used such lien level exclusively to accomplish the issuance of its various series of long-term variable rate debt. As part of its debt planning process, the City evaluates each issuance of long-term debt prior to determining whether to issue such indebtedness as Additional Senior Lien Obligations or Additional Junior Lien Obligations.

As of the date hereof, the aggregate principal amounts of all Junior Lien Obligations outstanding is $2,132,990,000. See table appearing under “DEBT SERVICE REQUIREMENTS – Outstanding Senior Lien Obligations and Junior Lien Obligations” for the City’s Junior Lien Obligations’ fixed rate and variable rate debt service requirements, which includes existing Junior Lien Obligations.

INFERIOR LIEN OBLIGATIONS

As authorized by the Senior Lien Ordinances, the Junior Lien Ordinances, and the Note Ordinance, the City may issue obligations payable from and secured by a lien on and pledge of Net Revenues of the Systems that is subordinate and inferior to the respective liens thereon and pledges thereof securing the payment of the Senior Lien Obligations, the Junior Lien Obligations, and the Commercial Paper Obligations (any such obligations referred to as “Inferior Lien Obligations”). The City may issue Inferior Lien Obligations payable from and secured by a lien on and pledge of Net Revenues of the Systems that is subordinate and inferior to the respective liens thereon and pledges thereof securing the payment of the Senior Lien Obligations, the Junior Lien Obligations, and the Notes.

The City maintains a Flexible Rate Revolving Note Private Placement Program, as Inferior Lien Obligations, where it is authorized to issue Series A Flexible Rate Revolving Note Program (the “Series A Flex Notes”) and Series B Flexible Rate Revolving Note Program (the “Series B Flex Notes”). Series A Flex Notes are authorized to be issued in an aggregate principal amount not to exceed $100,000,000 outstanding at any one time until the November 1, 2028 program expiration date. Series B Flex Notes are authorized to be issued in an aggregate principal amount not to exceed $500,000,000 outstanding at any one time until the April 1, 2031 program expiration date.

The City has entered into a Note Purchase Agreement (dated February 25, 2022) with Wells Fargo Bank, National Association, with a term that expires February 24, 2023, and pursuant to which such bank is obligated to purchase Series A Flex Notes in a principal amount up to the programmatic capacity. As of the date hereof, the City has no Series A Flex Rate Notes outstanding.

The City has entered into additional Note Purchase Agreements (each dated as of April 27, 2021) with JPMorgan Chase Bank, National Association for $225,000,000, Wells Fargo Bank, National Association for $200,000,000, and Frost Bank for $75,000,000, which obligates each bank to purchase Series B Flex Notes when issued in respective principal amounts that, in the aggregate, total the programmatic capacity, with a term that expires on April 26, 2023. As of the date hereof, the full $500,000,000 of Series B Flex Notes programmatic capacity remains undrawn and available.

QUALIFICATION

The entirety of this Offering Memorandum is qualified by the evolving impacts on CPS Energy's operations and financial condition resulting from the potential effects of the COVID-19 pandemic and the 2021 Winter Weather Event (together, the "Events"). Within this Offering Memorandum, under captions "INTRODUCTORY STATEMENT – COVID-19", "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO", and "INTRODUCTORY STATEMENT – 2021 Texas Winter Weather Event", CPS Energy has described the Events, their impact on CPS Energy's operations and financial condition, and CPS Energy's initial responses to these impacts. CPS Energy has not attempted to update the descriptions included herein to account for the effects of the Events, as the specific impacts are evolving and their extent is unknown; rather, CPS Energy makes reference to the aforementioned sections and directs the reader to them for a general discussion of the Events and their impact on CPS Energy and its operations and financial condition as of the date hereof.

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DEBT SERVICE REQUIREMENTS

OUTSTANDING SENIOR LIEN OBLIGATIONS AND JUNIOR LIEN OBLIGATIONS

The following schedule is calculated on an accrual (rather than cash) basis and reflects annual debt service requirements on all outstanding Senior Lien Obligations and Junior Lien Obligations (including current Fiscal Year debt service payments made through (and including) February 1, 2022). Debt service on the Notes incurred under the Commercial Paper Program and any Inferior Note Obligations are excluded.

		Junior Lien Obligations		
Year Ending January 31,	Total Senior Lien Obligations[1]	Variable Rate Obligations[2]	Fixed Rate Obligations[3]	Total Senior and Junior Lien Obligations[4]
2023	$349,887,061	$14,565,736	$63,978,292	$428,431,089
2024	346,451,038	20,563,525	64,410,509	431,425,073
2025	345,653,871	22,543,611	64,410,509	432,607,991
2026	303,029,231	33,438,625	78,720,509	415,188,365
2027	323,093,714	39,999,165	78,720,009	441,812,888
2028	323,095,896	45,919,325	78,718,759	447,733,981
2029	257,266,020	75,320,133	98,255,009	430,841,163
2030	257,275,159	74,427,150	98,255,709	429,958,018
2031	257,429,345	72,677,150	108,913,554	439,020,050
2032	255,971,244	70,933,517	108,736,000	435,640,761
2033	263,724,440	69,170,783	112,130,550	445,025,773
2034	276,093,880	42,427,150	139,149,700	457,670,730
2035	284,597,818	42,427,150	136,006,450	463,031,418
2036	285,147,524	42,433,517	135,451,700	463,032,741
2037	285,741,196	42,420,783	134,853,750	463,015,730
2038	286,354,744	45,357,150	134,242,850	465,954,744
2039	269,089,917	60,822,612	133,597,214	463,509,743
2040	222,768,942	64,745,022	173,983,094	461,497,057
2041	223,501,823	63,785,108	173,256,344	460,543,275
2042	183,600,601	75,261,779	62,784,150	321,646,529
2043	139,455,247	92,634,328	62,785,400	294,874,975
2044	108,934,990	91,594,710	62,786,250	263,315,951
2045	108,933,138	112,252,154	27,363,500	248,548,792
2046	108,936,297	106,297,021	27,361,500	242,594,818
2047	108,936,785	81,053,200	27,366,000	217,355,985
2048	43,847,204	81,062,900	27,364,000	152,274,104
2049	9,754,500	51,884,300	27,363,000	89,001,800
Totals	$6,228,571,624	$1,636,017,604	$2,440,964,310	$10,305,553,543

(1) Excludes regularly scheduled interest due on the remaining outstanding maturities of the Taxable New Series 2009C Bonds and the remaining outstanding maturities of the Taxable New Series 2010A Bonds to be off-set by the refundable tax credit to be received from the U.S. Department of the Treasury (the "Treasury") as a result of such obligations being designated as "build America bonds" and "qualified bonds" under the Code. Also, takes into account the effects of Sequestration assuming a 5.7% reduction in tax credits which began in October 2020 and continues through September 2030. See "REFUNDABLE TAX CREDIT BONDS" herein.

(2) Assumes periodic redemptions in accordance with mandatory sinking fund requirements. Each series of variable rate Junior Lien Obligations is currently in a "term" interest rate mode; accordingly, debt service calculated on such variable rate Junior Lien Obligations on the basis of the actual term interest period and of the applicable "stepped" interest thereafter to Stated Maturity, which rates and periods are as follows: 2015A Bonds – 1.75% term rate through November 30, 2024, and 7.00% "stepped" rate thereafter to February 1, 2033 Stated Maturity; 2015C Bonds – 1.75% term rate through November 30, 2024, and 7.00% "stepped" rate thereafter to December 1, 2045 Stated Maturity; 2015D Bonds – 1.125% term rate through November 30, 2026, and 7.00% "stepped" rate thereafter to December 1, 2045 Stated Maturity; 2018 Bonds – 2.75% term rate through November 30, 2022, and 8.00% "stepped" rate thereafter to February 1, 2048 Stated Maturity; 2020 Bonds – 1.75% term rate through November 30, 2025 and 7.00% "stepped rate" thereafter to February 1, 2049 Stated Maturity; and the variable rate portion of the 2022 Bonds – 2.00% term rate through November 30, 2027 and 7.00% "stepped rate" thereafter to February 1, 2049 Stated Maturity.

(3) Excludes regularly scheduled interest due on the Taxable Junior Lien Series 2010A anticipated to be off-set by the refundable tax credit to be received from the Treasury as a result of such obligations being designated as "build America bonds" and "qualified bonds" under the Code. See footnote 5 to table appearing under "DEBT SERVICE REQUIREMENTS – Historical Net Revenues and Coverage" herein. Also, takes into account the effects of Sequestration assuming a 5.7% reduction in tax credits which began in October 2020 and continues through September 2030.

(4) Senior Lien Obligations outstanding and Junior Lien Obligations outstanding represent the debt service requirements for the total outstanding debt payable from and secured by the Net Revenues of the Systems, excluding debt service payable with respect to the Notes and any Inferior Lien Obligations. See "COMMERCIAL PAPER PROGRAM" and "INFERIOR LIEN OBLIGATIONS" herein.

HISTORICAL NET REVENUES AND COVERAGE[1]

(Dollars in thousands)	Fiscal Years Ended January 31,[1]				
	2018	2019	2020	2021	2022[12]
Gross Revenues[2]	$2,624,411	$2,808,260	$2,602,177	$2,511,242	$2,755,828
Maintenance & Operating Expenses	1,587,906	1,608,352	1,497,182	1,555,519	1,743,444
Available For Debt Service	$1,036,505	$1,199,908	$1,104,995	$955,723	$1,012,384
Actual Principal and Interest Requirements:					
Senior Lien Obligations[3], [4], [9], [10]	$270,080	$259,726	$223,292	$327,599	$331,844
Junior Lien Obligations[5], [11]	$120,996	$148,179	$148,806	$61,964	$60,198
ACTUAL COVERAGE – Senior Lien[6]	3.84x	4.62x	4.95x	2.92x	3.05x
ACTUAL COVERAGE – Senior and Junior Liens	2.56x	2.94x	2.97x	2.45x	2.58x
PRO FORMA MADS COVERAGE					
Senior Lien[7]	2.96x	3.43x	3.16x	2.73x	2.89x
Senior and Junior Liens[8]	2.22x	2.58x	2.37x	2.05x	2.17x

(1) Some numbers have been adjusted due to rounding.

(2) Calculated in accordance with the Bond Ordinances.

(3) Net of accrued interest where applicable.

(4) Includes a reduction of $14.5 million, $14.6 million, $14.6 million, $14.3 million, and $12.7 million for fiscal years 2017, 2018, 2019, 2020, and 2021, respectively, related to the direct subsidy for the Build America Bonds. See “REFUNDABLE TAX CREDIT BONDS” herein.

(5) Includes a reduction of $5.7 million for fiscal years 2017-2021, related to the direct subsidy for the Build America Bonds. See “REFUNDABLE TAX CREDIT BONDS” herein.

(6) Calculation differs from “FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE” herein, by the inclusion of nonoperating expenses in the above schedule.

(7) Maximum annual debt service on Senior Lien Obligations.

(8) Maximum annual debt service on Senior Lien Obligations and Junior Lien Obligations is based upon the footnoted assumptions under “Outstanding Senior Lien Obligations and Junior Lien Obligations”, on the previous page.

(9) Amount shown is gross debt service and does not include any cash contributions made.

(10) Amounts shown for Senior Lien Obligations are higher in FY21 compared to FY20 due to bond maturities coming due in FY21 (Series 2012 and Series 2016 Refunding Bonds)

(11) Amounts shown for Junior Lien Obligations in FY21 are lower due to bonds that matured in FY2020 (Jr. Lien Revenue Refunding Bonds, Series 2014).

(12) Amounts are preliminary and unaudited.

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SAN ANTONIO ELECTRIC AND GAS SYSTEMS

HISTORY AND MANAGEMENT

The City acquired its electric and gas utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Holding Company Act of 1935. The Senior Lien Obligation bond ordinances (the "Bond Ordinances") establish management requirements and provide that the complete management and control of the Systems is vested in the Board. The Mayor of the City is a voting member of the Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the Board and its conduct of the management of the Systems. The present members of the Board are:

Name & Position	Profession	Originally Appointed to the Board	Present Term Expires[1]
Dr. Willis Mackey, Chair	Superintendent, Retired Judson Independent School District	April 6, 2018	January 31, 2023
Janie Gonzalez, Vice Chair	President & CEO, Webhead	February 18, 2019	January 31, 2024
John T. Steen, Jr. Trustee	Attorney, Law Office of John T. Steen	February 1, 2016	January 31, 2026
Dr. Francine Romero, Trustee	Associated Professor & Chair of the Public Administration Department at the University of Texas at San Antonio	February 1, 2022[2]	January 31, 2027
Ron Nirenberg,[3] Ex-Officio Member	Mayor, City of San Antonio	June 21, 2017	May 31, 2023

(1) Dr. Willis Mackey and Janie Gonzalez are serving their first terms. John Steen, Jr. is currently serving his second term.
(2) During a Special Board Meeting held on October 4, 2021, Dr. Francine Romero was nominated by majority vote to fill the Board vacancy left by Trustee Edward Kelley. On October 21, 2021, the City Council confirmed Dr. Romero as a new Board Member effective February 1, 2022, for a 5-year term.
(3) Ron Nirenberg was re-elected as Mayor for a third term in 2021.

All vacancies in membership on the Board are filled as follows: a nominee to fill such vacancy shall be elected by the majority vote of the remaining members of the Board of Trustees, such majority vote to include the vote of the Mayor. The elected nominee is then submitted by the Mayor for a vote of the City Council for confirmation. A vacancy in certain cases may be filled by authorization from the City Council. At the expiration of their first five-year term of office, the members of the Board are eligible for reappointment by election of the other Board members and confirmation by the City Council to one additional term. In 1997, the City Council ordained that Board membership should be representative of the geographic quadrants established by the City Council. New Board members considered for approval by the City Council will be those whose residence is in a quadrant that provides such geographic representation.

The Board is vested with all of the powers of the City with respect to the management and operation of the Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in the Bond Ordinances, except regarding rates, condemnation proceedings, issuance of bonds, notes, or commercial paper. The Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements and additions to the Systems, and to adopt rules for the orderly handling of CPS Energy's affairs. The Board is further empowered to appoint and employ all officers and employees and must obtain and keep in force a "blanket" type employees' fidelity and indemnity bond (also known as commercial crime bond) covering losses in the amount of not less than $100,000.

The management provisions of the Bond Ordinances also grant the City Council authority to review Board action with respect to policies adopted relating to research, development, and planning.

ADMINISTRATION AND OPERATING PERSONNEL

CPS Energy had 2,962 employees as of January 31, 2022, which included approximately 1,187 wage scale (hourly/field) employees. The average tenure of a CPS Energy employee is more than 15 years. Most of the executive and supervisory personnel have experience in the utility industry, or other related experience required for their career field. CPS Energy provides employees a broad range of employee benefit programs, including a defined benefit pension plan, group life insurance, group health (medical, dental and vision), and other benefits. CPS Energy culture, employee benefits and career growth opportunities all contribute towards the maintenance of a stable, well-qualified work force which, between February 1, 2021 and January 31, 2022, recorded a turnover rate of 9.2%.

CPS Energy continues to enhance its performance management process, which measures performance against targeted performance goals and an established set of behaviors (i.e., core values and/or critical measures). Employees are engaged in working toward key performance goals that align to organizational and business unit/area strategies and objectives. The process is designed to provide continuous monitoring and a high level of coaching and feedback to reach performance expectations, to provide meaningful developmental opportunities, to emphasize how results are achieved, and to reward and recognize contributions toward business goals. In addition, CPS Energy actively manages comprehensive workforce development and succession planning processes to promote wider development opportunities for employees to learn and grow. These processes are based on the foundational ideas that all employees are expected to develop to their maximum capabilities and that succession planning must focus on ensuring that key positions will be staffed by employees who have the capability to keep CPS Energy operating at its highest level of productivity.

CPS Energy salaried and executive employees participate in a discretionary Employee Incentive Plan (“EIP”), that rewards both individual and organizational performance for controlling expenses, promoting safety, managing reliability, maximizing cost effective energy production, environmental stewardship, and enhancing customer satisfaction. The EIP provides direct links between CPS Energy’s competitiveness, performance and compensation. In addition to measuring performance on key metrics for CPS Energy, employees’ individual performance is linked to their individual incentive payout. The EIP is reviewed annually to ensure overall design, metrics and targets continue to align with CPS Energy’s goals and drive employee performance towards organizational goals. As of April 10, 2020, distributions for CPS Energy’s EIP program have been suspended for up to two years to preserve cash in the face of reduced revenue and increased customer debt as a result of the worldwide pandemic. CPS Energy will continue to evaluate performance against the established metrics, and payments could be distributed in the future if economic indicators improve.

CPS Energy’s principal executives and members of the Executive Leadership Team include: Rudy Garza, Interim President & CEO; Shanna Ramirez, Chief Legal & Ethics Officer, General Counsel, & Board Secretary (“CLEO&GC”); vacant, Chief Operating Officer (“COO”); Vivian Bouet, Chief Information Officer (“CIO”); Lisa Lewis, Chief Administrative Officer (“CAO”); Cory Kuchinsky, Chief Financial Officer (“CFO”) & Treasurer; DeAnna Hardwick, Interim Executive Vice President of Customer Strategy; Benjamin Ethridge, Executive Vice President of Energy Supply; Kathy Garcia, Vice President of Government, & Regulatory Affairs & Public Policy; Melissa Sorola, Vice President of Corporate Communications & Marketing; Richard Lujan, Interim Vice President of Gas Solutions; and Richard Medina, Interim Executive Vice President of Energy Delivery Services.

Recent reorganizations of the members of the Executive Leadership Team were announced periodically via event notices filed on EMMA throughout 2021. Detailed information related to each of these executive level organizational changes may be obtained by viewing the related voluntary notices. On October 20, 2021, Ms. Paula Gold-Williams announced her plans to leave CPS Energy effective January 17, 2022. She served as an Advisor until her departure. On October 25, 2021, a CEO Search Committee was formed to lead the efforts to fill the role of President & CEO. The CEO Search Committee is being chaired by Ms. Janie Gonzalez, Vice Chair of the Board, as well as Chair of the Personnel Committee. Dr. Willis Mackey, Board Chair, also serves on the CEO Search Committee. The Board expects to select a search firm in Spring 2022 to commence searching for CPS Energy’s CEO. On November 1, 2021, Mr. Rudy Garza was named Interim President & CEO, effective November 8, 2021. References to “President & CEO” throughout this Offering Memorandum refer to Mr. Rudy Garza serving in such capacity as described in this section. The reorganized Executive Leadership Team follows as such:

Mr. Rudy Garza was named Interim President & CEO effective November 8, 2021 after former President & CEO Ms. Paula Gold-Williams announced she would depart CPS Energy on January 17, 2022. He is the first Hispanic leader to hold this leadership position. Previously, he served as the Chief Customer & Stakeholder Engagement Officer and oversaw customer experience and engagement initiatives at CPS Energy. He was also responsible for ensuring consistent and exceptional customer experiences across major customer channels and touchpoints. Formerly Senior Vice President of Distribution Service & Operations, he oversaw the electric distribution system maintenance and construction activity as well as the Energy Management Center, which operates and monitors the distribution system. Before arriving at CPS Energy in 2012, Mr. Garza served as Assistant City Manager and as Intergovernmental Relations Director in Corpus Christi. He also worked for TXU Corporation in Dallas for 13 years. Mr. Garza has a Master of Business Administration from the University of North Texas and a Bachelor of Science in Electrical Engineering from the University of Texas in Austin.

Ms. Shanna Ramirez is the CLEO&GC and Board Secretary. Ms. Ramirez joined CPS Energy in July 2015 as Director & Senior Counsel and has extensive experience providing business and legal advice. She practiced employment litigation at Haynes and Boone, LLP, and was Vice President & Deputy General Counsel for Fiesta Restaurant Group, Inc.

Ms. Ramirez provides oversight for CPS Energy's Legal, Audit, and Integrated Security. She also provides leadership to the Claims and Records Management groups and serves as Secretary to the Board of Trustees. She is responsible for driving strategic initiatives to advance the interests of its customers and community, including environmental, social and governance (ESG) goals. Ms. Ramirez has a Bachelor of Arts in History and Political Science from Trinity University and a Juris Doctor from the University of Maryland School of Law. She is also a graduate of the Executive Education, Accelerated Development Program at Rice University.

Ms. Vivian Bouet is the CIO and is responsible for overseeing the technology roadmap, enterprise architecture, business solutions development, digital experience, and innovation functions at CPS Energy, as well as providing leadership in corporate strategic planning. Prior to joining CPS Energy, Ms. Bouet served in executive leadership and management positions as well as worked as a senior principal consultant. Her two most recent leadership positions were with Walgreens Boots Alliance, Inc., a Fortune 19 company and Anthem Health Insurance Inc., a Fortune 29 company.

Mr. Richard Medina, P.E., a 29-year veteran of CPS Energy, succeeded Mr. Paul Barham in the role of Interim Executive Vice President of Energy Delivery Services effective February 1, 2022. He is responsible for the safe, reliable and economical delivery of electrical power to CPS Energy's customers. He oversees the Engineering, Planning, and Field Operation functions for Transmission, Substation and Distribution, along with System Operations, Customer Reliability and asset management programs associated with electric delivery. Mr. Medina has led many of CPS Energy's grid transformation strategies including CPS Energy's electrification roadmap, optimization of EV infrastructure, and fostering alliances with local and national research leaders. Mr. Medina has served in a variety of leadership positions as well as serving on several external boards and committees such as EPRI, Texas A&M Smart Grid, Advanced Energy Economy, and others.

Mr. Medina has a Bachelor of Science in Electrical Engineering from Texas A&M University and is a registered professional engineer in the State of Texas.

Ms. Lisa Lewis is the CAO and oversees People & Culture (Human Resources), Supply Chain; Enterprise Safety, Occupational Health and Fleet Operations; and Facilities. Ms. Lewis has worked for CPS Energy for 20 years and previously served as Senior Vice President of People & Culture. Ms. Lewis has focused on enabling the CPS Energy workforce to evolve with the fast-changing utility industry. Before that role, she progressed through Corporate Communications to ultimately become the VP of that area.

Before joining CPS Energy, Ms. Lewis worked in marketing communications and advertising for service industry clients ranging from healthcare to public transit. She is an advocate for STEM education and workforce development in San Antonio and serves on the advisory board for San Antonio's CAST public high schools. She also serves on the boards of RMEL, an electric industry organization focused on training and safety, as well as the Alamo Area Council of Governments. Ms. Lewis has a Bachelor of Arts in Communications from Texas State University and is a Certified Professional through the Society of Human Resource Management ("SHRM").

Mr. Cory Kuchinsky, CPA is the CFO & Treasurer and oversees CPS Energy's Accounting & Finance functions. In this position, he is responsible for Accounting & Financial Reporting, Corporate Financial Planning, Cost Management, as well as Treasury, Strategic Pricing & Cost Recovery, Enterprise Risk Management and Financial Information Systems Management.

Mr. Kuchinsky joined CPS Energy in 2006 and has served in multiple leadership roles. Mr. Kuchinsky is a CPA. Prior to joining CPS Energy, he worked for Ernst & Young LLC. He serves on the board of EPIcenter. Mr. Kuchinsky holds a Bachelor of Science in Business Administration and a Master of Science in Accounting degrees from Trinity University.

Ms. DeAnna Hardwick is Interim Executive Vice President of Customer Strategy and leads the Customer Strategy teams comprising of Community Engagement & Corporate Responsibility; Customer Experience Operations, including Customer Service, Metering Operations, and Customer Revenue; Customer Value Optimization consisting of Customer Design & Delivery, Executive Account Management, and Managed Accounts and Enterprise Customer Experience. Prior to her current role, she served as Vice President of Customer Success. Under her leadership, Customer Success developed innovative approaches to serving customers impacted by the Pandemic, including the Customer Outreach Resource Effort (CORE) team.

Ms. Hardwick joined CPS Energy in 2015 when she was hired to be a call center leader. Since then, she has risen through the ranks of CPS Energy as a leader with great compassion for CPS Energy's customers. Prior to joining CPS Energy, Ms. Hardwick spent 15 years working at various Fortune 100 companies, where she was charged with delivering easy and exceptional customer experiences. Ms. Hardwick holds a Bachelor of Science in Business Management from the University of Phoenix.

Mr. Benjamin Ethridge is Executive Vice President of Energy Supply for CPS Energy. He leads generation operations, fuel procurement and energy trading. He is also a member of the STP Nuclear Operating Company Owner's Committee. Mr. Ethridge joined CPS Energy in 2015 with over 30 years of diverse, energy industry experience. He began his career as a construction engineer with Houston Lighting & Power Company. Following industry deregulation, he served in a variety of commercial and operational leadership roles with Reliant Energy, Topaz Power Group & NRG Energy.

Mr. Ethridge holds a Bachelor of Science in Civil Engineering from Texas A&M University and a Master of Business Administration from Houston Baptist University. He is a registered professional engineer in the State of Texas.

Ms. Kathleen Garcia is Vice President of Government Relations & Regulatory Affairs & Public Policy. She is responsible for leading the utility's governmental advocacy efforts at the federal, state and local level. This includes recommending and implementing legislative and regulatory strategies, as well as coordinating these activities with other local, public and private sector entities. She and her team work collaboratively across the leadership team to develop the utility's energy market policy and engage extensively with ERCOT, the PUCT and other key energy stakeholder partners. Ms. Garcia is a recipient of the Texas Public Power Association's Industry Achievement Award for her significant individual contributions to the electric utility industry and to public power. She is Chair of the Texas Public Power Association's Government Relations Committee, serves on the American Public Gas Association Board of Directors, and is actively engaged in the Large Public Power Council & the American Public Power Association.

Ms. Garcia has a Bachelor of Arts in Government and Sociology from the University of Texas at Austin and is a graduate of the Executive Education Accelerated Development Program at Rice University.

Ms. Melissa Sorola is Vice President of Corporate Communications & Marketing. She is responsible for leading the teams who strategically work on internal and external communications, marketing, executive brand and stakeholder engagement. Ms. Sorola joined CPS Energy in 2019 and has more than 20 years of experience in media relations, crisis communications, and strategic communications planning and execution. Prior to joining CPS Energy, Ms. Sorola worked for the former Time Warner Cable as Director of Communications for their Texas Region. She has previously served on the boards of the San Antonio chapter of the Public Relations Society of America ("PRSA") and the Boys and Girls Clubs of San Antonio.

Ms. Sorola has a Bachelor of Arts in Journalism from Texas A&M University.

Mr. Richard Lujan, P.E., is the Interim Vice President of Gas Solutions. He is responsible for CPS Energy's natural gas delivery strategy to ensure safe and reliable service to more than 366,000 gas customers and servicing an 849 square mile service area. He oversees the design, construction and operation of CPS Energy's natural gas distribution and transmission systems with a strong focus on public safety, customer service, reliability and resiliency. Mr. Lujan was instrumental in leading an innovative Renewable Natural Gas ("RNG") opportunity with an international partnership and VIA Metropolitan Transit Authority to convert biogas generated from a local landfill into pipeline-quality natural gas. Mr. Lujan has been with CPS Energy for over 20 years and has served in a variety of positions in CPS Energy's energy delivery businesses including leadership roles in Distribution Engineering, Underground Construction, Overhead Services and Gas Solutions.

Mr. Lujan has a Bachelor of Engineering Science from Trinity University and is a registered professional engineer in the State of Texas

Aligned with senior management's ONE TEAM mentality and strong commitment to its customers, community and employees, CPS Energy has increased its internal focus on talent development. Senior management has a robust Succession Planning Program that emphasizes development of talent on a regular basis, year-after-year. These efforts have proven beneficial, especially in instances when CPS Energy executives retire or are sought after by other entities. Accordingly, senior management, under the leadership of CPS Energy's President & CEO, works on robust and effective short-and long-term personnel plans that promptly address departures of talent, whenever applicable. These constructive plans include, but are not limited to, promotions, streamlined team re-assignments, recruiting and other beneficial activities.

Political Action Committee Petition

In the fall of 2020, a coalition of citizen groups, known as Our Power PAC (a political action committee) announced a petition seeking to amend the City Charter as it relates to CPS Energy and its governance structure (the "CPS Petition"). Among other things, the CPS Petition sought to (1) replace the Board with a board comprised of City Council members, (2) replace the President & CEO with a director to be selected by the newly comprised board, (3) proscribe the powers and duties of the director, (4) establish an advisory commission, and (5) mandate certain energy and rate related policies.

Under State law, the City Charter may only be amended once every two years and was last amended on November 6, 2018. In order for any action to trigger an election to amend the City Charter, a valid petition consisting of at least 20,000 signatures of registered City voters gathered within 180 days of presentment must be received by the City Clerk for review and certification of the requisite number of signatures. The City Council, upon receipt of a certified petition, is then required to hold a public hearing and has sixty days to take action which (in addition to other actions) may include submitting the issue to the electorate by ordering an election on the next uniform election.

In January 2021, Our Power PAC publicly announced that the circulators did not receive the requisite number of signatures and the petition was not submitted to the City Clerk's office.

On November 12, 2020, the City, acting by and through CPS Energy, filed a bond validation action under Texas Government Code Chapter 1205 in Travis County, Texas to validate the Bond Ordinances' provisions to further protect CPS Energy from any effort to modify these contracts outside of the methods described therein. The Travis County District Court heard the matter on December 7, 2020 and issued a Final Judgment and Permanent Injunction. The Court specifically found that the provisions of the Bond Ordinances including the Note Ordinance, that vest management and control of the Systems in the 5-member Board, establish 5-year terms for Trustees subject to one reappointment term, and set exclusive methods for amendment of the Bond Ordinances and each of the foregoing is "legal, valid, enforceable, and binding on the City" "for the entire time period during which the debt obligations of the Public Securities remain outstanding". The Court further declared that any actual or constructive amendment to the Bond Ordinances that failed to follow the exclusive methods set forth in the ordinances, that require a high-level of investor written consent, is invalid and would result in an impairment of contract. The Court also entered a permanent injunction against any person filing proceedings that contest the bond ordinances or the public securities issued thereunder. On February 23, 2021, two individuals filed a motion for new trial under Rule 329b of the Texas Rules of Civil Procedure and subsequently requested a hearing on the matter. At the hearing, the judge overruled the motion for new trial. The matter was appealed, and oral arguments were heard on September 22, 2021 before the Third Court of Appeals in Austin, Texas (the "Third Court"). On November 18, 2021, the Third Court issued a memorandum opinion dismissing the appeal. On December 16, 2021, appellants filed a motion for rehearing en banc and a motion for rehearing, which was subsequently denied on April 11, 2022. The City, acting by and though CPS Energy, intends to defend vigorously itself in this litigation; however, no prediction can be made, as of the date hereof, with respect to the outcome of the hearing or the outcome of the litigation thereof.

Management continues to communicate facts around its highly effective business strategies that have been thoughtfully designed to balance customer Affordability, Reliability, Resilience, Security, Safety, Environmental Responsibility, & Financial Stability.

RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES

RETAIL SERVICE AREA

Electric

The CPS Energy electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Atascosa, Bandera, Comal, Gillespie, Gonzales, Guadalupe, Kendall, Kerr, Medina and Wilson. Certification of this service area was granted by the PUCT.

CPS Energy is currently the exclusive provider of retail electric service within this service area, including the provision of electric service to some federal military installations located within the service area. In 1999, the Texas Legislature enacted Senate Bill 7 ("SB 7"), which allows for retail electric competition within designated service areas upon a decision of the governing body having jurisdiction within such areas affirmatively acting to "opt-in" to such a competitive scenario. CPS Energy and the City have not elected to "opt-in". Until and unless the City Council and the Board exercise the option to opt-in to retail electric competition (called "Texas Electric Choice" by the PUCT), CPS Energy has the sole right to provide retail electric services in its service area.

On April 26, 2001, after a thorough feasibility study was conducted and reviewed, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002, the date Texas Electric Choice became effective. As stated above, SB 7 provides that electric "opt-in" decisions are to be made by the governing body or the body vested with the power to manage and operate a municipal utility such as CPS Energy. Given the relationship of the Board and the City Council, any decision to opt-in to electric competition would be based upon the adoption of resolutions by both the Board and the City Council. If CPS Energy and the City choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS Energy service area and CPS Energy would be authorized to offer retail electric energy in any other service areas open to retail competition in ERCOT. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – THE ELECTRIC UTILITY INDUSTRY GENERALLY – ERCOT" herein. ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas; the term "ERCOT" also refers to the area within Texas served by this interconnected grid. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Interconnected System" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Governmentally Imposed Fees, Taxes or Payments" herein.

CPS Energy has the option of acting in the role of the "Provider of Last Resort" (hereinafter defined) for its service area in the event it and the City choose to opt-in. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – THE ELECTRIC UTILITY INDUSTRY GENERALLY" and "– ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein.

Gas

The CPS Energy gas system serves Bexar County and portions of the surrounding counties of Comal, Guadalupe and Medina. In the counties of Kendall, Karnes, Wilson and Atascosa, CPS Energy has gas facilities but currently is not serving any customers. In Texas, no legislative provision or regulatory procedure exists for certification of natural gas service areas. As a result, CPS Energy competes against other gas supplying entities on the periphery of its electric service area.

Pursuant to the authority provided by Section 181.026, Texas Utilities Code, among other applicable laws, the City has executed a license agreement (the "License Agreement") with the City of Grey Forest, Texas (the "Licensee"), dated July 28, 2003, for a term through May 31, 2028. Pursuant to this License Agreement, the City permits the Licensee to provide, construct, operate and maintain certain natural gas lines within the boundaries of the City which it originally established in 1967 to provide extensions and other improvements thereto upon compliance with the provisions of the License Agreement and upon the payment to the City of a quarterly license fee of 3.0% of the gross revenues received by the Licensee from the sale of natural gas within the Licensed Area (as defined in the License Agreement). Thus, in the Licensed Area (which comprises less than 6.2% of the CPS Energy natural gas service area), CPS Energy is in direct competition with the Licensee, acting by and through Grey Forest Utilities, as a supplier of natural gas.

CPS Energy and the City of Castroville, a current wholesale power customer (see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – Wholesale Power" herein), reached an agreement for CPS Energy to operate and maintain the Castroville gas system through October 1, 2022. The City of Lytle contract has also been renewed effective October 1, 2020 through October 1, 2022. Both contracts have options to go month to month upon expiration. No further negotiations are in progress.

Franchise Agreements

CPS Energy maintains "Franchise Agreements" with 31 incorporated communities in the San Antonio area. These Franchise Agreements permit CPS Energy to operate its facilities in these cities' streets and public ways in exchange for a franchise fee of 4.5% on electric and natural gas revenues earned within their respective municipal boundaries. Five of the 31 cities elected to increase franchise fees to 5.5%, two went into effect February 1, 2015; the third went into effect January 1, 2018; the fourth went into effect on May 1, 2020; and the fifth went into effect August 1, 2021. Certain cities retain the ability to seek a 1% increase in their franchise fee under the applicable agreements related thereto. The additional 1% only applies to customers within those five jurisdictional city boundaries.

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Customer Base as of January 31, 2022[3]

Electric[1]			Gas[1]		
	Number	Percent		Number	Percent
Residential	804,095	88%	Residential	353,809	94%
Commercial & Industrial	79,443	9%	Commercial	17,390	5%
All Night Security Lighting	13,697	2%	Industrial & Public Authorities	2,799	1%
Street Lighting, Public Authorities & Other Utilities[2]	10,291	1%			
Total	907,526	100%	Total	373,998	100%

(1) See "FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY" and "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" herein for information regarding consumption of energy and contribution of revenues to the Systems by the average customers for these categories as of the dates set forth therein.

(2) Also includes off-system sales customers.

(3) Amounts are preliminary and unaudited.

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WHOLESALE POWER

CPS Energy has an active program to optimize its excess power generation capacity in the wholesale power market, which includes both power purchases and power sales when such can be reasonably expected to reduce cost or generate revenue for the electric system. As a part of managing the power generation portfolio, CPS Energy may also purchase power if there is an unanticipated deficit in capacity, to maintain reserve margins, to enhance reliability for the electric system, or when economically prudent to reduce overall costs of its obligations in the ERCOT market.

Trained, experienced staff in CPS Energy's Energy Market Operations, who report to the CPS Energy Vice President for Energy Supply and Market Operations, conduct wholesale power transactions in accordance with established procedures. CPS Energy is a Qualified Scheduling Entity ("QSE") within ERCOT which allows CPS Energy to manage both load and generation in the ERCOT real-time and day-ahead markets. The QSE function is also managed by the Energy Market Operations. The governance for ERCOT market activity is established by the Energy Markets and Risk Management Policy. Under this policy, the Energy Portfolio Strategy Committee, comprised of select executive leadership, provides comprehensive review and oversight of proposed wholesale transactions to ensure alignment with CPS Energy strategies, including evaluation of the associated risks. CPS Energy conducts wholesale power transactions only with approved counterparties with which CPS Energy has established master enabling agreements for such transactions. The enabling agreements outline payment and delivery terms and conditions of such sales and purchases and provide for written confirmation of each transaction between CPS Energy and its counterparts.

Long-term supply agreements were established with Central Texas Electric Cooperative ("CTEC"), the City of Boerne, the City of Seguin, and the Kerrville Public Utility Board ("KPUB") to provide energy supply for terms that began in June 2013. The CTEC contract ended at the end of calendar year 2021 and the City of Boerne, City of Seguin, and KPUB contracts will end at the end of calendar year 2023. In addition, CPS Energy has converted its retail contracts with the City of Hondo, City of Castroville, and Floresville Electric Light and Power System ("FELPS") into wholesale contracts as well. The City of Hondo and Castroville contracts will conclude at the end of calendar year 2022 and FELP's contract will conclude at the end of calendar year 2025. The requirements under the wholesale agreements are for firm energy obligations provided by CPS Energy. CPS Energy has no plans to enter into new long-term wholesale power sales agreements with public or private entities in the near future. There is some potential to extend existing agreements with certain counterparties who wish to continue to secure their power supply from CPS Energy. CPS Energy may also agree to provide a variety of supply arrangements on a short-term basis for terms ranging from one month up to one year with a variety of approved counterparties.

CUSTOMERS AND RATES

CUSTOMER RATES

CPS Energy's electric and gas monthly rate schedules list the currently effective monthly charges payable by CPS Energy customers. Each rate schedule briefly describes the types of service CPS Energy renders to customers billed in accordance with that rate schedule, plus customer eligibility criteria. Customers with similar load and usage characteristics are grouped into rate classes and are billed in accordance with the same rate schedule. The different electric rate classes include rate schedules for residential, commercial, and industrial customers. There are also rate schedules for street lighting, all night security lights, and wholesale power to other electric utilities. The gas rate schedules are categorized into general, commercial, and industrial.

Retail Service Rates

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility ("IOU"). Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over electric IOUs primarily encompasses only the transmission and distribution functions. PURA generally excludes Municipal Utilities, such as CPS Energy, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility such as CPS Energy has exclusive jurisdiction to set rates applicable to all services provided by the Municipal Utility with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and Board choose to opt-in to electric retail competition, CPS Energy retail service electric rates are subject to appellate, but not original rate regulatory jurisdiction by the PUCT in areas that CPS Energy serves outside the City limits. To date, no such appeal to the PUCT of CPS Energy retail electric rates has ever been filed. CPS Energy is not subject to the annual PUCT gross receipts fee payable by IOU electric utilities. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein.

The RRCT has significant original jurisdiction over the rates, services and operations of natural gas utilities in the State. Municipal Utilities such as CPS Energy are generally excluded from regulation by the RRCT, except in matters related to natural gas safety. CPS Energy retail gas service rates applicable to ratepayers outside the City are subject to appellate, but not original rate regulatory jurisdiction by the RRCT in areas that CPS Energy serves outside the City limits. To date, no such appeal to the RRCT of CPS Energy retail gas rates has ever been filed. In the absence of a contract for service, the RRCT also has jurisdiction to establish gas transportation rates for service to Texas State agencies by a Municipal Utility. A Municipal Utility is also required to sell gas to and transport State-owned gas for "public retail customers", including State agencies, State institutions of higher education, public school districts, United States military installations, and United States Veterans Affairs facilities, at rates provided by written contract between the Municipal Utility and the buyer entity. If agreement to such a contract cannot be reached, a rate would be set by the legal and relevant regulatory body.

The City has covenanted and is obligated under the Bond Ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all maintenance and operating expenses of the Systems and to pay the debt service requirements on all revenue debt of the Systems, including the outstanding Senior Lien Obligations, any Additional Senior Lien Obligations, the outstanding Junior Lien Obligations, obligations arising under liquidity facilities relating to such Junior Lien Obligations, any Additional Junior Lien Obligations, the Notes (and related Liquidity Facilities) and any Inferior Lien Obligations, and to make all other payments prescribed in the Bond Ordinances.

CPS Energy has periodic rate increases, with the most recent electric and gas base rate increase of 3.85% which was approved by the Board on January 10, 2022 and on January 13, 2022 by City Council. Commercial and residential ratepayers will see the higher rate and monthly fee on utility bills which began in March 2022. The rate increase covers the following investments: (1) infrastructure resiliency, including power generation and distribution projects; such as: enhanced customer communications, improved control outages, and upgraded freeze protection, to support operations during extreme weather as well as procuring alternative fuel sources; (2) assessment of needs and design of a future technology platform to replace current end-of-life platform; (3) additional metering and wire infrastructure, expansion of existing substations, construction of new substations as well as re-routing of some existing electric lines; all to serve the area's fast growing community; and (4) stabilization of CPS Energy's workforce, including hiring of qualified employees and employee retention, in preparation for continuous retirements as well as raising of minimum wage. The rate increase is expected to generate an additional $73 million annually. For the average residential customer, the rate increase is expected to add $3.84 or 2.5% (includes base plus fuel and regulatory revenue) to the monthly bill. In addition to the rate increase, costs associated with the 2021 Winter Weather Event and recorded in the regulatory asset, are expected to be recovered on customer bills through the fuel cost adjustment as discussed in the "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein. When combined with the $1.26 or 0.8% (for paid 2021 Winter Weather Event costs of approximately $414 million) per month in the fuel adjustment portion of a customer's bill related to the regulatory asset, the total average bill increase is expected be $5.10 or 3.3% for the average electric and natural gas residential customer. A 4.25% base rate increase was last implemented on February 1, 2014 (the first such rate increase since a 7.5% electric base rate increase and an 8.5% gas base rate increase became effective on March 1, 2010). CPS Energy expects it will continue to periodically seek electric and gas base rate increases as required to maintain debt coverage, debt-to-equity and liquidity ratios.

Year-after-year, CPS Energy's management team continually monitors and analyzes its cash and revenue positions. Within this process, CPS Energy assesses its projections for actual and anticipated costs and expenses. This information is also used to evaluate the scope and timing of potential requests for rate adjustments. When possible, the CPS Energy team shares this approach with the public to ensure there is general awareness that rate adjustments will be needed from time-to-time. CPS Energy has discussed the need for potential future rate increases with the Board on January 10, 2022, and City Council on January 13, 2022 of 5.50% in fiscal years 2025 and 2027, which is preliminary and subject to change.

In addition to standard service rates, CPS Energy also provides several rates and riders for a variety of programs and products. Since May 2000, under Rider E15, CPS Energy has offered a monthly contract for renewable energy service (currently wind-generated electricity). The High Load Factor ("HLF") rate, first offered in February 2014, is available to customers with new or added load of 10 MW or greater. The HLF rate requires eligible customers to maintain an annual billing load factor of 90 percent or more and meet the requirements of Rider E16. Rider E16 offers discounts off the Super Large Power ("SLP") and HLF demand charge for a period up to four years for new or added load of at least 10 MW. Under certain conditions, the discount may be extended for up to an additional six years. Eligible customers that qualify for Rider E16 discounts must also meet City employment targets or other related performance metrics and targets for purchases of goods or services from local businesses. Since July 2012, under Rider E19, CPS Energy provides an optional service offering of electricity generated by wind-powered turbines, solar-powered systems, or other renewable resources. Additionally, Rider E20, which became effective February 1, 2015, waives late fees for individuals 60 years or older with income at or below 125% of the federal poverty level. CPS Energy revised its "Rules and Regulations Applying to Retail Utility Service", effective March 1, 2019, which contains provisions for alternative payment plans, payment assistance, and extensions, and is now referred to as "CPS Energy Customer Terms and Conditions Applying to Retail Utility Service". The New Service Options ("NSO") tariff, effective October 2018, is an umbrella tariff that enables CPS Energy to offer new service options on a pilot basis, with oversight by the City's Office of Public Utilities. This tariff allows CPS Energy to provide innovative energy services while gauging customer interest and cost recovery requirements while gathering information to refine the offering. The Commercial Electric Vehicle Pilot Rate was the first offering under the NSO tariff.

CPS Energy also has rates that permit recovery of certain miscellaneous customer charges and for extending lines to provide gas and electric service to its customers. The Policy for Miscellaneous Customer Charges is approved periodically by the Board and is subject to a corresponding City ordinance.

In May 2009, the City Council established a mechanism to fund CPS Energy's Save for Tomorrow Energy Plan ("**STEP**"), an energy efficiency and conservation program to be funded largely through the electric fuel adjustment fee. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein. The total cost of the **STEP** program during the 2009 to 2020 time period was approved at $849 million with annual costs ranging from $12.3 million to over $111 million. While approximately $9 million is currently recovered each year through existing base rates, the additional costs for the **STEP** program will be recovered through a **STEP** charge applied to the electric fuel adjustment as stated above. Through Fiscal Year 2021, the accumulated cost for the **STEP** program was $780 million. As of January 31, 2021, CPS Energy quantified a cumulative reduction of 926 MW. Over the lifetime of **STEP**, the benefits of the program have exceeded the implementation costs to achieve energy savings. As the **STEP** goal was achieved a year early, in January 2020, the Board and City Council voted to extend the existing **STEP** program. The extended program, known as "**STEP Bridge**", was approved to spend $70 million to reach a targeted, additional reduction of 75 MW. CPS Energy envisions **STEP Bridge** delivering a diverse portfolio of programs to assist customers to save energy. Seeking feedback from a broad array of customers and key stakeholders, CPS Energy is using the information that it gathers to update, design, and create programs and services that meet the needs of its diverse set of customers. Due to COVID-19 and delays in achieving the **STEP Bridge** goals, CPS Energy sought and received City Council approval in January 2021 to again extend the **STEP Bridge** program. The City Council authorized CPS Energy to expend up to an additional $70 million on energy efficiency and conservation programs to be completed by July 2022. During the extension, CPS Energy is continuing to seek customer and community feedback to inform a potential program. On August 30, 2021, the Board requested staff to perform an analysis of the STEP program to determine whether to continue the program. The analysis was prepared by the Brattle Group and presented to the Board at its February 2022 meeting. Staff is currently developing a proposal for a new energy efficiency and conservation program for Board consideration before the expiration of the existing program in July 2022. For additional information on CPS Energy's **STEP** energy efficiency and conservation programs, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – STRATEGIC INITIATIVES – ***Flexible Path***SM Strategy" herein.

Green Tariff

CPS Energy continues to innovate to meet the emerging needs of its customers. On August 20, 2020, the City Council approved an optional "Green Tariff" for large commercial customers which offers access to renewable energy. This product option was created to facilitate large customers' goals of accelerating their access to renewable energy. Under this tariff, customers may ask CPS Energy to provide renewable energy from specific sources that meet their needs. The Green Tariff has three main components: a monthly grid share charge, a demand charge, and energy charges based on a renewable energy supply agreement. CPS Energy is also evaluating other optional product offerings that will enable customers to use renewable energy while still covering the full cost of service.

Resiliency Tariff

In September 2020, CPS Energy converted a limited Resiliency Service pilot into a permanent tariff for its commercial customers. Under the Resiliency Service offering, CPS Energy will provide on-site backup generators capable of providing electricity to retail customers during outages of the electric system in exchange for a monthly Resiliency Service capacity fee. The natural gas backup generators are owned and operated by one of CPS Energy's suppliers. As of January 31, 2022, Resiliency Service has been enabled at 27 customer sites with a total capacity of 30.4 MW.

Fuel and Gas Cost Adjustment

The Systems' tariffs feature a fuel cost adjustment provision in the electric rates and a gas cost adjustment provision in the gas rates, which allow CPS Energy to reconcile fuel and gas cost variances above or below levels included in base rates. CPS Energy's electric rates are subject to a positive or negative monthly adjustment equal to the variance in the price of fuel above or below a base cost of $0.01416 per kilowatt-hour ("kWh"). Similarly, CPS Energy's base gas rates are subject to an adjustment equal to the variance in the price of natural gas above or below a base cost of $0.220 per 100 cubic feet ("CCF"), approximately equivalent to $2.167 per one million MMBtu. A British Thermal Unit ("Btu") is a measure of energy content in fuel, and is used in the power steam generation, and heating and air conditioning industries. Natural gas is usually measured in Btus. However, the foregoing is qualified by the 2021 Winter Weather Event, which may alter these costs. The Board approved the regulatory asset at a special meeting on January 10, 2022 and on January 13, 2022 City Council approved the Regulatory Asset that enables CPS Energy to amortize the 2021 Winter Weather Event fuel and power related costs over a period not to exceed 25-years and recover the associated debt service through the monthly fuel and gas cost adjustment factors under the oversight of the City.

Governmentally Imposed Fees, Taxes, or Payments

The rates, as previously approved by various rate ordinances adopted by the City Council, may be adjusted without further action by the City Council to reflect the increase or decrease in fees, taxes or other required payments to governmental entities or for governmental or municipal purposes which may be hereafter assessed, imposed, or otherwise required and which are payable out of or are based upon net revenues of the Systems.

In March 2000, two new governmental assessments resulting from regulatory changes in the Texas electric utility industry, including the open access wholesale transmission charges, were added to CPS Energy's electric billings as regulatory adjustments and are updated annually or as needed. The first assessment recovers additional ERCOT-related transmission expenditures not recovered through CPS Energy's current base rates. For CPS Energy residential customer rates, this adjustment (effective February 2022) adds $0.01204 per kWh sold. The second assessment relates to CPS Energy's share of the cost to fund the staffing and operation of ERCOT, the Independent System Operator ("ISO"), and the quarterly Electric Reliability Organization ("ERO") fee. The PUCT retains oversight authority over ERCOT. For all CPS Energy retail customers, this charge increases bills by $0.00074 per kWh sold.

In March 2005, the RRCT began imposing a regulatory fee to cover the cost of regulation by the RRCT. The fee is based upon the number of active gas customers and is recovered from CPS Energy gas customers through the payment of an annual fee assessed one time during the year.

Transmission Access and Rate Regulation

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), Municipal Utilities, including CPS Energy, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method, which sets the price for transmission at the system average for ERCOT. CPS Energy's wholesale open access transmission charges are set out in tariffs filed with the PUCT and are based on its transmission cost of service approved by the PUCT, representing CPS Energy's input to the statewide postage stamp pricing model. The PUCT's rule, consistent with provisions in PURA § 35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities to facilitate wholesale transmission service. Additional information on recovery of ERCOT transmission fees is discussed in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Governmentally Imposed Fees, Taxes or Payments" and transition to the nodal market is discussed in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Interconnected System" herein.

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TEN-YEAR ELECTRIC CUSTOMER STATISTICS[1]

	Fiscal Years Ended January 31,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022[2]
RESIDENTIAL										
Average Monthly kWh/ Customer	1,187	1,170	1,182	1,149	1,119	1,117	1,122	1,111	1,119	1,059
Average Monthly Bill/ Customer	$109.74	$115.20	$120.17	$122.81	$120.25	$122.70	$124.14	$118.28	$119.04	$116.71
Average Monthly Revenue/kWh	$0.0924	$0.0985	$0.1017	$0.1069	$0.1075	$0.1098	$0.1106	$0.1065	$0.1063	$0.1102
COMMERCIAL AND INDUSTRIAL										
Average Monthly kWh/ Customer	11,059	10,967	10,848	10,888	11,049	10,967	10,874	10,810	10,048	10,293
Average Monthly Bill/ Customer	$853.02	$905.84	$922.86	$961.12	$978.60	$1,009.75	$1,003.04	$951.02	$908.91	$981.38
Average Monthly Revenue/kWh	$0.0771	$0.0826	$0.0851	$0.0883	$0.0886	$0.0921	$0.0922	$0.0880	$0.0905	$0.0953
ALL CUSTOMERS										
Average Monthly kWh/ Customer	2,421	2,389	2,381	2,342	2,326	2,299	2,284	2,251	2,158	2,096
Average Monthly Bill/ Customer	$200.22	$211.25	$217.35	$223.24	$221.98	$226.11	$226.20	$214.08	$209.09	$212.77
Average Monthly Revenue/kWh	$0.0827	$0.0884	$0.0913	$0.0953	$0.0954	$0.0983	$0.0990	$0.0951	$0.0969	$0.1015

(1) Excludes unbilled revenues and off-system sales.

(2) Amounts are preliminary and unaudited.

TEN-YEAR GAS CUSTOMER STATISTICS[1]

	Fiscal Years Ended January 31,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022[2]
RESIDENTIAL										
Average Monthly MCF/ Customer	2	3	3	3	2	2	3	3	2	2
Average Monthly Bill/ Customer	$24.53	$29.18	$33.36	$25.23	$22.81	$23.86	$23.59	$20.55	$20.15	$23.36
Average Monthly Revenue/MCF	$10.5754	$10.1081	$10.7768	$9.3094	$10.2985	$10.1782	$8.9054	$7.8460	$8.2550	$9.8188
COMMERCIAL										
Average Monthly MCF/ Customer	44	49	50	49	49	49	53	55	48	52
Average Monthly Bill/ Customer	$288.86	$338.46	$385.16	$283.81	$294.04	$304.61	$269.58	$206.59	$227.92	$347.36
Average Monthly Revenue/MCF	$6.4954	$6.8928	$7.6501	$5.8097	$5.9732	$6.1779	$5.0714	$3.7454	$4.7392	$6.6912
ALL CUSTOMERS										
Average Monthly MCF/ Customer	5	6	6	6	5	6	6	6	6	6
Average Monthly Bill/ Customer	$43.19	$50.75	$57.97	$42.67	$40.68	$43.10	$40.25	$32.94	$34.59	$43.90
Average Monthly Revenue/MCF	$8.1098	$8.2315	$8.9725	$7.2329	$7.5618	$7.5895	$6.6121	$5.2299	$5.9401	$7.8199

(1) Excludes unbilled revenues and off-system sales.

(2) Amounts are preliminary and unaudited.

HISTORICAL RECORD OF CITY OF SAN ANTONIO GENERAL FUND BENEFITS FROM CITY'S ELECTRIC AND GAS UTILITY SYSTEMS

(Dollars in thousands)

	Fiscal Years Ended January 31,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022[3]
Payments To City[1], [2]	$271,589	$296,672	$320,933	$320,454	$324,469	$338,455	$361,351	$342,989	$330,564	$352,580

(1) Payments to the City, by ordinance, are not to exceed 14% of CPS Energy's gross revenue (includes wholesale revenues), and includes cash payments and refund of charges for furnishing the City electricity and gas services, and for a street light replacement program. See APPENDIX C.

(2) Excludes additional payments to the City. See "CAPITAL PROGRAM" herein.

(3) Amounts are preliminary and unaudited.

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FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY

	Fiscal Years Ended January 31,				
	2018	2019	2020	2021	2022[4]
ELECTRIC SYSTEM					
SALES IN kWh[1]					
Residential	9,634,693,060	9,913,513,494	10,038,080,665	10,394,483,601	10,100,166,676
Commercial & Industrial	9,416,835,850	9,584,259,393	9,714,043,700	9,228,300,394	9,700,763,781
Street lighting	71,894,810	69,500,510	67,702,803	65,828,289	65,694,823
Public authorities	2,813,558,496	2,792,584,406	2,781,803,288	2,571,430,547	2,684,302,829
Other utilities[2]	5,957,173,759	8,997,699,166	6,058,856,975	5,159,615,281	6,874,115,210
ANSL[3]	21,313,293	20,959,056	19,767,424	18,786,088	18,566,941
Total sales in kWh	27,915,469,268	31,378,516,025	28,680,254,855	27,438,444,200	29,443,610,260
AVERAGE NUMBER OF CUSTOMERS					
Residential	718,703	736,281	752,952	773,847	794,899
Commercial & Industrial	71,554	73,447	74,884	76,533	78,540
Street lighting	2,503	2,552	2,627	2,667	2,655
Public authorities	7,040	7,146	7,328	7,313	7,439
Other utilities[2]	17	16	13	15	12
ANSL[3]	12,785	13,080	13,233	13,348	13,646
Total customers	812,602	832,522	851,037	873,723	897,191
kWh SALES PER CUSTOMER					
Residential	13,406	13,464	13,332	13,432	12,706
Commercial & Industrial	131,605	130,492	129,721	120,579	123,514
GAS SYSTEM					
SALES IN MCF[1]					
Residential	9,125,654	10,487,800	10,532,808	10,038,333	10,005,049
Commercial	10,300,019	11,235,038	11,593,503	10,076,850	10,793,246
Industrial	1,014,176	982,251	1,438,925	2,307,116	1,009,329
Public authorities	3,049,253	2,885,133	3,306,480	2,942,548	3,150,485
Total sales in MCF	23,489,012	25,590,222	26,871,716	25,364,847	24,958,109
AVERAGE NUMBER OF CUSTOMERS					
Residential	324,456	329,928	335,154	342,737	350,393
Commercial	17,408	17,613	17,515	17,461	17,326
Industrial	42	38	35	33	30
Public authorities	2,744	2,759	2,787	2,722	2,760
Total customers	344,650	350,338	355,491	362,953	370,509
MCF SALES PER CUSTOMER					
Residential	28	32	31	29	29
Commercial	592	638	662	577	623
Industrial	24,147	25,849	41,112	69,913	33,644

(1) Excludes unbilled revenues.
(2) Includes Off-Systems Sales.
(3) All Night Security Lighting.
(4) Amounts are preliminary and unaudited.

FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE[1]

	Fiscal Years Ended January 31,				
	2018	2019	2020	2021	2022[9]
ELECTRIC SYSTEM					
BILLED REVENUES					
Residential	$1,058,223,884	$1,096,861,931	$1,068,738,092	$1,105,408,857	$1,113,300,881
Commercial & Industrial	867,020,589	884,042,765	854,607,500	834,735,595	924,935,424
Street lighting	16,308,397	16,528,500	16,505,845	16,778,793	17,280,260
Public authorities	229,644,538	229,522,828	219,309,619	208,989,919	229,381,492
Other utilities[2]	226,938,193	353,349,317	239,305,653	155,205,351	216,872,471
ANSL[3]	5,569,333	5,653,745	5,621,729	5,700,175	5,873,985
Other	16,794,130	16,653,465	20,825,911	22,103,166	21,278,198
Total revenues	2,420,499,064	2,602,612,551	2,424,914,349	2,348,921,856	2,528,922,711
OPERATION & MAINTENANCE EXPENSE					
Production	982,142,687	1,015,016,433	915,986,314	943,620,735	1,144,465,210
Transmission	20,502,981	20,434,054	21,172,017	20,315,099	18,170,779
Distribution	106,083,499	105,647,643	107,540,953	122,353,589	107,182,854
Regulatory assessments	84,082,545	86,202,067	82,622,243	94,648,457	94,648,457
Energy efficiency	88,544,058	89,036,212	73,049,721	71,385,502	71,385,502
Customer accounts & information	28,068,874	25,329,711	24,475,716	24,694,002	21,873,797
Administrative & general	135,585,175	143,630,674	164,909,958	163,467,605	128,677,636
Payroll taxes[4]	6,518,951	6,864,209	6,884,451	7,014,656	6,925,500
STP decommissioning expense	-	-	-	-	-
Total expenses	1,451,528,770	1,492,161,003	1,396,641,373	1,447,499,645	1,593,329,735
Operating income - electric	968,970,294	1,110,451,548	1,028,272,976	901,422,211	935,592,976
GAS SYSTEM					
BILLED REVENUES					
Residential	92,882,226	93,397,594	82,640,922	82,866,247	98,237,598
Commercial & Industrial	68,726,158	61,288,254	47,371,294	55,742,548	78,221,757
Public authorities	16,661,794	14,518,732	10,524,742	12,062,039	18,710,961
Other	1,531,804	1,533,592	2,402,972	2,972,077	2,928,389
Total revenues	179,801,982	170,738,172	142,939,930	153,642,911	198,098,705
OPERATION & MAINTENANCE EXPENSE					
Gas purchased	82,997,836	63,797,135	43,669,989	54,103,096	115,380,880
Distribution	27,769,265	27,882,646	30,290,497	31,083,602	34,385,725
Customer accounts & information	13,360,533	12,008,808	12,055,201	11,733,014	10,389,629
Administrative & general	9,696,966	10,684,768	12,319,422	6,348,042	8,420,053
Payroll taxes[4]	320,354	348,486	371,084	410,523	381,045
Total expenses	134,144,954	114,721,843	98,706,193	103,678,277	168,957,332
Operating income - gas	45,657,028	56,016,329	44,233,737	49,964,634	29,141,373
Combined operating income - Electric and gas	1,014,627,322	1,166,467,877	1,072,506,713	951,386,845	964,734,349
Nonoperating income[5]	24,109,514	34,909,386	34,322,842	8,678,487	28,806,920
Net revenues, per ordinances	$1,038,736,836	$1,201,377,263	$1,106,829,555	$960,065,332	$993,541,269
DEBT SERVICE[6]					
Senior lien obligations[7] - Principal and interest	$270,079,605	$259,725,621	$223,291,750	$327,598,903	$331,844,436
Junior lien obligations - Principal and interest	120,996,491	148,178,685	148,805,700	61,964,047	60,198,470
Other interest & debt-related costs	6,074,018	11,113,767	20,634,735	3,857,826	3,685,672
Total debt service	$397,150,114	$419,018,073	$392,732,185	$393,420,775	$395,728,578
DEBT SERVICE COVERAGE					
Senior & junior lien obligations, commercial paper, FRRN[8]	2.62x	2.87x	2.82x	2.44x	2.51x
Senior lien obligations	3.85x	4.63x	4.96x	2.93x	2.99x

(1) Excludes unbilled revenue and component units (STP Decommissioning).

(2) The higher wholesale sales revenues and related volumes for FY2018 and FY2019 were primarily a result of increased market opportunities. The decreased wholesale sales revenues and related volumes in FY 2020 and FY2021 were primarily a result of decreased market opportunities. The increased wholesale sales revenues in FY2022 were primarily a result of increased market opportunities.

(3) All Night Security Lighting.

(4) Payroll taxes are allocated separately to Production, Transmission and Distribution.

(5) Excludes fair value adjustments and gain/loss from ineffective hedging transactions.

(6) Amount shown is gross debt service and does not include any cash contributions made.

(7) Amounts shown in FY2019 and FY2020 include cash defeasance costs of$3.1 million and $12.5 million, respectively.

(8) Amounts shown for the Notes and FRRN include interest only.

(9) Amounts are preliminary and unaudited.

OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO

CPS Energy, on an ongoing basis, conducts internal reviews and prepares forecasts and models to project immediate and intermediate operational and financial impacts attributable to the Pandemic. These forecasts and projections are presented periodically to the Board at its meetings and are available to the general public online at www.cpsenergy.com. See "INTRODUCTORY STATEMENT" and "FORWARD-LOOKING STATEMENTS" herein.

Because of the relative unknown of the total impact of the Pandemic, CPS Energy' analyses related to budgeted versus actual performance provides both "medium" and "high" impact assessment scenarios. CPS Energy initially experienced reduced demand, but this was not deep and uniform across sectors. For example, and as would be expected, residential usage, which comprises 42.7% of total load in January 2021 was up 5.4% compared to budget, while other sectors (such as education, manufacturing, and hospitality services) were down but trending upward. As of November 30, 2021, impacts of the Pandemic are not as evident, as residential sales are down 1.6% mainly driven by mild weather. Also, decreased revenues and increased expenses related to the Pandemic response will be mitigated by cost reduction measures such as strategic hiring freezes, travel suspensions, and delayed capital expenditures. CPS Energy also continues to take steps to assist its customers during the Pandemic, suspending disconnects for non-payment and adopting a resolution suspending late fees when a customer enrolls in a payment plan. On October 1, 2021, CPS Energy resumed disconnects for those accounts that were significantly past due. Approximately 42,700 accounts were eligible for disconnection as of March 31, 2022; however, through community outreach and other efforts such as phone calls, assistance events, and mail inserts, CPS Energy stated publicly that those customers who get on payment plans will not be disconnected. CPS Energy continues to monitor its customer receivables and has seen a continued increase in past due balances. As of March 31, 2022, the account receivables balance that is greater than 30 days was $154.2 million, which is an increase of $53.5 million compared to the balance at March 2021. The majority of past due balances over 90 days have been fully reserved. In addition to closely monitoring the customer receivable balances, CPS Energy also provides customers in need with information about assistance programs, including connecting them with partner organizations that can also provide help during this trying time. CPS Energy also raises funds for the Residential Energy Assistance Partnership (also known as "REAP") to help customers pay their bills. CPS Energy received recognition from the energy industry for its efforts in serving the community during the Pandemic. These measures, though socially responsible, may not be enough to prevent potential notable increases in future bad debt expenses, which could be financially unfavorable. At the City's Utilities Committee meeting on October 26, 2021, the City outlined a plan to provide CPS Energy $20 million of its American Rescue Plan Act ("ARPA") funds to assist customers with outstanding balances resulting from the Pandemic. Customers who meet the poverty level for CPS Energy's Affordability Discount Program could have all their balance from March 1, 2020 to September 30, 2021 paid. Additionally, anyone above the poverty line could receive up to $1,000 credit on their bills. The eligibility requirements associated with this program include being a San Antonio resident and providing proof of hardship during that timeframe. City Council approved the plan at its November 18, 2021 meeting. In February 2022, CPS Energy began efforts to apply credits to qualifying customer bills using the designated ARPA funds. The application of the $20 million of ARPA funds to customer bills is expected to occur over several months.

CPS Energy continues to analyze actual operational results to understand demand patterns, monitor accounts receivable and provide customers with information on assistance programs, focus on cash flow to ensure liquidity, prioritize ongoing spending for additional cost reductions and cash savings (including renegotiating contracts with financially favorable terms), and identify emerging risks, while regularly providing updates to the Board and broader community as appropriate. CPS Energy expects to continue its financial managerial approach to proactively address budget challenges and continue to preserve flexibility so that CPS Energy can adapt as conditions change and positioning itself for recovery effort. The assumptions related to the foregoing projections are based upon the expectation that conditions experienced as a result of the COVID-19 pandemic (remote work policies, closing or limited hours of high-energy usage businesses) will continue in the immediate term.

Investors are directed to the CPS Energy website below for future, publicly available updates regarding operations, results and projections concerning financial performance.

https://www.cpsenergy.com/en/about-us/who-we-are/financial-information/financial-disclaimer.html?linkvar=sidenavigation.

FINANCIAL MANAGEMENT OF THE SYSTEMS

MANAGEMENT DISCUSSION

CPS Energy's Basic Financial Statements for the fiscal years ended January 31, 2021 and 2020, and the Independent Auditors' Report thereon are included in APPENDIX C. CPS Energy follows Governmental Accounting Standards Board ("GASB") Statement No. 34, which requires the preparation of Basic Financial Statements to include an unaudited Management's Discussion and Analysis ("MD&A") in connection with audited Basic Financial Statements and Related Notes as well as unaudited Required Supplementary Information ("RSI") of CPS Energy. Reference is hereby made to APPENDIX C for the MD&A, Financial Statements & Related Notes and RSI pertaining to the CPS Energy fiscal year ended January 31, 2021. The Basic Financial Statements for each of the three most recently completed fiscal years and certain interim audited and unaudited financial reports are made available by CPS Energy to the public and are accessible at www.cpsenergy.com. The terms "audited financial reports", "audited financial statements", "financial reports" and "financial reporting" herein are in reference to the audited and unaudited components of the financial package prepared to GASB Statement No. 34 standards and provided in whole or in part within APPENDIX C.

Certain historical financial information presented in this Offering Memorandum in table format was derived from CPS Energy's annual audited financial reports, though the presentation format itself was not separately audited.

The operating results of the Systems reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and other operating costs, utility industry regulation and deregulation, environmental regulation, economic growth of the community, population, weather, and other matters; the nature and effect of which cannot at present be determined. See "FORWARD-LOOKING STATEMENTS AND INFORMATION AVAILABLE FROM ONLINE SOURCES" and "INTRODUCTORY STATEMENT" herein.

ACCOUNTING POLICIES

CPS Energy is subject to and complies with the provisions of GASB pronouncements and guidance made from time to time, upon assessment of applicability to and implementation by CPS Energy. GASB pronouncements and guidance to which CPS Energy adheres, and implements are described in its audited financial statements. For a description of recent GASB pronouncements and guidance, as well as CPS Energy's response thereto in connection with its fiscal year 2021 financial reporting, see CPS Energy's fiscal year 2021 Basic Financial Statements and Independent Auditors' Report included in APPENDIX C.

Other than the changes resulting from GASB pronouncements and guidance that are described in CPS Energy's fiscal year 2021 Basic Financial Statements and Independent Auditors' Report, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ended January 31, 2021. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2021. These accounting changes and the effects on the financial statements are described in greater detail in the MD&A and in the Notes to CPS Energy's fiscal year 2021 Basic Financial Statements and Independent Auditors' Report included in APPENDIX C hereto.

DEBT AND ASSET MANAGEMENT PROGRAM

CPS Energy has developed a debt and asset management program ("Debt Management Program") for the purposes of lowering the debt component of energy costs, maximizing the effective use of cash and cash equivalent assets and enhancing financial flexibility. An important part of the Debt Management Program is balancing the mix of financing tools available through the prudent employment of variable rate debt. CPS Energy does not currently use interest rate swaps but continues to assess them as potential debt management tools that could be incorporated into the CPS Energy debt portfolio in the future. The Debt Management Program also focuses on the use of unencumbered cash and available cash flow, when available, to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to lower interest costs, fund strategic initiatives and increase net cash flow. CPS Energy has a Debt Management Policy, providing guidelines under which financing, and debt transactions are managed. These guidelines focus on financial options intended to lower debt service costs on outstanding debt, including exercising options to refund higher interest debt, facilitate alternative financing methods to capitalize on the present market conditions, optimize capital structure, and maintain favorable financial ratios. Under these guidelines, CPS Energy's gross variable rate exposure cannot exceed 25.0% of total outstanding debt. Gross variable rate comprises approximately 11.9% of CPS Energy's debt portfolio (including the Notes).

CPS Energy management continually evaluates the inventory of all non-core business assets and determines if these assets should be divested for more efficient use.

FINANCIAL RESPONSIBILITY AND INTERNAL AND EXTERNAL REPORTING

CPS Energy management is responsible for designing and implementing an effective internal control environment that manifests in internal and external reporting for various purposes, including offering documents relating to capital markets debt issuances and related disclosure filings. This environment includes the policies, procedures, practices, technology, and organizational structures that help CPS Energy achieve its operational objectives, reliable financial reporting, and compliance with laws, regulations and policies (including determination of materiality of operational events for purposes of market disclosure). From time-to-time, this process results in identification of deficiencies in procedural controls and opportunities for improvement and/or enhancement of the control environment. The reporting construct reflects the values of CPS Energy and plays an important role in detecting, preventing, and (when circumstances warrant), mitigating the impacts of internal and external fraud. When deficiencies or malfeasance are identified, CPS Energy management follows an established internal process that includes prompt action to correct the issue and implement any necessary system improvements to address an identified deficiency. This evolving process allows CPS Energy staff to remain vigilant, continuously learning from experience and strengthening the internal control environment that targets protection of CPS Energy's assets and its operations.

CAPITAL PROGRAM

Comprehensive programs for planning and construction to meet current and future electric and gas systems needs are continually being reviewed and updated and are aligned with the strategic plan. CPS Energy utilizes computer-based mathematical models for its forecasting processes. CPS Energy bases its near-term construction and operating needs on a five-year forecast. This short-term annual forecast is supported by a 25-year electric resource plan and is integrated into the long-term financial plan. These assumptions are subject to substantial change and are revised as necessary to maintain CPS Energy's competitive position.

While short-term energy demand projections have been impacted by recent economic developments and while energy efficiency and conservation are expected to reduce usage through **STEP**, positive customer growth is still expected. CPS Energy expects to see continued growth of its customer base for the Systems due to projected population growth in the San Antonio area. The current energy sales and peak demand forecast predicts, over the next 25 years, annual increases in electric sales of 1 – 2% and gas sales of 0.5 – 1.6%; with an average peak demand growth rate of 1 – 2% per year. CPS Energy has continued to expand its electric customer extensions, with ongoing construction growth in this area. The capital projects are funded with transfers from internally generated funds, debt proceeds, and other sources.

A capital improvement plan is reviewed annually for planning purposes and may identify projects that may be deferred or omitted entirely in future years. In addition, the proposed funding sources for the plan may be modified to meet changing conditions. Likewise, as conditions change, new projects may be added that are not currently identified. CPS Energy continually monitors and updates the capital plan with estimates of expenditures necessary to meet proposed and probable new environmental regulations and regulatory standards. Considering the 2021 Winter Weather Event and the Pandemic (together, the "Events"), discussed elsewhere in this Offering Memorandum, CPS Energy's five-year capital improvement plan, including the FY2023 approved capital budget, is forecast to be $4.304 billion from February 1, 2022 to January 31, 2027.

Construction projects include electric transmission, electric generation, electric distribution, general properties, and gas facilities. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System" herein. The capital program is primarily driven by the electrical and transmission functions and includes expenditures for various infrastructure and modernization projects as well as regulatory and customer growth projects. The remainder of the capital budget is for power generation, gas distribution, and shared services including the deployment of a grid optimization program and various other demand side management technology initiatives.

Over the five-year period covered by the capital plan, construction funding from debt proceeds is expected to average approximately $394.8 million per year. Due to the 2021 Winter Weather Event, these plans have been modified and continue to be subject to change. See "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein for current finance plans (which are subject to change as CPS Energy receives additional information).

INSURANCE PROGRAM

CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major financial risks. The property insurance program provides $2 billion of replacement value for property and boiler, machinery loss coverage including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductible levels for the property insurance policy are $5.0 million per occurrence for power plants, $2.5 million per occurrence for substations and $1.0 million per occurrence for all other property locations. The liability insurance program includes (1) excess liability coverage with a $100.0 million policy limit at a $3.0 million self-insured retention, and (2) excess workers compensation coverage with a $35.0 million policy limit at a $3.0 million self-insured retention. Other property and liability insurance coverages include directors and officers liability, cyber insurance, employment practices liability, fiduciary liability, employee travel, event insurance and commercial crime. CPS Energy also maintains insurance reserves, which as of March 31, 2022, totaled $26.5 million to cover losses under the self-insurance portion of the insurance program.

CPS Energy and the other participants in STP1 (defined herein) and STP2 (defined herein), as further defined herein, maintain the Nuclear Regulatory Commission ("NRC") required nuclear liability, worker liability, and property insurance, each of which includes provisions for retrospective assessments depending on occurrences at STP1 and STP2 and other commercial nuclear plants. CPS Energy is liable for 40% of the premiums and any retrospective assessments with respect to STP1 and STP2 insurance, and for costs of decontamination and repairs or replacement of damaged property in excess of policy limits.

ENTERPRISE RISK MANAGEMENT AND SOLUTIONS

The Enterprise Risk Management & Solutions ("ERMS") Division is under the direction of the Vice President of Enterprise Risk & Development and is responsible for enterprise risk assessments, insurance services, internal controls program and commodity related middle office activities. As part of these responsibilities, each business day ERMS monitors counterparty credit related exposure.

In 2002, as part of its risk management and fuel and electricity purchasing policies, CPS Energy obtained the ability to hedge or mitigate price volatility associated with fuel and energy sales and purchases through the utilization of energy-based futures, options and swap contracts. The hedge program is operated in accordance with a written policy approved annually by the Board. The program oversight committee, composed of CPS Energy corporate officers and senior executives, approves operating procedures and corporate hedging strategies.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "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 swaps and swap transactions. The law was designed to reduce systemic risk, establish new business conduct rules, increase transparency, and promote market integrity within the financial system. The Dodd-Frank Act gave both the Commodity Futures Trading Commission ("CFTC") and the SEC statutory authority to directly regulate the "Over the Counter" ("OTC") derivatives market, which include commodities currently being utilized by CPS Energy to hedge price risk in accordance with its own policies and procedures. CPS Energy operations are principally affected by the regulations promulgated under the Dodd-Frank Act by the CFTC. Development of regulations implementing the legislation has progressed, but the overall impact on CPS Energy remains uncertain pending completion of certain CFTC rulemakings. Exemptions intended to minimize the regulatory burden on commercial end-users and governmental entities have pared back obligations initially bearing upon CPS Energy. Certain CFTC rules and policy statements made necessary the modification of CPS Energy's contract arrangements with hedging counterparties, bringing in various representations, elections and commitments as to reporting obligations and other matters, and must be covered in new relationships. Similarly, filings with government authorities, relationships with third party services providers, and additional internal controls and responsibilities have been made necessary. On May 24, 2018, the U.S. President signed into law the *Economic Growth, Regulatory Relief and Consumer Protection Act*, which is designed to roll back or eliminate key parts of the Dodd-Frank Act and would provide smaller banking institutions with relief from the strenuous requirements originally imposed in 2010. On October 31, 2018, the Federal Reserve unveiled its plan for significantly paring back rules for regional and community banks, in direct response to Congress' May 2018 legislation. CPS Energy continues to monitor the status of the Dodd-Frank Act, and any possible revisions and the effect thereof (including the most recent draft provisions related to swap requirements), in order to remain compliant with current law.

As an "end user", CPS Energy would be exempt under currently proposed CFTC rules mandating clearing and margining of certain market participants' OTC commodity positions. The CFTC proposed rules as to "capital requirements" and financial condition reporting do not impose direct burdens on "end-user" market participants such as CPS Energy. If CPS Energy were made subject to onerous capital requirements, the organization's ability to hedge its portfolio could be impacted. Implementation of the Volcker rule, which restricts United States banks from making certain kinds of speculative investments that do not benefit customers, could affect liquidity in markets in which CPS Energy currently operates. CPS Energy takes part in efforts of its trade organizations within CFTC rule-making processes to shape rules so that they allow commercial end-users and municipal utilities to avoid undue burdens when hedging their commercial risks. Out of those efforts, CPS Energy currently benefits from an exemption applying to certain non-financial energy transactions between government- and/or cooperative-owned electric utilities.

INVESTMENTS

Operating Funds

CPS Energy invests its operating funds as authorized by the Bond Ordinances and by federal and State law including, but not limited to, the Public Funds Investment Act, as amended, Texas Government Code Chapter 2256 ("Investment Act"), Texas Local Government Code Chapter 272, as amended, and in accordance with written investment policies approved by the Board. These Bond Ordinances, laws, and CPS Energy's investment policies are subject to change.

Under updated investment policies approved by the Board on October 25, 2021 and effective as of January 31, 2022, CPS Energy may invest its funds in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations, having a stated final maturity of 10 years or less, directly issued and guaranteed by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States or their agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated not less than "A" category or its equivalent; (6) interest-bearing banking deposits that are guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor; (7) interest-bearing banking deposits as described by Section 2256.009(a)(8) of the Investment Act; (8) a certificate of deposit ("CDs") or share certificate issued by a depository institution or a broker that has its main office or branch in the State of Texas, which is fully secured and/or federally insured; (9) securities lending programs that are 100-102% collateralized; (10) fully collateralized repurchase agreements; (11) certain bankers' acceptances; (12) commercial paper rated not less than "A-1" or "P-1" or equivalent by at least two nationally recognized credit rating agencies and that have a stated maturity of 365 days or fewer from the date of issuance; (13) no-load money market mutual funds that comply with Rule 2a-7; (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years; and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) certain guaranteed investment contracts that are funded by bond proceeds if authorized in the order, ordinance, or resolution authorizing the issuance of the bonds; (16) investment pools that stabilize at a $1 NAV to the extent reasonably possible and are rated no lower than "AAA" or "AAA-m" or equivalent and meet all other requirements as stipulated in Section 2256.016 of the Investment Act; (17) in connection with a transaction authorized by Section 272.004 of the Texas Local Government Code, one or more of the investments, securities, guarantees, and/or insurance contracts or other contracts and agreements described in Section 452.108(d) of the Texas Transportation Code, including, but not limited to the following: payment agreements, financial guarantees or insurance contracts with counterparties having either a corporate credit or debt rating in any form, a claims-paying ability, or a rating for financial strength of "AA" or better; and (18) for the General Account only, hedging instruments authorized by Section 2256.0201 of the Investment Act and in accordance with CPS Energy's Energy Price Risk Management Policy for the purpose of managing risks of financial uncertainty or loss associated with adverse volatility in the pricing of CPS Energy's energy and fuel assets, to include energy based futures contracts, option contracts, swap contracts, insurance contracts, and structured contracts composed of combinations of hedging instruments.

CPS Energy is specifically prohibited from investing its funds in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (4) collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the change in the market index.

The weighted term to maturity of investments at March 31, 2022, was 2.1 years for CPS Energy's funds. CPS Energy's funds, as of March 31, 2022, were invested entirely in government agency obligations, collateralized mortgage obligations directly issued by and guaranteed by a Federal agency, U.S. Treasury securities, money market mutual funds, investment pools, high quality municipal bonds, and Investment Act-compliant money market deposit funds. The market value of the investments held as of March 31, 2022 totaled approximately $987 million. Based on market value, 44% of the portfolio was invested in money market mutual funds/investment pools, 27% in United States government agency obligations, 8% in collateralized mortgage obligations and other pass through securities whose principal and interest are backed by Federal Agencies, 19% in high-quality municipal bonds, and 2% in U.S. Treasury securities. CPS Energy determines the market value of non-cash investments primarily through Interactive Data Corporation, a reputable third-party data provider, as well as by reference to Bloomberg's financial terminal, published quotations and other comparable information. No CPS Energy funds are invested currently in reverse repurchase agreements or derivative securities, securities whose rate of return is determined by reference to some other instrument, index, or commodity, except for certain natural gas options held under the Energy Price Risk Management Policy. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – Wholesale Power", "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Enterprise Risk Management and Solutions" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Fuel Supply" herein.

Investment Policies

Under the Investment Act, CPS Energy is required to invest its funds in accordance with written investment policies that (1) primarily emphasize safety of principal and liquidity; (2) address investment diversification, yield, maturity, and the quality and capability of investment management; (3) include a list of authorized investments for CPS Energy funds and the maximum allowable stated maturity of any individual investment; (4) state the maximum dollar-weighted average maturity allowed for pool fund groups; (5) contain the methods to monitor the market price of investments acquired with public funds; (6) require the settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and (7) monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021 of the Investment Act. All CPS Energy funds must be invested consistent with formally adopted written investment strategies that specifically address each fund's investment. Each strategy describes its objectives concerning (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield. Under the Investment Act, CPS Energy investments under all investment policies must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived".

Consistent with the requirements of the NRC, Texas Property Code, the Investment Act, and as applicable, the PUCT, the STP Decommissioning Trust and the Master Trust (TCC Funded) will be invested consistent with the following objectives: (1) the funds will be invested with the objective of earning a reasonable return commensurate with the need to preserve the value of the assets; (2) the portfolio of securities will be diversified to the extent reasonably feasible given the size of the trust; (3) the asset allocation will take into consideration the acceptable risk level of the portfolio, the current and expected market conditions, the time horizon remaining before the commencement and completion of decommissioning, and the funded status of the trust; (4) while maintaining an acceptable risk level, the investment emphasis when the remaining life of the liability exceeds five years will be to maximize net long-term earnings and the investment emphasis in the remaining investment period of the trust will be on current income and asset preservation; and (5) in selecting investments, the impact of the investment on the portfolio's volatility and expected return net of fees will be considered.

Additional Provisions

Under the Investment Act for the Operating Funds, STP Decommissioning Trust and the Master Trust (TCC Funded), CPS Energy must: (1) review annually and, if desired, change its adopted written investment policies and strategies; (2) designate investment officers to be responsible for investment of its funds consistent with the investment policies of CPS Energy; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms seeking to sell securities to CPS Energy to (a) receive and review the CPS Energy investment policies; (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions not authorized by the CPS Energy investment policies; and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the CPS Energy investment policies; (6) provide specific investment training for CPS Energy's investment officers; and (7) review, revise, and adopt on an annual basis a list of qualified brokers that are authorized to engage in investment transactions with CPS Energy. See "Trust Funds" below.

For the STP Decommissioning Trust and the Master Trust (TCC Funded), CPS Energy is prohibited from being engaged as investment manager for the funds or from giving day-to-day management direction of the funds' investments. Therefore, the use of one or more professional investment managers is necessary to assure that the trusts are managed in a manner so that the funds are secure and earn a reasonable return. CPS Energy has the following duties concerning the use of one or more investment managers: (1) a duty to determine whether the investment manager's fees for investment management services is reasonable, when compared to other such managers; (2) a duty to investigate and determine whether the past performance of the investment manager in managing investments has been reasonable; (3) a duty to investigate and determine whether the financial stability and strength of the investment manager is adequate for purposes of liability; (4) a duty to investigate and determine whether the investment manager has complied with the investment management agreement; and (5) a duty to investigate any other factors which may bear on whether the investment manager is suitable.

Trust Funds

STP Decommissioning Funds

CPS Energy invests in two specific decommissioning trusts, the STP Decommissioning Trust and the Master Trust (TCC Funded), in accordance with its decommissioning trust investment policy and as authorized by Texas law, the NRC and, where applicable, the PUCT. The STP Decommissioning Trust is the sinking fund created by CPS Energy for the sole purpose of financing the decommissioning expenses for its original 28% interest in STP. CPS Energy obtained the Master Trust (TCC Funded) after it purchased from AEP Texas Central Company ("TCC") its additional 12% interest in STP. As part of the acquisition of the additional interest in STP, CPS Energy obtained a proportionate amount of the nuclear decommissioning trust fund originally created by TCC. Responsibility for continuous funding of the Master Trust (TCC Funded) will remain the responsibility of TCC customers through final decommissioning of STP. At acquisition by CPS Energy of the additional interest in STP from TCC, the funds were transferred to CPS Energy by TCC and placed into the Master Trust (TCC Funded), which is entirely separate from the existing decommissioning trust fund held in the STP Decommissioning Trust created and maintained by CPS Energy for its original interest in STP. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – External Events Impacting Nuclear Power Generation Industry and STP1 and STP2, and CPS Energy's Response" herein for further discussion of CPS Energy's acquisition of the 12% interest in STP from TCC. CPS Energy's investments in the STP Decommissioning Trust and in the Master Trust (TCC Funded) are held by an independent trustee and are invested pursuant to a separate investment policy adopted by the Board and pursuant to the provisions of the trust agreements of each trust.

Effective September 1, 2005, the Investment Act was amended to allow a Texas municipality which owns a municipal electric utility to invest its decommissioning trust funds in any investment authorized by Subtitle B, Title 9 of the Texas Property Code. The broad investment authority found in the Texas Property Code includes, but is not limited to, the power to invest in equities.

STP Decommissioning Trust

Under the Texas Property Code, other applicable law and the South Texas Project Decommissioning Trust Investment Policy ("STP Investment Policy") approved by the Board, the STP Decommissioning Trust may be invested as follows: (1) funds may be invested in investments permissible by law under the guidance and regulations issued by the NRC and under the Texas Property Code; (2) funds should be diversified such that (a) no more than 5% of the securities held are issued by one entity, with the exception of the federal government, its agencies and instrumentalities, and (b) the portfolio shall contain at least 20 different issues of securities with municipal securities and real estate investment trusts diversified as to geographic region; (3) derivative securities are limited to those whose purpose is to enhance returns of the STP Decommissioning Trust without a corresponding increase in risk of the portfolio; (4) securities lending transactions must be collateralized at 100–102%; (5) fixed income securities may not be rated below "BBB-" by S&P and Fitch, or "Baa3" by Moody's, at the time of purchase, and the overall fixed income portfolio must be rated no less than "A" by S&P and Fitch and "A2" by Moody's; (6) equity securities are permissible investments (a) limited to a cap of (i) 60% when the weighted average remaining life of the decommissioning liability exceeds 5 years, (ii) 30% when the weighted average remaining life of decommissioning liability ranges between 5 years and 2.5 years and during all years in which expenditures for decommissioning the nuclear units occur, and (iii) 0% when the weighted average remaining life of the decommissioning liability is less than 2.5 years, and (b) when the equities are of a type not considered to be speculative; (7) no load commingled funds of the United States, including investments in commingled real estate limited partnerships or funds; and (8) commingled funds that include United States equity-indexed funds, actively managed United States equity funds, balanced funds, bond funds, real estate investment trusts, and international funds are permissible investments, if the commingled funds are consistent with the goals stated in the STP Investment Policy. Commingled funds (a) may be focused on specific market sectors or concentrated in a few holdings only as necessary to balance the trust's overall investment portfolio mix, and (b) may contain some below investment grade bonds; but the overall portfolio of debt instruments shall have a quality level, measured quarterly, not below an "A" rating by S&P and Fitch, respectively, and "A2" by Moody's.

The STP Decommissioning Trust is specifically prohibited (1) from investing in derivatives if being used to increase the value of the portfolio by any amount greater than the value of the underlying securities; (2) from the use of leverage (borrowing) to purchase securities or the purchase of securities on margin; (3) from investing in corporate or municipal debt securities that have a bond rating below investment grade (below "BBB-" by S&P and Fitch or "Baa3" by Moody's) at the time that the securities are purchased and the appropriateness of continuing to hold a particular debt security must be reexamined if the debt rating of the company in question falls below investment grade after the debt security has been purchased; and (4) from investing in equity securities that are considered speculative (e.g., stocks of companies with limited operating history or that have low "safety" rankings from ratings agencies).

Investments in the STP Decommissioning Trust as of March 31, 2022, consisted of fixed income securities, equity securities, Real Estate Investment Trusts of the United States ("US REITs") and cash equivalents. The market value of cash, cash equivalents and investments (including accrued interest) held as of March 31, 2022, totaled approximately $524 million and was comprised of fixed income securities totaling approximately $312 million, equity securities (domestic and international) having a market value of approximately $146 million, US REITs in the amount of approximately $53 million, and the remaining $13 million being invested in cash and cash equivalents. Based upon market values, 57% of fixed income securities were invested in United States Government and Government Agency obligations, 37% were invested in corporate bonds and municipal bonds, 3% were invested in foreign bonds and other, and 3% was invested in cash and cash equivalents, such as money market funds.

Master Trust (TCC Funded)

Under applicable law, including NRC and PUCT regulations, and the STP Investment Policy, the Master Trust (TCC Funded), may be invested as follows: (1) funds may be invested in investments permissible by law under the guidance and regulations issued by the NRC and under the Texas Property Code; (2) funds are diversified such that (a) no more than 5% of the securities held are issued by one entity, with the exception of the federal government, its agencies and instrumentalities, and (b) the portfolio shall contain at least 20 different issues of securities with municipal securities and real estate investments diversified as to geographic region; (3) derivative securities are limited to those whose purpose is to enhance returns of the trust without a corresponding increase in risk of the portfolio; (4) securities lending transactions must be collateralized at 100-102%; (5) fixed income securities are not rated below "BBB-" by S&P and Fitch, or "Baa3" by Moody's, at the time of purchase; (6) equity securities are (a) limited to a cap of (i) 60% when the weighted average remaining life of the decommissioning liability exceeds 5 years, (ii) 30% when the weighted average remaining life ranges between 5 years and 2.5 years and during all years in which expenditures for decommissioning the nuclear units occur, and (iii) 0% when the weighted average remaining life of the decommissioning liability is less than 2.5 years, and (b) with at least 70% of the aggregate market value of the equity portfolio, including the individual securities in commingled funds, having a quality ranking from a major rating service and the overall portfolio of ranked equities with a weighted average quality rating equivalent to the composite rating of the S&P 500 index assuming equal weighting of each ranked security in the index; and (7) commingled funds that include United States equity-indexed funds, actively managed United States equity funds, balanced funds, bond funds, real estate investment trusts, and international funds that (a) are consistent with the goals stated in the investment policy, (b) are focused on specific market sectors or concentrated in a few holdings only if used as necessary to balance the trust's overall investment portfolio mix, and (c) may contain some below investment grade bonds; however, the overall portfolio of debt instruments shall have a quality level, measured quarterly, not below a "AA" rating by S&P and Fitch, respectively, or "Aa2" by Moody's.

The Master Trust (TCC Funded) is specifically prohibited (1) from investing in derivatives if being used to increase the value of the portfolio by any amount greater than the value of the underlying securities; (2) from the use of leverage (borrowing) to purchase securities or the purchase of securities on margin; (3) from investing in corporate or municipal debt securities that have a bond rating below investment grade (below "BBB-" or "BBB-" by S&P and Fitch, respectively, or "Baa3" by Moody's) at the time that the securities are purchased and the appropriateness of continuing to hold a particular debt security must be reexamined if the debt rating of the company in question falls below investment grade at some time after the debt security has been purchased; (4) from investing in equity securities where the issuer has a capitalization of less than $100 million; and (5) from investing in securities issued by the electric utility collecting the funds or any of its affiliates; however, investments may include commingled funds that contain securities issued by the electric utility if the securities of the utility constitute no more than 5% of the fair market value of the assets of such commingled funds at the time of the investment.

As of March 31, 2022, investments in the Master Trust (TCC Funded) consisted of fixed income securities, equity securities (domestic and international), US REITs and cash equivalents. The market value of cash, cash equivalents and investments held as of March 31, 2022, totaled approximately $193 million and was comprised of fixed income securities totaling approximately $117 million, equity securities having a market value of approximately $51 million, US REITs in the amount of approximately $18 million and the remaining $7 million being invested in cash and cash equivalents. Based upon market values, 56% of fixed income securities were invested in United States Government and Government Agency obligations, 40% were invested in corporate and municipal bonds, 2% were invested in foreign bonds and other, and 2% was invested in cash and cash equivalents.

EMPLOYEE BENEFITS

CPS Energy provides health, dental and vision benefits for employees, their spouses, and covered dependents, as well as Pension and Other Postemployment Benefits ("OPEB") as discussed in the following section. The health, dental and vision benefits provided during active employment are funded on a pay-as-you-go basis, with premiums from the participants and CPS Energy designed to cover current year claims.

PENSION AND OTHER POSTEMPLOYMENT BENEFITS

CPS Energy provides Pension and OPEB for its employees. There are four plans which include: the CPS Energy Pension Plan (the "Pension Plan"), the CPS Energy Group Health Plan, the CPS Energy Group Life Insurance Plan, and the CPS Energy Long-Term Disability Income Plan (the Group Health Plan, the Group Life Insurance Plan, and the Long-Term Disability Income Plan, collectively referred to herein as the "OPEB Plans"). All plans are reported on a calendar-year basis. While all plans are separately and independently audited, they are also included as fiduciary component units in CPS Energy's financial statements and required information related thereto is disclosed in the financial statements, related Notes and RSI. See "Basic Financial Statements – Note 9 – Employee Pension Plan and Note 10 – Other Postemployment Benefits" in CPS Energy's Basic Financial Statements attached hereto as APPENDIX C ("Notes 9, 10 and RSI").

All plans are operated based on a Statement of Governance ("SoG") approved by the Board. The SoG provides for an Employee Benefits Oversight Committee ("EBOC"), which is composed of the President & CEO, the CFO & Treasurer and the Audit & Finance Committee members of the Board. Among other functions, the EBOC approves all changes to the plans, engages external auditors, appoints members of an Administrative Committee (which manages daily operations and makes investment decisions), and approves all changes to the investment policy. All plan investments are made and managed in accordance with the investment policy, which requires diversification of assets and maintaining appropriate liquidity according to the needs of each plan.

CPS Energy retains an actuary to perform annual actuarial valuations for the Pension Plan and each of the OPEB Plans. Conducted in accordance with generally accepted actuarial principles and practices, the actuarial reports summarize the funding status of each plan for the current and prior year, as well as provide projected funding contribution recommendations for

CPS Energy's next fiscal year. Additionally, information included in the actuarial reports provides the basis for CPS Energy's financial reporting of costs and liabilities related to the Pension and OPEB Plans.

USE OF ASSUMPTIONS AND ESTIMATES

As a result of the annualized valuation methodology related to pensions, interim reporting period valuations of CPS Energy's Pension and Benefits Plans are difficult to forecast and can vary greatly from quarterly or annual results under normal operating conditions. These efforts are further exacerbated by the unprecedented (and still unknown) impact of the Events, discussed elsewhere in this Offering Memorandum under the captions "INTRODUCTORY STATEMENT – COVID-19", "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event", and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO". The specific impacts of the Events continue to evolve and their extent remains unknown; accordingly, CPS Energy has not attempted to update the descriptions and calculations included in this section in an attempt to account for the possible effects of the Events (though CPS Energy can communicate that the funding status and projected funding contribution requirements relating to the Pension and Benefits Plans have been negatively impacted by the local, national, and global results of the Events). As a result of the foregoing, the entirety of this section is qualified by the expected negative impacts of the Events, the full extent of which on the CPS Energy Pension and Benefits Plans' funding status and prospective contribution funding requirements will not be known until completion of the next scheduled annual actuarial valuation of the Pension and Benefit Plans, to be performed by qualified actuaries trained to determine such complex valuations. Investors are directed to the Events' disclosures identified above for additional descriptions concerning the Events and their initially identified, unaudited impacts on CPS Energy's operations and financial condition.

As set forth herein and in Notes 9 and 10 and RSI of APPENDIX C, the disclosures relating to the Pension Plan and the OPEB Plans are based upon certain assumptions and estimates that may vary based upon the risk factors. To the extent that these assumptions and estimates do not materialize or are inaccurate, the financial information disclosed herein and in Notes 9 and 10 and RSI of APPENDIX C, including the estimates as compared to the actual values of the assets and liabilities, could change substantially and in a materially adverse manner. The actuarial values determined for the measurement of benefit plan assets and liabilities were based on reasonable assumptions, which are estimates based on information available at the time the actuarial reports were prepared.

An experience study, covering Pension and OPEB Plans' experience during calendar years 2012 to 2016, was completed by CPS Energy's actuary, and the results were communicated to the Administrative Committee in June 2017. CPS Energy engaged a third party to evaluate the experience study, the results of which were communicated to CPS Energy in August 2017. Changes to both demographic and economic assumptions were recommended for consideration based on the study results. The most impactful were (1) a reduction to the expected rate of return on assets from 7.50% to 7.25% and (2) the use of the RP-2016 combined health, with no collar adjustment, male and female mortality tables with the MP-2016 mortality improvement scale. Both changes resulted in an increase in the liability, recommended contributions and expense. The Administrative Committee authorized the actuary to use the recommended assumptions to prepare the January 1, 2018, actuarial reports that were used to determine liability, contributions, and expense for CPS Energy's fiscal year 2020 financial statements, and formally approved the assumptions during a meeting held in August 2018. The impact of the changed assumptions is reflected in the information provided in CPS Energy's Basic Financial Statements attached hereto as APPENDIX C ("Notes 9, 10 and RSI"). An experience study was conducted during 2020 and changes to both demographic and economic assumptions were recommended for consideration based on the study results. The most impactful recommendation was a reduction to the expected rate of return on assets from 7.25% to 7.00%. The change resulted in an increase in the liability, recommended contributions and expenses. The Administrative Committee authorized the actuary to use the recommended assumptions to prepare the January 1, 2020 actuarial reports that will be used to determine liability, contributions, and expense for CPS Energy's fiscal year 2022 financial statements.

PENSION PLAN

The Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan and provide retirement and ancillary benefits for substantially all CPS Energy employees who attain age 21 and complete a minimum period of service and/or otherwise become eligible. The benefits provided by the Pension Plan are paid from a pension trust (the "Pension Trust") established by CPS Energy that is kept separate from, and in addition to the benefits employees are entitled to receive under any other CPS Energy program and under the federal Social Security Act. This Pension Plan and the Pension Trust were established by the Board in accordance with applicable law and are maintained for the exclusive benefit of the eligible employees and their beneficiaries.

In 2015, in conjunction with the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was later updated by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (described herein), CPS Energy elected to use regulatory accounting to capitalize the associated costs to recover through future rates. GASB Statement No. 68 required the immediate recognition of CPS Energy's previously unrecognized 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, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*, to create a regulatory asset representing the net effect of the prior period restatement that is being amortized over a 50-year period.

In March 2016, GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, the requirements of which were effective for CPS Energy beginning in fiscal year 2017. Specifically, Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in RSI, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement did not have a significant impact on CPS Energy's financial reporting.

Refer to complete disclosures at Note 9 and RSI at APPENDIX C regarding CPS Energy's Net Pension Liability ("NPL") and pension expense and related details of plan features, plan funding, the measurement of NPL, underlying actuarial assumptions, discount rate assumptions and sensitivity, and deferred outflows of resources and deferred inflows of resources related to pension.

Information related to new accounting guidance applicable to CPS Energy is available in APPENDIX C hereto.

The following schedule presents selected multiyear trend information regarding NPL and related statistics. Amounts presented are determined as of the measurement date of the NPL for the following fiscal years:

Pension Plan

(Dollars in thousands)

Fiscal Year Ended	Ending Total Pension Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net Pension Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total Pension Liability (b/a)
January 31, 2022[1]	$2,164,873	$1,916,698	$248,175	88.5%
January 31, 2021	$2,060,241	$1,766,519	$293,722	85.7%
January 31, 2020	$1,988,962	$1,610,834	$378,128	81.0%
January 31, 2019	$1,940,317	$1,684,448	$255,869	86.8%
January 31, 2018	$1,784,838	$1,472,376	$312,462	82.5%

[1] Unaudited Projections as of January 31, 2022, based on the January 1, 2020, valuation report are the projections currently being reviewed by CPS Energy's external auditors during the annual audit planned to conclude in Spring 2022. Preliminary, subject to change.

OPEB PLANS

The OPEB Plans are single employer defined benefit contributory plans that are funded by employee contributions and annual contributions from CPS Energy. The assets of the OPEB Plans are stated at fair market value.

Most CPS Energy employees are eligible for Group Health and Life Insurance benefits upon retirement. CPS Energy's Long-Term Disability Income Plan provides income to eligible employees of CPS Energy who become disabled. CPS Energy established each plan as a "risk pool" as that term is defined in the Texas Political Subdivision Employees Uniform Group Benefits Act ("Benefits Act"), Chapter 172, Texas Local Government Code, as amended. These plans are each operated at all times and in all respects as a risk pool under the Benefits Act. The benefits provided by the OPEB Plans are paid from OPEB Trusts. The OPEB Plans and the OPEB Trusts were established by the Board in accordance with applicable law and are maintained for the exclusive benefit of the eligible employees and their beneficiaries.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. CPS Energy implemented Statement No. 74 in the OPEB Plan's fiscal year ended December 31, 2017 and adopted Statement No. 75 in CPS Energy's fiscal year ended January 31, 2018.

Like previously implemented pension guidance, GASB Statement No. 74 enhances note disclosures and RSI for all defined benefit OPEB plans that are administered through trusts that meet the specified criteria. It requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in ten-year RSI schedules. Statement No. 74 also requires that notes to financial statements include descriptive information, such as the types of OPEB provided, the classes of plan members covered, and the composition of the OPEB plan's board. Such OPEB plans also are required to disclose information about OPEB plan investments, including the OPEB plan's investment policies, concentrations of investments with individual organizations equaling or exceeding 5% of the OPEB plan's fiduciary net position.

Also like previously implemented pension guidance, GASB Statement No. 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. For each qualifying plan providing postemployment benefits other than pensions, employers are required to report the difference between the actuarial OPEB liability and the related plan's fiduciary net position as the net OPEB liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to each plan were exceeded by the actuarially calculated contributions for those plans. Additionally, Statement No. 75 sets forth note disclosure and required supplementary disclosure requirements for defined contribution OPEBs.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which addressed practice issues that were identified during implementation and application of certain GASB Statements. Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which was adopted in CPS Energy's fiscal year ended 2018.

Refer to complete disclosures at Note 10 and RSI in APPENDIX C regarding CPS Energy's Net OPEB (Asset) Liability and OPEB Expense and related details of plan features, plan funding, the measurement of Net OPEB (Asset) Liability, underlying actuarial assumptions, discount rate assumptions and sensitivity, and deferred outflows of resources and deferred inflows of resources related to OPEBs.

Health Plan

(Dollars in thousands)

Fiscal Year Ended	Ending Total OPEB Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net OPEB (Asset) Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b/a)
January 31, 2022[(1)]	$240,024	$297,828	$(57,804)	124.1%
January 31, 2021	$250,115	$284,986	$(34,871)	113.9%
January 31, 2020	$263,922	$267,509	$(3,587)	101.4%
January 31, 2019	$253,241	$289,822	$(36,581)	114.4%
January 31, 2018	$234,808	$260,648	$(25,840)	111.0%

(1) Unaudited Projections as of January 31, 2022, based on the January 1, 2020, valuation report are the projections currently being reviewed by CPS Energy's external auditors during the annual audit planned to conclude in Spring 2022. Preliminary, subject to change.

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Life Plan

(Dollars in thousands)

Fiscal Year Ended	Ending Total OPEB Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net OPEB (Asset) Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b/a)
January 31, 2022[1]	$55,999	$53,686	$2,313	95.9%
January 31, 2021	$47,261	$52,591	$(5,330)	111.3%
January 31, 2020	$46,186	$49,759	$(3,573)	107.7%
January 31, 2019	$46,800	$54,921	$(8,121)	117.4%
January 31, 2018	$47,289	$49,698	$(2,409)	105.1%

[1] Unaudited Projections as of January 31, 2022, based on the January 1, 2020, valuation report are the projections currently being reviewed by CPS Energy's external auditors during the annual audit planned to conclude in Spring 2022. Preliminary, subject to change.

Disability Plan

(Dollars in thousands)

Fiscal Year Ended	Ending Total OPEB Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net OPEB (Asset) Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b/a)
January 31, 2022[1]	$55,999	$53,686	$2,313	95.9%
January 31, 2021	$47,261	$52,591	$(5,330)	111.3%
January 31, 2020	$46,186	$49,759	$(3,573)	107.7%
January 31, 2019	$46,800	$54,921	$(8,121)	117.4%
January 31, 2018	$47,289	$49,698	$(2,409)	105.1%

[1] Unaudited Projections as of January 31, 2022, based on the January 1, 2020, valuation report are the projections currently being reviewed by CPS Energy's external auditors during the annual audit planned to conclude in Spring 2022. Preliminary, subject to change.

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Total OPEB Plans

(Dollars in thousands)

Fiscal Year Ended	Ending Total OPEB Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net OPEB (Asset) Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b/a)
January 31, 2022[(1)]	$303,115	$358,018	$(54,903)	118.1%
January 31, 2021	$302,833	$343,815	$(40,982)	113.5%
January 31, 2020	$316,222	$322,834	$(6,612)	102.1%
January 31, 2019	$306,407	$350,139	$(43,732)	114.3%
January 31, 2018	$288,392	$314,580	$(26,188)	109.1%

(1) Unaudited Projections as of January 31, 2022, based on the January 1, 2020, valuation report are the projections currently being reviewed by CPS Energy's external auditors during the annual audit planned to conclude in Spring 2022. Preliminary, subject to change.

An Actuarial Standard of Practice ("ASOP 6") relating to the measurement of OPEB liabilities requires actuaries to select the best estimate assumptions with neither a conservative nor an aggressive bias, which will require the liability to now reflect the benefit of certain pharmaceutical manufacturer rebates not previously considered. ASOP 6 became effective with the January 1, 2016, actuarial valuation, which began impacting CPS Energy in fiscal year 2018.

STRATEGIC INITIATIVES

In 2008, CPS Energy implemented Vision 2020, outlining CPS Energy's long-term view and focusing on four key objectives: increasing its energy efficiency and conservation efforts; expanding renewable-energy resources; providing cost-competitive electricity; and maintaining its strong commitment to the environment. To ensure achievement of Vision 2020, the following key strategic business drivers were established, along with targets for each: customer relationships, employee relationships, external relationships, operational excellence, renewable/carbon constraints/environment, technology and innovation, and financial integrity. As part of the Vision 2020 Generation Strategy, CPS Energy projected, by 2020, its generation mix would be approximately 25.0% of coal, 25.0% of nuclear, 30.0% of natural gas, 10.0% of wind power, 4.0% of solar power, 5.7% of purchased power and 0.3% of landfill gas. As of January 31, 2021, CPS Energy met or exceeded these projections with an annual generation mix being 20.1% coal, 30.6% nuclear, 31.3% natural gas, 10.6% wind, 4.2% solar, 2.8% purchased power, and 0.4% landfill gas. CPS Energy also exceeded its goal of 4.0% as part of its generation projection to be met through the **STEP** program by reaching approximately 6% of what its generation needs would have been without **STEP**. The **STEP** program has been extended as the **STEP Bridge** program with funding approved through July 2022. CPS Energy is now focused on implementing and achieving its **STEP Bridge** goals and its ***Flexible Path***SM Strategy, as more fully described herein.

In support of CPS Energy's commitment to provide world-class energy solutions to meet the diverse and unique needs of its customers, while acting as an economic engine to drive value and growth in the community, CPS Energy designed a two-year integrated planning process ("CPS Energy Integrated Planning Process") to serve as its roadmap forward.

Through thoughtful leadership, partnerships and CPS Energy's passionate employees, management continues to strategically and successfully evolve its value portfolio to achieve top-tier safety, customer service, electric and gas delivery, generation availability and financial performance.

The CPS Energy Integrated Planning Process is derived through a deliberately orchestrated cross-functional effort, and aligned with current strategic drivers, risk management and financial planning. Complementary to the CPS Energy Business Plan are business unit plans designed to reinforce CPS Energy's objectives by way of major initiatives, milestones, metrics, targets, and goal alignment. Supporting lowered-tiered metrics, targets and goals are appropriately cascaded throughout the organization, ensuring a traceable path from enterprise level objectives, to business unit goals and to individual performance accountabilities.

CPS Energy's success is measured through operational excellence processes, including reporting, monitoring, and assessing metric trends throughout the year, ultimately managing and leading towards goal attainment.

To enhance its relationship with the community and to provide community input directly to the Board and CPS Energy staff, CPS Energy established a 15-member Citizens Advisory Committee ("CAC"). The CAC meets monthly with the primary goal of providing recommendations on utility-related projects and programs to offer a customer perspective on community issues, assist in identifying strengths and offer suggestions for improvement to the organization. Representing the various sectors of CPS Energy's service area, the CAC encompasses a broad range of representation in order to identify concerns and understand community issues. The City Council members nominate ten of the 15 members, one representing each City Council district. The other five members are at-large candidates who can reside anywhere within the service territory. The Board approves all members of the CAC and each member can serve up to three two-year terms. CPS Energy recently solicited applicants for the vacancies on the CAC.

In January 2021, CPS Energy solicited applications for the community to participate in the RAC that was formed by CPS Energy in December 2020. The RAC's mission is to provide helpful and unique knowledge and customer insights to the efforts and projects related to rate structure and rate design with the ultimate goals of helping management balance its Guiding Pillars and increasing the mutual understanding of public issues and concerns. The RAC consists of 21 members comprised of 11 appointees by the Board, including Mayoral appointees, and City Council appointees. The RAC has met multiple times since May 2021.

With respect to State and national legislative action regarding competition, CPS Energy continues to participate actively in the legislative process to voice the interests of Municipal Utilities and play an integral part in shaping the environment in which it will operate. CPS Energy continues to evaluate the price components of the energy services it provides, recognizing that the price for electricity will be a paramount factor for succeeding in a deregulated environment. Cost containment initiatives coupled with additional phases of debt management strategies will continue in the years ahead.

Flexible Path^SM^ **Strategy**

Flexible Path^SM^

In March of 2018, CPS Energy announced its ***Flexible Path***^SM^ strategy. The ***Flexible Path***^SM^ strategy is CPS Energy's thoughtful approach to prudently leverage its existing community-owned generation assets to bridge to a future that enables more low and non-emitting resources such as wind, solar, energy storage, and new technology. CPS Energy will use its ***Guiding Pillars*** of ***Reliability***, ***Customer Affordability***, ***Security***, ***Safety***, ***Environmental Responsibility*** and ***Resiliency***, as key priorities to drive this strategy. These ***Guiding Pillars*** are all grounded in ***Financial Responsibility***.

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

CPS Energy has a strong history of community and partner engagement. The challenges presented by the Pandemic have not stopped the company from interacting with and listening to the community to ensure it continues to serve its customers in ways that are innovative and aligned with their needs. The utility continues to leverage technology to communicate with stakeholders in many ways including phone, social media, web, and more.

*Flex*POWER Bundle^SM^

In June of 2019, CPS Energy announced the ***Flex*POWER Bundle**^SM^ initiative. The ***Flex*POWER Bundle**^SM^ initiative**,** an important part of the ***Flexible Path***^SM^, is a deliberately blended approach to power generation through which CPS Energy will consider adding more solar resources coupled with battery energy storage and firming capacity. The ***Flex*POWER Bundle**^SM^ initiative is a diversified solution that recognizes today's renewable technology, alone, cannot support all customers consistently and reliably, 24/7/365. The multi-faceted generation approach of the ***Flex*POWER Bundle**^SM^ initiative will ensure the community has the power to thrive while maximizing the existing community-owned generation assets.

In July 2020, CPS Energy released a Request for Information ("RFI") to help identify potential non- or low-emitting generation and demand-side resources consistent with the utility's ***Flexible Path***^SM^ strategy. The RFI responses helped to inform the design of two strategic CPS Energy initiatives, the ***Flex*POWER Bundle**^SM^ initiative**,** and ***Flex*STEP**^SM^ programs. CPS Energy released a request for proposal, for generation resources (the "Generation RFP") in support of ***Flex*POWER Bundle**^SM^ in November 2020. CPS Energy released a request for proposal, for demand side resources (the "Demand Side RFP") in support of ***Flex*STEP**^SM^ programs, to include tried and true energy efficiency programs as well as new and innovative demand side solutions in February 2021. CPS Energy expects to award contracts under the Demand Side RFP for new demand side solutions in the second half of 2022 as part of the next phase of its energy efficiency and conservation program.

***Flex*POWER Bundle**SM is envisioned to provide up to 900 MW of additional solar power, up to 50 MW of energy storage, and up to 500 MW of firming capacity. CPS Energy expects to award contracts under the Generation RFP in mid-2022.

Both the ***Flexible Path***SM strategy and the ***Flex*POWER Bundle**SM initiative will help the community move closer to a cleaner energy footprint.

CPS Energy anticipates the implementation of many more programs and strategic partnerships under the ***Flexible Path***SM strategy and the ***Flex*POWER Bundle**SM initiative. A recent example is CPS Energy's and Quidnet Energy's ("Quidnet") 15-year contract for an energy storage project. This project will employ Quidnet's Geomechanical Pumped Storage technology which is a form of pumped hydro storage where water is pumped underground and stored between impermeable rock layers to keep the water under pressure. To produce electricity, the pressurized water is released to a hydroelectric turbine that generates emissions-free electricity. The project will be developed in two phases, starting with a 1 MW, 10-hour storage facility. As the project matures, CPS Energy has the option to expand the project to provide 15 MW, thus completing the second phase.

BUSINESS AND ECONOMIC DEVELOPMENT

CPS Energy works independently, as well as with the Greater: SATX and other local economic development agencies, to recruit, retain and encourage the expansion of targeted businesses throughout CPS Energy's service territory. Strategic initiatives include pro-active recruitment of the following industries which have the most potential advantage to CPS Energy: clean energy technology, manufacturing, aviation, aerospace, automotive, life sciences/bio-medical, cyber-security/information technology, logistics/distribution, corporate business services and large-scale retail developments.

CPS Energy, through its partnership with Greater: SATX, assists in the recruitment of new company locations/expansions into the CPS Energy service territory. These companies represent diverse industries including business service operations, manufacturing, distribution, new energy, healthcare and bioscience, finance, and information technology. Some of the new and expanding companies include Toyota and its major supplier Aisin AW, Navistar, DeLorean Motor Company Headquarters, Pabst Brewing Co., OKIN BPS, Ernst & Young, Cuisine Solutions, AMERIVET, The Hut Group, JPSECURE, Grunt Style, and Cell Right Technologies. All these companies represent new megawatt growth for CPS Energy, as these companies alone provide over 2,400 jobs and more than $380 million in local capital expenditures. Additional potential collaborative efforts with private corporations and governmental entities may have additional positive impacts on CPS Energy's business.

CPS Energy is also at the forefront within the San Antonio community by leading the way into the New Energy Economy ("NEE"). The NEE is built on partnerships with companies who share CPS Energy's belief in clean energy, innovation, and energy efficiency. Since 2011, CPS Energy has worked with a number of partners to turn those principles into economic development while protecting the environment and helping its customers use energy more efficiently.

All the New Energy Economy partners are fully committed to reaching their respective economic milestones. Nevertheless, some partners have experienced economic setbacks related to the COVID-19 pandemic and may experience additional setbacks due to the 2021 Winter Weather Event. As a result, these partners are restructuring their business models which is temporarily preventing them from attaining some of their economic commitments.

To date, CPS Energy's NEE partners have contributed to the City's economic development as follows:

- An NEE average, since its 2011 inception, of more than 200 new jobs annually along with a cumulative economic impact to San Antonio that has exceeded $5 billion;
- Capital expenditures in excess of $200 million, exceeding a commitment of $124 million by 2020; and
- Over $9 million donated toward education with commitments of over $24 million.

OCI Solar Power: Developer, owner, and operator of solar power plants. OCI completed the development of 500 MW of solar power through the combined use of multiple solar farms in San Antonio and throughout Texas. All 500 MW became operational in December 2018. OCI has exercised its option to sell five of its solar farms to third parties approved by CPS Energy. All OCI's obligations are assumed by the buyer. OCI has complied with all contract requirements resulting from its failure to attain the requisite number of qualifying jobs; and both OCI and CPS Energy continue to monitor the actual number of qualifying jobs for purposes of potential future OCI obligations related to maintaining the requisite number of qualifying jobs.

Mission Solar Energy: Producer of solar panels at its state-of-the-art solar module manufacturing facility located in San Antonio. This facility, which produces up to 200 megawatts of manufactured solar modules, is currently the only one of its kind in Texas.

Sun Action Trackers: A full line manufacturer of solar tracking and racking systems. These components/trackers allow solar panels to collect the maximum amount of light for conversion to solar energy.

Siemens Corporation: In 2019, Siemens Corporation acquired KACO New Energy and plans to continue production of solar inverters which serve to transform the output of solar panels into an electrical current that can be fed into a standard electrical grid.

Mortenson: Engineering, procurement and construction firm for solar farms. Mortenson provides a complete range of construction services including planning, general contracting, construction management and design-build.

ITRON: Developer of networking systems for Smart Grid and Smart City technologies. ITRON, formerly Silver Spring Networks, provides communication infrastructure for CPS Energy's current Smart Grid Initiative.

Landis + Gyr: Manufacturer of the smart meters that are part of CPS Energy's upgrades and grid modernization project. Landis + Gyr's smart meters help customers improve energy efficiency, reduce energy costs, and contribute to a sustainable use of resources. It also manages the home energy management system that allows customers to monitor energy consumption using a computer or smart device.

PowerFin: A renewable energy investment advisor and manager of solar project assets. CPS Energy has partnered with PowerFin for a citywide solar rooftop program, SolarHost SA, which allows residents and businesses to install solar panels on rooftops at no cost and, in return, receive credits on their respective energy bills.

Franklin Energy Services LLC: Franklin Energy is an industry expert in program administration and implementation for utility clients across the nation. They pinpoint value-driven solutions and deliver goal-focused results for a wide array of program markets, from business to residential to everything in between. CPS Energy utilizes Franklin Energy's services to implement weatherization programs within the CPS Energy service territory.

CLEAResult: CLEAResult is composed of energy experts that specialize in designing and maintaining energy optimization services for utility companies. They focus on solutions that lower load requirements for utilities, reduce energy bills for end users and minimize environmental burdens on communities. CPS Energy utilizes CLEAResult's services to provide residential and commercial energy efficiency programs in the CPS Energy service territory.

Go Smart Solar: CPS Energy has partnered with Go Smart Solar to create the Big Sun Community Solar program. Big Sun Community Solar provides 5 MW of community solar capacity for CPS Energy customers from installed solar carports around the City of San Antonio.

Other Economic Development: On June 2, 2016, the City Council passed an ordinance authorizing a competitive matter memorandum of understanding between the City and CPS Energy regarding the acquisition of electric and gas distribution systems at Lackland Air Force Base, Chapman Training Annex (formerly Lackland Training Annex) and Randolph Air Force Base (the "JBSA Sites").

On September 28, 2017, CPS Energy entered into a 50-year Utilities Privatization Contract ("Contract") with the Defense Logistics Agency ("DLA") to own, operate and maintain the natural gas and the electric distribution systems at the JBSA sites. On July 1, 2019, CPS Energy and the DLA executed the Bill of Sale for the systems covered by the Contract, valued at $87.1 million and, in doing so, the Air Force transferred ownership of these systems to CPS Energy. The DLA provided immediate cost recovery for the transfer of assets, which began in Fiscal Year 2020 and as a result, there are no cash outlays for this transaction. The advanced recovery payment will be amortized to revenue over 50 years, the life of the JBSA Contract, on a straight-line basis. Additionally, the DLA will reimburse CPS Energy for the costs to operate, maintain and upgrade these systems throughout the contract term. These payments will be adjusted annually based on changes to the Consumer Price Index. As of July 1, 2021, the overall net-present value of the fifty-year JBSA Contract was $299 million.

The Alamo Area Council of Governments will manage a $5 million grant from Governor Greg Abbott's office to enhance energy resiliency at JBSA, in partnership with CPS Energy. To support the grant, CPS Energy is supplying matching funds and an in-kind contribution and will be executing the projects to specifically harden 10 CPS Energy substations supporting JBSA from external threats as well as converting a section of overhead system to underground in a clear zone of JBSA Randolph.

In addition, the City will manage another $5 million grant from the Governor's office to enhance flight line safety at JBSA, in partnership with CPS Energy. To support the grant, CPS Energy is supplying matching funds and an in-kind contribution and will be executing the projects to convers a section of overhead system to underground in a clear zone of JBSA Randolph.

On August 31, 2020, the Board approved a Resolution of support for a partnership with SAWS and Itron to expand the intelligence of the SAWS' water distribution system to promote cost management and improve information and services to customers. For this pilot, 2,500 meters were installed utilizing CPS Energy's technology from the smart grid initiative. City-wide rollout is expected in 2022.

DESCRIPTION OF FACILITIES

ELECTRIC SYSTEM

Power Generation Sources

CPS Energy currently operates 20 non-nuclear electric generating units, two of which are coal-fired, 15 of which are gas-fired, 2 solar photovoltaic ("PV") sites, and 1 Battery Energy Storage System ("BESS"). Some of the gas-fired generating units may also burn fuel oil (diesel), which provides fuel flexibility and greater reliability. CPS Energy also owns a 40% interest in the STP's two existing nuclear generating Units 1 and 2. These nuclear units supplied 27.1% of the electric system's native load for the twelve months ending January 31, 2022. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Nuclear" herein. The generating plants are normally referred to by the plant name and number (i.e., Spruce1 for Spruce unit 1, Braunig3 for Braunig unit 3). See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Capability" herein.

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Generating Capability[1]

Plant	Unit	Fuel	Year Installed	Summer Net Max Capability MW[2]	Total Summer Capability MW	
STP (40% interest)[3]	Unit 1	Nuclear	1988	517.3		
	Unit 2	Nuclear	1989	512.0	1,029.3	Nuclear
Spruce Plant	Unit 1	Coal	1992	560.0		
	Unit 2	Coal	2010	785.0	1,345.0	Coal
Arthur Von Rosenberg (NGCC 2x1)	Unit 1	Gas	2000	518.0		
Sommers Plant	Unit 1	Gas/Oil	1972	420.0		
	Unit 2	Gas/Oil	1974	410.0		
Braunig Plant	Unit 1	Gas/Oil	1966	217.0		
	Unit 2	Gas/Oil	1968	230.0		
	Unit 3	Gas/Oil	1970	412.0		
Milton B. Lee West Plant	MBLCT 1[4]	Gas	2004	46.0		
	MBLCT 2[4]	Gas	2004	46.0		
	MBLCT 3[4]	Gas	2004	46.0		
	MBLCT 4[4]	Gas	2004	46.0		
Milton B. Lee East Plant	MBLCT 5[4]	Gas/Oil	2010	48.0		
	MBLCT 6[4]	Gas/Oil	2010	48.0		
	MBLCT 7[4]	Gas/Oil	2010	48.0		
	MBLCT 8[4]	Gas/Oil	2010	47.0		
Rio Nogales Plant[5] (NGCC 3x1)	Unit 1	Gas	2012	777.0	3,359.0	Gas/Oil
Commerce BESS[9]	Unit 1	BESS[9]	2019	10.0	10.0	BESS
CEC Beck (Community Solar)[8]	Unit 1	Solar PV[6]	2016	1.0		
Commerce PV	Unit 1	Solar PV[6]	2019	5.0	6.0	Solar PV
Total Capability Owned by CPS Energy					5,749.3	
Renewable Purchased Power Nameplate Capability:						
Desert Sky Wind Farm[7]		Wind	2002	63.4		
Cottonwood Creek Wind Farm (Sweetwater3)		Wind	2005	82.6		
Sweetwater 4		Wind	2007	240.8		
Penascal		Wind	2009	76.8		
Papalote Creek		Wind	2009	130.4		
Cedro Hill		Wind	2010	150.0		
Los Vientos		Wind	2012	200.1	944.1	Wind
Covel Gardens		Landfill Gas	2005	9.6		
Nelson Gardens		Landfill Gas	2014	4.2	13.8	Landfill Gas
Blue Wing		Solar PV[6]	2010	13.9		
Sinkin 1		Solar PV[6]	2012	9.9		
Sinkin 2		Solar PV[6]	2012	9.9		
Somerset		Solar PV[6]	2012	10.6		
Alamo 1		Solar PV[6]	2013	39.2		
St. Hedwig (Alamo 2)		Solar PV[6]	2014	4.4		
Eclipse (Alamo 4)		Solar PV[6]	2014	39.6		
Walzem (Alamo 3)		Solar PV[6]	2015	5.5		
Helios (Alamo 5)		Solar PV[6]	2015	95.0		
Solara (Alamo 7)		Solar PV[6]	2016	106.4		
Sirius 1 (Alamo 6)		Solar PV[6]	2017	110.2		
Sirius 2 (Pearl)		Solar PV[6]	2017	50.0		
Lamesa II (Ivory)		Solar PV[6]	2018	50.0	544.6	Solar PV
Total Renewable Purchased Power Nameplate Capability					1,502.5	
Total Capability including Renewable Purchased Power					7,251.8	

(1) Data as of January 1, 2022.
(2) Summer net max capability reflects net summer rating for CPS Energy owned plants.
(3) Current net summer electric rating (MWe) for CPS Energy's share of STP1 & 2. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Nuclear" herein.
(4) "CT" stands for "Combustion Turbine". Plants renamed MBL (Milton B. Lee) CT as of March 6, 2014.
(5) The Rio Nogales Plant was commissioned in 2002 and purchased by CPS Energy on April 9, 2012. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Gas/Fuel Oil Plants" herein.
(6) Solar PV capacity is reported on an alternating current (AC) nameplate basis.
(7) Desert Sky Wind Farm capacity updated to better reflect contracted nameplate capacity after turbine uprate.
(8) Community Solar project "CEC Beck" added to CPS Energy owned renewable portfolio table to align with other corporate reporting.
(9) BESS – Battery Energy Storage System.

Nuclear

Nuclear is one of CPS Energy's base energy options, providing about 27.1% of CPS Energy's total net annual generation for the twelve months ending January 31, 2022. STP is a two-unit nuclear power plant with Unit 1 and Unit 2 (or "STP1" and "STP2") having a combined nominal output of approximately 2633.1 MW. STP is located on a 12,220-acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles from San Antonio. CPS Energy currently owns 40% of these units. Participant Ownership ("Participants") in STP1 and STP2 and their shares therein are as follows:

	Ownership Effective February 2, 2006[(1)]	
Participants	%	Nominal Output MW (approximate)
NRG Energy, Inc. ("NRG")	44.0	1,158.6
CPS Energy	40.0	1,053.3
City of Austin-Austin Energy	16.0	421.2
	100.0	2,633.1

(1) In 2006, Texas Genco, holder of a 44% interest in STP, was acquired by NRG. NRG holds its interest in STP1 and STP2 in NRG South Texas LP, a wholly owned subsidiary of NRG.

STP is maintained and operated by a non-profit Texas corporation ("STP Nuclear Operating Company" or "STPNOC") financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs the STPNOC, with each owner appointing one member to serve with the STPNOC's chief executive officer ("CEO"). The STPNOC Board of Directors selected Tim Powell as the Interim CEO and President on January 11, 2018. On August 20, 2018, STPNOC announced that Mr. Powell assumed the role permanently. All costs and output continue to be shared in proportion to ownership interests.

On February 9, 2017, STPNOC received a final significance determination notice from the NRC concerning a previously identified security-related finding. The NRC concluded the finding was "Greater than Green" and of low to moderate security significance. The finding was identified during an NRC inspection conducted from October 19 through December 1, 2016. STP took prompt actions to address the finding. Because the finding was characterized as Greater than Green, the NRC determined that STP would be in the Regulatory Response Column of the Reactor Oversight Process Action Matrix. STP successfully completed an NRC follow-up inspection in August 2017. Subsequently, the NRC returned STP to the Licensee Response Column of the Reactor Oversight Process Action Matrix effective October 2017.

NRC, which retains jurisdiction to conduct cybersecurity-related inspections at nuclear facilities, completed a cyber security inspection of STP in October 2017. STP successfully completed this inspection and was the first nuclear facility in the country that received such an inspection.

In September 2017, the NRC approved STPNOC's license renewal applications for STP1 and STP2 that extends the operating licenses to 2047 and 2048, respectively.

During the twelve-months ended December 31, 2021, STP1 and STP2 operated at approximately 94.9% and 95.9% of net capacities, respectively. Due to the 2021 Winter Weather Event (see "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event"), STP1 automatically shut down on February 15, 2021 amid bitter cold. The unit, located in Bay City, Texas, was operating at 36% of capacity in the early morning of February 18, 2021 and then ascended back toward 100% capacity. STP2 remained online at full generating capacity.

STP completed corrective actions to ensure the station is ready for winter weather operations. These actions included replacement of missing or degraded heat trace systems and piping insulation, revising the station's Winter Readiness procedure, and training on the station's winter readiness for Operations, Maintenance and Engineering personnel. In addition, STP submitted TAC 25.55 required Winter Weather Readiness Reports to ERCOT on December 1, 2021. ERCOT inspectors were onsite December 6, 2021 to tour the plant and confirm STP's compliance.

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Five-Year South Texas Project Capacity Factor[1]

	Calendar Years Ended December 31,				
	2017[2]	2018	2019[2]	2020[2]	2021
Unit 1	92.3%	94.1%	105.1%	95.1%	94.9%
Unit 2	105.0%	95.2%	96.0%	105.1%	95.9%
Average	98.7%	94.7%	100.6%	100.1%	95.4%

(1) Capacity Factor based on nameplate rating of 1250.6 MW per unit.
(2) Greater than 100% due to plant upgrades.

Recent operational highlights for STP include the following: In September 2016, STPNOC was recognized by *EHS Today's*, a national publication for environment, health and safety leaders, as one of 10 companies selected to the 2016 list of America's Safest Companies. This is the second time STP has received this national honor, also receiving the award in 2010. In 2017, STP's annual Total Generation Cost ($/MWh) ranked in the top decile nationally compared to the other United States nuclear generation stations and from 2017 to 2019, STP's three-year Total Generation Cost ($/MWh) ranked in the top decile nationally as well. STP produced more energy than any other two-unit nuclear plant in the country for the period 2004 through 2011 and 2014.

Coal Plants

Coal, with its relatively stable low cost, provided 20.1% of CPS Energy's total net annual generation in Fiscal Year 2021 and 1,345 MW of reliable capacity in the ERCOT market. Coal units also provided 24.3% of the Fiscal Year 2020 electric system native load.

The Deely and Spruce Plants are located at the Calaveras Power Station southeast of the City and share Calaveras Lake's cooling capacity. The Deely Plant and the Spruce Plant each are equipped with substantial environmental controls. CPS Energy obtains its low sulfur content coal from the Powder River Basin area of Wyoming.

The Deely Plant consists of two large units, Deely1 and Deely2, which were installed in 1977 and 1978, respectively, and are both rated to provide 420 net MW of capacity to the Bulk Electric System ("BES") operated by ERCOT. Both Deely units were deactivated at the end of calendar year 2018, as described in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Additional Generation Opportunities".

The Spruce Plant also consists of two large well maintained units. Spruce1 and Spruce2 were installed in 1992 and 2010, respectively. Spruce1 can provide 560 net MW of capacity to the BES. Spruce2 can provide 785 net MW of capacity to the BES. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Station Events" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Capability" herein. The units are usually base loaded and remain online 24/7 for dispatch to the electric system by ERCOT. CPS Energy has an SCR on the Spruce2 unit. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Air Act – Nitrogen Oxides ("NO_x")" herein. To support new effluent and coal combustion residual standards, CPS Energy is considering the installation of water discharge treatment technology on the Spruce1 and Spruce2 units. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Water Act – New Effluent Standards" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Other Environmental Issues – Coal Combustion Residuals" herein.

CPS Energy has committed to examining the future of the Spruce Plants over the course of the next year. On February 28, 2022, the Board approved spending $50 million on a three-acre pond at Spruce to remain compliant with applicable environmental laws. The pond, which must be completed by September 2023, has been within CPS Energy's budget since the new rule related to handling these wastes was announced in 2014.

Gas/Fuel Oil Plants

The Sommers Plant, located at the Calaveras Power Station, comprises two large steam units operating on natural gas. Sommers1 and Sommers2 were installed in 1972 and 1974 respectively. Sommers1 can provide 420 net MW of intermediate/peaking capacity to the BES. Sommers2 can provide 410 net MW of intermediate/peaking capacity to the BES.

Both units are offered to the ERCOT Energy Market and are selected to operate as the market economics and load demand dictates. The units are typically cycled during peak load months in the summer and winter based on the load demand and market pricing for the day. During the shoulder months of fall and spring, the units typically operate in a standby mode available to cover CPS Energy native load obligations as well as to take advantage of ERCOT market opportunities.

The Braunig Plant and Arthur Von Rosenberg Plant ("AVR Plant") are located at the Braunig Power Station southeast of the City and share Braunig Lake's cooling capacity. The Braunig Plant has three steam units which operate on natural gas. Braunig1, Braunig2, and Braunig3 were installed in 1966, 1968, and 1970 respectively. Braunig1, Braunig2, and Braunig3 can provide 217, 230, and 412 net MW, respectively, of capacity to the BES. All three units are typically cycled during peak load months in the summer and winter. During the shoulder months of fall and spring the units typically do not run as often and are in standby mode available to take advantage of ERCOT market opportunities.

The Braunig Plant also has four simple cycle combustion turbines (renamed Milton B. Lee East Plant) which provide quick-start peaking energy for CPS Energy's generation portfolio, as well as Black Start capability to ensure CPS Energy's generation assets can expeditiously come online in an outage situation. The Milton B. Lee East Plant was installed in 2010. Three of the four units can provide 48 MWs, and one of the units provides 47 MWs net capacity to the BES. Each unit consists of a generator driven by a General Electric (GE) LM6000 Combustion Turbine aero derivative. These combustion turbine units may be fueled with either gas or diesel making them very flexible and able to take advantage of constrained energy situations in the ERCOT market. The units are operated as cycling peaking units and are utilized to provide reliable and valuable energy in high demand periods as well as to meet CPS Energy's ancillary service obligations.

The AVR Plant, located adjacent to the Braunig Plant, uses combined cycle technology that is 25% to 30% more fuel efficient than other gas generation technologies and provides a competitive low heat rate asset for CPS Energy. The AVR Plant's three generators combine to provide 518 net MW of reliable competitive capacity to the BES. The plant consists of two GE 7FA Frame Combustion Turbines driving one generator each and a GE D11 Steam Turbine driving another generator. The exhaust heat from both turbines is used to generate steam to drive the steam turbine generator. The plant can operate in a 1x1 configuration with one combustion turbine and the steam turbine, or a 2x1 configuration with both combustion turbines in service along with the steam turbine giving it the flexibility to maximize its value.

The Milton B. Lee West Power Station located in southwest Bexar County has four additional quick-start natural gas simple cycle combustion turbines that include Black Start capability to ensure CPS Energy's generation assets can expeditiously come on line in an outage situation and provide 184 net MW of flexible capacity for CPS Energy. The Milton B. Lee West Plant was installed in 2004. Each of the four units can provide approximately 46 net MW of capacity to the BES. Each unit consists of a generator driven by a GE LM6000 Combustion Turbine aero derivative. These combustion turbine units operate on natural gas. The units are operated as cycling units and are utilized to cover energy in periods of high demand and ancillary service obligations of CPS Energy.

On April 9, 2012, CPS Energy closed on the acquisition of the Rio Nogales natural gas combined cycle power plant (the "Rio Nogales Plant"), located in Seguin, Texas. The low heat rate 777 MW (net summer rating with duct firing) plant was purchased from Tenaska Capital Management, LLC and provides CPS Energy with reliable, efficient generation capacity. Natural gas is supplied to the plant through a pipeline lateral that accesses the Oasis pipeline, a DCP Midstream pipeline, and a Kinder Morgan/Houston pipeline joint venture pipeline. Water sources for the plant consist of treated sewage effluent from the City of Seguin's wastewater treatment plant, surface water from the Guadalupe River, and ground water from the Schertz/Seguin Local Government Corporation well field in Gonzales County. All the Rio Nogales Plant's water is supplied through an agreement with the City of Seguin. The agreement was entered into in 2001 and has a primary term of 25 years, terminating in 2027 with options to extend the agreement for up to three additional five-year terms. CPS Energy initially sold the plant capacity into the ERCOT wholesale market (including bilateral sales) during the first few years of ownership. The plant capacity is now dedicated to CPS Energy native load demand (corresponding approximately with the reduction in generating capacity attributable to the deactivation of Deely1 and Deely2, which occurred on December 31, 2018). See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Coal Plants" herein.

Renewable Resources

As of November 30, 2021, CPS Energy's renewable energy capacity totals 1,508.5 MW. CPS Energy has one of the strongest and most diverse renewable energy programs in Texas, including local solar, West Texas solar, West Texas wind, coastal wind and landfill gas. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ELECTRIC UTILITY RESTRUCTURING IN TEXAS – Environmental Restrictions of Senate Bill 7 and Other Related Regulations" herein.

As a step in diversifying its energy resource plan, CPS Energy is proactively pursuing renewable energy supplies. CPS Energy is currently receiving renewable energy under several long-term contracts. CPS Energy has two contracts for wind-generated energy from the Desert Sky Wind Project: a 20-year contract for 135 MW and a 15-year contract for 25.5 MW. These contracts were renegotiated into one single contract, with a termination date of December 31, 2021, in response to a request from the developer to repower the project with improved equipment. The plant capacity factor improved, providing CPS Energy with additional MWh at a lower cost per MWh than the original contracts. The term of the new contract remained the same as the original contracts. The repower was completed in August 2018 and added approximately 8 MW of nameplate capacity. The Desert Sky Wind contract has since been renegotiated to extend through December 31, 2027 and now provides a total of 63.4 MW. The Cottonwood Creek Wind Farm (Sweetwater 3) was also repowered and the contract renegotiated to provide 82.6 MW of capacity to CPS Energy. CPS Energy also has a 20-year contract for 240.8 MW from the Sweetwater 4 Wind Farm; a 15-year contract for 76.8 MW from the Penascal Wind Farm; a 15-year contract for 130.4 MW from the Papalote Creek Wind Farm; a 20-year contract for 150 MW from the Cedro Hill Wind Farm; and a 25-year contract for 200.1 MW from the Los Vientos Wind Farm. Recent transmission congestion in South Texas during various seasons has impacted the Cedro Hill and Los Vientos wind farms, resulting in agreed-upon curtailment of these units during periods of negative pricing (a standard procedure).

CPS Energy also has a 15-year contract for a landfill gas-generated energy project totaling 9.6 MW which came on-line in December 2005. Under an additional contract, the Nelson Gardens 4.2 MW landfill gas generation project achieved commercial operation in April 2014.

CPS Energy is growing its solar energy portfolio with a 30-year contract for the 13.9 MW Blue Wing solar energy project which entered into commercial operation in November 2010; two 25-year contracts for Sinkin 1 and 2, each 9.9 MW which became operational in May 2012 and a 25-year contract for 10.6 MW from the Somerset Solar project, which became operational in August 2012. Sinkin 1 and 2 and Somerset Solar projects comprise what was formally referred to as the SunEdison Project. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – STRATEGIC INITIATIVES – Business and Economic Development" herein.

In August 2018, renewable energy infrastructure developer Renewable Energy Systems was selected by CPS Energy to construct an innovative solar and energy storage project, located at Southwest Research Institute and is the first co-located solar and storage project interconnected at the distribution level within ERCOT. This project broke ground on October 9, 2018 and went online February 2020. This project has 17,752 solar panels that produce about 5 MW of solar, enough to power approximately 1,000 homes. The project also includes a Battery Energy Storage System, with 10 MW of storage capacity, which provides flexibility to store energy by charging when market prices are low and discharge the stored energy when market prices are high.

CPS Energy executed a Master Agreement with OCI Solar Power for approximately 400 MW from seven facilities. All seven facilities have been or became operational in early 2017. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – STRATEGIC INITIATIVES – Business and Economic Development" herein. Each individual facility comprising OCI Solar's 401.8 MW has an existing PPA. OCI's Alamo 1 project facility of 39.2 MW achieved commercial operation in December 2013; St. Hedwig (Alamo 2) for 4.4 MW achieved commercial operation in March 2014; Eclipse (Alamo 4) facility at 39.6 MW, achieved commercial operation in August 2014; Walzem (Alamo 3) project at 5.5 MW achieved commercial operation in January 2015. The Uvalde (Helios – Alamo 5) facility at 95 MW became operational at the end of December 2015. The Haskell (Solara – Alamo 7) facility at 106.4 MW became operational in September 2016. The Sirius 1 (Alamo 6), at 110.2 MW in Pecos County, Texas, began producing test energy in late 2016 and became operational in March 2017. Currently, Alamo 6 is one of the largest solar PV plants in Texas. In addition to the PPAs executed under the Master Agreement with OCI, CPS Energy has also executed two separate 25-year PPAs for Project Pearl (50 MW located adjacent to Alamo 6) and for Project Ivory (50 MW located near Lamesa). Project Pearl became operational on October 16, 2017, and Project Ivory, which previously sold to D.E. Shaw Renewable Investments, began commercial operation on December 20, 2018. On September 1, 2019, Commerce PV consisting of 5.0 MW, became operational. 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 September 2021, OCI, CPS Energy, and Hyundai Motor Group executed a memorandum of understanding to test recycled electric vehicle batteries for solar energy storage. By September 2022, the parties plan to install the energy storage system in which CPS Energy plans to serve as operator.

CPS Energy receives energy from 944.1 MW of wind, 550.6 MW of solar and 13.8 MW of landfill gas generated energy for a total renewable energy capacity in operation of 1,508.5 MW, thereby exceeding CPS Energy's goal of 1,500 MW of renewable capacity by 2020.

An estimate of 1.0 MW of solar electricity will be produced by the utility's Solartricity Producer Program. The Solartricity Producer Program is a limited pilot project that is currently closed to any new subscribers and is not included in the "Generating Capability" table. Each Solartricity participant has a 20-year contract with CPS Energy. In addition, the pilot "Simply Solar" programs discussed in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein, currently constitute approximately 6 MW of solar capacity. When including these pilot programs, CPS Energy's renewable portfolio capacity increases to 1,508.5 MW. Only CEC Beck is included in the "Generating Capability" table, since it is owned and operated by CPS Energy and to align with other corporate reporting.

Peak Demand and Native Load

In the CPS Energy service territory, a previous record system peak demand of 5,080 MW was set on July 23, 2018, on hour ending 7 p.m. At the time of the 2018 peak, a total of over 5,500 MW was available to meet CPS Energy's native load summer peaking needs The peak demand for the summer of 2018 was driven by native load growth and a 105° peak temperature, surpassing the record of 5,017 MW set on August 12, 2016. In the summer of 2019, a new all-time high system peak was reached on August 26, 2019, of 5,159 MW, surpassing the previous 2018 record. Even with strong customer growth the summer of 2020 again came in at 5,080 MW and the summer of 2021 was only 4,906 MW due to a milder summer and demand-response programs. During the 2021 Winter Weather Event (see "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein.) peak demand was 4,935 MW. CPS Energy continues to provide innovative and growing conservation and demand-response programs, such as automatically adjusting participating customers' thermostats served to keep CPS Energy's peak demand lower than it otherwise would have been. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Capability" herein.

Replacement Power for Events

Depending upon the time of the year and actual customer demand, unplanned outages may or may not result in a need to purchase power from other providers on the ERCOT wholesale market. While replacement power can be more expensive to CPS Energy's customers than generation from its own facilities, CPS Energy's existing rate structure allows the cost of replacement power to be funded through its monthly fuel and gas cost adjustment fee. CPS Energy makes no representation as to the costs of replacement power and qualifies the foregoing in response to the 2021 Winter Weather Event (see "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein.)

Assets Supporting Generation

Braunig and Calaveras Lakes are CPS Energy-owned man-made lakes that provide cooling for most CPS Energy's generating units. These lakes utilize treated sewage effluent and runoff waters to maintain operating levels. CPS Energy was a pioneer in the use of non-potable, recycled water from treated sewage effluent for cooling purposes, thereby saving higher quality, potable ground water for other uses.

CPS Energy has contracted with SAWS, the City's municipally owned water and sewer system, to provide a maximum of 50,000 acre-feet of treated sewage effluent per year to CPS Energy. CPS Energy projects that these contract volumes, along with water available under existing water rights, will provide sufficient cooling capacity for existing and planned generation units at Braunig and Calaveras Lakes. However, low flow in the San Antonio River could create challenges in pumping make-up water from the river to keep the lakes in optimal operating conditions.

CPS Energy owns an additional 3,064 acre-feet of Edwards Aquifer ground water rights to supply process water and some cooling water to other power plants in its service territory. CPS Energy previously leased 1,000 acre-feet of this water to the Edwards Aquifer Authority (the "EAA") on a short-term basis as described in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Water Resources Planning" herein. A lease of 1,000 acre-feet additional Edwards Aquifer water rights to SAWS was executed in May 2014. The two 1,000 acre-feet water leases to SAWS and EAA expired by their terms, and a new 2,000 acre-feet contract providing leases to SAWS was executed in 2019. This water had gone unused in the past and CPS Energy projects that the retained 1,069 acre-feet of water is sufficient to maintain power plant operations even in drought conditions. CPS Energy also purchases potable water from SAWS and East Central Special Utility District through standard water delivery rates for power plant process water and miscellaneous plant needs.

CPS Energy continues to manage water-related legal, supply, and conservation issues through participation with local and regional water stakeholder groups. CPS Energy has conserved water by using technologies such as once-through cooling ponds (instead of cooling towers), increased power plant efficiency projects, the installation of water-efficient gas turbines (versus gas steam turbines), and new water treatment technologies. CPS Energy continues to study other water conservation technologies, such as dry cooling. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters" herein.

For description of other assets of the Systems that support generation, please see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Fuel Supply" herein.

Smart Grid Modernization Program

Starting in 2013, CPS Energy began building a converged Advanced Metering Infrastructure ("AMI") and distribution automation ("DA") network. The rollout of new electric meters and gas interface management units ("IMUs") using this network began in 2014 in order to reduce operational costs and improve reliability. A new energy portal was implemented to give customers the opportunity to better track and manage their energy usage. The project was completed in the summer of 2018. The combined cost of the network, electric and gas upgrades was $264 million. Operational savings, accurate reads, and distribution automation are all factored in the program. Savings are expected to cover the cost in approximately 13 years. As of March 2022, approximately 1.3 million smart grid devices have been installed pursuant to this program. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs – Energy Conservation" herein. In addition, CPS Energy is utilizing smart grid technologies to ensure grid resilience and reduce impacts of power events during such as flooding and hurricanes.

Smart Streetlights

CPS Energy and the City have partnered on a joint Request for Proposal to pilot and award a smart streetlight control solution with added smart city use cases. Smart streetlight controls will allow for centralized monitoring and control of streetlights which will improve maintenance planning and increase operational efficiency. The solution will allow for adaptive lighting schedules, provide defective operation notifications, provide GPS locations of streetlights, and provide streetlight failure and status reports.

The smart streetlight platform will be leveraged by smart city use cases. The City has identified several smart city use cases to pilot, which include the following: temperature and air quality monitoring, flood detection, noise detection, and smart parking.

CPS Energy and the City have selected two solution providers to pilot smart streetlight control & smart city applications within the City's three Innovation Zones (Downtown, Medical Center, and Brooks City Base) over a 6-month period. The pilot period concluded on October 15, 2021. Results from the streetlight pilot are being evaluated. Initiation of a potential City-wide implementation is targeted for the fourth quarter of 2022.

New Products & Services

CPS Energy continually evaluates its entire portfolio of electric and gas products and services to more fully meet customers' needs. To that end, in the latter half of calendar year 2020, CPS Energy has received approval from the Board and City Council for three new offerings now available to commercial customers. First, CPS Energy developed a tariff that provides large commercial customers with improved access to renewable energy sources. Under this optional Green Tariff (as described under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Green Tariff"), CPS Energy procures renewable energy from a source chosen by the customer, and then sells it to the customer through the Green Tariff. Second, CPS Energy converted a limited Resiliency Service pilot into a permanent tariff for its commercial customers. Under the Resiliency Service offering, CPS Energy will provide on-site backup generators capable of providing electricity to retail customers during outages of the electric system in exchange for a monthly Resiliency Service capacity fee. The natural gas backup generators are owned and operated by one of CPS Energy's suppliers. As of January 31, 2022, Resiliency Service has been enabled at 27 customer sites with a total capacity of 30.4 MW. The Green Tariff and Resiliency Service offerings have both been fully approved.

Lastly, in support of growing demand for distribution-level interconnection by energy storage facilities seeking to access to the ERCOT wholesale energy markets as generation resources, CPS Energy is finalizing regulatory approvals of updates to its existing Wholesale Distribution Service ("WDS") tariff. The updated WDS tariff enables eligible transmission service customers to interconnect at various locations within the distribution system at applicable rates for utilizing the portion of distribution assets ascribed to the location of interconnection. Consistent with the Board's recommendation, the WDS tariff updates were approved by the City Council on September 17, 2020. The WDS tariff, which offers transmission service at distribution voltage, is subject to the joint jurisdiction of the City Council (regarding appropriate cost recovery for use of distribution assets) and the PUCT (to ensure nondiscriminatory rates and terms of access to the distribution system). CPS Energy filed its application with the PUCT for administrative approval of the updated WDS tariff on October 12, 2020, in Docket No. 51409, which was subsequently challenged by two energy storage companies requesting a hearing on the merits. The PUCT granted the request for a contested hearing and forwarded the matter to the State Office of Administrative Hearings ("SOAH") for adjudication. On June 25, 2021, the SOAH administrative law judges approved the WDS tariff rates on an interim basis subject to potential adjustment pending the final resolution of the case. As of the date of this Offering Memorandum, the parties have entered settlement discussions. Should a settlement agreement not be reached and accepted, a hearing will be scheduled, and final resolution by the PUCT is expected thereafter.

Qualified Scheduling Entity

CPS Energy operates as an ERCOT Level 4 Qualified Scheduling Entity ("QSE") representing all of CPS Energy's assets and load. The communication with ERCOT and the CPS Energy power plants is monitored and dispatched 24 hours per day/365 days a year. Functions are provided from the Energy Market Center housed within the main office of CPS Energy. Backup facilities have also been created. QSE functions include load forecasting, day ahead and real time scheduling of load, generation and bilateral transactions, generator unit commitment and dispatch, communications, invoicing and settlement. The QSE operates in all aspects of the ERCOT Market, including submitting bids and offers in the Day Ahead Market ("DAM"), operating generation and load in the Real Time Market ("RTM"), participating in Congestion Revenue Rights auctions, and offering Ancillary Services into the grid.

Transmission System

CPS Energy maintains a transmission network for the movement of large amounts of electric power from generating stations to various parts of the service area, to or from neighboring utilities, and for wholesale energy transactions as required. This network is composed of 138 and 345 kilovolt ("kV") lines with autotransformers to provide the necessary flexibility in the movement of bulk power.

Distribution System

The distribution system is supplied by 98 substations strategically located on the high voltage 138 kV transmission system stepping down to distribution system voltages of 34.5 kV and 13.2 kV. The City's central business district is served by nine underground networks, each consisting of four primary feeders operated at 13.2 kV, transformers equipped with network protectors, and both a 4-wire 120/208 volt secondary grid system and a 4-wire 277/480 volt secondary spot system. This system is designed for the highest level of distribution reliability.

Approximately 8,221 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of 707 miles of three-phase equivalent distribution lines, 87 miles of three-phase downtown network distribution lines, and 5,798 miles of single-phase underground residential distribution lines.

Interconnected System

The electric system is integrated with more than 100 other utilities, municipalities, independent power producers, power marketers, and co-operatives in Texas to form ERCOT, which covers a large portion of Texas. The ERCOT system is operated entirely within the State and is connected to other reliability councils and Mexico through asynchronous connections, providing only limited import/export capability. CPS Energy and the eight utilities listed below are the major transmission entities in ERCOT:

American Electric Power Service Corporation	Austin Energy
Brazos Electric Power Co-op Inc.[(1)]	CenterPoint Energy
LCRA Transmission Services Corp.	Oncor Electric Delivery Co LLC
South Texas Electric Co-op Inc.	Texas-New Mexico Power Co.

[(1)] Filed bankruptcy on March 1, 2021 and is currently in bankruptcy proceedings.

The transmission facilities of CPS Energy, the eight above entities, and those of other transmission facility owners have been integrated into a single control area, which is operated by ERCOT acting as the Independent System Operator ("ISO"). ERCOT operates the transmission grid through each of the transmission-owning entities that maintain direct control and maintenance of their respective portions of the transmission infrastructure.

On March 8, 2018, the PUCT approved the petition of Lubbock Power & Light (the municipal electric utility owned by the City of Lubbock, Texas) to join ERCOT. Lubbock Power & Light will transfer 430 MW of its load from the Southwest Power Pool to ERCOT. The move is expected to result in an investment of approximately $364 million in infrastructure to construct new transmission lines to interconnect with the ERCOT grid. Lubbock Power & Light previously announced it will pay ERCOT $110 million for infrastructure needed to connect Lubbock to the State's grid. Approximately 70% of its customers were transferred to ERCOT by May 30, 2021. The City of Lubbock can now seek approval from the PUCT to transfer the remaining 30% of its customers to ERCOT. The transfer is scheduled for May 2023.

On August 12, 2019, ERCOT set a peak record of 74,820 MW compared to the grid's previous all-time high demand of 73,473 MW on July 19, 2018. The winter peak record was set on February 14, 2021, reaching 69,150 MW. Increased power usage in response to weather conditions has impacted and may continue to impact the grid's ability to prospectively operate effectively and efficiently and both the Texas Legislature and the PUCT are actively making changes by focusing on improving the safety and reliability of the electric system.

Pursuant to the PUCT's open access transmission rule, discussed under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein, ERCOT members and other wholesale market participants jointly established, by a filing with the PUCT in 1996, the ERCOT organization as an ISO and an integrated electronic transmission information network. ERCOT's responsibilities were augmented in 1999 under SB 7 for the retail competitive market and include alternate dispute resolution procedures, coordination of the scheduling of ERCOT generation and transmission, directing the redispatch of ERCOT generation and transmission transactions for economic purposes, preserving system reliability, and administering the electronic transmission information network. Beginning July 31, 2001, ERCOT began operating the interconnected system as a single control area, in contrast to the multiple control areas historically in place, as part of the transition to the retail competitive market, which was fully implemented on January 1, 2002.

In December 2010, ERCOT transitioned from its existing "Zonal" market structure to a "Nodal" market structure. Instead of simply facilitating the scheduling of generation resources and loads, the Nodal market ERCOT optimizes the dispatch of all generating units in the RTM using Security Constrained Economic Dispatch ("SCED"). Resource operators submit offer curves to ERCOT and load serving entities submit bid curves to ERCOT. The SCED engine optimizes deployment of generation assets (constrained by the limits of the transmission system) to meet demand through an electronic auction run every five minutes. In order to provide predictability in the RTM, ERCOT also operates a financial DAM. This voluntary market allows market participants to sell resources and buy load one day prior to the operating day, securing positions and adding predictability to their revenues and costs. The DAM is conducted by ERCOT itself, and each participant must show adequate creditworthiness to participate. CPS Energy participates in both the DAM and the RTM daily. ERCOT's costs of converting to a single control area and of administering system operations for the competitive retail market are recovered through an administrative fee assessed to system participants, including CPS Energy, allocated on an energy basis. CPS Energy recovers the fee through the billing adjustment discussed above under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Governmentally Imposed Fees, Taxes or Payments".

ERCOT also manages commercial operations of the wholesale power market, as well as acts as a single clearinghouse for retail customer switches and metering information.

CPS Energy is a qualified scheduling entity, load serving entity, distribution service provider, resource entity, and transmission service provider in the ERCOT wholesale market, and is thereby obligated to comply with all rules established by ERCOT as reflected in its protocols, planning guides, and operating guides, which are subject to change from time to time and subject to oversight and review by the PUCT.

CPS Energy is also complying with the reliability standards of the North American Electric Reliability Corporation ("NERC"), including the Critical Infrastructure Protection standards. CPS Energy must comply with these standards as a Transmission Planner, Transmission Owner, Transmission Operator, Distribution Provider, Generator Owner and Generator Operator. CPS Energy is continually monitoring proposed new reliability standards, new versions of existing standards, and the potential of violations related to the standards. CPS Energy does not anticipate any violations that would have a material financial impact.

External Events Impacting Nuclear Power Generation Industry and STP1 and STP2, and CPS Energy's Response

On March 11, 2011, a magnitude-9.0 earthquake struck off the north-eastern coast of Japan. This earthquake triggered a tsunami that devastated portions of Japan. The Fukushima Daiichi nuclear power plant site was one of the areas struck by the earthquake and tsunami. This event resulted in core damage to Units 1, 2, and 3 at that plant. The nuclear industry responded to the events at Fukushima. The NRC formulated a Near-Term Task Force to conduct a review of the NRC's processes and regulations considering the events at Fukushima. The Near-Term Task Force's 90-day report confirmed the safety of United States nuclear power plants and included twelve recommendations to the NRC commissioners. In October 2011, the NRC commissioners directed NRC staff to implement seven of the recommendations that were identified as those that should be implemented without unnecessary delay. In addition, the NRC commissioners directed the staff to identify the schedule and resource needs associated with those Near-Term Task Force recommendations that were identified as long-term actions and/or that require additional staff study to inform potential regulatory changes. On March 12, 2012, the NRC issued three orders (the "NRC Orders") and one Request for Information letter. These actions represented the first regulatory activity initiated as a result of the lessons learned from the events at Fukushima. The NRC Orders outline actions that must be taken and provide a compliance deadline. License holders must have completed the actions within two refueling outages or by December 31, 2016 (whichever came first). The Request for Information letter requires specific responses from license holders. Additionally, NRC developed the diverse and flexible mitigation capability ("FLEX"), an additional layer of backup power after an extreme event at nuclear energy sites, which will maintain cooling water at the reactors in the event backup systems fail. Most recently, NRC staff reviewed the International Atomic Energy Agency's report, "The Fukushima Daiichi Accident" and determined the observations concluded therein do not introduce issues not previously considered by NRC, the U.S. Government, or the U.S. nuclear industry, either as a part of a pre-existing program or Fukushima enhancements. As of July 21, 2016, STPNOC has submitted the requested information and complied with the NRC Orders in a timely manner to comply with all deadlines that have come due. NRC released its site evaluation report on June 8, 2017.

The NRC evaluates plant performance by analyzing two distinct inputs: inspection findings from the NRC's inspection program and performance indicators that are reported by the licensee. Inspection findings and performance indicators are given a color designation based on their safety significance. The current plant assessment for STP can be found at a summary level at http://www.nrc.gov/NRR/OVERSIGHT/ASSESS/pim_summary.html, or by writing to United States Nuclear Regulatory Commission, Public Document Room, O-1F-13, Washington, D.C. 20555.

The NRC regulations require that each holder of a nuclear plant operating license submit to the NRC a decommissioning plan, which contains, among other things, a cost estimate for decommissioning such plant and either a funding plan or a guaranty method for covering decommissioning costs for such plant. Participants in STP have filed a decommissioning plan for the STP in compliance with these regulations, which includes representations by each Participant that it has established a trust into which it annually pays, throughout the life of the STP, amounts which, when accumulated with investment income, are projected to provide the funds required by the rules to pay its respective portion of such decommissioning costs.

CPS Energy maintains decommissioning funds for its 28% interest in STP separate from decommissioning funds associated with its 12% STP interest ("former AEP TCC interest") to meet its decommissioning obligations for its entire 40% interest in STP. See Note 14 to CPS Energy's Basic Financial Statements in APPENDIX C. Total funds in each Trust are allocated to decommissioning costs, spent fuel management and site restoration. The funds available for decommissioning costs are based on cost estimates most recently provided in a cost study finalized in May 2018. As of December 31, 2019, and 2018, CPS Energy had accumulated approximately \$473 million and \$413 million, respectively, in the 28% Trust. Based on the most recent available annual calculation of financial assurance (required by the NRC every two years), as of December 31, 2018, the 28% Trust funds available for decommissioning costs totaled \$264 million, which exceeded the estimated NRC requirement of \$111 million. With respect to decommissioning funds for the former AEP TCC interest, the acquisition by CPS Energy and Texas Genco of AEP TCC's interest in STP includes, proportionately, the responsibility for decontamination and decommissioning, but also resulted in the transfer of decommissioning funds held in trust by AEP TCC. Under PUCT's Substantive Rules Applicable to Electric Service Providers – Nuclear Decommissioning – Rule 25.303, AEP TCC collected decommissioning fees from its historical retail customers, which were paid into trust accounts applicable to the new shares of STP acquired by CPS Energy and Texas Genco. Based on analysis of the May 2018 cost study, funds are projected to be adequate to meet expected costs and approval has been obtained from the PUCT to discontinue the collection of fees from the AEP TCC retail customers beginning mid-2019. The need for additional funding is subject to review and adjustment by the PUCT every five years or at the request of an interested person including CPS Energy or Texas Genco. As of December 31, 2019, and 2018, the CPS Energy balance in the Decommissioning Master Trust Related to the South Texas Project Interest Acquired from AEP Texas Central Company, "Master Trust (TCC Funded)", was \$173 million and \$152 million, respectively. Based on the most recent annual calculation of financial assurance, as of December 31, 2018, the TCC Funded Trust funds available for decommissioning costs for CPS Energy's 12% interest in STP totaled \$106 million, which exceeded the estimated NRC requirement of \$48 million. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Investments – Trust Funds – STP Decommissioning Funds" and "Master Trust (TCC Funded)" herein for information concerning the value of investments in the decommissioning trusts. Actual decommissioning costs could vary substantially from the estimate of such costs depending on future regulatory requirements, the method used for decommissioning, and other factors, and the amounts in the decommissioning trusts may or may not be adequate to pay these costs. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Investments – Trust Funds – STP Decommissioning Trust" herein.

Used Nuclear Fuel Management

Under the Nuclear Waste Policy Act, 42 U.S.C. 10101, et seq. ("NWPA"), the Department of Energy ("DOE") has an obligation to provide for the permanent disposal of high level radioactive waste, which includes used nuclear fuel at United States commercial nuclear power plants such as STP. To fund that obligation, all owners or operators of commercial nuclear power plants have entered into a standard contract under which the owner(s) pay a fee to the DOE of 1.0 mill per kilowatt hour (1M/kWh) electricity generated and sold from the power plant along with additional assessments. In exchange for collecting this fee and the assessments, 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. To date, no high-level waste repository has been licensed to accept used fuel. The National Association of Regulatory Utility Commissioners ("NARUC") has challenged further collection of this fee. On November 19, 2013, the U.S. Court of Appeals for the District of Columbia ruled in favor of NARUC and ordered DOE to submit to Congress a proposal to reduce the fee to zero until certain conditions are met. While the reporting of volumes will continue, effective May 16, 2014, the rate changed to 0.0 mill per kilowatt hour (0/M/kWh), or no fee.

To date, the DOE has not accepted used fuel from any domestic commercial nuclear power plant. According to the filings in one recent suit brought against the DOE, at least 66 cases have been filed in the Court of Federal Claims against the DOE related to its failure to meet its obligations under the NWPA by the existing owners or operators of nuclear facilities seeking damages related to ongoing used nuclear fuel storage costs. In early 2016, a federal district court in Washington, D.C. ruled against the DOE, ordering the government to clean up the Hanford Nuclear Reservation in response to NWPA violations. Entergy Nuclear Generation Company ("Entergy") and Boston Edison Company ("Boston Edison") filed suits alleging a \$40 million claim before the Court of Federal Claims regarding allegations that the DOE failed to compensate a nuclear energy company for nuclear waste storage fees incurred. In an opinion and order addressing both companies' claims, dated February 14, 2017, the court dismissed Boston Edison's complaint (based on the rationale that such claim was not yet ripe) and dismissed the government's motion to stay discovery related to the Entergy case due to Boston Edison's claim resolution by the court.

On August 31, 2000, in *Maine Yankee Atomic Power Company, et al. v. US*, the United States Court of Appeals for the Federal Circuit affirmed that the DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. After that decision, the DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while the DOE continues to develop a permanent high-level waste repository. In early February 2013, STPNOC, on behalf of the owners of STP, entered a similar settlement with the DOE. Under the terms of the settlement, the DOE will reimburse STP for certain costs that will be incurred in continuing onsite storage of all its used nuclear fuel. As with similar settlements throughout the nuclear industry, the terms of the agreement call for the DOE to reimburse for certain costs incurred through December 2013. In early November 2013, STPNOC and its outside counsel received notice from the Department of Justice ("DOJ") that the DOE was offering to extend the terms of the settlement to allow for the DOE to reimburse for costs incurred through December 2016. The settlement extension (addendum) was executed on January 24, 2014 and extended the term of the Spent Fuel Settlement Agreement with the DOE through December 31, 2016. In November 2016, STPNOC and its outside counsel received notice from the DOJ that the DOE extended the terms of the settlement through December 31, 2019. On June 25, 2020 STPNOC and its outside counsel received notice from the DOJ that the DOE extended the terms of the settlement through December 31, 2022. Additionally, *In re Aiken County*, 725 F.3d 255 (D.C. Cir. 2013), the court ordered the NRC to comply with the NWPA and use available funds to resume consideration of the DOE's Yucca Mountain application as a possible depository. NRC staff concluded the Yucca Mountain to be a safe location, but the DOE must still obtain acquisition rights and complete licensing requirements. On May 6, 2016, NRC issued its final supplement to the environmental impact statement examining the use of the Yucca Mountain as a permanent repository for used nuclear fuel and high-level radioactive waste. After analyzing the potential impacts on groundwater and surface groundwater discharge, the NRC determined all impacts would be "small". The adjudicatory hearing, which must be completed before a licensing decision can be made, remains suspended. On December 16, 2016, the DOE released its "Draft Plan for a Defense Waste Repository", evaluating the possibility of a separate disposal repository (other than the Yucca Mountain). The preliminary plan describes the technical, regulatory, risk management, cost, and schedule consideration thereof and remained open for comment until March 20, 2017. In January 2017, the Government Accountability Office issued a report that assessed DOE's analysis of the defense-only repository as excluding major costs "that could add tens of billions of dollars" and including a schedule that "appears optimistic", in light of "past repository siting experiences". As of the date hereof, no funding for the Yucca Mountain repository is pending before the Congress, and legislation has been filed requiring consent from Nevada political subdivisions before constructing a permanent repository.

Until the DOE fulfills its responsibilities under the NWPA (which includes a permanent underground disposal facility), the NWPA has provisions directing the NRC to create procedures to provide for interim storage of used nuclear fuel at the site of a commercial nuclear reactor. Pursuant to STPNOC analysis of NRC guidance, STPNOC constructed an on-site independent spent fuel storage installation ("ISFSI" also known as "Dry Cask Storage") and commenced dry cask loading operations of spent nuclear fuel in January 2019. Expenditures for the spent fuel management project are being funded by the STP owners as the costs are incurred. CPS Energy funds its 40% ownership share of these costs and periodically requests reimbursement from its Decommissioning Trusts for allowable costs. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Investments – Trust Funds – STP Decommissioning Trust" herein.

Annually, STPNOC submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned by STP to the owners upon receipt of funds from the DOE. CPS Energy reimburses the Decommissioning Trusts for the settlement amount received from the DOE. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Decommissioning Trusts. Any costs not reimbursable by the DOE or the Trusts are recorded as STP operational and maintenance expenses or capital costs.

CPS Energy received reimbursement for certain initial costs related to the Dry Cask Storage project incurred prior to May 1, 2012. A second claim submitted to the DOE under the Spent Fuel Settlement Agreement was submitted on October 31, 2013 and sought reimbursement for covered costs during the period of May 1, 2012 through July 31, 2013. On April 14, 2014, the DOE issued a letter that denied reimbursement for certain costs associated with upgrading the spent fuel dry cask handling cranes. On May 8, 2014, STPNOC agreed to accept the DOE's decision but reserved the right to seek reimbursement for future costs associated with upgrading the cranes. CPS Energy expects that the DOE will render its decision regarding the eligibility for reimbursement of future crane upgrade costs as part of the review process for each annual claim. For those costs that have been deemed, or that in the future may be determined to be, non-reimbursable by the DOE, CPS Energy expects to pay these costs using funds currently held in the STP Decommissioning Trusts. CPS Energy received its share of the allowable reimbursement costs from the DOE on August 6, 2014. The third claim with the DOE under the Spent Fuel Settlement Agreement was submitted on October 31, 2014 and sought reimbursement for covered costs during the period of August 1, 2013 through July 31, 2014. In January 2015, $3.2 million was recorded for STP spent fuel management project capital costs. On February 25, 2015, STPNOC received DOE's "Determination Letter" regarding this claim which disallowed reimbursement of certain costs associated with dry cask handling crane upgrades. STPNOC filed a Request for Reconsideration with the DOE on March 27, 2015. On June 25, 2015, the DOE issued a Supplemental Determination letter which determined that a portion of the costs to upgrade the dry cask handling cranes was reimbursable as an allowable cost. CPS Energy received its share of the allowable reimbursement costs from the DOE on August 21, 2015 for the third claim. The fourth claim with the DOE under the Spent Fuel Settlement Agreement was submitted on October 30, 2015 and sought reimbursement for covered costs during the period of August 1, 2014 through July 31, 2015. On March 3, 2016, STPNOC received DOE's "Determination Letter" regarding this claim which disallowed reimbursement of certain costs. On June 13, 2016, CPS Energy received its share of the allowable reimbursement costs from the DOE for the fourth claim. The fifth claim with DOE under the Spent Fuel Settlement Agreement was submitted on October 28, 2016. On February 13, 2017, STPNOC received DOE's "Determination Letter" regarding this claim for reimbursement of certain costs. On June 14, 2017, CPS Energy received its share of the allowable reimbursement costs from the DOE for the fifth claim under the Spent Fuel Settlement Agreement. On April 11, 2018, DOE issued its "Determination Letter" regarding the October 2017 claim from STP. STP accepted the DOE's "Determination Letter" on April 20, 2018 and payment was received on June 1, 2018. The seventh claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2018 for the period of August 1, 2017 to July 31, 2018. On April 29, 2019, CPS Energy received its share of the allowable reimbursement costs from the DOE. The eighth claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2019 for the period of August 1, 2018 to July 31, 2019. On June 24, 2020, CPS Energy received its share of the allowable reimbursement costs from the DOE. The ninth claim under the Spent Fuel Settlement Agreement with the DOE was submitted in was submitted in late October 2020 for the period of August 1, 2019 to July 31, 2020. On April 19, 2021, CPS Energy received its share of the allowable reimbursement costs from the DOE. The most recent claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2021 for the period of August 1, 2020 to July 31, 2021. On April 19, 2022, CPS Energy received its share of the allowable reimbursement costs from the DOE.

A June 2012 decision by the United States Court of Appeals for the District of Columbia (the "D.C. Circuit Court") vacated the NRC's waste confidence rule update. In response, the NRC issued an order stating that final approval of licenses dependent on the waste confidence rule, such as new reactor licenses and license renewals (combined construction and operating license application – "COLA"), would not be granted until the court ruling had been addressed. Subsequently, the NRC directed staff to develop a new waste confidence rule and GEIS by September 2014. In January 2014, the NRC revised the review schedule for the GEIS and to have a new final rule by October 3, 2014. The slight delay in schedule was related to time lost during the government shutdown and lapse of appropriations in October 2013. On August 26, 2014, the NRC approved the GEIS and final rule (renamed the Continued Storage Rule). In a separate order, NRC approved lifting the licensing suspension once the Continued Storage Rule becomes effective. The rule became effective on October 20, 2014. On September 29, 2014, intervenors filed a petition to suspend the new rule with the Atomic Safety and Licensing Board (a unit of the NRC) and a proposed contention opposing the NRC's action. On February 26, 2015, the NRC issued a decision that rejects the petition, the proposed contention, and the motion to reopen filed by the intervenors in September 2014. On January 28, 2015, the intervenors filed a petition with the NRC to require reactor specific environmental impact statement for each license application for a new reactor and license extension (renewal). The NRC issued a decision in April 2015 that denied the petition. On April 24, 2015, the intervenors filed a petition with the NRC to intervene in the STP1 and STP2 license renewal and STP3 and STP4 license application proceedings regarding the Continued Storage Rule. On May 1, 2015, NRC staff responded to the intervener's hearing request and motion to reopen the record in the license renewal proceeding for STP1 and STP2. The NRC concluded the intervention petition was inadmissible because it raised an issue that was beyond the scope of the proceedings by challenging an NRC rule without requesting a waiver of the rule. Furthermore, the NRC noted that the petition failed to raise a genuine issue of material fact or law and was filed late without good cause. The motion to reopen was deemed inadmissible because it was "untimely without addressing an extremely grave issue", did not address a significant environmental issue, and did not demonstrate that a materially different result would be likely if its proposed new contention had been raised at the beginning of the proceeding. Furthermore, a move to reopen and request to allow "placeholder" contentions to challenge the 2014 Continued Storage Rule and GEIS were denied by the NRC on June 9, 2015.

In late October 2014, the states of New York, Vermont, Massachusetts, and Connecticut filed a timely petition for review of the Continued Storage Rule by the D.C. Circuit Court. The NRC issued further guidance in February 2015 determining the AEA does not require a waste confidence safety filing and declined to suspend final licensing decisions. Intervenor-Respondents filed a brief with the D.C. Circuit Court on September 11, 2015 in support of the Continued Storage Rule. Petitioners' reply briefs were due by October 23, 2015. The U.S. Court of Appeals heard oral arguments on February 12, 2016.

On June 3, 2016, the D.C. Circuit Court upheld the NRC's justification for allowing spent nuclear fuel to be stored on-site at active facilities. Petitions for rehearing were later denied by the court.

Additional Generation Opportunities

One of CPS Energy's strongest aspects of operational and financial effectiveness has been the benefit it has derived from its diverse and low-cost generation portfolio. Continued diversification is a primary objective of the CPS Energy management team. Accordingly, this team periodically assesses future generation options that would be viable for future decades. This extensive assessment of various options involves projections of customer growth and demand; technological viability; financial investment requirements; annual asset operation and maintenance costs; environmental impacts; and other factors.

CPS Energy continues to monitor proposed regulatory changes that could raise the costs of operating plants, such as those that have been proposed for units that use carbon-based fuels. To work towards mitigating this carbon based regulatory risk, CPS Energy management deactivated its two oldest non-scrubbed coal units, Deely1 and Deely2, at the end of 2018 (and whose supply to native load was substantially replaced with the Rio Nogales Plant output; see footnotes to the table appearing under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Capability" and "Generating Station Events – Rio Nogales" herein). CPS Energy management is pursuing a multifaceted strategy with the goal of maintaining a well-balanced portfolio. In addition to analyzing traditional generation sources and aggressively growing its renewable energy portfolio, as described in the "Generating Capability" table, CPS Energy is expanding its efforts towards community-wide energy efficiency and conservation. These mitigation efforts are very important to CPS Energy's strategic energy plans and specifically to its new generation needs. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein. Additionally, CPS Energy management has explored and continues to cooperatively develop opportunities with the City Council for potential changes in ordinances, codes and administrative regulations focused on encouraging commercial and residential utility customers, builders, contractors and other market participants to implement energy conservation measures. For additional information on CPS Energy's energy efficiency and conservation program, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein.

CPS Energy annually assesses generation resource options to meet its expected future electric requirements. This assessment includes updates to fuel prices, wholesale electric market forecasts and its electric peak demand forecast which incorporates the most recent economic, demographic and historical demand data for the CPS Energy service territory. Additionally, this assessment includes updated demand reductions due to the **STEP** energy efficiency and conservation program.

Before a commitment is made to construct the next generation facility, CPS Energy management pursues several objectives. These objectives include additional stakeholder input; expanded community education about the long-term energy and conservation needs of the San Antonio community; continued option analyses and evaluations, including CPS Energy's own formalized cost estimates; additional Board approval to move forward; and expanded presentations to the City Council, which governs the related rate increases and bond issuances that may be required to support any generation construction project or existing generation asset purchase.

Nuclear

In mid-2006, CPS Energy management directed that staff conduct an initial investigation, study and analysis of additional nuclear capacity as one type of possible generation infrastructure. In 2007, CPS Energy received Board approval to participate in the early development phase of two additional nuclear projects that involved third-party co-owners. The first possible nuclear project was development of two additional reactors at the STP site, also known as STP3 and STP4. The second possible nuclear project was an Exelon-proposed new two-unit facility at a proposed location in Victoria County, Texas.

In August 2012, Exelon announced they had notified the NRC they intended to withdraw the Early Site Permit application for the Victoria County Station Project. This action effectively ended development of the project. Subsequently, CPS Energy wrote-off the $2.7 million in capital funds invested in the project. This write-off was reflected in September 2012.

In June 2009, CPS Energy management provided the Board its formal assessment and recommendations concerning these options compared to other possible new generation types including the first public estimate of the cost of the first possible project at $13 billion, inclusive of financing costs. Reports of higher cost estimates, however, resulted in reconsideration of the advisability of participating in the STP3 and STP4 Project and, ultimately, in CPS Energy's decision to limit participation in further development of STP3 and STP4. In a settlement negotiated with NRG and the other participants in the development of STP3 and STP4, CPS Energy received a 7.625% ownership interest in the combined STP3 and STP4. CPS Energy is not liable for any STP3 and STP4 Project development costs incurred after January 31, 2010. CPS Energy also received two $40 million installment payments upon award of a DOE loan guarantee to Nuclear Innovation North America LLC ("NINA"), an NRG/Toshiba joint venture. NINA also agreed and has made, a contribution of $10.0 million over a four-year period to the Residential Energy Assistance Partnership, which provides emergency bill payment assistance to low-income customers in the City and Bexar County. In August 2015, Toshiba announced that it planned to write down its semiconductor, home appliance, and nuclear business units following an investigation into accounting issues that have resulted in the need for Toshiba to restate their past financial results. On April 25, 2016, media reports indicated the preliminary operating loss after it wrote down the value of Westinghouse nuclear power subsidiary was $6.2 billion. Previously in 2011, NRG announced it had written off its investment in STP3 and STP4. On October 1, 2015, the NRC issued a press release indicating that NRC staff had completed its Final Safety Evaluation Report (report) for the Combined Licenses ("COL") for the proposed STP3 and STP4. The NRC staff provided the report along with the Final Environmental Impact Statement on the application to the NRC for the mandatory hearing phase of the licensing process. The mandatory hearings took place on November 19, 2015, when the NRC staff provided the Final Safety Evaluation Report and Final Environmental Impact Statement on the application to the NRC. On February 9, 2016, the NRC commissioners authorized issuance of the COL for STP3 and STP4 and the licenses were issued on February 12, 2016. Prior to the write off, CPS Energy performed a thorough re-evaluation of its investment in the STP3 and STP4 to reassess the ongoing viability of the project and the appropriateness of continuing to report the cost of the project on its Statements of Net Position. Despite the project having secured the NRC's authorization for issuance of the COL, in January 2016, CPS Energy concluded that, as a result of sustained changes in a number of environmental and economic factors directly affecting the projected economic feasibility of completing construction of STP3 and STP4, the project experienced a permanent impairment. CPS Energy determined it appropriate to write off the entire $391.4 million investment in STP3 and STP4 and has not performed a re-evaluation since. The impairment loss was reported as an extraordinary item on CPS Energy's Statements of Revenues, Expenses, and Changes in Net Position for the period ending January 31, 2016. This noncash transaction did not impact CPS Energy's debt service coverage ratio; however, there was a resulting increase from 61.1% to 63.7% in the debt to debt and net position ratio at January 31, 2016. Going forward, CPS Energy continued to retain a legal interest in STP3 and STP4.

On May 31, 2018, Toshiba issued a release that provided their notice to withdraw from a project to build two additional advanced boiling water reactors at the South Texas Project. On June 14, 2018, NINA issued a letter to NRC that provided their notification of Intent of Terminate this project (STP3 and STP4) because the project was no longer financially viable. On June 22, 2018, NINA issued a letter requesting NRC approval to withdraw the COL for STP3 and STP4. On July 12, 2018, the NRC issued a letter that approved the termination of the STP3 and STP4 COL. Construction was not initiated for STP3 and STP4, and nuclear materials were never procured or possessed under these licenses. Consequently, STP3 and STP4 are approved for unrestricted use.

STP cancelled all contracts related to NINA, which were established for the purpose of building additional units. On August 13, 2018, NINA provided a draft document to the STP owners, a proposed STP3 and STP4 Assignment and Assumption Agreement and Mutual Release. This agreement essentially returns the site ownership to NRG, CPS Energy, and Austin Energy and restores site ownership and future expansion rights to the original pre-STP3 and STP4 conditions when executed. NINA executed this agreement on October 1, 2018.

Generating Station Events

In addition to routine planned generation maintenance and repairs conducted from time to time, there were several unforeseen events at the power generation facilities that occurred recently and during past years. Certain unplanned events that had potential financial impact to CPS Energy greater than $1 million (including costs to address loss of revenue and costs of replacement load) are hereafter described. In addition, CPS Energy's generation facilities were impacted by the 2021 Winter Weather Event, and CPS Energy continues to analyze the effects thereof.

<u>AvR</u>

On September 6, 2021, AvR Combustion Turbine ("CT")1 tripped offline due to a high exhaust temperature spread. Plant personnel investigated the issue and determined that extensive compressor damage had occurred. Plant personnel have engaged with the Original Equipment Manufacturer (OEM) to further analyze the event. The damaged compressor was repaired and reassembled by the OEM. The unit was returned to service on November 4, 2021. The AvR steam turbine was derated during the duration of the CT1 outage.

On February 15, 2021, both AvR CT1 and 2 and the steam turbine were derated due to low incoming supply gas pressure during the 2021 Winter Weather Event. On February 16, AvR CT1 was taken off-line due to low incoming supply gas pressure. CT1 remained in outage and the steam turbine remained derated until February 18, when incoming natural gas supply pressure could support full unit capacity.

On February 15, 2021, AvR steam turbine tripped offline and was attributed to extreme cold weather-related failure of a steam seal pressure transmitter sensing line. The steam turbine trip also caused AvR CT2 to trip due to high hot reheat bypass temperature. Maintenance personnel restored the sensing line and installed temporary heat trace and insulation. The unit was restarted later that day.

On February 14, 2021, AvR CT1 was taken offline due to a steam leak from a failed drainpipe beneath the Heat Recovery Steam Generator ("HRSG"). After the area was safe for personnel entry, maintenance personnel removed and replaced a section of drain line and the unit was restarted on February 14, 2021. The AvR steam turbine was derated during the CT1 outage.

Braunig

On February 18, 2021, Braunig2 was taken offline due to a steam leak on turbine extraction steam line. Maintenance personnel replaced a gasket on the non-return check valve on the line, and the unit was released for dispatch on February 19, 2021.

On February 16, 2021, Braunig2 tripped offline on high burner gas pressure when several gas burners failed to light while load was increasing. Maintenance personnel addressed several electrical and controls issues on various burners on the boiler. The unit was restarted later that evening but was derated twice due to gas burner issues. Maintenance personnel troubleshot and were able to establish all gas burners and the unit was released to full load operation on February 17, 2021.

On February 16, 2021, Braunig2 tripped offline due to a low drum level trip caused by low coupling lube oil temperature on the shaft driven boiler feed pump. This led to the feed pump speed to decrease, which caused the drum level to swing and ultimately cause the unit to trip. After the trip, the cooling water supply regulator was adjusted to control the coupling lube oil temperature, and the unit was restarted and released to dispatch later that day.

During a start-up of Braunig2 on August 10, 2020, a cooling water regulator valve was stuck closed, which caused an exciter temperature excursion. The unit was brought off-line as a precaution to perform inspections and testing of the exciter. No damages were found during inspection and the unit was released to dispatch on August 26, 2020.

On December 16, 2017, Braunig2 entered an unplanned outage to repair a damaged extraction steam valve that was discovered during routine unit inspections. The damage was repaired, and the unit was released for dispatch on January 20, 2018.

Deely

Deely1 and Deely2 were deactivated and removed from service on December 31, 2018. CPS Energy prepared for Deely's deactivation by purchasing the Rio Nogales NGCC Power Plant, expanding its efficiency programs, and adding solar farms with approximately 550 megawatts of capacity.

With the deactivation of the Deely units and a projected remaining book value of $186M at January 31, 2019, CPS Energy recorded $182.7M to recognize a noncash impairment loss in its Fiscal Year 2019 financial statements. The impairment loss was classified as a special item reported below net income on CPS Energy's Statement of Revenues, Expenses and Changes in Net Position.

Rio Nogales

On February 15, 2021, Rio Nogales CT2 was derated due to the Combustion Turbine inlet bleed heat valve not modulating. Maintenance crews replaced a failed solenoid on the inlet bleed heat valve and the unit was returned to full load operation later that day.

On February 14, 2021, Rio Nogales CT3 tripped offline due to a faulty pressure transmitter reading on the Combustion Turbine exhaust pressure. The pressure transmitter was removed from service and the unit was restarted on February 15, 2021 and operated with a redundant transmitter indication.

On February 14, 2021, Rio Nogales plant output was reduced due to low incoming gas supply pressure during the 2021 Winter Weather Event. Full load operation was restored when incoming gas supply pressure increased to levels that could sustain full unit capacity on the morning of February 15, 2021, but the unit was again derated later than night as gas pressure reduced. Full load operation was restored on February 16, 2021.

On February 17, 2020, Rio Nogales entered an unplanned outage due to cracks discovered on the High Pressure ("HP") Steam system isolation valve seat on three HRSG. The damage was discovered during the planned maintenance outage earlier that month. The valves were repaired, and the unit was returned to service in a 2x1 configuration on March 6, 2020, while CT301 remained off-line for a planned overhaul.

On February 22, 2019, Rio Nogales CT101 was made unavailable due to a ground fault on the generator breaker. The three phases of the generator breaker were shipped out for repair by GE Grid Solutions. The generator breakers were received back on site on April 25, 2019. The Rio Nogales CT101 generator was released to full load operation by May 11, 2019.

<u>Milton B. Lee</u>

On February 16, 2021, Milton B. Lee ("MBL") CT7 and CT8 were derated due to their compressor water injection systems being taken out of service in order to conserve demineralized water supply for Braunig1, Braunig2 and AvR. The ability to produce demineralized water supply for the MBL East CT units was being impacted by low incoming City water supply pressure during the 2021 Winter Weather Event. As water pressure began to rise back to normal levels, CT8 was restored to full operation on February 18, 2021, followed by CT7 on February 19, 2021.

On February 16, 2021, MBLCT8 was operating on natural gas when dispatch requested to switch fuel sources. It was cycled off in attempt to restart with fuel oil. During the initial start attempt, operations suspected that a fuel oil leak was present. The initial startup attempt was suspended to allow for additional inspections. After confirming that no leaks were present, another startup attempt was performed, and the unit was released to dispatch on fuel oil later that day.

Beginning February 15, 2021, the MBL West site incoming gas supply pressure was limited during the 2021 Winter Weather Event. MBLWCT1, CT2, CT3 and CT4 all experienced multiple derates between February 15 and February 19, 2021, due to the reduced gas pressure. Once gas supply pressures returned to normal levels, the plants were released to full operation dispatch.

On February 14, 2021, MBLCT5 failed to start due to Compressor Discharge Pressure ("CDP") purge solenoid valve issues. A replacement CDP purge valve solenoid was ordered, and expedited shipping was requested. However, due to travel restrictions during the 2021 Winter Weather Event, the arrival was delayed. The solenoid was replaced, and the unit restored to operation on February 23, 2021.

On August 10, 2017, MBLCT8 was derated to 46 MWs net due to fouled chiller compressors. The chillers were cleaned during the unit's planned outage, and the derate was released on October 20, 2017.

On April 7, 2017, MBLCT6 was forced offline due to a damaged combustion can. The damage was found during a routine inspection. The combustion can was replaced, and the unit was returned to service on May 9, 2017.

<u>Sommers</u>

On February 16, 2021, Sommers2 was derated to 365 MWs net due to the forced draft fans' inlet guide vanes not responding to position commands. The unit was brought off-line on February 20, 2021, for inspections and maintenance personnel identified a broken fan inlet guide vane shaft. The unit was restarted without repairs to meet market capacity demand and was eventually brought offline on February 24, 2021, to perform repairs. The unit was restored to full load operation on February 25, 2021.

On February 15, 2021, Sommers2 was manually tripped by operations as a result of erratic and nonsensical value readings on critical systems. The erroneous readings were attributed to extreme cold weather-related failure of sensing lines for a Boiler Circulating Water pump transmitter, Feedwater flow transmitters and a Throttle Pressure transmitter. Maintenance personnel thawed the sensing lines and installed temporary heat trace, and the unit was restarted on February 15, 2021.

On July 31, 2019, Sommers1 was derated from 420 MW to 290 MWs net due to issues with the #1 turbine control valve. On August 31, 2019, Sommers1 was further derated to 235 MWs net due to issues with the #4 turbine control valve. The unit entered a maintenance outage on September 7, 2019, to inspect and repair the turbine control valves, and the unit was released to full load capability on October 10, 2019.

<u>Spruce</u>

On September 6, 2021, Spruce1 was taken offline due to a Submerged Scraper Conveyor ("SSC") failure in the bottom ash handling system. Plant personnel investigated the issue and determined that the SSC take-up tensioner shaft assembly had failed. Plant maintenance repaired the SSC and the unit was returned to service on September 14, 2021.

On August 2, 2021, Spruce2 was taken offline due to a boiler water tube leak. Plant Maintenance performed repairs to the damaged boiler tubes and the unit was returned to service on August 13, 2021.

On February 14, 2021, Spruce1 entered a forced outage when a unit fan tripped causing a significant amount of ash to drop into the ash removal system resulting in a unit trip. The ash removal system was removed from service and the unit was returned to service at a reduced capacity on natural gas February 15, 2021. On February 16, 2021, operations established partial coal firing on the unit utilizing 2-3 pulverizers, which provided additional reduced capacity through February 20, 2021. The unit began a shutdown to repair the ash removal system on February 20, 2021 and was returned to full load operations on February 24, 2021.

On January 2, 2020, during start-up of the unit following a planned overhaul at the end of 2019, Spruce1 experienced high vibration on the #8 turbine-generator bearing. Plant maintenance and engineering teams worked with a consultant to analyze the vibration and determined a balance shot was required to reduce vibration. A balance shot was installed on the turbine-generator and the unit was returned to service on January 15, 2020.

On April 21, 2020, Spruce1 was derated to 275 MW net due to a coupling insert failure on the 1A Induced Draft Fan. The coupling insert was replaced, and the unit was restored to full capacity on June 1, 2020.

On July 2, 2017, Spruce2 was derated to 670 MWs net as a result of 2A boiler feed pump being taken out of service due to problems with the pump's mechanical seals. Plant personnel worked with the mechanical seal OEM to identify the cause of the failure. New seals were installed, and the derate was released during an outage that took place in December 2017 and ended on February 13, 2018.

On April 8, 2017, Spruce2 was derated to 645 MWs net due to baghouse damper issues. Baghouse bypass dampers would inadvertently open which could cause an environmental opacity exceedance. As a result, the bypass dampers had to be pinned in the closed position. The derate was to protect the baghouse by allowing enough relieving capacity of the remaining bypass dampers if the unit experienced a full bypass situation. On May 29, 2017, modifications were made to allow the unit to be released back to full load capacity.

On November 21, 2014, Spruce2 was brought offline due to a fault in the internal section of the generator. The generator was disassembled and inspected to determine the extent of damage. Stator core hot spots were discovered in the flux shunt. The generator stator defects were repaired by Toshiba including a partial restack of the generator stator core and complete generator stator rewind. The unit was released under restrictions for dispatch on May 4, 2015. At that time, the capacity limit was reduced to 600 MW Net. The reactive power limits were also reduced to 50 MegaVAR in the lagging direction and 0 MegaVAR in the leading direction. These restrictions were re-evaluated with the OEM and plant personnel in June of 2016. As a result of this evaluation, the capacity limit was removed, releasing the unit back to the original designed capacity of 785 MWs net. The reactive power limits were also changed to 220 MegaVAR in the lagging direction but remained 0 MegaVAR in the leading direction. CPS Energy replaced the generator in January 2019 with a new generator supplied by MD&A/MHPS. The new generator had two core thermocouples, out of a total of 40 thermocouples reading abnormal high temperatures during start-up and commissioning. The high temperature measurements from the two generator core thermocouples were being managed by adjusting reactive power to remain below the OEM recommended temperature values. MD&A submitted a repair plan which CPS Energy implemented in the first quarter of 2020. As a result, the Spruce2 generator was able to operate without any real or reactive power capability restrictions.

STP1

On June 23, 2021, STP1 was taken offline due to a failed Moisture Separator Reheater relief valve. The relief valve prematurely opened forcing a down power in an unsuccessful attempt to reseat the valve. Following shutdown, the relief valve was replaced, and the unit was returned to service on June 27, 2021 and reached 100% power later that day.

On February 15, 2021 an automatic reactor trip occurred in Unit 1. The trip resulted from a loss of feedwater attributed to extreme cold weather-related failure of a pressure sensing line to the feedwater pumps. STP staff validated the issue did not exist in Unit 2. Unit 1 was repaired, and the Unit was returned to service on February 17, 2021. Unit 1 reached 100% power on February 18, 2021.

On March 17, 2017, STP1 reactor was manually shutdown due to a piping leak on the open cooling loop system. On January 15, 2017, STP identified a small piping leak in the system that they were closely monitoring and managing. STP planned to correct the leak during the spring 2017 planned outage to refuel. The cause of the increased leakage rate that led to the manual shutdown was investigated and subsequent repairs were made to the pipe. STP1 was scheduled to commence a planned refueling outage on Saturday, March 18, 2017. STP1 returned to service on April 29, 2017, following the planned refueling outage.

STP2

None.

FUEL SUPPLY

CPS Energy acquires and manages the fuel supply for its electric generating units and natural gas distribution system. CPS Energy's generating units utilize a diverse fuel supply that includes coal, natural gas, nuclear, and fuel oil. While coal, natural gas, and nuclear fuel represent the primary fuel supply, certain CPS Energy power plants also have the capability to burn petroleum coke to supplement coal, while others can burn fuel oil (diesel) as an alternate fuel or to supplement natural gas. This dual fuel capability provides greater reliability and operational flexibility.

In response to the 2021 Winter Weather Event, CPS Energy has taken several measures to provide additional certainty of fuel supply and additional operational flexibility. These steps are:

- Increased total natural gas storage capacity by 20%
- Increased daily natural gas storage withdrawal capability by approximately 25%
- Increased both baseload purchases and financial hedges
- Increased volume of fuel oil stored onsite to double the number of days of on-hand inventory
- Added new natural gas suppliers to CPS Energy's portfolio

CPS Energy's coal units are designed to use Powder River Basin ("PRB") coal from Wyoming. Coal is secured through contracts providing prices that reflect current market conditions. Delivery of PRB coal to CPS Energy occurs on the Union Pacific ("UP") railroad with BNSF Railway having access rights to CPS Energy's coal yard at Calaveras Power Station. While CPS Energy will take every reasonable step to assure the continuity of its coal supply, CPS Energy cannot predict whether any future coal shipment delays or curtailments could have a material adverse effect on the availability of its coal-fired generating stations. CPS Energy amended its rail contract with UP effective September 1, 2017 to provide significantly lower rates and increased delivery flexibility. This amended contract, that was extended through December 31, 2021, has been terminated. There is a new contract in its place that is effective through December 31, 2026 which provides significantly more favorable rates and similar delivery flexibility than the previous contract.

CPS Energy owns 1,193 and leases 106 aluminum railcars, which are used in unit trains to haul coal from mines in the Southern Powder River Basin of Wyoming to the Calaveras Power Station. CPS Energy performs railcar maintenance and servicing on owned railcars at its railcar maintenance facility located at Calaveras Power Station.

CPS Energy acquires and manages the combined natural gas supply requirements for its gas-fired generating units and gas distribution system through a diversified contract portfolio with a number of suppliers. In accordance with the CPS Energy Fuels Management Procedures, designated CPS Energy staff may enter into natural gas supply transactions using master enabling agreements, which incorporate standard commercial terms. CPS Energy has over 80 master enabling contracts with natural gas suppliers under which CPS Energy purchases its natural gas requirements. CPS Energy manages firm natural gas transportation and storage contracts with various service providers for local gas distribution and generation and to serve the Rio Nogales Plant, with limited ability to share services between CPS Energy facilities.

CPS Energy also owns and operates natural gas transmission facilities, consisting of two larger systems and some short segments connected to power plants. The North Gate Pipeline and the South Gate Pipeline are the two larger systems. The North Gate Pipeline is a 24-inch steel pipeline which extends 17.2 miles from southern Comal County into northern Bexar County, Texas. Natural gas can be supplied to the pipeline through Energy Transfer's 36-inch Oasis Pipeline and Enterprise Texas Pipeline's ("Enterprise") 30-inch West Texas Pipeline.

The South Gate Pipeline comprises 60.3 miles of 24 and 30-inch steel pipeline, of which 46.9 miles of 30-inch pipeline extends south into Karnes County. A major meter station in Karnes County connects to the joint venture pipeline owned by Kinder Morgan and Energy Transfer. In early 2016, CPS Energy added a new pipeline interconnection at the Karnes meter station that provides direct access to gas supplies from the Eagle Ford Shale production area. CPS Energy also operates numerous taps throughout the system connecting to Enterprise, on the North Gate and South Gate Pipelines. Most of the major natural gas delivery stations are owned by CPS Energy and remotely monitored by the CPS Energy control center, for more reliable operation. CPS Energy utilizes its diverse natural gas supply portfolio and interconnects with these pipelines for its power plant and distribution system natural gas requirements.

Periods of prolonged cold weather, during which natural gas supply has previously and may prospectively fall short of demand (see "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein), may necessitate the curtailment of gas use for boiler fuel. The Natural Gas Policy Act subjects intrastate gas, including gas intended for boiler fuel uses, to Presidential emergency purchase authority and emergency allocation authority to assist in meeting interstate natural gas requirements for high priority uses. CPS Energy's gas supply is subject to the ability of its gas suppliers to make available sufficient quantities of supply, as well as fluctuations in market prices.

Fuel oil can be used for generation, when needed, at the Sommers, Braunig, and in the Milton B. Lee East plants. At these plants, CPS Energy maintains fuel oil inventory and fuel oil receipt capability by truck. Inventory and receipt capability at these plants are options to support operation during natural gas supply disruptions or price events.

An Energy Price Risk Management Policy was implemented in 2002 to reduce the effects of energy price volatility consistent with the policy. At times, financial derivative instruments are utilized to hedge natural gas prices. Natural gas prices remain subject to volatility in the market. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – Wholesale Power" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Enterprise Risk Management and Solutions" herein.

On June 14, 2007, CPS Energy entered into a prepaid natural gas transaction with SA Energy Acquisition Public Facility Corporation ("SAEA" or "PFC"), a non-profit public facility corporation previously created by the City pursuant to Chapter 303, as amended, Texas Local Government Code, and J. Aron & Company, a subsidiary of Goldman Sachs Group ("J. Aron"). This transaction enabled the PFC to purchase a 20-year supply of natural gas from J. Aron totaling approximately 20,000 MMBtu per day (the "PFC Transaction"). CPS Energy has contracted to purchase this gas for use in its gas distribution system under a take-and-pay gas purchase agreement, obligating CPS Energy to pay a monthly index-based price less a fixed discount for delivered gas. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Gas System" herein. The PFC prepaid for this gas by issuing $644,260,000 of tax-exempt fixed rate bonds and used the proceeds to make the prepayment to the natural gas supplier. This prepaid gas transaction was described in the offering document relating to such PFC bonds, in which the transaction and related risks were disclosed. On February 25, 2013, and June 30, 2016, SAEA executed certain amendments to the Prepaid Gas Agreement and related documents. Under the 2013 amendments, Goldman Sachs & Co. LLC ("Goldman") surrendered for cancellation $111,060,000 of the SAEA bonds which were owned by J. Aron, Goldman, or affiliates. In exchange, SAEA agreed to reduce future required natural gas delivery volumes from 104.6 million MMBtu to 81.3 million MMBtu, reflecting a reduction in required volumes to be delivered that corresponds to the par value of the bonds that were surrendered. Under the 2016 amendments, the investment contract for the debt service fund for the bonds was novated from DEPFA Bank, PLC to J. Aron. The amendments contain provisions in the event of a downgrade in the credit rating on the guaranteed investment contract ("GIC") provider. If the higher rating between J. Aron and its guarantor, Goldman, falls below "BB+" by S&P, or "Ba1" by Moody's, which results in a ratings event, J. Aron is required to provide collateral equal to 100% of the invested balance held by J. Aron plus any accrued interest. At January 31, 2019, no collateral balances were posted.

The PFC bonds are currently rated by Fitch, Moody's and S&P at "A", "A2", and "BBB+", respectively. On May 1, 2020 Fitch revised the outlook on fifteen prepaid energy transactions, including the PFC Transaction, from stable to negative, based on Fitch's assessment of the credit quality of the various counterparties, including the revision of Goldman Sachs Group Inc.'s Issuer Default Rating to negative from stable. On February 1, 2021, Moody's upgraded Goldman Sachs' Group Inc. from "A3" to "A2" and upgraded the PFC bonds to "A2". In addition, on January 27, 2022, Moody's upgraded Royal Bank of Canada, the commodity swap counterparty and guarantor, from "Aa2" to "Aa1". The PFC credit ratings have no impact on the day-to-day operations of CPS Energy or its respective credit ratings. CPS Energy continues to purchase and receive natural gas at the discounted price, but only if and when delivered. However, if a party providing funds (or gas to be sold to produce funds) used to pay the PFC's bonds were to default, the PFC's gas supply agreement could be terminated, thereby eliminating future fuel expense savings passed through to CPS Energy customers.

On November 23, 2020, the trustee for the PFC bonds issued a notice in which it received a request from Syncora Guarantee Inc. ("Syncora"), joined by Assured Guaranty Corp. ("Assured Guaranty"), that the trustee is seeking court approval to execute documents that would replace Syncora with Assured Guaranty as the issuer of certain policies insuring payments due to the PFC under the Natural Gas Supply Agreement (as defined in the indenture related to the PFC bonds). On January 29, 2021, the trustee issued an additional notice announcing the commencement of a trust instruction proceeding where the trustee requested, among other things, direction and instruction in connection with Syncora's request to novate the policy. A preliminary order was issued by the court on March 11, 2021, approving the relief requested in the petition, and notice was given for interested parties to submit objections. No objections were received, and the preliminary order was final as of April 30, 2021. An event notice was filed regarding the finality of the order.

Nuclear fuel procurement for STP is managed by the STPNOC staff with oversight and guidance provided by the Participants. STP fuel supply requires uranium oxide, conversion of uranium oxide to uranium hexafluoride, enrichment of fissile uranium 235 isotope from 0.7% to about 4.5%, design and fabrication of fuel assemblies. Prior to May 2014, fuel supply also provided for disposal of spent fuel assemblies. In May of 2014, the DOE suspended the collection of the spent fuel disposal fee pending identification of an alternative disposal facility. No plan to reinstitute the fee has been identified; however, some sources indicate there is a possibility of the fee being reinstated sometime in 2023. Uranium supply is typically provided by primary producers, either through long-term contracts or through favorable short-term and/or spot market purchases. Uranium conversion services are obtained under contracts with primary producers, spanning several years of duration, covering STP's initial operating license term (2027 and 2028, STP1 and STP2, respectively). Enrichment requirements are contracted with

Urenco USA through STP's initial operating license term. Fabrication requirements are contracted with Westinghouse through STP's renewed operating license term. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – External Events Impacting Nuclear Power Generation Industry and STP1 and STP2, and CPS Energy's Response – Used Nuclear Fuel Management" herein.

GAS SYSTEM

Transmission System

The gas transmission system consists of a network of approximately 89 miles of steel mains that range in size from 8 to 30 inches. Over 62 miles of the gas transmission was placed into service since 2000 and approximately 73% is less than 25 years old. The entire system is coated and cathodically protected to mitigate corrosion. The gas transmission system operates at pressures between 135 psig and 1,100 psig, and supplies gas to the distribution system and CPS Energy Generating Plants. A Supervisory Control and Data Acquisition ("SCADA") computer system monitors the gas pressure and flow rates at many strategic locations within the transmission system. Additionally, most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

CPS Energy has completed the required baseline assessments of the gas transmission system, in accordance with State and federal transmission integrity rules, using the most recently available technology. Furthermore, CPS Energy maintains an ongoing reassessment plan and maintains a more conservative leak survey and patrol schedule interval than is required by regulation.

Distribution System

The gas distribution system consists of 18 gate/tap and 347 pressure regulating stations within a network of approximately 5,869 miles of mains. The system consists of 2 to 30-inch steel mains and 1-1/4 to 10-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 485 psig. All steel mains are coated and cathodically protected to mitigate corrosion. Critical areas of the distribution system are also remotely monitored by SCADA and designated critical pressure regulating stations and isolation valves are also remotely controlled by SCADA.

CPS Energy has been methodical in its assessment and renewal of distribution infrastructure utilizing a risk-based leak survey approach to identify both mains and services that are in highest need of replacement and has an annual budget for on-going system renewal.

Rule Relating to Replacement of Gas Distribution Facilities

On August 1, 2011, CPS Energy implemented its plans in compliance with RRCT Rule § 8.209 Distribution Facilities Replacement as set forth at 16 TAC Chapter 8 – Pipeline Safety Regulations and the Federal Distribution Integrity Management Program ("DIMP") rules. CPS Energy has utilized a risk-based approach to facility replacement for several years, and it has been successful in significantly reducing system leak rates and mains and services as well as lost and unaccounted for gas. These plans will continue to strengthen CPS Energy's renewal processes and support the continued safe operation of the gas system.

RRCT Annual Audit Results

The RRCT conducted Specialized Audits of the CPS Energy Public Awareness and Damage Prevention Programs, which resulted in zero alleged violations. The audits took place on March 21-24, 2022. The audits were comprised of a detailed review of each program for specific components and requirements for meeting all federal and state rules and referenced guidance.

The RRCT conducted a Specialized Audit of the CPS Energy DIMP, which resulted in zero alleged violations. The audit took place on March 28-31, 2022. The audit consisted of a detailed review of current practices in identifying existing and potential threats, evaluating each, and implementing measures to reduce or eliminate each, as well as the program's performance and a review of performance and effectiveness records for compliance with federal and state rules.

The RRCT conducted three New Construction Audits during the 2022 calendar year from January through April that resulted in zero alleged violations. The audits were comprised of records review and field operation of construction activities during new facility installations. The RRCT conducted similar audits during calendar year 2021 that resulted in one alleged violation. The response to the RRCT, with a plan of correct to address the alleged violation, was submitted on June 24, 2021 and corrections were implemented on July 30, 2021.

The results of the 2021 RRCT Annual Distribution Audit conducted in May of 2021 resulted in seven alleged violations involving valve checking, various pipeline deficiencies, and pressure regulation station operational matters. The alleged violations cited are being addressed with a mitigation plan and a response to the RRCT with a plan of correction. The response to the RRCT with the plan of correction to address the alleged violations was submitted on July 24, 2021, and all corrections have been completed.

The results of the 2020 RRCT Annual Distribution Audit conducted in May of 2020 resulted in six alleged violations involving valve checking, various pipeline deficiencies, and pressure regulation station operational matters. The alleged violations cited are being addressed with a mitigation plan and a response to the RRCT with a plan of correction. The response to the RRCT with the plan of correction to address the alleged violations was submitted on August 10, 2020. All alleged violations were addressed with an approved plan of corrections and completed on September 10, 2021.

The RRCT conducted a Specialized Audit of the CPS Energy Operation and Management Manual (the "O&M Manual") which resulted in one alleged violation. The audit took place April 15-18, 2019. The alleged violation involved procedures outlining protection of pipelines located near electric transmission tower footings, ground cables or counterpoise, or other areas where fault currents or unusual risk of lightning may be anticipated. The final response to the RRCT was sent July 15, 2019 confirming the O&M Manual procedure was edited to address the alleged violation.

The results of the 2018 RRCT Annual Transmission Audit resulted in one alleged violation. The final response to the alleged violation was sent to the RRCT on November 1, 2018. The alleged violation involved nineteen critical valves that were identified as "not checked" or "serviced" for calendar year 2015 at intervals not exceeding 15 months but examined at least once each calendar year. All critical valves identified were inspected and partially operated by CPS Energy on March 3, 2016 and have since been inspected in all subsequent calendar years to-date, as required by CPS Energy's programs, which were validated by the auditor. CPS Energy implemented additional controls to track and monitor compliance dates relating to the required inspection and maintenance of these types of valves.

RRCT Subsequent Audit Results

The RRCT conducted an evaluation of CPS Energy's operational activities near a residential structure on February 12, 2020. Operations records were reviewed over a period of months which resulted in one alleged violation. The alleged violation was addressed with a plan of correction sent to RRCT on August 21, 2020.

The RRCT conducted an evaluation of a reportable incident that took place on April 1, 2019. The evaluation transpired over multiple months and involved the review of operations records and the incident investigation reports which resulted in two alleged violations. The first alleged violation involved leak survey records pertaining to calibration of equipment used during the activity. The RRCT found that records were not maintained to show calibrated equipment used during past surveys of this area. The RRCT assessed an administrative penalty for this finding and it was settled on May 28, 2020. The second alleged violation involved the auditor witnessing the use of improperly maintained equipment during the incident investigation. In its response to this item, CPS Energy provided proof of compliance supporting equipment being maintained as required and the alleged violation was dismissed. CPS Energy also modified its equipment calibration schedule to coincide with manufacturer's recommendations and controls to remove the functionality of the equipment past the re-calibration due dates.

RRCT Damage Prevention

The RRCT rules set forth in 16 TAC Chapter 18 Underground Pipeline Damage Prevention provide guidance for pipeline operators and third-party excavators to reduce pipeline damages during excavation activities. All reportable third-party damages are reviewed by the RRCT and occasionally CPS Energy is assessed a penalty based on the root cause in the form of a Damage Prevention Docket. CPS Energy responded to 84,558 locate requests during the 2022 calendar year; the RRCT has assessed CPS Energy penalties on 7 dockets in 2021 totaling $14,500. In comparison, CPS Energy responded to 240,972 locate requests and had $63,500 assessed in penalties in calendar year 2021 and 228,273 locate requests with $110,000 assessed in penalties in calendar year 2020.

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OTHER ELECTRIC AND GAS SYSTEMS STATISTICS[1]

	Electric System			Gas System	
	Transmission System	Overhead Distribution System	Underground Distribution System & Network	Gas Transmission Pipeline	Gas Distribution System
Substations	17[2]	95			
Miles of Lines	1,555	8,209	6,489[3]		
Miles of Lines	87[4]				
Kilovolts	138/345	13.2/34.5	13.2/34.5		
Miles of Main				89	5,869
Main Sizes (inches)				8 – 30	1 1/4 – 30
Main Pressures (psig)				135 – 1,100	9 – 485[5]

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(1) As of January 31, 2022.
(2) Includes switchyards.
(3) Includes 707 miles three-phase commercial, industrial lines.
(4) Downtown Network three-phase.
(5) Maximum allowable operating pressure.

GENERAL PROPERTIES

Operation Control System

CPS Energy's electric transmission and distribution systems, substations, power plant switchyards, and major gas regulating points are continually monitored. Abnormalities register an alarm and control room operators can operate and control certain circuit breakers and valves as required, maintaining reliable delivery of gas and electric service. In addition to control capability, the system gathers data that is electronically recorded for various reporting needs.

CPS Energy's operations are highly dependent on a comprehensive operational technology ("OT") and information technology ("IT") infrastructure that is supported by a team of technical experts. The OT and IT systems are regularly updated and are monitored for vulnerabilities to best ensure security of CPS Energy and customer information. Continuous monitoring and risk mitigation will continue to be necessary as CPS Energy installs additional intelligent field equipment and increases its dependency on technology and software.

CPS Energy is identified as a creditor by the standards set forth in the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"). One of the intended purposes of the FACT Act was to protect customer information. CPS Energy is currently compliant with the FACT Act and has existing internal policies, procedures and trainings in place for continued compliance.

CPS Energy makes a concerted effort to maintain its geographical information mapping system ("GIS"), which supports its gas, electric transmission and distribution system activities. This system is used to maintain information on locations of CPS Energy's infrastructure. From time-to-time, location errors are detected by individuals (contractors, other utilities and CPS Energy employees). When such problems are detected, the specific issue is addressed promptly, including correcting the problem encountered and updating of GIS.

Support Facilities

Core business operations are supported by various support facilities used for maintenance of such items as meters, transformers, communication equipment, vehicles, railroad cars and heavy construction equipment. These maintenance facilities, together with warehouses, administrative offices, customer service centers and storage areas, are strategically located throughout the service area to minimize driving time to work locations.

General Offices and Customer Service Centers

The Main Office Complex ("Complex"), located at 500 McCullough Avenue in San Antonio, Texas, is the headquarters site for CPS Energy. CPS Energy's General Offices are located at the intersection of McCullough and Avenue B. Executive, administrative, financial, information technology and engineering functions are located at the Complex. The building has 494,000 square feet of space and consists of 11-story and 14-story towers joined by a 3-story section. This building permits consolidation of all headquarters' functions in a single campus to improve operational efficiency. An adjacent 6 story garage has been constructed to accommodate employee and company vehicle parking, as well as housing amenities available to employees and the community in the area. Architects Corgan Associates Inc. disseminated preliminary designs of the new headquarters in October 2016, and the City's Historic Design and Review Commission approved the final design in March 2017. On June 26, 2017, the Board approved the selection of Sundt Construction as the construction manager at risk via a competitive process. Construction of the new headquarters is complete, and the Certificate of Occupancy has been received. CPS Energy moved into the new headquarters during the fall of 2020.

The old complex was not sufficient to accommodate all of CPS Energy's office and parking needs, which has since been sold. On February 5, 2021, CPS Energy sold the Navarro piece of the former complex to BH Properties, a Los Angeles based real estate company, for $22.5 million. The Main Office piece of the old complex was sold on December 21, 2021 for $19 million. The tower garage and service parking lot adjacent to the old complex also recently sold.

CPS Energy's customer service center staff provides information concerning customer accounts and processes customer payments. Customer service centers and authorized pay agents are located geographically in all sectors of the service area. These centers are convenient to the customers' homes and in locations readily accessible to freeways and public transportation. At the present time, the Northside Customer Service Center, which recently relocated, serves as a walk-in center only. The customer call center and additional general office space for personnel have been relocated to the Complex. The previous Northside Customer Service Center was declared surplus by the Board on September 24, 2018 and was sold on November 22, 2021.

Construction Centers and Service Centers

CPS Energy owns five construction centers, accommodating electric and gas construction, repair and maintenance services, support personnel for administration, planning, training, warehousing functions and garage facilities. The Salado Street Central Garage Service Center serves as the primary central garage for heavy equipment and vehicle repair and maintenance functions, with separate buildings utilized for warehousing. Land has been acquired to relocate the primary central garage to another site in the service territory. CPS Energy's Management Center controls the electric grid for the service territory and provides training and conference facilities. Additional training facilities are located at the former Tuttle power plant facility.

CPS Energy owns the Green Mountain facility that houses the System Measurement & Technology, Customer Engineering business units, all the electric metering operations equipment, test and calibration labs, and associated warehousing functions. This facility serves as the inventory and asset management point for electric metering and the deployment point for the AMI Program. Local builders and developers also visit the Green Mountain facility to coordinate new construction services with the support personnel in Customer Engineering. CPS Energy's Nacogdoches facility currently supports the transmission and substation portions of the electric grid. The Malone Avenue campus serves as the site for underground construction staff and equipment.

Villita Assembly Building

The Villita Assembly Building is in downtown San Antonio at 401 Villita Street near the CPS Energy old complex. The main floor of the building has a capacity to accommodate 1,800 people in an auditorium type seating, or 900 for a dinner function. The building is leased out to individuals and to corporate, civic, community, and non-profit organizations for weddings, quinceañeras, banquets, meetings, and social events. The Villita Assembly Building is also used for large CPS Energy internal meetings and events. CPS Energy intends to sell the property and currently has the property listed for sale.

Vehicles and Work Equipment

CPS Energy operates and maintains a diversified vehicle and equipment fleet of 2,700 units. These units range from light to heavy duty vehicles and construction equipment that are specific to maintaining natural gas and electric infrastructure and large coal moving equipment to support generation. A total of eight garages, including five located at various construction centers, one located at the Coal Yard, one at the Nacogdoches facility, and one primary central garage, are staffed with skilled technicians. CPS Energy technicians use manufacturers' diagnostics software to perform in-house, proactive maintenance and repairs. A new Fleet Management Software and vehicle GPS tracking system (Telematics) was implemented in 2021. Enterprise Fleet's mission is to provide the safest and most reliable fleet through environmental stewardship, efficient repair and maintenance, employee development, and cost-conscious asset management aligned with industry best practices. This group provides solutions from vehicle and equipment acquisition to decommissioning, which drives efficient, effective, and expedient service to CPS Energy's customers. Furthermore, Enterprise Fleet is environmentally responsible, participating in CPS Energy's recycling program that includes tires, batteries, oil, and other material. A Flexible Fleet Fulfillment strategy includes plans to continue acquiring a range of alternative-fueled fleet and electrify equipment and vehicles throughout the company where possible.

Real Estate Holdings

CPS Energy owns various properties throughout the service territory and a collection of buildings, totaling 2.5 million square feet, which includes office buildings, service centers, warehouses, data centers, parking garages, vehicle maintenance facilities, tool shops and a community center. CPS Energy is divesting itself of its Jones Avenue Service Campus.

CPS Energy constructed a 66,000 square foot, 1 megawatt, Tier III data center in 2013, which became operational in May 2015. Total cost of the facility was approximately $47 million. The property also houses an electric substation.

CPS Energy owned approximately eight (8) acres of land and a newly constructed shell building in northwest San Antonio. This property was declared surplus and was sold in early 2020.

COMPLIANCE AND REGULATION

GENERAL REGULATORY CLIMATE

The election of President Biden in November 2020 resulted in a host of newly appointed administrators to top government agencies, especially those positions affecting the environment. Since inauguration, officials began to amend and enact provisions promulgated through the Environmental Protection Agency ("EPA") and other environmental agencies to increase regulation.

ENVIRONMENTAL MATTERS

CPS Energy operations have the potential to affect the environment in a variety of ways, but primarily through discharges to air, land and water. To minimize environmental impact, CPS Energy constructs and operates its facilities according to, and, in certain areas, in excess of, the standards established for the utility industry by federal, State, and local laws and regulations. CPS Energy's commitment to the environment is evidenced by its official environmental policy, which places the responsibility for regulatory compliance on all CPS Energy employees, regardless of job function or title. CPS Energy maintains a full-time Environmental Department consisting of educated and trained professionals who oversee the enforcement of this policy. Since 1996, internal environmental operating procedures have been developed to provide guidance to CPS Energy employees as to how to perform their jobs in a way that protects the environment.

CPS Energy endeavors to ensure its facilities comply with applicable environmental regulations and standards; however, no assurance can be given that normal operations will not encounter occasional technical difficulties or that necessary permits and authorizations will be received. Federal and State standards and procedures that govern the control of the environment and Systems' operations can change. These changes may arise from legislation, regulatory action, appeals of past judicial decisions, and judicial interpretations regarding the standards, procedures, and requirements for compliance and issuance of permits. Therefore, there is no assurance that the Systems' current operations, current or future construction related thereto, and contemplated projects will remain subject to the regulations that are currently in effect. Furthermore, changes in environmental law and standards may result in increased capital and operating costs of the Systems.

Federal Clean Air Act

Congress enacted the Clean Air Act Amendments of 1990 ("Clean Air Act Amendments") with the intent of improving ambient air quality throughout the United States. All of CPS Energy's generating sites in Bexar County have been issued Federal Operating (Title V) permits and Federal Acid Rain (Title IV) permits under the Clean Air Act by the Texas Commission on Environmental Quality ("TCEQ"), the environmental agency for the State. CPS Energy received a Plantwide Applicability Limit ("PAL") permit from the TCEQ for the Calaveras Power Station. This PAL permit sets a cap on emissions at the site based on past emissions. This is a voluntary permit submitted by CPS Energy to provide flexibility to better manage facility-wide emissions. The PAL permit allows CPS Energy to have limited flexibility in maintaining its generating units at the Calaveras Power Station while enhancing environmental protection. CPS Energy's PAL permit includes a commitment to maintain emission reductions already achieved. On September 8, 2009, the EPA proposed to disapprove key aspects of the Texas clean air permitting program that do not meet federal Clean Air Act requirements followed by other states. On August 13, 2012, the United States Court of Appeals for the Fifth Circuit (the "Fifth Circuit") ruled the EPA overstepped its regulatory authority in violation of the Clean Air Act when it belatedly rejected revisions to the State plan, known as the Texas Flexible Permit Program ("TFPP"), for issuing air permits. In late December 2014, the EPA signed off on the TFPP, of which the proposed rule was published in the Federal Register on December 31, 2014. Several citizen and environmental groups disagreed with the EPA's decision and sued in early 2015, asserting the EPA's approval was "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law". In a notice dated April 17, 2015, the EPA extended public comment on the TFPP to May 18, 2015. The Fifth Circuit issued an opinion in July 2015 affirming the EPA's original approval of the TFPP. The EPA officials stated they would continue to work with the TCEQ to implement the TFPP as approved. In early

February 2017, the EPA gave final approval of the TFPP. On July 3, 2017, the D.C. Circuit Court held in *Clean Air Council v. Pruitt* that the EPA's decision to stay implementation of portions of a final rule concerning methane and other greenhouse gas emissions lacked authority, and the court vacated the stay. Subsequently on July 10, 2017, the EPA asked the court to recall its mandate vacating the stay, to gain additional time for consideration of further appeal. On August 10, 2017, the court rejected a request by states and industry groups to reconsider the July panel ruling that lifted the EPA's stay of portions of the rule intended to curb methane emissions from new oil and gas infrastructure. On December 2, 2019, the EPA Administrator Andrew Wheeler signed the "Revised Policy on Exclusions from 'Ambient Air'", which modifies the definition to allow for exclusions of certain areas of a source's property from ambient air. On May 29, 2020, the U.S. Court of Appeals for the Fifth Circuit ruled unanimously in *Environmental Integrity Program v. EPA* that the EPA does not need to second guess states' Clean Air Act permitting decisions. The court denied a subsequent petition for rehearing and substituted its opinion stating that Title V permitting is not the appropriate vehicle for examining the substantive validity of permits. The Environmental Integrity Program subsequently filed suit in the D.C. Circuit Court asking that the Court order the EPA to undertake certain actions related to the air permits issued by the TCEQ related to 8 Texas facilities.

The EPA revised its major New Source Review ("NSR") applicability regulations to clarify when the requirement to obtain a major NSR permit applies to a source proposing to undertake a physical change or a change in the method of operation (i.e., a project) under the major NSR preconstruction permitting programs. Under these programs, an existing major stationary source proposing to undertake a project must determine whether that project will constitute a major modification subject to the major NSR preconstruction permitting requirements by following a two-step applicability test. The final rule clarifies that both increases and decreases in emissions resulting from a proposed project can be considered in Step 1 of the major NSR major modification applicability test. The consideration of emissions increases and decreases in Step 1 is referred to as project emissions accounting. This final rule became effective December 24, 2020.

Sulfur Dioxide ("SO_2"): One objective of the Clean Air Act Amendments is to reduce emissions of SO_2, a gaseous emission formed during the combustion of coal by coal-burning power plants. Although the Spruce1 and older gas units are the only units that receive allowances, all the CPS Energy generating units are subject to the Clean Air Act Amendments' Acid Rain program SO_2 emission allowance system. All new units also must comply with the program even though no new allowances are provided for them. An allowance is an authorization to emit one ton of SO_2 during or after a specified year. Under the emission allowance system, each affected generating facility is issued annual allowances based upon a variety of factors. No utility may emit more tons of SO_2 in a year than are authorized by its total allowances. Allowances issued to one generating facility may be used by a utility to offset the emissions of another generating facility. Allowances not needed by the recipient utility for its current emissions may be banked for future use, or they may be sold or otherwise transferred. CPS Energy upgraded the Spruce1 scrubber in early 2009 prior to Spruce2 coming online because of a commitment made in the Spruce2 air permitting process which required Spruce1 to reduce SO_2 emissions by the amount expected to be emitted by Spruce2.

In addition to the Acid Rain program, the EPA wrote the Clean Air Interstate Rule ("CAIR") that would further reduce SO_2 by reducing the value of the Acid Rain program allowances. On July 11, 2008, the D.C. Circuit Court vacated the CAIR in its entirety. In late December 2008, the D.C. Circuit Court granted the EPA's petition to remand CAIR to the EPA to be "fixed" rather than be vacated. The EPA finalized a rule to replace CAIR in July of 2011. The new rule was the Cross-State Air Pollution Rule ("CSAPR"), which required a 50% reduction in SO_2 starting January 2012. CPS Energy planned to meet the reductions by utilizing ultra-low sulfur coal and by reduced dispatch of the Deely units. In January 2013, the courts denied an EPA petition to keep CSAPR in place.

On April 29, 2014, the United States Supreme Court (the "Supreme Court") reversed a D.C. Circuit Court decision that vacated CSAPR in its entirety. The Supreme Court remanded the case back to the D.C. Circuit Court for additional proceedings consistent with its opinion. The decision did require the EPA to begin immediate implementation of CSAPR, so CAIR remained in place while additional issues were addressed. On January 16, 2015, the EPA filed its brief on the merits in the D.C. Circuit Court regarding the remaining legal challenges to CSAPR that were not decided by the April 29, 2014 decision. With the use of ultra-low sulfur coal at the Deely units, CPS Energy had enough SO_2 allowances to meet the CAIR requirements.

On October 23, 2014, the D.C. Circuit Court lifted its stay of the EPA's CSAPR. Compliance options under the rule began on January 1, 2015. Phase 1 emission budgets began to apply on January 1, 2015, for the annual programs and applied in 2016. On June 1, 2015, the EPA published a proposed rule providing notice of the availability of preliminary calculations of emission allocations to certain units under CSAPR, specifically regarding the first round of new unit set-aside allowance allocations for the 2015 year. On July 28, 2015, the D.C. Circuit Court issued an opinion that upheld EPA's CSAPR but remanded without vacating EPA's 2014 SO_2 and ozone season NO_x budgets for several states, including Texas. The court did not vacate any emissions' budgets, but instead declared them "invalid" and instructed the EPA to reconsider them. Some Texas units received additional allowances. Phase 2 emission budgets began January 1, 2017. As stated above, with the use of ultra-low sulfur coal at the now-deactivated Deely units, CPS Energy met the SO_2 targets for CSAPR. On September 21, 2017, the EPA signed a rule finalizing withdrawal of the federal implementation plan ("FIP") provisions that require affected electricity generating units ("EGUs") in Texas to participate in Phase 2 of the CSAPR trading programs for annual emissions of SO_2 and NO_x Texas will stay in the most stringent NO_x Ozone Season Program.

The EPA issued the final primary SO_2 National Ambient Air Quality Standards ("NAAQS") on June 2, 2010. The EPA is determining designations for potential non-attainment areas in different rounds. On August 10, 2015, the EPA signed a final standard that requires state agencies, like TCEQ to submit additional information. Specifically, the TCEQ must provide additional data for sources that emit greater than 2,000 tons per year, such as the Calaveras Power Station. The TCEQ identified 25 sources in the State with emissions greater than 2,000 tons per year (with the Calaveras Power Station the only location identified in Bexar County) and notified the EPA on January 15, 2016 of these locations. The State identified the characterization approach planned for each identified source prior to the July 2016 deadline. For any source to be evaluated with modeling, states were required to submit a modeling protocol by July 1, 2016 (of which the State complied), a modeling analysis by January 13, 2017, and annual reports thereafter, to the EPA. On June 30, 2016, the EPA submitted the final second round SO_2 NAAQS designations to be published in the Federal Register. For sources to be monitored, the SO_2 monitors must have been in operation by January 1, 2017. Any enforceable emissions limits agreed to must have been adopted and effective by January 13, 2017. States and tribes were permitted to submit exceptional events' demonstrations to the EPA explaining event influenced SO_2 by July 14, 2017. The EPA announced completion of its Round 3 SO_2 area designations on December 21, 2017 after evaluating air quality modeling and monitoring data, analyzing established emission limits, and reviewing areas not subject to the EPA's Data Requirements Rule. A supplement to these designations was issued on March 28, 2018. States were required to certify their 2019 monitoring data for Round 4 designations by March 1, 2020, and the EPA notified states of intended modifications by September 2, 2020. On December 21, 2020, the EPA took the final step to implement the Round 4 designations for SO_2 set in 2010; however, Round 4 designations were not published in the Federal Register and are undergoing review in accordance with the "Regulatory Freeze Pending Review Memorandum" that White House Chief of Staff Ronald Klain, issued on January 20, 2021. With Deely deactivated in 2018, the Calaveras Power Station site is now under the 2,000 tons per year threshold. On February 25, 2019, the EPA issued a decision to retain the existing NAAQS for SO_2 based on its judgement that the current NAAQS protects public health, with an adequate margin of safety. The existing standard, established in 2010, is 75 ppb based on the 3-year average of the 99% of the yearly distribution of 1-hour daily maximum concentrations. On July 23, 2019, the EPA issued a final Notice of Data Availability ("NODA") required by CSAPR, listing new units that receive a "1st Round" 2019 SO_2 allowance allocation and allocation amounts.

The emission reductions expected from the EPA's Mercury and Air Toxics Standards ("MATS") are not included in the estimated emission reductions from CSAPR; once those standards are implemented, emissions from the power sector are likely to be reduced even further. On March 17, 2016, the EPA finalized several clarifying changes and corrections to the final MATS, including action to remove the rule provision establishing an affirmative defense for malfunction. In 2017, the EPA finalized a rule permitting e-reporting of power plants for MATS purposes of which the EPA extended reporting deadlines until July 1, 2020. On December 28, 2018, the EPA issued a proposed rule finding that MATS is not appropriate and necessary to regulate hazardous air pollutants ("HAPs"), but stated it planned to leave the underlying MATS rule in place. CPS Energy follows all MATS requirements and plans to continue to monitor amendments to MATS to ensure future compliance. In December of 2018, the EPA proposed to revise the cost-benefit analysis justifying the mercury restrictions in MATS. The public hearing was held on March 18, 2019, and the comment period closed April 17, 2019. The utility sector has asked for the rule to be left as is, since companies have already spent money to bring their units into compliance. On May 22, 2020, the EPA published in the Federal Register a reconsideration of the appropriate and necessary finding for the MATS, correcting flaws in the 2016 supplemental cost finding while ensuring that power plants will emit no more mercury to the air than before. After primarily considering compliance costs relative to the HAPs benefits of MATS, the EPA is concluding that it is not "appropriate and necessary" to regulate electric utility steam generating units under section 112 of the Clean Air Act. On July 17, 2020, the EPA finalized revisions to the electronic reporting requirements for MATS.

On March 15, 2021, the EPA finalized the CSAPR Update to fully address 21 states' outstanding interstate pollution transport obligations for the 2008 ozone NAAQS. Starting in the 2021 ozone season, the rule requires additional emissions reductions of NO_x from power plants in 12 states. The EPA is proposing that for 9 of the 21 states for which the CSAPR Update was found to be only a partial remedy (Alabama, Arkansas, Iowa, Kansas, Mississippi, Missouri, Oklahoma, Texas, and Wisconsin), their projected NO_x emissions in the 2021 ozone season and thereafter will not significantly contribute to a continuing downwind nonattainment and/or maintenance problem, and therefore the states' CSAPR Update FIPs (or the state implementation plans ("SIP") subsequently approved to replace certain states' CSAPR Update FIPs) fully address their interstate ozone transport obligations for the 2008 ozone NAAQS. Texas is not impacted by this rule.

The EPA previously engaged in a residual risk and technology review ("RTR") that is required by section 112 of the Clean Air Act. The results from the RTR showed that emissions of HAPs have been reduced such that the residual risk is at acceptable levels, that there are no developments in HAPs emissions controls to achieve further cost-effective reductions beyond the current standards, and, therefore, no changes to the MATS rule are warranted. Litigation contesting the validity of the foregoing actions immediately commenced.

Nitrogen Oxides ("NO_x"): In addition to SB 7 regulations that require NO_x reductions at CPS Energy's formerly grandfathered gas units, the TCEQ implemented additional rules. Chapter 117 of Title 30 of the Texas Administrative Code, regarding Control of Air Pollution from Nitrogen Compounds regulations ("Chapter 117"), requires all fossil fuel power plants to achieve a NO_x

emission level cap. For coal units this cap is based on a NO_x emission rate of 0.165 lb/MMBtu (pounds per million British thermal units) by mid-2005; for gas units this cap is based on a NO_x emissions rate of 0.14 lb/MMBtu. However, CPS Energy management chose to comply with a system cap rather than the emission specifications. CPS Energy has met the system cap for the past compliance years. The revised CAIR reduced the NO_x emission rate to less than 0.15 lb/MMBtu in the first phase and were accomplished via statewide allocations that were required to be met in 2009 with further reductions by 2015. The CAIR rule was a cap and trade rule which means that specific units are not required to meet any emission limit, only that they have adequate NO_x allowances for the amount they emit. CPS Energy made further reductions in NO_x by installing selective catalytic reduction ("SCR") technology on Deely2 in 2011 and currently has SCR on Spruce2.

As stated earlier, the EPA, in July 2011, finalized CSAPR for the purpose of replacing CAIR. The proposal included Texas in an Ozone Season only NO_x program and an Annual NO_x program. Ozone season includes the summer months of May through September. Because CPS Energy began installing NO_x reduction technologies in 1997, the targets for CSAPR can be met with current equipment (but such compliance does not provide reserve margins for future regulations). CSAPR was intended to be effective on January 1, 2012; however, the D.C. Circuit Court put the rule on hold, and on August 21, 2012, the court vacated CSAPR and required the EPA to continue administering CAIR pending the promulgation of a valid replacement. In January 2013, the courts denied a petition to keep CSAPR in place, so CAIR remained as the requirement for NO_x. See the SO_2 disclosure above for a discussion concerning the current status of CSAPR litigation.

On October 23, 2014, the D.C. Circuit Court lifted its stay of the EPA's CSAPR. Compliance options under the rule began in 2015. Phase 1 emission budgets began to apply on January 1, 2015, for the annual programs and May 1, 2015, for the ozone-season NO_x program and applied in 2016. Phase 2 emission budgets began to apply in 2017 and subsequent years. On September 14, 2015, the EPA issued a preliminary Notice of Data Availability, as required by CSAPR, which lists new units eligible for a "2nd Round" 2015 CSAPR NO_x Ozone Season allowance allocation. With the use of the Spruce2 SCR, CPS Energy will be able to meet the NO_x targets. On November 12, 2015, the EPA issued a final Notice of Data Availability, as required by CSAPR, which details the 2015 allowance allocations to certain new units eligible for a 2nd Round CSAPR ozone season new unit set-aside allocation, and to CSAPR existing units in states in which the new unit set-asides for the 2015 CSAPR ozone season were undersubscribed. On November 16, 2015, the EPA proposed an update to the CSAPR for the 2008 NAAQS by issuing the proposed CSAPR Update Rule. On December 15, 2015, the EPA issued a preliminary Notice of Data Availability, as required by CSAPR, which lists new units eligible for a "2nd Round" 2015 CSAPR NO_x Annual, SO_2 Group 1, or SO_2 Group 2 allowance allocation. The EPA later issued, on February 12, 2016, a final Notice of Data Availability, as required by CSAPR, that details compliance year 2015 allowance allocations to certain new units eligible for a "2nd Round" CSAPR NO_x Annual, Group 1 SO_2, or Group 2 SO_2 new unit set-aside allocation and to CSAPR existing units in states in which the new unit set-asides for 2015 for those annual CSAPR Trading Programs that were undersubscribed. On February 26, 2016, the EPA issued a ministerial action affirming changes to CSAPR that align the dates in CSAPR's rule text with its revised implementation schedule for 2015 Phase 1 implementation and 2017 Phase 2 implementation (this change was made in 2014 on an interim basis). On May 27, 2016, the EPA issued a preliminary NODA, as required by CSAPR, that listed new units eligible for a "1st Round" 2016 CSAPR NO_x Annual, NO_x Ozone Season, or SO_2 Group 1 or SO_2 Group 2 allowance allocation and allocation amounts. On June 21, 2017, the EPA issued a NODA on emission allowance allocations to certain units from the new unit set asides ("NUSAs") for the 2017 control periods and posted the calculations on the EPA website. The EPA completed calculations for the second round of allocations from the NUSAs for the 2017 control periods to new units and posted the calculations as of February 16, 2018. In February 2019, the EPA completed the second final round of NODA and published the NUSA from the 2018 control period, and in May 2019, the EPA provided the preliminary NODA for the first round of allocation allowances from the NUSA. On July 23, 2019, the EPA issued a final NODA, as required by CSAPR, that lists new units that receive a "1st Round" 2019 CSAPR NO_x Annual and NO_x Ozone Season allowance allocation and allocation amounts. On February 12, 2020, the EPA issued a final Notice of Data Availability, as required by CSAPR, that lists new units that receive a "2nd Round" 2019 CSAPR NO_X Annual, NO_X Ozone Season, or SO_2 allowance allocation and allocation amounts. The notice also details 2019 allowance allocations to CSAPR existing units in states in which the new unit set-asides for 2019 for those CSAPR trading programs were undersubscribed.

On September 7, 2016, the EPA released its final CSAPR update rule for the 2008 ozone NAAQS. The final rule makes a few key changes, by establishing a one-time allowance conversion that transitions a limited number of banked 2015 and 2016 allowances for compliance use in CSAPR Update states in 2017 and beyond. In May 2017, this rule began to reduce summertime (May through September) NO_x emissions from power plants in 22 states in the eastern U.S., providing up to $880 million in benefits and reducing ground-level ozone exposure for millions of Americans. The rule will reduce air quality impacts of ozone pollution that crosses state lines and will help downwind areas meet and maintain the 2008 ozone air quality standard. The EPA also refined its methodology for establishing emission budgets to better reflect power sector NO_x reduction potential by using historical data in combination with projections of potential NO_x emission rate improvements in each state. These refinements resulted in changes to individual state emission budgets and the combined total increased slightly (by less than 5 percent) from the proposed rule. For CPS Energy, this resulted in a reduction of Ozone Season NO_x allowances from 4,650 to 3,698 tons, with only about a third of the banked allowances from 2015 and 2016 rolling over. In response to the D.C. Circuit Court's remand of the CSAPR Phase 2 SO_2 emissions' budgets, the EPA proposed to remove the State from the CSAPR SO_2 and NO_x trading programs on November 3, 2016. Such removal includes withdrawal of the FIP, sources in the State will not contribute significantly to nonattainment, and therefore the EPA will have no requirement to issue a new FIP. The proposal also includes a sensitivity analysis showing actions taken in response to the remand. The rule was published on January 4, 2017, and a public hearing was held on January 10, 2017. Comments to the rule were closed on March 6, 2017. On September 21, 2017, the EPA signed a rule finalizing withdrawal of the FIP provisions that require affected EGUs in Texas to participate in Phase 2 of the CSAPR trading programs for annual emissions of SO_2 and NO_x. Texas will stay in the most stringent NO_x Ozone Season Program. On October 29, 2020, a CSAPR update was published by the EPA in response to a previous ruling by the D.C. Circuit Court. The update was written under the Clean Air Act's "Good Neighbor" provision and was previously the subject of a remand in the D.C. Circuit Court. The court was concerned with the ability of upwind states to allow significant contributions to downwind air quality problems beyond the 2021 deadline for the 2008 ozone standard. In response, the EPA revised CSAPR to address the concern. The air pollution rule updates a trading program for NO_x emissions designed to help eastern states meet federal ozone limits. The EPA finalized the rule on March 15, 2021 in accordance with court order as revised on April 30, 2021, and a petition for review was subsequently filed in the D.C. Circuit Court.

On February 28, 2022, the EPA signed a proposal to disapprove SIP submittals from Arkansas, Louisiana, Oklahoma and Texas, along with 15 other states, regarding interstate transport for the 2015 8-hour Ozone Standard. Comments on the proposed disapprovals are due April 25, 2022. In accordance with a Consent Decree finalized in January 2022, if the EPA signs a proposed disapproval of a SIP submission and proposes a FIP by February 28, 2022, which the EPA has done for 19 states, the EPA must sign a final action to approve or disapprove the SIP submissions by December 15, 2022.

On March 11, 2022, the EPA issued a pre-publication of a proposed FIP to assure that the 26 states identified in the proposal do not significantly contribute to problems attaining and maintaining the 2015 NAAQS in downwind states. This action, known as a "Transport Rule" would help states fully resolve their Clean Air Act "good neighbor" obligations for the 2015 Ozone NAAQS. Starting in 2023, the proposed emissions budgets would initially be set at the level of reductions achievable through immediately available measures, including consistently operating emissions controls already installed at power plants, specifically non-catalytic reduction and selected non-catalytic reduction ("SCR"). While the proposed emissions budgets are based on these measures, because the proposed FIP establishes a trading program and not direct control, over these control measures are not necessarily required. The EPA expects that facilities will utilize the se controls to achieve required reduction:

- The EPA identified 0.08 lb/MMBtu as a reasonable level of performance for coal steam units with optimized SCR.
- The EPA identified 0.03 lb/MMBtu as a reasonable level of performance for gas- and oil-fired steam units and simple cycle units with optimized SCR.

In the proposed FIP, the EPA is adding additional restrictions, beyond those in the Revised CSAPR Update, to ensure consistent NO_x reductions are achieved. These measures include:

- A daily emissions rate limit for large coal-fired units (100 MW or more) set at 0.14 lb/MMBtu, which would take effect in 2024 for units with existing controls and in 2027 for units installing new controls, to ensure those controls are operated effectively and consistently at these plants through the ozone season. Units that exceed the daily rate would be subject to increased allowance surrender requirements.
- Limiting the size of the emissions allowance bank to maintain strong long-term incentives to reduce NO_x emissions.
- Starting in 2025, annually updating budgets to account for new retirements, new units, and changing operations.

The daily emission rate would impact the number of allowances for Spruce1 starting in 2027.

On March 29, 2022, four non-profit organizations filed suit against the EPA to enforce provisions and required actions under the Clean Air Act.

The rule would establish an allowance-based ozone season trading program with NO_x emissions budgets for fossil fuel-fired power plants in 25 states. The rule would also establish NO_x emissions limitations for certain other industrial stationary sources in 23 states.

CPS Energy is currently reviewing the proposed rule for its impacts.

Mercury: In early 2004, the EPA published a proposed rule to reduce mercury to a level of 21 X 10-6 lb/MWh (pounds per megawatt hour) from new units (about 2.0 lb/trillion Btu) and CPS Energy agreed to this level for the new Spruce2 unit. The final rule published in May 2005, called the Clean Air Mercury Rule, established mercury emission limits on new and existing units and set up a cap and trade system starting on January 1, 2010. The final rule had a less stringent mercury limit for new units; however, CPS Energy agreed to the previously proposed level and the final Spruce2 unit permit has a mercury limit (2.0 X 10-5 lb/MWh), which is currently being met.

On February 8, 2008, the D.C. Circuit Court vacated the Clean Air Mercury Rule. Since the procurement and installation of continuous mercury monitors was already in process, CPS Energy decided to complete the installation. The EPA proposed a rule in March 2011 for all HAPs including mercury, commonly referred to as the MATS rule. The limits are very stringent, and all four CPS Energy coal units will need mercury specific reduction technologies added in order to comply. The rule allows three years for compliance from the final rule date. The rule was finalized on December 16, 2011. The rule also included limits for HAPs such as non-mercury metals (measured as particulate matter and acid gases measured as hydrochloric acid or sulfur dioxide). The rule requires continuous monitoring of mercury, particulate matter and acid gases by March 2015, and CPS Energy complies with such requirements. On April 21, 2015, the EPA completed review of requests to reconsider certain aspects of MATS, denying all such requests. The Supreme Court consolidated three EPA cases in early 2015 and agreed to hear arguments regarding whether the EPA unreasonably refused to consider costs in determining whether it is appropriate to regulate HAPs emitted by electric utilities. On June 29, 2015, the Supreme Court overturned the EPA's rules limiting mercury and HAPs released from power plants, thus ruling the EPA should have considered the compliance costs when crafting the regulations. In December 2015, the D.C. Circuit Court agreed to leave intact the MATS rule while government officials decided how to best account for implementation costs. Subsequently, 20 states asked the Supreme Court to stay the Clean Air Mercury Rule, which the court rejected in March 2016. On June 13, 2016, the Supreme Court denied a *writ of certiorari*, but sent the rule back to the D.C. Circuit Court after finding the EPA improperly failed to consider the cost of the rule before promulgating it. The D.C. Circuit Court allowed the rule to stay in place while the EPA revised to comply with the U.S. Supreme Court's finding. In April 2016, the EPA released a cost analysis that determined the rule still valid. On February 10, 2017, several states, local governments, and two energy companies submitted an intervenor brief supporting the rule, stating the EPA proved its necessity. On April 27, 2017, a three-judge panel at the United States Court of Appeals for the D.C. Circuit Court granted the EPA's request to pause the MATS litigation. Since the coal units already have technologies to control particulate matter and acid gases, the only additional technology required was mercury reduction technology. CPS Energy installed activated carbon injection (a mercury reduction technology) on Spruce1 and Spruce2 in early 2013 and Deely1 and 2 in July 2014 to meet the April 2015 compliance deadline. On April 14, 2016, the EPA issued a final finding that it is appropriate and necessary to set standards for emissions of air toxics from coal- and oil-fired power plants. This finding responds to a decision by the Supreme Court that the EPA must consider cost in the appropriate and necessary findings supporting the MATS. The EPA subsequently denied two petitions for reconsideration related to the standard for periods of startup and shutdown authorized in lieu of numeric standards for coal- and oil-fired power plants. The EPA recently amended its power plant electronic reporting requirements as it relates to MATS and further proposed additional revisions in April 2020 identifying certain data elements to be reported by power plants. The EPA's goal was that emissions of mercury from power plants be reduced 70% from 1999 levels, resulting in a 15-ton cap nationwide in 2018. The EPA submitted its pre-publication proposal to reconsider the MATS rule for power plants to the White House Office of Management & Budget ("OMB") for interagency review. On April 17, 2019, 21 state attorney generals and other regulators, urged the EPA not to revise its 2016 final findings. In April 16, 2020, the EPA completed a reconsideration of the appropriate and necessary finding for the MATS, correcting flaws in the approach to considering costs and benefits while ensuring that HAPs emissions from power plants continue to be appropriately controlled. The EPA is maintaining its MATs emissions standards as Administrator Wheeler previously announced. The EPA is not removing coal- and oil-fired power plants from the list of affected source categories for regulation under section 112 of the Clean Air Act, so MATS remains in effect. The foregoing actions have been the subject of litigation. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Sulfur Dioxide" herein.

On April 16, 2020, the EPA issued the final MATS rule. As a general matter and as expected, the final rule invalidates the "necessary and appropriate" finding but keeps in place the existing MATS regulations. In addition, the EPA completes the residual risk and technology review for the MATS rule, confirming that no further emissions controls are needed to address any potential residual risks from the emissions of coal-fired power plants. The final action leaves emission limits in place and unchanged. The EPA on May 22, 2020 published in the Federal Register the Final Revised Supplemental Finding and Results of the Residual Risk and Technology Review. The EPA considered compliance costs relative to benefits and concluded it is not "appropriate and necessary" to regulate EGUs for HAPs but is leaving the current emission standards in place. The EPA also took final action on the residual risk and technology review, finding that HAPs emissions have been reduced such that residual risk is at acceptable levels and thus no changes to the MATS rule is warranted. On July 17, 2020, the EPA issued a final action identifying data elements to be reported electronically by power plants using the "Emissions Compliance and Monitoring Plan System Client Tool" and extended the submission of certain reports using portable document format file through December 31, 2023.

On November 19, 2020, the EPA finalized amendments that apply to National Emission Standards for HAPs. The amendments implement that plain language reading of the "major source" and "area source" definitions of section 112 of the Clean Air Act and provide that a major source can be reclassified to area source status at any time upon reduction of its potential to emit HAP below the major source thresholds.

On January 31, 2022, the EPA issued a proposed rule to take several actions under the MATS rule. The EPA is proposing to reinstate the "appropriate and necessary" requirements to regulate HAPs including mercury, from power plants, after considering costs. The rule would ensure that the existing standards for MATS would remain in effect and unchanged.

On February 1, 2022, the EPA issued a Notice of Proposed Rulemaking on the current MATS rule that reaffirms the finding that rules for coal- and oil-fired steam generating units are appropriate and necessary. The rule would ensure the existing standards for MATS would remain in effect and unchanged. In response to a January 2021 executive order, the proposed rule also solicits information on the cost and performance of new or improved technologies that control hazardous air pollutants, improved methods of operations, and risk related information for the EPA to re-evaluate the residual risk and technology review for MATS. CPS Energy is currently meeting all the requirements of MATS.

Ozone ("O_3"): On March 12, 2008, the EPA revised the NAAQS for ground-level ozone (the primary component for smog). This revision was part of a required review process mandated by the Clean Air Act, as amended in 1990. Prior to the revision, an area met the ground-level ozone standards if the three-year average of the annual fourth-highest daily maximum eight-hour average at every ozone monitor (the "eight-hour ozone standard") was less than or equal to 0.08 parts per million ("ppm"). Because ozone is measured out to three decimal places, the standard effectively became 0.084 as a result of rounding. The EPA's March 2008 revision changed the NAAQS such that an area's eight-hour ozone standard must not exceed 0.075 ppm rather than the previous 0.084 ppm.

The Clean Air Act requires the EPA to designate areas as "attainment" (meeting the standards), "nonattainment" (not meeting the standards), or "unclassifiable" (insufficient data to classify). As a result of the revisions to the NAAQS, states were required to make recommendations to the EPA no later than March 12, 2009 for areas to be classified attainment, nonattainment, or unclassifiable. In 2009 former Texas Governor Rick Perry submitted a list of 27 counties in Texas, including Bexar County, that should be designated as nonattainment. The final designations were put on hold while the EPA worked on revising the standard even further downward.

On January 6, 2010, the EPA formally proposed a regulation that would lower the primary NAAQS for ozone to a level within a range of 0.060 to 0.070 ppm. The EPA postponed issuing a final rule revising the ozone NAAQS standards from August 31, 2010 to October 2010. At the end of 2010, the EPA postponed the final rule until July 2011. On September 2, 2011, President Obama requested that the EPA withdraw its draft of the NAAQS revision. On September 22, 2011, the EPA issued a memorandum stating it would designate areas as non-attainment under the 2008 ozone standard of 0.075 ppm. On December 18, 2014, the EPA completed its initial nonattainment designations under the 2012 annual fine particle standard, issuing a revision to the list on March 31, 2015.

On November 26, 2014, the EPA proposed ozone standards to within a range of 65 to 70 parts per billion ("ppb"), while taking comment on a level as low as 60 ppb. The proposed revision to the NAAQS was published in December 2014. On October 1, 2015, the EPA lowered the NAAQS for ground level ozone from 75 ppb to 70 ppb, "based on extensive scientific evidence about the ozone's effects on public health and welfare". The EPA was under a court order to finalize this rulemaking on or before such date. Under the Clean Air Act, the EPA has two years from the time it finalizes a revised NAAQS to complete the designation process. Some final designations were issued in 2017. On February 25, 2016, the EPA issued the area designations for the 2015 NAAQS in a memorandum, which also outlined the important factors that the EPA intends to evaluate in making the final nonattainment area boundary decisions for these standards. On August 3, 2016, the TCEQ approved a recommended nonattainment designation for Bexar County and submitted that recommendation to Texas Governor Greg Abbott for consideration. Texas Governor Greg Abbott's recommendations of area designations within the State were due to the EPA by October 1, 2016. The EPA was expected to make final designations by October 1, 2017. On June 6, 2017, the EPA sent a letter to each state Governor stating that designations will be delayed by one year, which would have made October 2018 the new deadline; however, on August 11, 2017, the EPA stated it would provide designations by the original October 1, 2017 date. The EPA did not make the designations by October 1, 2017. On December 5, 2017 several states filed suit in the Northern District of California alleging the EPA had a duty to designate all areas within the county, as opposed to a partial designation of the counties released so far. Several environmental groups filed a lawsuit in the same court the day prior alleging the same causes of action. If the EPA issued a designation that deviated from a state's recommendation, the EPA is required to notify the state at least 120 days prior to promulgating the final designations. Following the issuance of final designations, states are required to submit SIPs outlining how they will reduce pollution to meet the new standards. See "Cross-State Air Pollution Rule Upheld" herein for further discussions regarding SIPs. These SIPs are due to the EPA by a date established under a separate rule but will be no later than three years after the EPA's final designations (e.g., 2021 for the EPA designations made in 2018.) On December 19, 2017, the D.C. Circuit Court issued an order requiring the EPA to file a report describing when it plans to issue a final rule establishing air quality designation for the 2015 ozone NAAQS. In conjunction with the revised NAAQS, the EPA proposed separate rules to address monitoring the new standard. Generally, the proposal from the EPA would require a greater number of EPA-approved monitors in both urban and non-urban areas and longer ozone monitoring seasons in many states. For Texas, the proposal calls for year-round monitoring throughout the State. On July 17, 2018, the EPA, in response to a March 12, 2018 order of U.S. District Judge Haywood S. Gilliam Jr., finalized the designations for the eight counties in the San Antonio area (the "San Antonio Area"), which took effect on September 24, 2018, sixty days after being published in the Federal Register. Of the eight counties in the San Antonio Area, only Bexar County has been designated as marginal Nonattainment. Because the marginal Nonattainment classification is closest to meeting the federal ozone standard, achieving Attainment will require fewer mandatory planning and control requirements. The TCEQ issued a response stating that it disagreed with the EPA's decision to designate Bexar County as Nonattainment but that it would work with local stakeholders to address the Nonattainment designation. Because San Antonio has been designated as a marginal Nonattainment area, a SIP is not required. In response to this designation, City leaders appointed the San Antonio Metropolitan Health District Director to develop an Ozone Action Plan and lead efforts to improve the area's air quality. On August 28, 2018, the State (including Governor Greg Abbott and the TCEQ) sued the EPA in the Fifth Circuit disputing the Nonattainment designation, stating EPA's decision would impose an unwarranted financial burden on the State's economy with minimal public health benefit. CPS Energy remains committed to improvement of the area's air quality by helping to develop constructive air quality improvement solutions and is working with the City and the Alamo Area Council of Governments in identifying community mitigation strategies to reduce ozone in the region. On October 17, 2018, a nationally recognized ozone expert presented his findings to City Council regarding the San Antonio Area, which noted rotating wind patterns, industrial chemical compounds, and the current placement of air quality monitors as contributors to the current air quality. On March 20, 2019, the City of San Antonio Metropolitan Health District (the "Metropolitan Health District") issued an Ozone Attainment Master Plan. The plan called for evaluation of targeted ozone reduction efforts as of December 31, 2020. The City sought feedback on the Ozone Attainment Master Plan to reduce ozone levels as the program's SASPEAKSUP Air Quality survey was made available in May 2019 and finalized in June 2019.

The SIP to reduce ground-level ozone may curtail new industrial, commercial and residential development in the City and adjacent areas. Examples of past efforts by the EPA and the TCEQ to provide for annual reductions in ozone concentrations in areas of Nonattainment under the former NAAQS include imposition of stringent limitations on emissions of volatile organic compounds ("VOCs") and NO_x from existing stationary sources of air emissions, as well as specification that any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.1 times the amount of pollutants proposed to be emitted by the new source. Studies have shown that standards significantly more stringent than those currently in place in the San Antonio Area and across the State are required to meaningfully impact an area's ground-level ozone reading, which will be necessary to achieve compliance with the 70 ppb ozone standard.

Depending on the severity of the violation, air pollution control programs could include the Nonattainment New Source Review permitting program and Federal General Conformity and Transportation Conformity programs. When an area is designated as Nonattainment, state plans first focus on reduction of emissions from major pollution sources, such as power plants and cement factories, and then will focus on programs to further reduce emissions of pollutant precursors from sources such as cars, fuels, and consumer products. In the meantime, it must be demonstrated to the EPA that reasonable further progress toward improving the air quality is being made in the Nonattainment area. However, the EPA Administrator Andrew Wheeler noted that analysis from Texas about the role of international emissions and the scheduled closure of a local coal-fired plant will ensure implementation measures to meet standards will have minimal burden on economic development.

Economic development would not be totally stopped by a Nonattainment designation, but there could be costly consequences due to the designation. Limitation on production and operation of industrial facilities could be imposed, or installation of pollution control equipment could be required, or otherwise industrial facilities may be asked to find reductions in emissions by "offsetting" in order to expand. New facilities wanting to locate in a Nonattainment area will most likely be required to install pollution controls or take stringent operational limits. There are also increased costs to businesses and consumers due to special requirements for vehicles, fuels sold in the area, and for commercial and consumer products.

Overall, these potential consequences can be summarized as the following:

1. **Loss of industry and economic development in and around the area.**
   Companies interested in building a major manufacturing plant in a Nonattainment area could be impacted due to the increased costs, delays, and uncertainties associated with the restrictive permit requirements.

2. **Loss of federal highway and transit funding.**
   Federally supported highway and transit projects may be halted in a Nonattainment area if the state cannot demonstrate that the project will cause no increase in applicable emissions.

3. **New emissions in the area must be "offset", or the unit cannot be built.**
   Companies must offset the projected emissions of the proposed new plant or major modification by purchasing unused emission credits from others, or by reducing their own emissions. The ability to purchase emissions credits becomes increasingly difficult as the available emissions credits are used up over time. Similarly, the ability to reduce existing emissions at a plant that is proposing a major modification may be difficult or impossible for sources that already meet stringent standards and have installed emissions control equipment. Where no offset can be found, the project may not go forward. In marginal ozone Nonattainment areas, offsets typically must be greater than 1:1 ratio (e.g., a ton of offsets per ton of emissions) of NO_x and VOC.

4. **Compensation for foreign sources of emissions.**
Certain states may also have to compensate for contributions to ambient concentrations in an area coming from foreign sources (such as Mexico) in order to reach Attainment with the NAAQS.

5. **Additional restrictive permitting requirements that are not applied in Attainment areas.**
Companies that plan to build a new facility or construct a major modification to an existing facility in, or near, a Nonattainment area will be required to install the most effective emission reduction technology without consideration of cost. Less stringent controls may be installed in Attainment areas. The permitting process can be expected to last a year or longer as the company demonstrates that its proposal will meet all the applicable Nonattainment area requirements. These differences could discourage new business investments in Nonattainment areas compared with moving to an Attainment area.

6. **Greater EPA involvement and oversight in permit decisions.**
The EPA may intervene and require permit revisions, even after the state and company seeking the permit have negotiated the terms of a final permit. This causes tremendous uncertainty, delays, and increased costs in the permitting process.

7. **Continuing oversight by the EPA even after the Nonattainment area meets the standard.**
Before a Nonattainment area can be re-designated as an Attainment area, the EPA must determine that: 1) the area has met the standard (for ozone, this means it must be in Attainment for three full years); 2) the improvement in the area's air quality is due to permanent and enforceable emissions reductions; and 3) the area has an approved maintenance plan and an approved contingency plan that contain enforceable requirements to keep the area from lapsing into Nonattainment.

8. **Technical and formula changes for commercial and consumer products.**
In order to meet the NAAQS standard, some SIPs may include regulations that would reduce the pollutant or its chemical "precursors" (e.g., for ozone, certain types of VOCs), by requiring changes to operating processes, to a product's technical design, or to the actual chemical formulation of commercial or consumer products, such as paint, which may result in increased costs to users or differences in performance.

Failure by an area to comply with the EPA's rules and regulations regarding ground level ozone by the requisite time could result, in the most serious of scenarios, in the EPA delivering a mandatory FIP to the region in a move beyond the State's authority, and imposing a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and the EPA seeking to compel the early adoption of additional emission reduction measures.

On December 6, 2018, the EPA issued final requirements that apply to state, local, and tribal air agencies for implementing the 2015 NAAQS for ground-level ozone. The EPA revised both the health-based and welfare-based standards for ozone on October 1, 2015 to 70 parts per billion ("ppb"). This final rule is largely an update to the implementing regulations previously promulgated for the 2008 ozone NAAQS, and the EPA is retaining without significant revision most of those provisions to implement the 2015 ozone NAAQS. The EPA determined the interstate pollution transport obligations (under the 2008 NAAQS for the twenty affected states, including Texas) do not extend to the submission of SIPS establishing additional control requirements. The final rule includes attainment demonstrations, reasonable further progress and associated milestone demonstrations, reasonably available control technology ("RACT"), reasonably available control measures ("RACM"), major nonattainment new source review, emissions inventories, the timing of required SIP submissions and compliance with emissions control measures in the SIP. The EPA is not taking any final action on the EPA's proposed approach for revoking the prior ozone NAAQS and establishing anti-backsliding requirements. The EPA intends to address any revocation of the 2008 ozone NAAQS and any potential anti-backsliding requirements in a separate future rulemaking.

On August 1, 2019, the EPA stated in a court filing it does not intend to revise and modify the previously promulgated rules related to the 2015 ozone standard (ending speculation as to this anticipated change).

CPS Energy continues to work closely with the TCEQ, the Metropolitan Health District, and the Alamo Area Council of Governments on strategies for reducing ozone levels in the San Antonio Area and surrounding counties. The Metropolitan Health District has organized stakeholders to work with TCEQ regarding the Texas SIP as it pertains to Bexar County. The City has developed an Ozone Attainment Master Plan to establish a strategic and technical review of current local ozone levels and provides recommendations for reducing emissions of ozone-forming compounds (NO_x and VOCs) into the atmosphere.

On June 10, 2020, the TCEQ adopted the 2015 Eight-Hour Ozone NAAQS Emissions Inventory ("EI") SIP Revision for the Houston-Galveston-Brazoria ("HGB"), Dallas-Fort Worth ("DFW"), and Bexar County Nonattainment Areas ("Non-Rule Project No. 2019-111-SIP-NR"). The SIP revision satisfies Federal Clean Air Act, § 172(c)(3) and § 182(a)(1) EI reporting requirements for areas designated nonattainment for the 2015 eight-hour ozone NAAQS. The revision also includes certification statements to confirm that the emissions statement and nonattainment new source review requirements have been met for the HGB, DFW, and Bexar County 2015 eight-hour ozone nonattainment areas.

On July 13, 2020, the EPA issued its proposed rule to retain the 70-ppb ozone NAAQS. The proposal responds to a Clean Air Act mandate to review NAAQS every five years. The EPA's staff has recommended keeping the primary, or health-based, ozone NAAQS unchanged at the level of 70 ppb over eight hours set in 2015. The EPA has also proposed to retain the secondary, or welfare-based, NAAQS at the same level of 70 ppb. Public hearings related to the foregoing were held on August 31 and September 1, 2020. The EPA on December 23, 2020, announced its decision to retain, without changes, the 2015 ozone NAAQS set by the Obama Administration. The rule was finalized on December 31, 2020.

On January 29, 2021, the D.C. Circuit Court vacated three of four challenged provisions of EPA's rule implementing the 2015 Ozone NAAQS. See Sierra Club v. EPA, No. 15-1465 (D.C. Circuit). One of the challenged provisions was the rule's inter-precursor trading program. The future use of NO_x emission reduction credits ("ERCs") to satisfy VOC offset requirements, and vice versa, is likely in question. TCEQ may continue to allow permit holders in the County, as a marginal nonattainment area, to buy ERCs generated in marginal, moderate, serious, severe, or extreme nonattainment areas that are contributing to Bexar County's violation of the NAAQS to satisfy offset requirements. However, TCEQ could not allow permit holders in Bexar County to sell ERCs for use as offsets in moderate, serious, severe, or extreme nonattainment areas that do not contribute to Bexar County's violation of the ozone standard, such as Houston or Dallas.

Bexar County's nonattainment compliance deadline was September 24, 2021. Bexar County did not maintain a design value for ozone below 70 ppm. On April 13, 2022, the EPA proposed to change Bexar County's status from "marginal" to "moderate attainment", followed by a 60-day comment period.

Cross-State Air Pollution Rule: As required by the Clean Air Act, the EPA establishes NAAQS to protect public health. The EPA periodically revises or creates additional standards to those currently in place and identifies locations ("Nonattainment Areas") that fail to meet the NAAQS. Within three years from the effective date of a new standard or modification, each state is required to propose and submit a SIP to the EPA evidencing prospective compliance with the updated NAAQS. If the EPA determines a SIP to be inadequate, the EPA must implement a FIP remedying these inadequacies within two years. On June 14, 2016, the D.C. Circuit Court ordered the EPA to create, under the Clean Air Act, a "good neighbor" FIP for the State to meet national standards on particulate matter.

Congress previously noted a persistent issue of certain states ("Upwind States") emitting toxins beyond their borders, contributing to pollution in neighboring states ("Downwind States"). Consequently, Congress mandated all SIPs adhere to the Clean Air Act's Good Neighbor Provision (the "Provision"), which prohibits Upwind States from emitting pollution in an amount that would interfere with another state's ability to maintain compliance with NAAQS. The EPA previously identified and attempted to regulate states contributing to other states' nonattainment status by enacting measures controlling nitrogen oxide and sulfur dioxide emissions, yet the issue persisted, and courts found these measures insufficient. The EPA's latest promulgation implementing the Provision, the CSAPR, controlled states' hazardous emissions through a two-step process. The EPA analyzed the level of pollution emitted by Upwind States and identified those states exceeding a pre-determined pollution threshold. The EPA then evaluated the cost of reducing various emissions in 27 selected states and regulated their pollution according to the most efficient method (highest level of emission reduction at the lowest cost), while simultaneously issuing FIPs. The EPA rationalized the controlled states' SIPs failed to comply with the updated Provision, triggering the obligation to issue a FIP within the two-year limitation period. In an opinion dated September 13, 2019, the D.C. Circuit Court affirmed the constitutionality of the Provision. However, on May 19, 2020, the D.C. Circuit Court clarified the Provision by finding the EPA acted arbitrarily and capriciously by refusing to consider data from air quality monitors located outside of one state but within an attainment region the state shares with other states. The three-judge panel agreed that a state can use data from another state if that data shows nonattainment in a multi-state nonattainment area.

Challengers, comprised of state and local governments as well as industry leaders, filed suit to overturn the CSAPR and to allow states the ability to submit an amended SIP after the EPA's determination of inadequacy. On April 29, 2014, the Supreme Court rendered a decision in *Environmental Protection Agency v. EME Homer City Generation, L.P.*, 134 S. Ct. 1584 (2014). The Supreme Court found CSAPR to be a reasonable and appropriate implementation of the Provision. Under 42 U.S.C. § 7410(a)(2)(D)(i), the EPA is afforded deference in determining an acceptable manner to satisfy the Provision. Because the CSAPR analyzes the most cost-effective method of achieving the highest level of attainment in affected states, the CSAPR is a permissible interpretation of the Provision. On July 28, 2015, the D.C. Circuit Court, on remand, considered individual states' challenges to the EPA's determinations regarding emission budgets. The D.C. Circuit Court held the emissions budgets imposed by the EPA for SO_2 regarding four states and NO_x regarding 11 states were invalid, and the EPA overregulated emissions beyond the statute. Therefore, the D.C. Circuit Court remanded to the EPA for reconsideration of the invalid emissions budgets and subsequent compliance. The CSAPR remained valid. In response to this court decision, on November 16, 2015, the EPA issued a press release regarding proposed updates to CSAPR, which would reduce summertime emissions of NO_x from power plants that contribute to downwind ozone problems. Specifically, the proposed updates identify cuts in power plant NO_x emissions in 22 states in the eastern half of the country that contribute significantly to downwind ozone air quality problems. The EPA held a public hearing on this matter on December 17, 2015 and received public comments until February 1, 2016. To assist some Downwind States, meet their 2018 ozone attainment deadlines, the EPA updated the existing CSAPR ozone season program. In late November 2016, five states challenged the EPA's incorporation of the 2008 national ozone standards into CSAPR, which require upwind states to reduce NO_x emissions from power plants.

In its 2014 opinion, the Supreme Court determined it unnecessary for states to be given the opportunity to submit an additional SIP after the EPA issued limitations to states' toxic emissions. The statute, 42 U.S.C. § 7410(c)(1), allows the EPA to issue FIPs upon a finding of inadequacy, regardless of whether CSAPR's additional regulations implementing the Provision were enacted subsequently to an Upwind State's initial submission of its SIP. The plain text of the statute does not necessitate the EPA to give a state the opportunity to cure its SIP in order to issue a FIP.

On September 7, 2016, the EPA released its final CSAPR update rule for the 2008 ozone NAAQS. The update adopts FIPs for all 22 states, updating the existing CSAPR NO_x ozone season emission budgets for each state's fleet of electricity generating units (to be implemented through the existing CSAPR NO_x ozone season allowance trading program). States could begin replacing the EPA's FIP in 2018 by submitting an approvable transport SIP. The final rule makes a few key changes, by establishing a one-time allowance conversion that transitions a limited number of banked 2015 and 2016 allowances for compliance use in CSAPR update states in 2017 and beyond. Starting in May 2017, the final CSAPR began reducing ozone season emissions of NO_x from power plants in 22 states in the eastern United States, providing both monetary benefits and reducing overall exposure. The EPA changed individual state emission budgets and the combined total increased slightly (by less than 5 percent) from the proposed rule. For CPS Energy, this resulted in a reduction of Ozone Season NO_x allowances from 4,650 to 3,698 tons, with only about a third of the banked allowances from 2015 and 2016 rolling over. On September 21, 2017, the EPA signed a rule finalizing withdrawal of the FIP provisions that require affected EGUs in Texas to participate in Phase 2 of the CSAPR trading programs for annual emissions of SO_2 and NO_x. Texas will stay in the most stringent NO_x Ozone Season Program. On October 27, 2017, the EPA issued a memo providing supplemental information to states regarding the development and review of SIPs addressing the Provision as it relates to the 2008 NAAQS, including future year ozone design values and contributions, modeling outputs based on updated data. On June 29, 2018, the EPA proposed to close-out the Provision based on data indicating the 2008 NAAQS were fully addressed. A public hearing was held August 1, 2018 and a final ruling that the CSAPR update addresses the requirements of the Provision was issued on February 19, 2019. See "Ozone" above. In an opinion dated October 1, 2019, the D.C. Circuit Court vacated the close-out Provision.

Best Available Retrofit Technology ("BART"): The BART program is administered by the EPA/TCEQ in response to regional haze. The pollutants addressed by BART are NO_x and SO_2, the same as by CSAPR. CPS Energy was not included in a BART regulation in 2010 that required some Texas coal units to install SO_2 Scrubbers; however, BART is once again being looked at by EPA/TCEQ to control NO_x and SO_2.

On July 28, 2015, the D.C. Circuit Court remanded the CSAPR allowances budgets for Texas. As a result, Texas could no longer rely on CSAPR to comply with BART. As a result of the CSAPR action, the TCEQ was required to propose BART eligible units by December 9, 2016, under a consent decree. CPS Energy received and responded to an Information Collection Request ("ICR") from the EPA, in March 2016 for the Calaveras and Braunig sites. Based on the date of construction, the Sommers and Braunig steam boilers are all BART eligible. The Spruce units are newer and not under consideration.

On July 21, 2016, the EPA informed CPS Energy that due to revisions to the BART screening modeling with improved information, they determined that the Braunig facility screened out and thus does not have any units that are subject to BART. As a result, Braunig1, 2 and 3 are no longer eligible. CPS Energy has two potential BART eligible sources: Sommers1 and Sommers2. While the EPA has not completed the subject to BART modeling, CPS Energy believes Sommers1 and Sommers2 could potentially be included due to ability to burn fuel oil.

In late February 2017, environmental groups submitted a brief to the D.C. Circuit Court challenging the emissions trading programs within CSAPR, or the "Transport Rule", to achieve more environmental progress at national parks and wilderness areas than BART. On March 22, 2017, the Fifth Circuit allowed the EPA to revise and change the State's regional haze FIP when the court granted the EPA's motion to remand the plan to the EPA for revision.

On November 16, 2017, the EPA finalized its determinations regarding BART for EGUs in Texas. For SO_2 requirements, the EPA promulgated a BART alternative consisting of an intrastate trading program addressing the SO_2 emissions from certain EGUs. To address BART requirements for NO_x, the EPA finalized its proposed determination that Texas' participation in CSAPR's trading program for ozone season NO_x qualifies as an alternative to BART. The EPA also approved Texas' determination that its EGUs are not subject to BART for particulate matter. In its final rule, the EPA disapproved of portions of several SIP revisions to satisfy the Clean Air Act requirements to address interstate visibility transport for several NAAQS, finding that the previously mentioned BART alternatives meet these NAAQS visibility transport requirements.

On October 3, 2017, the EPA proposed a FIP for BART units in Texas. This was expected as the TCEQ/Governor's Office requested an extension for time to complete a SIP was refused. The FIP proposes to use CSAPR allowances and make a trading program for Texas rather than having to install scrubbers on effected units. The SIP would have requested the same, just with a longer timeframe. The impact to CPS Energy is low, as Deely was shut down at the end of 2018. On January 17, 2018, the EPA announced it is reconsidering aspects of the BART Rule, but has not issued any proposals modifying the BART Rule. On March 20, 2018, the D.C. Circuit Court upheld a challenge to the EPA's move to incorporate CSAPR into regional haze regulations. On August 20, 2019, the EPA issued new regional haze guidance for compliance with long-standing mandates to protect visibility.

In response to challenges to the rule implementing the Texas SO_2 Trading Program, the EPA requested additional public input on the program as it appears in the Federal Register dated August 27, 2018. The EPA noted that several units in Texas have recently or will soon be retired, including the recent deactivation of Deely units. Deely's emissions allowances are available for use for five years. The EPA "specifically solicit[ed] comment on how these shutdowns should impact the provision regarding allocation to retired units for a period of five years". Under the EPA's alternative approach, the number of allowances that may be allocated from the Supplemental Allowance Pool would reduce the number of annual allocations for the participating units that have been permanently retired as of January 1, 2019.

On August 12, 2020, the EPA published in the Federal Register a final rule approving a Texas regional haze plan allowing an emissions trading program for coal-fired electric generating units in the state. The first compliance period began on January 1, 2021. Deely1 and 2 and Sommers 1 and 2 are included in the rule. There is no impact to CPS Energy.

The proposed rule for particle matter ("PM") (particles of dust) was published on April 30, 2020 with subsequent virtual public hearings held thereafter. The EPA is required to review the NAAQS every five years. Based on the EPA's review of the PM NAAQS, the EPA is proposing to retain the current standard without changes to the NAAQS for PM including both fine particles (PM2.5) and course particles (PM10). As of June 8, 2020, the EPA developed ambient air quality trends for PM. The final rule was published on December 7, 2020 in the federal register, which stated that the EPA will retain without revision the existing primary ("health based") and secondary ("welfare based") NAAQS for PM.

Carbon Dioxide ("CO_2") and Greenhouse Gases ("GHG"): In 2007, the Supreme Court rendered its first major decision in the climate change arena. In *Massachusetts v. EPA,* 549 U.S. 497 (2007), the Supreme Court held that CO_2 and other greenhouse gases from motor vehicles are "air pollutants" and are subject to regulation under the Clean Air Act. There have also been several bills introduced in Congress that propose to regulate GHG through a cap and trade and/or quasi-carbon tax program.

In a noteworthy Clean Air Act decision, in the wake of *Massachusetts v. EPA*, the Environmental Appeals Board ("EAB") avoided the key question of whether CO_2 is currently "subject to regulation" under the Clean Air Act. *In re Deseret Power Electric Cooperative*, E.A.D. App. No. PSD 07-03 (EAB 2008) it appears that the decision was carefully designed to leave open for the Obama Administration the question of whether CO_2 would be regulated under a key EPA permitting program. EAB sided with the EPA, agreeing that the EPA is not required to treat CO_2 as "subject to regulation" for purposes of the Prevention of Significant Deterioration ("PSD") permitting program. However, EAB found that the EPA could exercise its discretion to treat CO_2 as "subject to regulation", and thus require permit limits for CO_2 based on the best available control technology ("BACT"). At that time, the EPA made it clear that, for both legal and policy reasons, it did not want to treat CO_2 as "subject to regulation" under the Clean Air Act. This position was confirmed in a memorandum dated December 18, 2008, from Stephen L. Johnson, the Administrator of the EPA, establishing that CO_2 is not "subject to regulation" under the Clean Air Act. The EAB found, however, that the *Deseret* permitting record was not adequate to support this position. It then remanded the permit back to the EPA with instructions that made it difficult for the EPA to respond to the remand without further presidential directive. The EAB has created significant uncertainty for anyone planning to construct virtually any type of commercial building or industrial facility (such as a new power plant). In January 2015, environmental groups filed petitions with the EAB challenging Deseret Power Cooperative ("Deseret") and its ability to operate the Bonanza Power Plant in Utah. In a proposed settlement agreement, Deseret would apply for a minor New Source Review permit which would provide for installation of low NO_x burners with over-fire air controls, along with other operator-requested permit terms and conditions. Under the settlement agreement, the pending PSD permit application and a proposed PSD permit would also be withdrawn. The EPA signed the settlement agreement on October 5, 2015. As CPS Energy is not currently seeking a new PSD permit for any of its facilities, CPS Energy is not currently affected by this decision.

In April 2009, the EPA signed two distinct findings under Section 202(a) of the Clean Air Act ("Section 202(a)"). The first was an endangerment finding, in that concentrations of GHG in the atmosphere threaten the public health and welfare. The second was a cause or contributing finding, in that combined emissions of GHG from motor vehicles and engines contribute to GHG pollution, which threatens the public health and welfare. An endangerment finding under Section 202(a), or any other similar section, is the prerequisite to mandatory regulation. In most instances, once an endangerment finding is made, the Clean Air Act requires the EPA to regulate the subject pollutant. That mandatory duty to regulate, combined with the cascading effect of a single endangerment finding, means that the EPA may face a burden of needing a regulatory regime in place for all emission sources at the time it starts to regulate the first source. Accordingly, the creation of GHG emission standards for new motor vehicles could trigger a duty for the EPA to regulate GHG emissions from stationary sources under other Clean Air Act sections, such as the development of NAAQS, New Source Performance Standards ("NSPS"), the PSD program, Title V, and NESHAP. Senators John Kerry (D-MA) and Joseph Lieberman (I-CT), on May 12, 2010, released the comprehensive climate change and clean energy bill, titled the "American Power Act". The bill included similar targets to the American Clean Energy and Security Act of 2009 to reduce economy wide GHG emissions from 2005 levels, but this bill was never enacted.

On August 13, 2020, in response to President Trump's Executive Order on Promoting Energy Independence and Economic Growth, Administrator Wheeler announced two final rules for the oil and gas industry, providing direction for the EPA to review, and if appropriate revise, the 2016 Oil and Natural Gas NSPS to ensure that the rules do not burden the development or use of domestically produced oil and natural gas.

The first rule, referred to as the "policy package", determines that the EPA's previous addition of the transmission and storage segment was improper and removes it from the regulation while also rescinding emissions standards for that segment. In addition, the policy package establishes the EPA's position that the Clean Air Act requires the EPA to make a finding that a pollutant contributes significantly to air pollution before setting NSPS requirements. The second rule, referred to as the "technical package" includes changes to the NSPS that will directly benefit smaller oil and gas operators who rely on regulatory policy to run their businesses.

CPS Energy is monitoring and evaluating proposed legislation, and continues to document its climate change activities, particularly its GHG emissions. CPS Energy includes a potential carbon dioxide cost in its assumptions when it evaluates alternatives for meeting the growing demand for electricity in the CPS Energy service territory. In conjunction with the Alamo Area Council of Governments, the City coordinated the development of a regional GHG emission inventory and entity-specific emission inventories for SAWS, Bexar County, CPS Energy and itself. The baseline year chosen for the inventory is 2005. CPS Energy now tracks an annual GHG inventory and is working with the City and its Mission Verde Alliance to address a wide range of issues affecting the community.

On September 22, 2009, the EPA finalized the nation's first GHG gas reporting system and monitoring regulations. On January 1, 2010, the EPA, for the first time, required large emitters of heat-trapping emissions to begin collecting GHG data, under a new reporting system. This new program covered approximately 85 percent of the nation's GHG emissions and applied to roughly 10,000 facilities. The EPA's new reporting system aimed to provide a better understanding of where GHGs are coming from and will guide the development of policies and programs to reduce emissions. Fossil fuel and industrial GHG suppliers, motor vehicle and engine manufacturers, and facilities that emit 25,000 metric tons or more of CO_2 equivalents per year will be required to report GHG emissions data to the EPA annually. The first annual reports for the largest emitting facilities, which include CPS Energy plants, were submitted to the EPA in 2011. On December 1, 2010, the EPA finalized a rule to include the reporting of GHG from large sources of fluorinated GHG, which includes SF6; annual reporting to the EPA began in 2012. On November 29, 2013, the EPA finalized amendments to the GHG reporting program, effective January 1, 2014. The amendments consist of three parts: technical amendments, amendments related to global warming potentials, and confidentiality determinations for new or revised data. The EPA released its *Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2018* on April 13, 2020, which presented a national-level overview of annual GHG emissions since 1990. The inventory shows GHGs in the United States have increased from 2017 to 2018 by 2.9% largely due to an increase in CO_2 emissions from fossil fuel combustion.

On September 30, 2009, using the power and authority of the Clean Air Act, the EPA proposed a rule requiring new or modified power plants and other large stationary CO_2 emitters to have the BACT installed. Such rule would have applied to industrial facilities that emit at least 25,000 tons of GHGs each year. The new rule conflicted with a Clean Air Act provision calling for regulation of facilities that emit over 250 tons per year. The GHGs covered include CO_2, methane, nitrous oxide, hydrofluorocarbons, fluorocarbons and sulfur hexafluoride. The EPA estimated 400 new sources and modifications would be subject to review each year for GHG emissions and, in total, 14,000 sites would have to get permits under the proposal. The administration has not done any calculations on how much emissions the law would cut or the costs to industry. BACT would be decided somewhat on a case-by-case basis, with the EPA staff doing technical work to see what the best options are. The most promising technology for fossil generation is carbon capture and storage, but that is at least a decade away from commercial viability. BACT would change over time. Permitting delays and increased Title V permit fees are projected. In January 2016, the U.S. Department of the Interior proposed updates to natural gas emissions regulations for oil and gas operations, including a requirement that producers adopt modern techniques and equipment to limit flaring, since venting and leaks during oil and gas operations are major sources of GHG emissions.

The EPA issued a final endangerment finding on December 7, 2009, that GHGs pose a danger to human health and the environment, clearing the way for a Clean Air Act regulation limiting CO_2 emissions from power plants, vehicles and other major sources. Power plants and other large stationary sources of CO_2 are now required to use BACT to reduce emissions when they modify or construct plants. The next time CPS Energy constructs or modifies a plant, its permits will have to include CO_2 limits, and it will have to meet those limits using the traditional BACT process. Acquisition of the Rio Nogales Plant, acquired with proceeds of certain Senior Lien Obligations on April 9, 2012, did not result in the application of these limitations to such facility. Currently, there is no commercially available technology to reduce CO_2 emissions. The EPA may push for BACT determinations for coal and gas fired generation (new and existing fleet) to meet 50-80% reduction in CO_2 through carbon capture and sequestration ("CCS"). Possibly as an alternative to reducing CO_2 emissions through a removal technology, offsets could be purchased to meet the limits. On December 2009, the EPA denied the petitions to reconsider the Endangerment and Cause or Contribute Findings for Greenhouse Gases under Section 202(a) of the Clean Air Act.

In March 2012, the EPA proposed NSPS for coal units and natural gas combined cycle units, so any new units will have a CO_2 limit to meet. Based on the NSPS, the EPA is also in the process of creating limits for existing units. Standards of Performance for New Stationary Sources, 40 C.F.R. § 60 (2015) contains the existing standards, which are continually updated, and it remains unforeseen what compliance measures will need to be taken.

On June 24, 2013, President Obama announced his Climate Change Action Plan. In the plan, he called for a 17% reduction in GHG emissions by 2020 from 2005 levels. He asked the EPA to revise and re-propose the new unit standard by September 30, 2013. On September 20, 2013, the EPA re-proposed the standard, but it did not differ drastically from the previous March 2012 proposal. They did separate coal and natural gas combined cycle into separate categories with the rates of 1,000 and 1,100 lbs/MWh, respectively. An EGU can either meet a 1,100 CO_2/MWh-gross standard over a 12-operating month period or meet a slightly tighter 1,000-1,050 CO_2/MWh-gross standard over an 84-operating month period, allowing the unit to phase in the use of partial CCS over 7 years as an option. In November 2014, President Obama announced a plan to reduce by 2025 the GHG emissions by 26 to 28% below the 2005 levels. On March 31, 2015, the United States submitted these goals in a formal statement, known as an Intended Nationally Determined Contribution, to the United Nations Framework Convention on Climate Change. On April 21, 2015, President Obama announced two executive actions to support energy infrastructure resilience. The first includes $72 million from the USDA to support rural electric infrastructure projects with major investments to drive solar energy, and the DOE announced the Partnership for Energy Sector Climate Resilience, which will improve U.S. energy infrastructure resilience against extreme weather and climate change impacts. Furthermore, on July 2, 2015, the EPA finalized its rule to reduce hydrofluorocarbon emissions (a GHG), which was revised in November 2016 to set forth policies and procedures for the acquisition of items that contain ozone-depleting substances and hydrofluorocarbons, and also addresses public disclosure of GHG emissions and reduction goals. Initial projections indicate this rule will reduce emissions by 54 to 64 million metric tons of carbon dioxide equivalent by 2025. On February 9, 2015, the Supreme Court ordered the Obama Administration not to take any steps to carry out its Clean Power Plan ("CPP"). The order spares the operators of coal-fired power plants from having to take action to begin planning for a shift to "cleaner" energy sources.

On June 2, 2014, the EPA proposed the much awaited CPP that calls for a 30% reduction by 2030 in carbon emissions from power generation sources, when compared to 2005 levels. This proposal followed through on the steps laid out in President Obama's Climate Action Plan and the June 2013 Presidential Memorandum. The rule followed section 111(d) of the Clean Air Act in the fact that it proposed guidelines but allowed the flexibility for states to customize a plan that works for their state. On June 23, 2014, the Supreme Court issued a decision addressing the application of stationary source permitting requirements to GHG. In *Utility Air Regulatory Group v. Environmental Protection Agency*, 124 S. Ct. 2427 (2014) (the "UARG Decision"), the Supreme Court said that the EPA may not treat GHG as an air pollutant for purposes of determining whether a source is a major source required to obtain a prevention of significant deterioration ("PSD", or "title V permit"). The Supreme Court also said that the EPA could continue to require PSD permits, otherwise required based on emissions of conventional pollutants, contain limitations on GHG emissions based on the application of BACT. The EPA subsequently issued memorandums outlining the next steps on the application of the Clean Air Act considering the UARG Decision, including revisions to the EPA's PSD regulations. In early 2016, the EPA began approving rescission requests for PSD permits.

On August 3, 2015, the EPA released the final rule for the CPP.

Since the promulgation of the CPP, the EPA received 38 petitions requesting the EPA reconsider, withdraw, or re-propose various elements of the CPP; all but two issues were denied consideration. The EPA also received 22 petitions that the EPA issue an administrative stay until judicial resolution of the CPP or completion of the EPA's reconsideration process; all these requests were denied.

On March 28, 2017, President Trump signed an executive order directing the EPA Administrator to immediately review and begin steps to rescind the CPP, which included a request to delay the court proceedings. On April 28, 2017, the D.C. Circuit Court granted the EPA's request, holding the litigation in abeyance for 60 days and has since granted a succession of 60-day abeyances, the latest issued on April 5, 2019. On July 15, 2019, the petitioners in the CPP litigation filed a motion to dismiss the petitions in the matter because of the promulgation of the new rules replacing the CPP. The D.C. Circuit Court granted the motion to dismiss on September 17, 2019, citing the litigation as moot.

In April 2019, the EPA submitted its final rule, "Emission Guidelines for Greenhouse Gas Emissions from Existing Electric Utility Generating Units; Revisions to Emission Guideline Implementing Regulations; Revisions to New Source Review Program" to the White House OMB's Office of Information and Regulatory Affairs for interagency review. The EPA issued the final Affordable Clean Energy ("ACE") rule on June 19, 2019 and was effective on September 6, 2019. The final ACE rule included three actions: (1) the repeal of the CPP; (2) the promulgation of a new set of emission guidelines for regulations of GHG emissions under section 111(d) of the Clean Air Act; and (3) the promulgation of amended section 111(d) implementation regulations governing submission and review of state plans under these and future emission guidelines. The ACE rule grants authority to the states in setting performance standards on a case-by-case review of existing coal-fired power plants. The EPA provides states with a list of "candidate technologies" that can be used to establish standards of performance for CO_2 emission and incorporate into their state plans. The ACE rule defined the best system of emission reductions ("BSER") for CO_2 emissions from an existing power plant is by heat-rate improvements ("HRIs"). CPS Energy has already implemented most of the HRI projects listed in the ACE rule. On February 25, 2020, TCEQ issued an Information Collection Request ("ICR") to owners of existing coal fired generators in Texas that are subject to the rule. The ICR was due October 30, 2020. CPS Energy formed an internal team to respond to the ICR. On January 19, 2021, the D.C. Circuit Court issued its opinion in *American Lung Association et. al v. EPA* (No. 19-1140) vacating and remanding to the EPA the ACE rule while also vacating the EPA's separate action extending compliance timelines for all rules issued under section 111(d) of the Clean Air Act. In 2017, during the Trump Administration, the EPA repealed the Obama Administration's CPP and promulgated the ACE rule as a replacement under section 111(d) of the Clean Air Act. Both the CPP and the ACE rule mark the EPA's attempts to regulate CO_2 emissions from existing fossil fuel-fired power plants. The vacatur includes all efforts conducted by the EPA under section 111(d), including both the CPP and the ACE rule. The Biden Administration will be able to draft a new rule, but it will take time to get through the regulatory process. A lawsuit was filed in the D.C. Circuit Court that seeks repeal of the ACE rule. On January 19, 2021, the D.C. Circuit Court vacated the ACE rule governing emissions controls for power plants and its embedded repeal of the Obama-era CPP. On February 12, 2021, the EPA issued a memorandum that clarified that because the court vacated the ACE rule and did not expressly reinstate the CPP, the EPA understands the court's decision as leaving neither rule in effect. The Biden administration and the EPA stated that a revised CPP would be forthcoming but major elements of the plan were lost in negotiations over the 2021 federal budget. On October 29, 2021, the Supreme Court agreed to hear an appeal of the decision made by the D.C. Circuit Court in January 2021. The appeal was filed by Republican-led states and coal companies seeking to limit the EPA's authority to regulate carbon emissions under the Clean Air Act. The case was argued on February 28, 2022, and a Supreme Court decision is expected in the Summer of 2022. It is premature to speculate concerning the outcome of this Supreme Court case, future litigation, or the potential effects of new regulations established by the Biden EPA on CPS Energy's operations.

On March 25, 2020, the EPA issued guidance addressing its interpretation of "begin actual construction" under the regulations implementing the NSR permitting program. An owner or operator of a major stationary source or major modification must obtain an NSR permit before "begin[ning] actual construction" on the facility. Currently, the EPA considers almost every physical on-site construction activity that is of a permanent nature to constitute the beginning of "actual construction", even where that activity does not involve construction "on an emissions unit". This interpretation tends to preclude source owners/operators from engaging in a wide range of preparatory activities they might otherwise desire to undertake before obtaining an NSR permit. In this draft guidance, the EPA adopted a revised interpretation that is more consistent with the regulatory text. Under this revised interpretation, a source owner or operator may, prior to obtaining an NSR permit, undertake physical on-site activities—including activities that may be costly, that may significantly alter the site, and/or are permanent in nature—provided that those activities do not constitute physical construction on an emissions unit. The EPA accepted comments on the draft guidance through May 11, 2020. On October 22, 2020, the EPA finalized a rule to clarify the process for evaluating whether the NSR permitting program would apply to a proposed modification of a source of air emissions. This final rule makes clear that both emissions increases and decreases from a major modification are to be considered during Step 1 of the two-step NSR applicability test, a process known as project emissions accounting.

CPS Energy has been on an aggressive path to diversify and reduce the carbon intensity of its own generation fleet for several years now, through the increased use of natural gas, wind and solar energy. CPS Energy's longtime investment in carbon-free nuclear power also helps keep the fleet's carbon intensity down, while robust energy efficiency and demand response programs shrink demand, and in turn emissions. As a result of the rule, CPS Energy will continue to diversify its generation fleet with renewable energy sources, low carbon generation, energy conservation and demand response.

The City has also established working groups within the business community to provide feedback on mitigation strategies. The City Council adopted the City-led Climate Action and Adaptation Plan ("CAAP") at its October 17, 2019 meeting. The Board adopted CAAP during its August 2019 meeting. Within the plan, the City aims to reduce its GHGs and carbon emissions by 2050 and further states the City, in partnership with CPS Energy, will focus on a transition from fossil fuel energy sources to a less carbon intensive portfolio. Further information related to the CAAP can be found on the City's website at https://www.sanantonio.gov/sustainability/SAClimateReady. Neither the information on this website nor any links from that website is a part of this Offering Memorandum. On July 27, 2020, the Board sought proposals for new zero emission technologies to transition aging power plants, in accordance and alignment with CAAP. In August 2021, two subcommittees were formed. The first is the Benchmarking Energy Use Subcommittee. The second is the Energy Subcommittee. CPS Energy will continue to participate in the process and monitor the CAAP's progress over the next year.

Federal Clean Water Act

The National Pollutant Discharge Elimination System ("NPDES") program is administered by the EPA under the federal Clean Water Act ("CWA"). The NPDES program provides the framework for monitoring and regulating the discharge of pollutants to surface waters of the United States. In 1998, the EPA delegated NPDES authority to the State through the TCEQ and the RRCT. With the exemption of discharges resulting from exploration, development, and production of oil and gas over which the RRCT has authority, the TCEQ administers the Texas Pollutant Discharge Elimination System ("TPDES") in Texas to control discharges of pollutants to state water or "waters of the United States". CPS Energy has historically operated all its generating facilities with no significant compliance issues. Discharges resulting from hydrostatic testing of gas pipelines meet RRCT requirements. On January 15, 2021, the responsibility for regulating discharges of produced water from hydrostatic testing as well as oil and gas activities was delegated to the TCEQ per TCEQ's application request to the EPA.

CPS Energy currently has individual TPDES permits for the discharge of industrial wastewater to Braunig and Calaveras Lakes and into Leon Creek for the Leon Creek Power station. The focus of these permits is to reduce discharge of industrial waste and other constituents that could impair water quality in the San Antonio River basin and meet the current effluent standards that apply to steam electric plant operations under the Steam Electric Power Generating Point Source Category (40 C.F.R. Part 423). Additionally, the TCEQ has broad powers under the Texas Water Code to adopt rules and procedures equally or more stringent than federal standards, and to issue permits to control the quality of discharges into or adjacent to waters in the State. These standards and requirements are incorporated in each individual permit as permit conditions that must be met or satisfied by the permittee.

On February 19, 2019, the United States Supreme Court granted a petition for writ of certiorari in *County of Maui v. Hawaii Wildlife Fund* ("Maui") to determine whether the federal CWA requires a permit when pollutants originate from a point source but are conveyed to navigable waters by a nonpoint source, such as groundwater. On April 15, 2019, the EPA issued an interpretive statement clarifying the application of the CWA permitting requirements to groundwater. The EPA concluded the release of pollutants to groundwater are categorically excluded from the CWA's permitting requirements because Congress explicitly left regulation of discharges to groundwater to the states and to the EPA under other statutory authorities.

Recent court rulings resulted in a split among the U.S. Court of Appeals with regards to nonpoint discharges into groundwater as a discharge requiring an NPDES permit. On November 6, 2019, the Supreme Court heard oral arguments on the issue, and issued its opinion on April 23, 2020, holding that the Clean Water Act, which forbids "any addition" of any pollutant from "any point source" to "navigable waters" without the appropriate EPA permit, requires a permit when there is a direct discharge from a point source into navigable waters or when there is the functional equivalent of a direct discharge. On January 14, 2021, the EPA issued a memorandum on the application of the *Maui* decision for guidance to the regulated community and permitting authorities, including the EPA, on applying the recent decision on a case-by-case basis, in the Clean Water Act NPDES.

New Effluent Standards: Effluent standards for the steam electric category were last revised in 1982. The EPA completed a multi-year study of the electric power industry and concluded that power plant discharges have changed significantly over time and that regulations have not kept up with the changes in industry, in particular, waste water discharges resulting from air pollution controls installed at coal-fired power plants. The EPA conducted an Information Collection Request ("ICR") from over 750 power plant owners to provide information regarding power plant effluent, available treatment technologies, and the impact on industry of changes in water quality standards. CPS Energy participated in this ICR by completing questionnaires for the Calaveras Power Station units. On November 3, 2015, the EPA finalized the Effluent Limits Guidelines ("ELG") rule, which became effective on January 4, 2016. The final rule sets the first federal limits on the amount of toxic metals and other harmful pollutants that steam electric power plants are allowed to discharge in several of their largest sources of wastewater, based on technology improvements in the steam electric power industry over the last three decades. Rule compliance will be phased in based on the facility permitting cycle. In the new rule, effective September 28, 2020, the EPA set forth the deadlines, ranging from April 11, 2021 to October 17, 2028 for cease of receipt of waste and completion of closure, as applicable. CPS Energy requested an applicability of the rule extension from the TCEQ to allow discharges from the Deely bottom ash ponds for pond closure and dewatering through December 31, 2023. Studies were performed to evaluate the best technology to treat flue-gas desulfurization ("FGD") discharges from the J.K. Spruce coal units to meet the new standards that will be applied in the 2019 wastewater permitting cycle. The TCEQ had indicated they are amenable to an extension of the compliance date if adequate justification is provided. In April 2017, the EPA announced it was preparing a proposed rule and sought input from industry groups to discuss options that were included in a new proposed rule.

On June 6, 2017, the EPA proposed a rule to officially postpone the compliance deadlines for the wastewater ELG rule in response to President Trump's February 28, 2017 executive order. The comment period ended July 6, 2017. The D.C. Circuit Court denied EPA's motion to dismiss the challenge to the EPA's stay of the rule. On September 18, 2017, the EPA issued the final rule postponing the earliest compliance date for FGD wastewater and bottom ash transport water to November 20, 2020 until it completes new rulemaking on appropriate technology bases and associated limits applicable to both FGD and bottom ash transport water. CPS Energy is in the process of evaluating possible treatment technologies for its SO_2 scrubber wastewater. The preliminary cost is estimated at $55-60 million. On July 13, 2018, eight environmental groups filed a brief with the Fifth

Circuit challenging the delay in ELG rule compliance and the proper venue in which to hear these claims. On September 19, 2018, the EPA asked the Fifth Circuit to uphold its decision to postpone parts of the ELG rule that sets limits on how much toxic metal can be discharged with power plants' wastewater. In an opinion dated April 12, 2019, the court held the portions of the ELG rule regulating legacy wastewater and combustion residual leachate are unlawful, thereby vacating those portions of the rule and remanding to the EPA for reconsideration. During the 2018 renewal of the Calaveras TPDES permit, CPS Energy requested extension of the applicability date to 2023 for the ash transport water from the Deely bottom ash pond and FGD discharges from the J.K. Spruce coal units. CPS Energy is currently evaluating the best technology to treat the FGD discharges to meet the new standards that are applied in the 2019 wastewater permitting cycle. The TCEQ has indicated they are amenable to an extension of the compliance date if the adequate justification is provided. CPS Energy anticipates compliance with the rule by 2023.

On August 31, 2020, the EPA finalized the rule revising the requirements for FGD, which provides additional compliance options for FGD wastewater. The EPA proposed to extend the final compliance deadlines to December 31, 2025 or to December 31, 2028 if a Voluntary Incentive Program ("VIP") treatment is chosen for compliance. The proposed rule was issued November 22, 2019 and was finalized in October 2020. CPS Energy is planning to install Zero Liquid Discharge ("ZLD") evaporation ponds for its scrubber FGD wastewater if Spruce1 and Spruce2 continue to burn coal. The ZLD option for FGD waste is considered one of the VIP treatment options. On July 26, 2021 the EPA announced their intent to strengthen permit limits on wastewater discharges from coal power plants; specifically, FGD discharges; however, there will not be a discharge of FGD water from the Spruce units so this potential rulemaking is not expected to have an impact.

Waters of the U.S. ("WOTUS"): On November 22, 2017, the EPA and the U.S. Department of the Army (the "Army") published a proposed rule in the Federal Register to postpone the effective date of the 2015 rule defining WOTUS for two years, to allow the agencies for new rulemaking. The rule proposed to repeal the 2015 Clean Water Rule: Definition of Waters of the U.S. and recodify the regulatory text defining WOTUS that was in place prior to the 2015 rule. On July 12, 2018, the EPA and the United States Army Corps of Engineers published a supplemental proposed rule to repeal the June 29, 2015 final WOTUS rule in its entirety, which aimed to clarify the scope of the definition of "WOTUS" subject to the CWA and proposes to reinstate the definition that existed prior to the 2015 rule. The agencies found that the 2015 rule exceed the agencies' authority under the CWA. On August 16, 2018, a court ruling impacting WOTUS modified its nationwide application. However, on September 12, 2018, a Texas federal district court issued a preliminary injunction preventing the 2015 WOTUS rule taking effect in Texas, Mississippi, and Louisiana. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Proper Venue for Clean Water Act Challenges" herein. On March 9, 2019, the federal government withdrew its notice of appeal in the Fourth and Ninth Circuits regarding these lower court decisions. The capital cost for compliance is estimated at $61 million (this also includes cost for related coal combustion residuals compliance). On November 26, 2018, a federal judge in the State of Washington reinstated the Obama Administration's definition of WOTUS, ruling the EPA and the Army Corps of Engineers committed procedural violations by implementing pre-2015 WOTUS. On May 28, 2019, a Texas federal district court ruled that the 2015 rule violated the notice-and-comment requirements of the Administrative Procedure Act and granted summary judgment in favor of the plaintiffs on that ground and remanded the 2015 rule to the EPA and the Army to provide notice and a comment period on the 2015 rule. The court further ordered that the preliminary injunction issued by the court on September 12, 2018 remain in place pending the proceedings on remand.

On February 14, 2019, the EPA, Department of Defense and U.S. Army Corps of Engineers published a proposed revision to the definition of WOTUS to narrow the scope of waterbodies subject to regulations under the CWA. In response to the comments to the 2015 rule, the rule proposal clarified federal authority under the CWA. Under this new proposal, WOTUS included traditional navigable waters, tributaries to those waters, impoundments of jurisdictional waters, wetland adjacent to jurisdictional waters, and certain ditches. The proposal also identified which bodies of water would be excluded from the rule such as groundwater and certain ditches. The public comment period for this proposed rule closed on April 15, 2019. In late August 2019, a Georgia federal court ruled WOTUS is unlawful under the CWA due to its vast expansion of jurisdiction over water and lands that typically fall within a state's regulatory authority. The case was remanded back to the EPA and Army for further consideration. CPS Energy continues to monitor the status of this proposed rule to determine impact on future electric transmission and gas construction projects.

The EPA issued the final WOTUS rule on September 12, 2019. The rule repealed the 2015 Clean Water Rule – Definition of "Waters of the U.S." that was adopted previously by the EPA and restores the regulatory text that existed prior to the 2015 rule. The final rule repeal was published in the Federal Register on October 22, 2019 which took effect on December 23, 2019. On April 21, 2020, the EPA published the Navigable Waters Protection Rule to define WOTUS in the Federal Register. The EPA streamlined the definition so that it includes four categories of jurisdictional waters, provides clear exclusions for many water features that traditionally have not been regulated, and defines terms in the regulatory text that have not previously been defined. Congress, in the Clean Water Act, explicitly directed the certain agencies to protect "navigable waters". The Navigable Waters Protection Rule regulates traditional navigable waters and the core tributary systems that provide perennial or intermittent flow into them. The final rule fulfills Executive Order 13788 and reflects legal precedent set by key Supreme Court cases as well as robust public outreach and engagement, including pre-proposal input and comments received on the proposed rule. The rule was finalized on June 22, 2020 and replaces the rule published on October 22, 2019. Multiple parties have sued the EPA over the WOTUS rule rollback, including the State of Colorado, which resulted in a lift of the current nationwide stay of the Navigable Waters Protection Rule and effected its applicability for the same as of March 2, 2021. On August 30, 2021, the U.S. District Court of Arizona vacated the Navigable Water Protection Rule and remanded to the EPA and the Army for reconsideration. Considering this order, the Army and the EPA have halted the implementation of the Navigable Water Protection Rule and are interpreting WOTUS consistent with the pre-2015 regulatory regime until further notice.

On January 13, 2021, the U.S. Army Corp of Engineers revised their Nationwide Permitting ("NWP") program in a final rulemaking which added clarity to regulations, decreasing the compliance risk for obtaining authorization for construction projects with minimal environmental impact. The effective date of the change was March 15, 2021. The Biden Administration called for a review of the 2021 NWPs and the rule is being challenged legally.

On December 7, 2021, a proposed rule was published in the Federal Register to revise the definition of WOTUS by replacing the Navigable Waters Protection Rule ("NWPR") with a revised version of the 1986 WOTUS regulations. The proposed rule would assert a broader geographic scope of WOTUS jurisdiction than either the NWPR or the 1986 regulations.

Clean Water Act Section 316(b): The power plants at Braunig and Calaveras Lakes use the lakes as the source for once-through cooling water. Section 316(b) of the CWA requires that adverse environmental impacts by cooling water intake structures on aquatic species be minimized, a requirement that was recently upheld by the United States Court of Appeals for the Second Circuit. Numerous lawsuits from both environmental and industry groups have resulted in the previously issued regulations being suspended and remanded; after contentious litigations and consent decree agreements with environmental groups, the EPA issued the final rule for existing facilities on August 1, 2014, effective 60 days later. Both Braunig and Calaveras plants are affected by the rule. The final rule allows some flexibility for permitting authorities to determine best technology available for protecting fish and shellfish from impingement and entrainment and based on site–specific conditions, cost-benefit analysis, and best professional judgment. The final rule provided waivers of some requirements for surface impoundments that were originally built for cooling, are managed fisheries, and with minimized water use, which apply to both Braunig and Calaveras lakes. Since most Texas reservoirs are man-made and meet the waiver criteria provided under the final rule, CPS Energy requested 316(b) waivers for both Braunig and Calaveras during the 2014 TPDES permit renewal applications submitted to the TCEQ. TCEQ granted exemptions and waivers for both Braunig and Calaveras in the TPDES permits issued in 2016.

Discharge of Hazardous Substances ("HS"): The EPA did not establish new requirements for hazardous substances under CWA section 311 but directed the President to establish procedures, methods, and equipment and other requirements for equipment to prevent discharges of oil and HS from vessels and from onshore facilities and offshore facilities, and to contain such discharges. The EPA has been delegated and/or redelegated authority for certain facilities as identified below. On July 21, 2015, a lawsuit was filed against the EPA for failing to comply with the alleged duty to issue regulations to prevent and contain CWA hazardous substance discharges under CWA section 311. On February 16, 2016, the United States District Court for the Southern District of New York entered a Consent Decree between the EPA and the litigants that required a notice of proposed rulemaking pertaining to the issuance of hazardous substance regulations, and a final action after notice and comment. After seeking public comment and based on an analysis of the frequency and impacts of reported CWA HS discharges, as well as the existing framework of the EPA regulatory requirements, the EPA decided not to take action to add new discharge prevention and containment regulatory requirements under CWA section 311. This final action was effective on October 3, 2019.

Proper Venue for Clean Water Act Challenges

On January 13, 2017, the Supreme Court granted a request filed by the National Association of Manufacturers, which asked the court to determine whether the U.S. Court of Appeals for the Sixth Circuit erred when it claimed exclusive jurisdiction to decide petitions to review the Obama Administration's CWA rules. Considering the Water Executive Order, the federal government asked the Supreme Court to hold a briefing schedule on this issue in abeyance pending a new draft of the rule.

On February 28, 2017, President Trump executed an executive order mandating the EPA to formally reconsider the Clean Water Rule, as well as the definition of WOTUS. On June 27, 2017, the EPA initiated the repeal of the WOTUS by proposing to reinstate prior Clean Water Rule policies, including jurisdictional provisions provided for in prior codifications. The proposed re-codification of the pre-existing rules was published in the Federal Register on July 27, 2017. WOTUS repeal could affect CPS Energy's electric and gas projects in the future.

On January 22, 2018, the Supreme Court ruled that challenges to the CWA belong at the district, rather than the appellate court level. Now that the Supreme Court established proper jurisdiction for CWA challenges, several district court cases previously put on hold could be restarted. On August 16, 2018, a federal district judge in South Carolina issued a nationwide injunction on the Trump Administration's delay regarding WOTUS and effectively reinstated the rule in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas granted the State of Texas' motion for a preliminary injunction preventing the 2015 WOTUS rule taking effect in Texas, Mississippi and Louisiana until the case is resolved. Similarly, on November 26, 2018, Judge John Coughenour of the Western District of Washington ruled the implementation of the pre-2015 WOTUS rule resulted in procedural violations.

In February 2019, the EPA and the U.S. Army Corps of Engineers published a proposed revision to the definition of WOTUS to clarify federal authority under the CWA, which limits WOTUS under the CWA to those that are physically and meaningfully connected to traditional navigable waters. The EPA issued the final WOTUS on September 12, 2019, repealing the definition set forth therein and is implementing the text as it existed prior to the 2015 rule. The final rule repeal took effect December 23, 2019.

Lawsuits have been filed in several jurisdictions challenging the repeal of the rule. Other lawsuits have been threatened against the substantive provisions of the rule.

On April 21, 2020, the EPA and the Army published the Navigable Waters Protection Rule to define "Waters of the United States" in the Federal Register. The Navigable Waters Protection Rule regulates traditional navigable waters and the core tributary systems that provide perennial or intermittent flow into them. Under the final "Step 2" rule, four clear categories of waters are federally regulated: (a) the territorial seas and traditional navigable waters, (b) perennial and intermittent tributaries to those waters, (c) certain lakes, ponds, and impoundments, and (d) wetlands adjacent to jurisdictional waters. The final rule also details 12 categories of exclusions, features that are not WOTUS, such as features that only contain water in direct response to rainfall (e.g., ephemeral features); groundwater; many ditches; prior converted cropland; and waste treatment systems.

The final rule clarifies key elements related to the scope of federal Clean Water Act jurisdiction, including providing clarity and consistency by removing the proposed separate categories for jurisdictional ditches and impoundments, refining the proposed definition of "typical year", which provides important regional and temporal flexibility and ensures jurisdiction is being accurately determined in times that are not too wet and not too dry, and defining "adjacent wetlands" as wetlands that are meaningfully connected to other jurisdictional waters, for example, by directly abutting or having regular surface water communication with jurisdictional waters.

The Navigable Waters Protection Rule is the second step in a two-step process to review and revise the definition of WOTUS consistent with the February 2017 Presidential Executive Order entitled "Restoring the Rule of Law, Federalism, and Economic Growth by Reviewing the 'Waters of the United States". This final rule became effective on June 22, 2020 and replaced the "Step One Rule" published in October 2019.

On November 18, 2021, the EPA and Army Corps of Engineers (together, the "Agencies") announced a proposed rule to re-establish the pre-2015 definition of WOTUS which had been in place for decades, updated to reflect consideration of Supreme Court of the United States (the "Supreme Court") decisions. The proposed rule was described by the Agencies upon its release as establishing a durable definition of WOTUS that protects public health, the environment, and downstream communities while supporting economic opportunity, agriculture, and other industries that depend on clean water. The Agencies will continue to consult with states, tribes, local governments, and stakeholders in both the implementation of WOTUS and future regulatory actions. The proposed rule was published in the Federal Register on December 7, 2021. The proposed rule had a 60-day comment period that ended on February 7, 2022. Regional roundtables engaging stakeholders are planned through Summer 2022.

Multiple suits have been filed and likely will continue to be filed over the Clean Water Rule's provisions. Lawsuits and comments will likely shape the proposed rule establishing a definition of WOTUS which specifies the waters entitled to receive federal protection. It is premature to speculate on the outcome of lawsuits or the potential effects of these lawsuits, and any comments and revisions that may develop during the finalization of the definition of WOTUS.

Water Resources Planning

Legislation adopted in 2007 required the TCEQ to adopt by rule appropriate environmental flow standards for each river basin and bay system in the State, to manage the State's water resources and availability of water supply. CPS Energy participated in this environmental flow process for the Guadalupe and San Antonio ("GSA") River basins, bays and estuaries. The process culminated in environmental flow recommendations to the TCEQ for adoption and implementation. CPS Energy owns surface water rights from the San Antonio River for Braunig and Calaveras Lakes. The TCEQ finalized the new environmental flow regulations for the GSA river basins in 2012. Although the current flow requirements will not affect existing permit holders, future legislative actions may change the current protection for existing surface water permits. CPS Energy participated in the Edwards Aquifer Recovery Implementation Program ("EARIP") which was another stakeholder process tasked to develop a plan to protect federally protected species at Comal and San Marcos Springs while managing pumping from the Edwards Aquifer, the primary source of drinking water in the San Antonio metropolitan area and surrounding counties. The EARIP participants developed a Habitat Conservation Plan ("HCP") which was approved by the United States Fish and Wildlife Department, to manage the aquifer and protect the endangered species at Comal and San Marcos Springs. Successful implementation of the HCP will ensure a stable water supply for the San Antonio region, protect the endangered species, and minimize the risk of federal intervention (court litigation) regarding use of the aquifer. The cost of the program is $10 million in start–up costs and $20 million annually. Most of this cost is borne by the municipal and industrial pumpers of the aquifer with an increase in their aquifer management fees. As an Edwards Aquifer groundwater user, CPS Energy's current aquifer management fee is $84 acre-foot. CPS Energy owns 3,064 acre-feet of Edwards Aquifer pumping rights. In addition, as a "downstream beneficiary" of this plan, CPS Energy also contributes $100,000 annually to the program. To offset some of its costs, CPS Energy previously leased 1,000 acre-feet of unused Edwards Aquifer water rights to the EAA through 2018 to support the HCP. CPS Energy leased an additional of 1,000 acre-feet of unused Edwards Aquifer water to SAWS through 2018. Both the EAA and SAWS leases expired by their terms in 2018, and in 2019, CPS Energy leased all 2,000 acre-feet of its Edwards Aquifer water to SAWS for a 5-year term.

The Rio Nogales Power Plant located in nearby Seguin, Texas, has water supplied via a contractual agreement with the City of Seguin, Texas. For more information, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Gas/Fuel Oil Plants" herein.

CPS Energy has a Strategic Water Resources Plan and a Drought Contingency Plan. In 2011, as part of its strategic planning, CPS Energy renewed until 2060 its wastewater contract with SAWS for an additional 10,000 acre-feet of treated effluent for re-use at Braunig and Calaveras Lake for a total contract volume of 50,000 acre-feet. CPS Energy coordinates closely with SAWS to optimize pumping to match discharge from the Steven M. Clouse Water Recycling Center in order to minimize the effects of drought on cooling lake levels.

CPS Energy carefully monitors the flow in the San Antonio River and the Calaveras and Braunig Lake levels. CPS Energy, working with the United States Geological Survey, installed a flow meter upstream of CPS Energy's river pumps at IH37/Loop 410 to improve river pumping operations and lake management operations. In the fall of 2017, CPS Energy began installation of a variable flow drive to its San Antonio River pumps to optimize diversion from the river; the project is complete.

Water Conservation

CPS Energy recognized the importance of preserving the Edwards Aquifer water resource and began planning to reduce consumption of Edwards Aquifer water for power plant cooling shortly after the drought of record in the 1950s. CPS Energy built Braunig and Calaveras Lakes to utilize treated sewage effluent and runoff waters to maintain operating levels at these man-made cooling lakes. CPS Energy has conserved billions of gallons of Edwards Aquifer water. For these water conservation efforts, the Association of Environmental Professionals selected CPS Energy as one of eight 2001 recipients of the National Environmental Excellence Award. As part of CPS Energy's sustainability efforts, on March 30, 2009, the Board approved a resolution supporting a mutually beneficial cooperative relationship between CPS Energy and SAWS that promotes conservation of both energy and water. To address future water requirements, CPS Energy shifted its generation capacity to less water intensive technologies and added renewables to its energy mix. By using this strategy, CPS Energy has saved millions of gallons of water. Additionally, recognizing energy saved is water saved, CPS Energy implemented demand reduction and conservation programs for its customers to derive energy savings. The foregoing also translated to water consumption savings. Additional information on CPS Energy's sustainability programs can be found in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein.

While the State currently maintains adequate water supplies, long term drought conditions and/or water shortages are possible throughout most of Texas. CPS Energy carefully monitors the resources on which it relies upon for generation.

Other Environmental Issues

Polychlorinated Biphenyls: By the early 1990s, CPS Energy completed a program aimed at removing from its system all electrical equipment accessible to the public that was known to contain polychlorinated biphenyls ("PCBs") in concentrations of 500 ppm or greater, as required by the Federal Toxic Substances Control Act. In addition, all oil-filled equipment is tested at the time of servicing as part of an ongoing program at CPS Energy for voluntarily eliminating electrical equipment containing mineral oil with any level of PCBs. Since 1996, in connection with capital improvements being made to many of its substation sites, CPS Energy has identified and remediated areas found to be contaminated by pollutants, such as PCBs. The EPA allows a provisional disposal option at a local landfill of soil and debris contaminated with 1-49 ppm of PCBs from electrical equipment spills from unknown sources, in lieu of distant disposal sites, resulting in considerable cost savings. On August 31, 2021, the EPA issued a proposed rule expanding the available options for extraction and determinative methods used to characterize and verify the clean-up of PCBs which such rule remains in the comment phase.

Coal Combustion Residuals: The EPA considered a proposal to regulate coal ash generated during the combustion of coal to produce electricity (referred to as coal combustion residuals or "CCRs") and classify it as a hazardous waste. The rule was finalized on December 19, 2014, published in the Federal Register on April 17, 2015, and became effective on October 4, 2016. The rule did not list CCRs as a hazardous waste. CPS Energy's CCRs have been analyzed and have tested non-hazardous for the following constituents: mercury, selenium, chromium, cadmium, silver, arsenic, barium and lead. For the past several years, CPS Energy has recycled nearly all its CCRs and will continue to do so. CPS Energy is currently in full compliance with the CCR self-implementing rule requirements. On December 16, 2016, the President signed into law water infrastructure legislation that contained coal ash provisions that enable states to implement and enforce the requirements of the final CCR rule through state permitting programs. The coal ash legislation is necessary because the EPA and states lack the statutory authority to implement and enforce the current requirements of the federal CCR rule through permit programs. This legislation fills a major regulatory gap and will provide greater regulatory certainty and flexibility while ensuring the protection of the environment.

The EPA filed a motion for voluntary remand of five CCR Rule provisions challenged in litigation (*Utility Solid Waste Activities Group v. EPA*) (No. 15-1219). The EPA's motion explains it has identified specific provisions of the CCR Rule it intends to reconsider as a result of the reconsideration petitions filed by the Utility Solid Waste Activities Group and AES Puerto Rico L.P., a provider of electricity for Puerto Rico, and requests that the court remand these provisions without vacatur (remanded provisions would remain in place until the EPA completes a new rulemaking repealing or revising those provisions). The provisions sought to be remanded include: (1) the regulation of inactive CCR surface impoundments; (2) the regulation of CCR that is stored in piles on-site and destined for beneficial use; (3) the 12,400 ton threshold in the fourth beneficial use condition; (4) the default to background as the groundwater protection standard for Appendix IV constituents (listing the various elements as constituents for assessment monitoring) without maximum contaminate levels; and (5) the EPA's failure to regulate inactive impoundments at closed power plants (legacy ponds).

Part One of the CCRs Phase One rule became effective on August 29, 2018. The final rule adopts two alternative performance standards, revises groundwater protection standards ("GWPS") for four constituents, and extends the deadline by which facilities must cease the placement of waste in CCR units closing for cause in two situations: (1) where the facility has detected a statistically significant increase above a GWPS from an unlined surface impoundment; and (2) where the unit is unable to comply with the aquifer location restriction. The deadline was extended until October 31, 2020.

On March 1, 2018, the EPA Administrator signed the first of two rules that proposes to amend the April 2015 final rule. The proposal: (1) addresses provisions of the final rule that were remanded back to the EPA on June 14, 2016 by the D.C. Circuit Court; (2) provides states with approved CCR permit programs (or the EPA where it is the permitting authority) the ability to set certain alternative performance standards; and (3) addresses one additional issue that has arisen since the April 2015 publication of the final rule. The EPA is proposing six provisions that would allow states or the EPA the ability to incorporate flexibilities into their coal ash permit programs. These flexibilities would also be available to facilities with U.S. EPA-issued CCR permits.

On August 23, 2018, a federal appeals court ruled the EPA's rule setting requirements for coal ponds and impoundments is too lenient. The EPA has since finalized a rule related to these requirements, as well as applicable guidelines related thereto. Closure of CPS Energy's bottom ash ponds is estimated at $3 million.

On September 18, 2018, the United States Court of Appeals for the Fourth Circuit issued an opinion that coal ash settling ponds are not considered a "point source" of pollution under the CWA, thereby limiting environmentalists from bringing similar suits to control pollution. The court held that such coal ponds are not subject to the CWA because they do not convey a measurable amount of pollutant.

On October 22, 2018, several environmental groups filed a petition for review in the D.C. Circuit Court regarding the EPA's final actions to the CCR rule. Rather than litigate, the EPA requested a voluntary remand for it to reconsider the CCR rule, of which such request was granted on March 19, 2019.

On August 14, 2019, the EPA published a proposed rule to amend the regulations governing the disposal of CCRs, also known as the CCR Phase Two Rule. Specifically, the following changes are being proposed: replacing the 12,400-ton usage threshold; temporary placement of CCR on land; revising the annual groundwater monitoring and corrective action report requirements; establishing an alternative groundwater protection standard for boron if it is added to the list of constituents for assessment monitoring; and revising the CCR website requirements.

On December 2, 2019, the EPA released proposed rule changes for "unlined" surface impoundments containing coal ash and impoundments located near aquifers. The rules are in response to the March 2019 D.C. Circuit Court ruling. A closure date of August 31, 2020 was proposed as the new date to stop placing CCR into the impoundments and initiate closure, but facilities can apply for a 90-day extension (November 30, 2020). The rule also allows site-specific alternate closure dates due to lack of impoundment capacity, allowing up to a 3-year extension (no later than October 15, 2023), with the approval of the EPA or EPA-approved State program. CPS Energy is planning to build a new CCR impoundment to meet the proposed rule requirements. The Deely bottom ash impoundments are planned for closure over the next few years. CPS Energy is monitoring the proposed rule changes and has key proposed deadlines to remain in compliance.

On August 28, 2020, the EPA published a new final coal ash rule revising the final version of the rule proposed in December 2019. The rule was effective on September 28, 2020. The revised rule changed the compliance dates, as the date to stop placing CCR into the impoundments and initiate closure was moved from August 31, 2020 to April 11, 2021. The latest date allowed to complete site-specific alternate closure moved from October 15, 2023 to October 15, 2024. CPS Energy plans to build new CCR impoundments, while continuing to operate the sludge recycling holding and evaporation impoundments. The cost estimate for the new impoundments is $35 million. In November 2020, CPS Energy submitted applications to the EPA requesting extended use of these two CCR impoundments. The applications are currently under review by the EPA. The extensions must be approved and granted by the EPA to become effective.

On June 1, 2021, the EPA approved the Texas partial CCR permit program, and it became effective on July 28, 2021. TCEQ will now enforce regulations related to location restrictions, operating criteria, groundwater monitoring and corrective action, closure and post closure, record keeping, and Internet postings. The EPA retains the more complex and decision-making portions of the rule, including those related to inactive, unlined, retrofitting and alternative closure requirements. The Texas program will operate in lieu of the federal CCR program, which essentially contains the same requirements. In accordance with the new Texas program, registration application was required to be submitted by January 24, 2022.

On January 11, 2022, the EPA announced it would be: (1) proposing decisions on requests for extensions to the current deadline for initiating closure of unlined CCR surface impoundments; (2) putting several facilities on notice regarding their obligations to comply with CCR regulations; and (3) laying out plans for future regulatory actions to ensure coal ash impoundments meet strong environmental and safety standards.

On January 11, 2022, the EPA notified CPS Energy that the two extension request applications submitted in November 2020 were deemed “complete” and are now being considered for approval. A decision timeline was not provided by EPA.

Material Management: CPS Energy also operates its own Class 1 non-hazardous waste landfill, which is registered with the TCEQ, and initiative that reduces disposal costs and CPS Energy’s reliance upon off-site disposal facilities. Since 1990, CPS Energy has significantly reduced the amount of hazardous waste generated by its operations. CPS Energy also has an extensive recycling program which includes electronics, wood, paper, cardboard, metals, plastic bottles, aluminum cans, used oil, coal combustion by-products, concrete and asphalt.

Power Plant Decommissioning: In 2013, CPS Energy completed the decommissioning and remediation of the Mission Road Power Plant which began in 2009. In 2011, CPS Energy retired Tuttle Power Plant located at 9911 Perrin Beitel Road in northeast San Antonio. This plant consisted of four gas-fired steam electric generation plants which began commercial operation in the 1950s.

Environmental remediation and decommissioning of the plants commenced in 2013 and was completed in early 2017. The last of the four boilers at the former Tuttle Plant have since been demolished. Remediation work occurred at the site, including filling in the cooling tower basins, and leveling and reseeding the property’s grounds. Additional assessment and remediation of the remaining powerhouse slab, soil, cooling tower vault and solid waste management units are planned for completion by the end of 2023. CPS Energy plans to put the property on the market in the next two to fourteen months. See “DESCRIPTION OF FACILITIES – General Properties – Real Estate Holdings” herein for further information regarding this project.

Chemetco Superfund Site: CPS Energy received a January 21, 2014 Special Notice Letter (“SNL”) from the EPA naming CPS Energy as one of 115 Potentially Responsible Parties (“PRP”) for the Chemetco Superfund Site (“Chemetco”) in Chouteau Township, Illinois. The EPA is directing remediation efforts under the Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”) to address metals contamination at the site which operated as a secondary copper smelter that produced copper cathodes and anodes. Copper wire and lead covered cable that CPS Energy sold in 2000 and 2001 on a material bid were ultimately sent to the Chemetco site.

On March 19, 2014, CPS Energy joined the PRP group. The PRP group developed a Remedial Investigation and Feasibility Study (“RI/FS”) of the off-site property. On February 3, 2015, parties signed the RI/FS Study, Order, and Statement of Work detailing the necessary work, which the EPA approved. The RI/FS field work began in January. CPS Energy was offered a settlement in June 2018, which it accepted. It is not expected that additional CPS Energy involvement will be necessary.

Compliance: CPS Energy received a proposed agreed enforcement order from the TCEQ on June 30, 2017 for failing to investigate a suspected release of a regulated substance within 30 days of discovery and for failing to report a suspected release to the TCEQ within 24 hours of discovery for the underground petroleum storage tank system located at the northwest service district facility. Monthly inventory control records for March and April 2016 indicated a suspected release that was not investigated or reported. A penalty of $10,500 was proposed. CPS Energy submitted all documentation for the completed investigation on March 28, 2017 and again on June 22, 2017, including the tank system tightness test which indicated no release occurred. Malfunctioning pulsars on the fuel dispensers were replaced. Additional training, procedures and internal controls were implemented. The final TCEQ Agreed Order was received May 8, 2018. CPS Energy submitted a supplemental offset check in the amount of $10,500 to the TCEQ on May 8, 2018.

On August 15, 2017, CPS Energy notified the TCEQ of its plans to conduct an Environmental, Health and Safety compliance audit under the Texas Audit Privilege Act at its underground petroleum storage tank sites. The scope of the audit was a review of CPS Energy's compliance with state and federal storage tank regulations, including but not limited to CPS Energy's processes and procedures, and the applicable monitoring, maintenance, management, and reporting requirements. Any issues disclosed to the TCEQ are protected from enforcement if CPS Energy corrects them in a timely manner as required by the Texas Audit Privilege Act. The audit was performed, and the audit action items were completed and the TCEQ was notified.

On December 20, 2018, CPS Energy received a notice of potential violation during a TCEQ site assessment for an amendment to an existing Water Pollution Abatement Plan (the "WPAP") at the Stonegate Substation. The Stonegate Substation site is undergoing modifications to facilitate the TXDOT 281 North widening project. A WPAP is required because the substation is over the Edwards Aquifer Recharge Zone. On January 30, 2019, CPS Energy received a Category C violation for disturbance of a permanent stormwater Best Management Practices ("BMP"), namely soil from construction activities was placed on a grass strip which was designed to assist in stormwater runoff filtration. Corrective measures were implemented. A Category C violation is considered a minor violation by the TCEQ, and no fine was assessed.

The soil that was placed on the grass strip was removed on December 21, 2018. The strip was hydromulched and seeded on December 27, 2018 and topsoil and grass sod was installed in January 2019. Existing procedures were revised, and additional training of personnel and contractors was conducted to ensure understanding of the WPAP regulatory requirements. New procedures were developed to prevent reoccurrence. Additional signage was added to substation locations over the Edwards Aquifer Recharge Zone to indicate they are under a WPAP. A corporate Root Cause Analysis was conducted. CPS Energy submitted a response to the TCEQ on March 1, 2019, with documentation demonstrating vegetation had been re-established in the grass strip area; therefore, the matter is closed.

On August 31, 2020, CPS Energy received written notification from the EPA for a Notice of Violation for the Braunig Power Station for: 1) exceeding the monthly waste volume threshold of 220 lbs/month as a Small Quantity Generator ("SQG") in April 2016, and 2) for not making advanced notification of the change in generator status, for a drum of unused chemical product that was left behind by a contractor. CPS Energy manifested and properly disposed of the unused chemical product; therefore, there was no harm to the environment. The EPA conducted a 5-year waste management records review for the Braunig Plant. CPS Energy operated in compliance during the remaining 5-year time period. Under the EPA's Enforcement Response Policy, CPS Energy is considered a Secondary Violator SV, in which violators pose no actual threat or a low potential threat of exposure to hazardous waste or constituents. CPS Energy has no history of recalcitrant or non-compliant conduct and promptly returned to compliance with all applicable rules and regulations. No penalty is being assessed.

During the spring of 2020, a logic error in the CISCO Continuous Emission Monitoring System ("CEMS") was identified during start-ups at the Rio Nogales Power Station. The data acquisition and handling system, which sends values from the analyzer to the CEMS, was only reporting the low range from the NO_x analyzer. The logic error dates as far back as the original commissioning of the units in 2002. The issue was corrected during the spring 2020 outage, and the analyzers are now recording correctly. Because of the error, three emission deviations during startup were reported to the TCEQ. CPS Energy has since revised its state standard air permit to increase the NO_x Maintenance Startup and Shutdown emission limits to account for the higher recorded emission readings from the analyzers. After an October 9, 2020 TCEQ air inspection, the inspector noted the alleged violations for the three deviations on the inspection exit form. The final notice of violation has not been issued yet.

ENERGY CONSERVATION AND PUBLIC SAFETY PROGRAMS

Energy Conservation

CPS Energy programs and activities to assist customers in understanding energy and ways to reduce electric and gas usage include:

- comprehensive suite of energy efficiency programs offering rebates and incentives for residential, commercial and industrial customers;
- maintaining a secure web site, Manage My Account at https://www.cpsenergy.com/mma. Using an Internet connection to log in, CPS Energy customers can: access My Energy Portal; view their current bill; view current balance due; view past bills; pay by check or credit card; start/stop/transfer service; sign up for a payment plan; view payment history; view energy usage; update mailing address; update phone number; authorize contacts; set up alert preferences; and manage their profile;

- maintaining a secure web site, named My Energy Portal, at https://www.cpsenergy.com/myenergyportal. The portal is available through Manage My Account. With a smart meter and the My Energy Portal, customers can see energy usage (both gas and electric) as recently as the day before. Customers are able to: see their monthly bill, as far back as a year; compare energy efficiency to similar "neighbors"; access over 150 energy efficiency tips; set up their own customized energy savings plan; and compare month-to-month energy usage billing and see reasons for a decrease or increase. These additional insights will eventually be available to all customers. CPS Energy has installed approximately 1.4 million smart meters as of January 2022;
- maintaining a phone number where customers can obtain conservation and other energy-related information;
- providing a free comprehensive weatherization program for low-income customers at or below 200% of the federal poverty level;
- providing load curtailment programs for commercial and industrial customers;
- providing multiple residential thermostat offerings under My Thermostat Rewards umbrella, that help residential and small commercial customers to save energy and reduce demand at peak times;
- offering a full suite of rebate programs for energy efficiency improvements by residential, small commercial, multi-family and large commercial customers;
- scheduling consumer information exhibits at high-traffic locations such as customer programs fairs, community pop-ups, special events and trade shows;
- conducting utility-related presentations for schools, community service organizations, business and professional groups, and homeowner associations; and
- Launching a free, new virtual home energy assessment that began in April 2022.

On January 20, 2009, the Board approved a new Sustainable Energy Policy Statement. Centralized power plants, including utility scale solar, and the traditional electric utility business model are needed now to bridge the gap to the future. However, in the future, more electricity will come from distributed renewable resources and stored energy, and will be distributed on a "smart grid", to customers empowered with the information to better control their own energy cost and consumption. CPS Energy offers rebates for residential and commercial customers who elect to install a "rooftop" solar PV system. The rebate is a flat incentive of $2,500 for residential systems with an additional $500 for systems utilizing local-made panels. Commercial systems are rebated at $0.60 per watt for the first 25 kW and $0.40 per watt on greater than 25 kW, with another $0.10 per watt for utilizing local-made panels. As of July 31, 2021, 26,550 customers have installed rooftop solar with 228 MW of capacity. In addition to receiving a rebate, these customers currently receive the additional benefit of being placed on net metering, in which the credit value of the energy their system produces is equivalent to the retail value of the energy delivered by the utility. The current net metering program does not include recovery of the utility's costs for maintaining and upgrading its systems. In October 2014, CPS Energy issued the first of two one-megawatt (AC) solar Requests for Proposal. Responses to these pilot program requests for proposal were evaluated and two vendors were selected. CPS Energy selected Clean Energy Collective ("CEC"), to bring the first "Roofless" community solar pilot project to the City. CEC developed a 1.2 MW (DC) solar PV facility, providing CPS Energy customers the opportunity to own local clean energy generation through the Roofless Solar program. The Roofless Solar program went live August 26, 2016 and is fully subscribed. CPS Energy also selected PowerFin Partners ("PowerFin"), a solar development firm based in Austin and San Antonio, to launch SolarHostSA, a groundbreaking pilot program that allows participants to host photovoltaic systems on their rooftops in exchange for credits on their energy bill. Working under a power purchase agreement with CPS Energy, PowerFin installs and operates up to 5 MW (AC) of rooftop solar on homes and businesses throughout the CPS Energy service territory, offering the community the chance to realize the benefits of local solar at no cost to them.

In connection with CPS Energy's development of a Strategic Energy Plan that includes energy efficiency and conservation as well as generation, CPS Energy committed to the **STEP** program in 2009. The goal of the **STEP** program was to save 771 MW of demand reduction between 2009 and 2020 which was achieved. The 771 MW is equivalent to the amount of energy produced by a large-sized power plant on an annual basis. To put this into perspective, the CPS Energy Spruce1 power plant generates 555 MW and the newest Spruce2 generates 785 MW of electricity. Cumulatively, the **STEP** program has, since its implementation, saved approximately 926 MW through fiscal year 2021. As the **STEP** goal was achieved a year early, in January 2020, the Board and City Council voted to extend over one year the existing **STEP** program by $70 million, an amount that would allow an additional reduction of 75 MW. Considering COVID-19 and delays in achieving the **STEP Bridge** goals, CPS Energy sought and received City Council approval to extend the **STEP Bridge** program. In January 2021, the City Council authorized CPS Energy to expend up to an additional $70 million on energy efficiency and conservation programs to be completed by July 2022. On August 30, 2021, the Board requested staff to conduct an analysis on whether to continue the STEP program beyond the current end date of July 2022. The analysis was prepared by the Brattle Group and presented to the Board at its February 2022 meeting. Staff is currently developing a proposal for a new energy efficiency and conservation program for Board consideration before the expiration of the existing program in July 2022.

On May 23, 2016, CPS Energy approved three-year agreements to outsource the delivery of its energy efficiency programs. CPS Energy selected CLEAResult, the nation's largest implementer of energy efficiency programs, to deliver its commercial efficiency programs. CPS Energy selected Franklin Energy Services, a leading implementer of energy efficiency programs for utility, state and municipal clients nationwide and in Canada, to deliver its residential efficiency and weatherization programs. The agreements have expanded the portfolio of program offerings available to customers and increased adoption toward achievement of the **STEP** goal. On May 29, 2019, CPS Energy approved an extension of the CLEAResult and Franklin Energy contracts for delivery of services. On June 29, 2020, the Board approved an additional expenditure of up to $31 million from the authorized $70 million **STEP Bridge** budget for the continued delivery of services. On August 30, 2021, the Board awarded a new contract for the delivery of residential and commercial energy efficiency programs to CLEAResult and extended the weatherization contract with Franklin Energy through July 31, 2022.

See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein. In line with CPS Energy's ***Flexible Path***SM strategy, the next round of the **STEP** program is referred to as "***Flex*****STEP**SM".

Public Safety Programs

CPS Energy's Public Safety Awareness ("PSA") program provides natural gas safety messaging, in accordance with the API's RP 1162 guidance (which requires pipeline operators to develop and implement public awareness programs that follow the guidance provided by the American Petroleum Institute), to public officials, emergency officials, excavators and the general public within Bexar and surrounding counties. In addition to formal presentations to the stakeholder audiences referred to, PSA is in constant face-to-face contact with excavators and the general public in the area to disseminate messaging regarding Texas' 811 Call Before You Dig program.

In addition, PSA has taken steps above and beyond RP 1162 to make sure all stakeholders working and/or living around natural gas pipelines get the safety messages through additional mailings, media, billboards, excavator events, tree trimmer/landscaper events, and at public gatherings like community fairs, homeowner association meetings, etc.

Additionally, CPS Energy publishes and maintains a webpage at www.cpsenergy.com/safety that provides up to date safety tips and training resources for contractors, first responders, educators, students, and families.

PSA information is also available in Spanish.

LITIGATION AND REGULATORY COMPLIANCE

The City of San Antonio

This section describes the litigation involving the City that does not directly involve CPS Energy or claims payable out of Systems' revenues. This section describes litigation which has been determined by the City Attorney's office as being material (that the financial results of a decision adverse to the City could have a negative result on the City's financial position). Please see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Litigation and Regulatory Compliance – Systems Litigation and Claims" herein for a description of litigation involving CPS Energy.

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits is capped under the Texas Tort Claims Act ("TTCA"). Consequently, the amount of $16,523,456 (unaudited) is the reserve for claims liability as of the City's fiscal year ended September 30, 2020. This estimated liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund of the City. Specific litigation statuses range from assertion of potential claims, to filing of lawsuits, to early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits, including the pursuit of all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the outcome of such lawsuits.

In the opinion of the City Attorney, it is improbable that the lawsuits now outstanding against the City could become final in a timely manner, as determined by the date of this document, so as to have a material adverse financial impact upon the City that should be reflected in the financial information of the City included herein.

The City provides the following information related to the lawsuits:

<u>*Elena Scott, Individually and as Representative of the Estate of Antronie Scott v. City of San Antonio, et al./Diane Peppar, et al. v. City of San Antonio, et al.*</u> An SAPD officer was attempting to execute an arrest warrant when Plaintiff's decedent exited his vehicle with an object the officer believed was a weapon. The officer discharged his service weapon, fatally wounding

decedent. Plaintiffs have filed suit under 42 U.S.C. § 1983 alleging use of excessive force. This case was consolidated with *Diane Peppar v. City of San Antonio*. Diane Peppar is Decedent Antronie Scott's mother. In March 2019, the Court granted the City's motion for summary judgment, dismissing all claims against the City. The officer's motion for summary judgment was granted in part but denied as to the claims of excessive force and unreasonable seizure. This matter has been settled in the amount of $450,000 subject to final City Council approval.

<u>*Rogelio Carlos III, et al. v. Carlos Chavez, et al*</u>. SAPD SWAT officers were assisting High-Intensity Drug Trafficking Areas ("HIDTA") in searching for a fleeing suspect. Plaintiff was misidentified by the HIDTA officer as being the suspect. The HIDTA officer engaged and attempted to physically apprehend Plaintiff and was assisted by SAPD SWAT officers. Plaintiff suffered minor injuries as a result of the arrest, although he later complained of neck and shoulder/arm pain. Several months after the incident, Plaintiff underwent surgery, during which procedure, Plaintiff was paralyzed. Plaintiff has filed suit against the City and various officers under 42 U.S.C. § 1983. The Plaintiff has amended his suit to include the physicians involved in the Plaintiff's surgical procedure. Discovery is completed. Motions for summary judgment were filed on behalf of the City and all officers. In April 2020, the Court entered its order dismissing all claims against the City and two officers. Claims against the three remaining officers are pending trial. This case is not currently set for trial.

<u>*Neka Scarborough Jenkins v. City of San Antonio*</u>. Plaintiff's decedent was driving northbound on Blanco Road and attempted to turn left onto Lockhill Selma at a controlled traffic signal. Plaintiff contends that the traffic signal for her lane of traffic was facing the wrong direction. While making the turn, decedent was struck by an oncoming vehicle and was killed. Plaintiff claims the City had prior notice but failed to correct the issue within a reasonable period of time. Plaintiff also claims the investigation revealed the light was placed too low and was not at the correct height for a traffic signal. This litigation is brought under the TTCA and discovery is ongoing. Under the TTCA, damages are capped at $250,000. This case is not yet set for trial.

<u>*Patricia Slack, et al. v. City of San Antonio and Steve Casanova*</u>. SAPD officers responded to persons complaining they had been assaulted in front of a nearby residence. The officers went to the address provided by the victims and approached the front door, which was behind a security door made of metal bars. The officers knocked, and the door swung open to the living room, although the security door remained closed. At least three individuals were present in the living room. One individual stood and approached the door while reaching his hand into his waistband. Officer Casanova discharged his weapon. A bullet fired by Officer Casanova grazed one individual and fatally struck a second individual. A suit was brought on behalf of the estate of the deceased, the injured individual and another individual on the scene. Plaintiffs have filed suit under 42 U.S.C. § 1983 alleging use of excessive, deadly force. The trial court denied the City and the officer's motions for summary judgments in part. The City and the officer are filing interlocutory appeals to the Fifth Circuit.

<u>*Jesse Quinones, et al. v. City of San Antonio*</u>. On May 2, 2017, an SAPD officer was operating his patrol vehicle on non-emergency patrol, when he rear-ended a 2003 Tahoe with eight passengers. The officer was following Plaintiffs' vehicle as they went through a green light. A third vehicle on the cross street ran the red light in front of the officer. The officer looked back at the third vehicle and did not see Plaintiff Quinones' vehicle stop in front of him for a traffic signal. As a result of the accident, Plaintiff Quinones is claiming back injury and has obtained a future surgical recommendation at a cost greater than $250,000. This case is set for trial on August 15, 2022.

<u>*Estate of Jesse Aguirre, Deceased, et al. v. City of San Antonio, et al*</u>. On April 12, 2013, SAPD received numerous calls for a man walking in traffic on Highway 90. Officers arrived on Highway 90 and attempted to arrest decedent. He was initially compliant, but as the officers bent him over the hood of a car to search him, he became actively resistant. While attempting to handcuff him, decedent flipped over the highway divider. Four officers held him down while they waited for a transport wagon. One of the officers noticed decedent's lips turning blue. The officers began resuscitation procedures. EMS arrived and their efforts were unsuccessful, as well. The autopsy report concluded decedent died from excited delirium syndrome associated with cocaine and ethanol intoxication. Decedent's family filed suit against the City and the officers involved. Summary judgment was initially granted for all defendants, but on appeal, the Fifth Circuit reversed as to some of the claims against five of the officers. This case is currently set for trial on May 16, 2022.

<u>*Marlo Ondrej, et al. v. City of San Antonio and David Perry*</u>. San Antonio Police received a call reporting a female at a local shopping center with an automatic weapon. SAPD officer David Perry arrived on the scene and saw plaintiff's decedent, Hannah Westall, in the parking lot. Officer Perry exited his vehicle and drew his weapon instructing Westall to raise her hands. Westall initially complied, then turned her body to show what appeared to be an automatic weapon in the back waistband of her pants. As Westall turned back, she lowered her hands towards her back waist. Officer Perry discharged his weapon, fatally striking Westall. Subsequent examination of the weapon revealed that it was toy. Plaintiffs have filed suit under 42 U.S.C. § 1983 alleging use of excessive, deadly force. Discovery is ongoing. No trial date has been set.

Paid Sick Leave Ordinance and Litigation

Working Texans for Paid Sick Time, a State-wide coalition of grassroots organizations, submitted to the City on May 24, 2018 a petition seeking a referendum on a City ordinance requiring that businesses operating within the City (being those that annually perform 80 hours or more of work within the City) provide mandatory paid sick leave to their employees or be subject to a civil penalty of $500 per violation. Under the proposed ordinance, businesses with 15 or more employees would be required to provide eight days of paid sick leave to each employee; those with less than 15 employees would be required to provide six days of paid sick leave per employee. The City Council voted to adopt the proposed ordinance on August 16, 2018 which eliminated the need for an election on the matter. Plaintiff businesses and the State sued to enjoin implementation. Texas Organizing Project ("TOPS") and MOVE Texas intervened in the suit in support of the ordinance. In August 2019, the court approved an order submitted by the parties delaying the effective date to December 1, 2019 and abating injunction proceedings until the City amended the ordinance. On October 3, 2019, City Council approved amendments recommended by the Paid Sick Leave Commission. Plaintiff's application for injunction was heard on November 7, 2019 and was granted on November 22, 2019. MOVE Texas filed a notice of appeal of that decision and the City joined in the appeal. Plaintiffs/Appellees filed a motion with the Fourth Court of Appeals to abate the matter until the Texas Supreme Court issues a decision in the pending appeal concerning a similar Austin Paid Sick Leave ordinance. On March 4, 2020, the Fourth Court of Appeals granted the abatement. On June 5, 2020, the Texas Supreme Court refused to review an order from the Third Court of Appeals finding that the Austin Paid Sick Leave Ordinance was unconstitutional and preempted by the Texas Minimum Wage Act. On June 12, 2020, Intervenors/Appellants in the San Antonio matter filed an opposed motion to lift the abatement. On June 26, 2020, the Fourth Court of Appeals entered an order reinstating the case to the docket. Intervenor/Appellant's filed a brief with the Fourth Court of Appeals on July 16, 2020. On July 16, 2020, the City of San Antonio filed a letter notifying the Fourth Court of Appeals it was adopting Intervenor/Appellant's brief and requesting that the court reverse the December 12, 2019 temporary injunction. On September 4, 2020, Plaintiffs/Appellees filed responsive briefs and a partially opposed motion to dismiss for want of jurisdiction and motion to strike. On October 27, 2020, the case was submitted to the court and an opinion was issued on March 10, 2021, stating the paid sick and leave provision establishes a minimum wage inconsistent with the Texas Minimum Wage Act, violating the Texas Constitution. Plaintiffs have made a claim for attorneys' fees in excess of $250,000.

San Antonio Park Police Officers Association Lawsuit

On September 3, 2019, the San Antonio Park Police Officers Association ("PPOA"), the union representing the park and airport officers, sued the City alleging that State law requires that PPOA receive the same pay and benefits as City police officers. PPOA seeks a declaratory judgment that park and airport officers are entitled to both civil service and collective bargaining rights and benefits bargained for by the San Antonio Police Officers Association ("SAPOA"). The City filed pleadings seeking the dismissal of the suit in November 2019. On February 21, 2020, the court heard the City's and SAPOA's pleas to the jurisdiction. The court denied the motions. The City appealed to the Fourth Court of Appeals. On July 14, 2021, the Fourth Court issued an opinion reversing in part and affirming in part. The City has filed a Motion for Rehearing, which was denied. The City filed a petition for review with the Texas Supreme Court. On March 11, 2022, the Texas Supreme Court requested full briefing on the merits.

Collective Bargaining Negotiations

The City is required to collectively bargain the compensation and other conditions of employment with its fire fighters and police officers. The City engages in such negotiations with the association selected by the majority of fire fighters and police officers, respectively, as their exclusive bargaining agent. The International Association of Fire Fighters, Local 624 ("Local 624") is the recognized bargaining agent for the fire fighters. The SAPOA is the recognized bargaining agent for the police officers. The following is a status of the collective bargaining negotiations with each association.

Collective Bargaining Agreement between the City of San Antonio and the San Antonio Police Officers Association. The City Council approved a collective bargaining agreement ("CBA") with the SAPOA on September 1, 2016, which provides for a term through September 30, 2021. Negotiations for a new contract began on February 12, 2021 with a tentative agreement as of March 2022. The proposed CBA will be a five-year agreement that expires on September 30, 2026 with an eight-year evergreen clause. Under the proposal, union members would receive a 2.0% lump sum payment within 30 days of the contract being finalized, a 3.5% base pay increase in fiscal years 2023 and 2024, and a 4.0% base pay increase in fiscal years 2025 and 2026. The City and SAPOA also agreed to continue having union members contribute the 10.0% annual increase towards their healthcare plan during both the term of the contract and the evergreen period. Additionally, the tentative contract saw several changes towards the disciplinary process to include: limiting an arbitrator's power to reinstate an officer who appealed their indefinite suspension issued by the Chief of Police; extending the 180-day rule for the Chief of Police to discipline officer misconduct; and allowing for the inclusion of prior discipline when making a case for suspension. The contract went before the SAPOA members and received a favorable vote in April 2022 and is scheduled to go to City Council on May 12, 2022.

Collective Bargaining Agreement between the City of San Antonio and the International Association of Fire Fighters, Local 624. On February 13, 2020, a collective bargain agreement was awarded pursuant to arbitration. The new contract took effect immediately and concludes on December 31, 2024.

Airport Concession

Background. On March 21, 2019, the City Council considered a recommendation to award a concession contract for the San Antonio International Airport to Paradies Lagadere ("Paradies"). The Paradies proposal included a Chick-fil-A fast food concept as part of the overall package. After deliberation the City Council approved a motion to award the contract to Paradies, with the further instruction to replace the Chick-fil-A concept with a different national fast-food concept.

Patrick Von Dohlen et al. v. City of San Antonio, et al. On September 26, 2019, the City was served with a lawsuit brought by five individuals (Patrick Von Dohlen, Brian Greco, Kevin Jason Khattar, Michael Knuffke, and Daniel Petri) against the City and Paradies. The lawsuit alleges that the City Council vote taken on March 21, 2019 concerning food vendors at the City's airport, violated a newly enacted law by the Texas Legislature in the Texas Government Code, Section 2400.002. The law became effective on September 1, 2019 after the City Council action and states: "[A] governmental entity may not take any adverse action against any person based wholly or partly on the person's membership in, affiliation with, or contribution, donation, or other support provided to a religious organization." The City filed a motion to dismiss and plea to the jurisdiction, challenging the ex post facto application of the law. The motion to dismiss and plea to the jurisdiction were denied. The City filed an interlocutory appeal to the Fourth Court of Appeals, which reversed the denial and rendered judgment in favor of the City. Plaintiffs filed a petition for review with the Texas Supreme Court. Oral arguments were heard before the Texas Supreme Court on October 28, 2021 and an opinion in the case was issued on April 1, 2022, reversing the Fourth Court of Appeals' judgement dismissing the case for lack of jurisdiction and remanding the case to the trial court.

Systems Litigation and Claims

CPS Energy is involved in various legal proceedings related to alleged personal and property damages, condemnation appeals and discrimination cases. As the operator of the Systems, various claims have been asserted against CPS Energy. Most of those claims, including those in active litigation, do not merit individual disclosure, and in all cases, except where mentioned below, CPS Energy maintains a litigation reserve that CPS Energy management believes to be sufficient to satisfy reasonable outcomes concerning these pending claims and litigation. See "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" for litigation arising out of the 2021 Winter Weather Event. Subject to the foregoing, CPS Energy separately discloses certain pending litigation and potential claims, as follows:

Austin McElroy v. Donahue Electrical Services, LLC, City of San Antonio by and through City Public Service Board D/B/A CPS Energy. CPS Energy has been sued by Austin McElroy for injuries he alleges were due to an electrical shock he received that caused him to fall from a ladder while working on a customer's pole. Mr. McElroy is also suing Donahue Electrical Services, LLC. He has incurred significant medical expenses and similar future expenses are expected in the future. No demand has been made at this early stage of the suit. CPS Energy is currently analyzing its potential exposure as well as its defensibility in the matter. Trial is currently set for October 3, 2022 but with the backlog of cases due to COVID-19, it is anticipated that this trial date will be extended.

Time Warner Cable San Antonio, L.P. v. City Public Service of San Antonio; CPS Energy v. AT&T. Subject to certain exceptions, Texas law prohibits discrimination by a MOU in the rates and terms the MOU charges a certificated telecommunications provider ("CTP") for the attachments the CTP makes to a MOU's poles and, beginning September 1, 2006, required the MOU to charge a single, uniform pole attachment rate to all CTPs. Although CPS Energy considers the discrimination prohibition inapplicable for the relevant times, beginning with its 2007 invoices, CPS Energy started charging all CTPs the same pole attachment rate.

For its part, AT&T contended that notwithstanding the terms of the nondiscrimination provisions of Texas law, it was entitled under the terms of its 1987 joint use pole attachment agreement with CPS Energy to pay a lower contractual rate. The 1987 joint use contract was terminated March 23, 2010. Effective August 1, 2016, AT&T executed a new pole attachment agreement with CPS Energy under which there is no dispute as to the appropriate pole attachment rate.

AT&T's position asserting the right to pay a lower pole attachment rate under the joint use contract was the basis for the lawsuit filed against CPS Energy by Time Warner Cable San Antonio, L.P. ("TWC"), which is now owned by Charter Communications, Inc.* TWC sued CPS Energy in State district court in Bexar County, now styled *Spectrum Gulf Coast LLC v. City Public Service of San Antonio*, Cause No. 2008-CI-21150 (*Spectrum v. CPS Energy*), claiming CPS Energy's failure to collect the same pole attachment rate from AT&T as it collected from TWC was a violation of the statutory requirement and that CPS Energy had discriminated against TWC by charging TWC and AT&T different pole attachment rates. TWC seeks damages of no less than $5 million, plus interest and attorney's fees. CPS Energy responded to the lawsuit by asking the court to abate the lawsuit pending a final outcome in a PUCT docket CPS Energy filed, *Petition of CPS Energy for Enforcement Against AT&T and Time Warner Cable Regarding Pole Attachments*, Docket No. 36633. CPS Energy also counter-sued for TWC's outstanding balance, which has resulted from TWC paying for its pole attachments at the 30-year-old AT&T rate instead of the uniform rate CPS Energy is uniformly charging all pole attaching entities. By order issued March 17, 2009, the Bexar County District Court abated the proceeding pursuant to CPS Energy's request, and on April 3, 2009, the PUCT issued an order assuming jurisdiction over the administrative case in Docket No. 36633. The State Office of Administrative Hearings ("SOAH") heard the PUCT docket on September 8-14, 2011. The SOAH issued a Proposal for Decision on March 9, 2012, and the PUCT released a final Order on February 1, 2013. CPS Energy, TWC and AT&T appealed the PUCT order to the Travis County District Court, which heard the case on January 22, 2014 and issued its order on March 3, 2014. The Travis County District Court's March 3, 2014 final judgment reversed the PUCT on the grounds that the PUCT lacked jurisdiction to make determinations about private pole attachment agreements, about whether a breach of contract had occurred, and about whether discrimination under State law caused harm. The final judgment also reversed the PUCT's determinations on using a rate of return other than the Federal Communications Commission's (the "FCC") default rate of return and on using three attaching entities in its calculation of the pole attachment rate for billing years 2005-2010. The final judgment affirmed the PUCT's final order in all other respects and remanded it to the PUCT. CPS Energy, AT&T, TWC, and the Texas Attorney General (on behalf of the PUCT) all appealed the district court's decision to the Texas Third Court of Appeals (the "Third Court of Appeals") in May and June 2014. The case was argued before the Third Court of Appeals on April 22, 2015. On July 31, 2016, TWC's existing pole attachment agreement was terminated, and it executed a new agreement effective August 1, 2016. CPS Energy's potential exposure under the case may not extend beyond July 31, 2016.

On February 24, 2017, the Third Court of Appeals issued its opinion in the appeal of the PUCT order. The Third Court of Appeals found that the PUCT has jurisdiction to review and modify CPS Energy's pole attachment rate formula inputs because it was not setting rates, but rather calculating the highest annual pole attachment rate allowed by statute. On a related jurisdictional issue, the Third Court of Appeals vacated the district court's judgment that the FCC's 2011 amendment to the pole attachment formula was prospectively applicable to CPS Energy under State law, finding that the PUCT's ruling on the matter was advisory, not ripe for adjudication, and outside the scope of the Third Court of Appeals' jurisdiction to review. Regarding formula inputs, the Third Court of Appeals ruled that (i) three was the appropriate average number of attaching entities per pole to consider in the pole-attachment rate calculation, finding that CPS Energy met its burden of proof to overcome the FCC formula's presumptive average of five for a metropolitan area; and (ii) the default rate of return of 11.25% in the FCC formula applied to CPS Energy for all years in dispute, including 2005, and rejected the argument that the PUCT had the authority to set CPS Energy's rate of return. On the issue of discrimination, the Third Court of Appeals ruled that CPS Energy had provided discriminatory terms for a four-month period between September 1, 2006 and December 31, 2006 (the result of different billing period applicable to AT&T and TWC); otherwise, CPS Energy did not engage in discriminatory treatment for the rest of the billing years in dispute (2007 to 2010). The court reached this conclusion by finding that CPS Energy had properly charged a non-discriminatory, uniform rate throughout the billing period in dispute as required by statute.

On March 9, 2017, the Third Court of Appeals granted TWC's request for a 30-day extension to file a motion for rehearing. On April 12, 2017, TWC filed its motion for rehearing and en banc reconsideration. On August 31, 2017, the Third Court of Appeals denied TWC's motion for rehearing and en banc hearing and issued a substitute opinion replacing the opinion issued on February 24, 2017. The substitute opinion did not alter the Court's earlier rulings. On November 15, 2017, TWC filed a petition for review with the Texas Supreme Court, which was joined by the Texas Attorney General. The high court requested that CPS Energy file a response to TWC's petition for review, which was filed on April 18, 2018. Subsequently, on June 1, 2018, the Texas Supreme Court requested the parties to file briefs on the merits of the case. TWC and the Texas Attorney General filed their initial briefs on July 23, 2018, followed by CPS Energy's response on September 5, 2018, and concluding with TWC's reply brief on September 28, 2018. On November 11, 2018, the Texas Supreme Court granted TWC's petition for review. The Texas Supreme Court heard oral arguments on January 24, 2019 and issued an opinion on May 17, 2019. The court ruled the PUCT's finding that CPS Energy failed to make any serious or meaningful effort to collect from AT&T before it initiated the enforcement proceeding is supported by substantial evidence, and the effect on TWC was clearly discriminatory. Thus, the Texas Supreme Court reversed the Third Court of Appeal's decision in part and remanded the case to the trial court.

On June 17, 2019, CPS Energy filed a motion for rehearing with the Texas Supreme Court arguing that the high court erred in its May 17, 2019 opinion by holding that CPS Energy waived the "argument" that a cable company is not entitled to the nondiscriminatory protections of State law applicable to a certificated telecommunications provider for failure to raise the argument at a lower court. The motion for rehearing asserts that error occurred because the holding is contrary to the court's long-standing precedent providing that "issues" not raised below are waived, but parties are free to construct new "arguments" in response to issues raised before the high court by opposing parties, whether or not those arguments were raised at a lower court. On October 4, 2019, the motion for rehearing was denied. On October 8, 2019, the Texas Supreme Court remanded the case back to the District Court, which issued a Final Judgment of Remand on March 13, 2020. The PUCT opened Docket No. 50665 on March 16, 2020 for the purpose of issuing an Order on Remand incorporating the findings and rulings on appeal as reflected in the Final Judgment on Remand. The PUCT issued its Final Order on Remand on April 7, 2021 but failed to fully incorporate into several Findings of Fact ("FOF") and Conclusions of Law ("COL") certain appellate holdings of the Final

Order on Rehearing related to Docket No. 36633. After denial of its motion for rehearing, CPS Energy filed an appeal of the PUCT's Final Order on Remand on June 11, 2021 in Travis County pursuant to the Texas Administrative Procedure Act. CPS Energy claims that the PUCT erred in adopting a Final Order on Remand that contains narrative descriptions but failed to incorporate into FOF and COL appropriate underlying appellate holdings as instructed on appeal. The Texas Attorney General filed an Original Answer on behalf of the PUCT on July 23, 2021 and requests for intervention were subsequently filed by Spectrum and AT&T. The lawsuit is styled as *CPS Energy's Original Petition for Judicial Review*, Case No. D-1-GN-21-002743, in the Travis County 459th Judicial District Court.

There remains pending two lawsuits arising generally out of this subject matter. The more-recent, *City of San Antonio, acting by and through City Public Service Board v. Southwestern Bell Telephone Company, doing business as AT&T*, Cause No. 2010-CI-19757 (*CPS Energy v. AT&T)*, currently consists of only CPS Energy's claims against AT&T under contracts relating to pole attachments. AT&T has not asserted any counterclaims at this time.

Spectrum v. CPS Energy is currently pending in Bexar County. Spectrum has asserted claims under statute, under the 1984 pole attachment agreement, for alleged breach of fiduciary duty, for alleged unjust enrichment, and for alleged negligence, seeking damages for its alleged overpayment of pole rental fees in excess of those authorized under Texas law for billing years 2005-2008, alleging in excess of $5 million in damages, plus interest and attorney's fees. CPS Energy has counterclaimed under the 1984 agreement for underpaid pole rentals and for unauthorized attachments, alleging damages in excess of $15 million, plus interest and attorney's fees. Although the orders are not final, CPS Energy has obtained partial summary judgment on all of Spectrum's claims except those arising out of contract. Spectrum also obtained a ruling from the court that it was granted partial summary judgment that the 1984 agreement was unambiguous; the court has not clarified the import of its finding on ambiguity, but has indicated a willingness to allow the parties to pursue an interlocutory appeal of the issues determined. All of CPS Energy's claims remain pending. Trial is currently set for May 2022.

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* On October 5, 2012, the PUCT approved the consolidation of State-Issued Certificates of Franchise Authority ("SICFA") granted to Time Warner Cable San Antonio, LP (SICFA No. 90007) and Time Warner Cable Texas LLC (SICFA No. 90008), both affiliated companies of Time Warner Cable, Inc., into SICFA No. 90008. PUCT Project No. 40756, Notice of Approval (October 5, 2012), *Joint Application of Time Warner Entertainment, Advance/Newhouse Partnership and Time Warner Cable San Antonio, L.P. to Amend Its State-Issued Certificate of Franchise Authority; Name Change, Expansion of SAF & Other*. On May 18, 2016, Time Warner Cable Texas LLC became an indirectly, wholly owned subsidiary of Charter Communications, Inc. On July 13, 2016, the PUCT amended SICFA No. 90008 to recognize the change of ownership from Time Warner Cable, Inc. to Charter Communications, Inc., but otherwise the name of SICFA No. 90008 remained in the name of Time Warner Cable Texas LLC d/b/a Time Warner Cable. PUCT Project No. 46020, Notice of Approval (July 13, 2016), *Application of Time Warner Cable Texas LLC for Amendment to a State-Issued Certificate of Franchise Authority for Name Change and Transfer of Ownership*.

No Litigation Certificate

In connection with the inception of the Commercial Paper Program and subsequent actions related thereto (such as Commercial Paper Program amendments and new or amended sources of liquidity therefor), the City executes and delivers to interested parties a certificate to the effect that, except as otherwise disclosed, no litigation of any nature was filed or was pending, as of the date of such certificate, to restrain or enjoin the issuance or delivery of the Notes or which would affect the provisions made for their payment or security or in any manner question the validity of the Notes.

Except as disclosed herein and as of the date hereof, the City is aware of no litigation of any nature that has been filed or is pending, as of the date hereof, to restrain or enjoin the issuance or delivery of the Notes or which could affect the provisions made for their payment or security or in any manner question the validity of the Notes.

Regulatory Compliance

By the nature of its business and through its ownership of nuclear assets, CPS Energy is required to comply with a variety of state and federal regulations involving environmental, system reliability, nuclear plant safety, physical and cybersecurity, employee and operational safety, and other business issues. Responsibility for ensuring compliance lies within the responsible business units and, at an enterprise level, with the Vice President of Compliance & Ethics. The STPNOC also has a strong compliance program which CPS Energy monitors closely. On occasion, violations are found either through internal review processes or during a regulatory agency compliance audit. In these instances, CPS Energy is fully cooperative with regulators in ensuring that steps are taken to identify the cause of the compliance gap and to implement a mitigation plan to prevent a recurrence. The violations that do occur are typically minor and do not reflect serious lapses in business processes or attention to regulatory requirements. Violations involving significant monetary penalties or business risks would be disclosed individually, if they were to occur.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

THE ELECTRIC UTILITY INDUSTRY GENERALLY

The electric utility industry in general has been, and in the future may be, affected by several factors which could impact the business affairs, financial condition and competitiveness of an electric utility, and the level of utilization of generating facilities, such as those of the Systems. One of the most significant of these factors has been the effort on national, state, and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on wholesale and retail level. For a description of the competition in the electric utility industry in Texas and the response of CPS Energy thereto, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CERTAIN FACTORS AFFECTING THE ELECTRIC INDUSTRY – THE ELECTRIC UTILITY INDUSTRY GENERALLY – ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein.

Such factors include, among others, (i) effects of compliance with rapidly changing cyber, environmental, safety, licensing, regulatory, and legislative requirements; (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy; (iii) changes that might result from a national energy policy; (iv) increased competition from independent power producers; (v) "self-generation" by certain industrial and commercial customers; (vi) issues relating to the ability to issue tax-exempt obligations; (vii) severe restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations; (viii) changes from previously projected future electricity requirements; (ix) increases in costs; (x) shifts in the availability, intermittency and relative costs of different fuels; (xi) management and integration of renewable generation and storage systems into the supply portfolio; and (xii) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could influence the financial condition of any given electric utility and likely will affect individual utilities in different ways. CPS Energy cannot predict what future effects these factors may or will have on its business operations and financial condition, but the effects could be significant. The following is a brief discussion of several factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change after the date of this Offering Memorandum. Extensive information on the electric utility industry is available from sources in the public domain, and potential purchasers of the Notes should obtain and review such information.

FEDERAL ENERGY POLICY

On January 20, 2021, President Biden issued executive orders directing federal agencies to consider revising vehicle fuel economy and emissions standards, methane emissions standards, and appliance and building efficiency standards to "ensure that such standards cut pollution, save consumers money, and create good union jobs". Additionally, the executive orders re-established the Interagency Working Group on the Social Cost of GHG and directing the issuance of an interim social cost of GHG schedule to "ensure that agencies account for the full costs of GHG emissions, including climate risk, environmental justice and intergenerational equity". Additionally, President Biden signed paperwork to rejoin the Paris Climate Agreement on January 20, 2021.

On January 27, 2021, President Biden signed executive actions that make climate change both a domestic and foreign policy goal for the United States. These actions followed the President's initial actions of rejoining the Paris Climate Agreement by addressing domestic climate policies that seek to create jobs and sustainable infrastructure and address environmental justice. The executive actions direct the Secretary of the Interior to pause on entering new oil and natural gas leases on public lands or offshore waters, create a new civilian conservation corps and deliver economic help to coal-producing regions. The executive actions also establish a commission that is focused on environmental justice and green jobs, direct federal agencies to rely on science in their rulemakings and convene a climate summit of world leaders on Earth Day, April 22nd. Additionally, the President pledged to use the purchasing power of the federal government to buy a fleet of zero-emissions vehicles that are manufactured in the United States.

President Biden elevated climate change to a national security priority and instructed his Administration to prepare a national intelligence estimate on the security implications of the climate crisis and directed all agencies to develop strategies for integrating climate considerations into their international work. The President announced the reestablishment of the President's Council of Advisors on Science and Technology, and formation of the National Climate Task Force, which will be composed of leaders across 21 federal agencies and departments.

On August 5, 2021, President Joe Biden issued an additional executive order setting a new target to make half of all new vehicle sales by 2030 to be zero-emissions vehicles, including battery electric, plug-in hybrid electric, or fuel cell electric vehicles. The executive order extends to light-, medium-, and heavy-duty vehicles. This executive order is part of a series of actions the President will announce focused at jump-starting a shift toward electric vehicles as part of the administration's broader agenda to address climate change. The executive order also directs agencies to (1) consult with the Secretaries of Commerce, Labor, and Energy on ways to accelerate innovation and manufacturing in the automotive sector, to strengthen the domestic supply chain for that sector, and to grow jobs that provide good pay and benefits; (2) engage with California and other states "leading the way in reducing vehicle emissions"; and (3) secure input from a diverse range of stakeholders, including representatives from labor unions, industry, environmental justice organizations, and public health experts.

On December 8, 2021, President Biden signed the Catalyzing America's Clean Energy Industries and Jobs through Federal Sustainability Executive Order directing the federal government to use its $650 billion in annual purchasing power to achieve net-zero emissions by 2050. The executive order includes a series of interim goals and guiding principles the various federal agencies are required to follow.

On November 15, 2021, President Biden signed into law the "Infrastructure Investment and Jobs Act", an infrastructure and surface transaction bill that includes $1.2 trillion in funding for transportation, energy, and water infrastructure. The measure includes numerous grant programs (which utilities providing energy, water, wastewater, or broadband may be able to access, depending on specific circumstances).

On November 19, 2021, the U.S. House of Representatives passed the "Build Back Better Act", a legislative package declared the primary component of President Biden's agenda. The $1.75 trillion bill would provide childcare assistance, expand healthcare access, and invest in the environment. A vote on the legislation has not been taken up in the U.S. Senate as of the date hereof.

On December 8, 2021, President Biden signed an executive order directing the federal government to become carbon neutral by 2050 and to procure more than 10 gigawatts of renewable energy by 2030.

REFORM GENERALLY

On January 20, 2021, President Joe Biden began rolling out some of his energy initiatives through a series of executive orders. President Biden laid out initiatives to "roll back President Trump's environmental actions in order to protect public health and the environment and restore science". His executive orders directed all executive departments and agencies to immediately review and take appropriate action to address federal regulations and other executive actions taken during the Trump Administration that were "harmful to public health, damaging to the environment, unsupported by the best available science, or otherwise not in the national interest".

On January 19, 2021, the D.C. Circuit Court vacated the ACE rule and remanded it to the EPA. The court determined the EPA did not act lawfully in adopting the 2019 ACE rule as a means of regulating power plants' emissions of greenhouse gases. The Trump EPA had drafted the ACE rule to limit the EPA's ability to regulate emissions of greenhouse gases under the Clean Air Act (particularly compared to the CPP). This decision will allow the Biden EPA to draft a new rule. The EPA had proposed the ACE rule on August 21, 2018, which sought to establish emission guidelines for states to develop plans to address GHG emissions from existing coal-fired power plants. The final rule was issued on June 19, 2019 and became effective on September 6, 2019.

On December 16, 2016, former President Obama signed into law the Water Infrastructure Improvements for the Nation Act ("WIIN Act"), which included industry-supported coal ash legislation and funding for water improvements. The WIIN Act was the product of bipartisan negotiations, and it includes the Water Resources Development Act ("WRDA") of 2016. Under the WIIN Act, the Resource Conservation and Recovery Act ("RCRA") was amended to allow states to design a coal ash permit program that will then be approved by the EPA. If states do not design a coal ash permit program, the federal coal ash rule remains in effect. The EPA is proposing a federal permitting program for the disposal of CCR in surface impoundments and landfills, which will also include electronic permitting. This proposal includes requirements for federal CCR permit applications, content and modification, as well as procedural requirements. The EPA would implement this permit program directly in certain jurisdictions, as it does other RCRA programs, and at CCR units located in states that have not submitted their own CCR permit program for approval.

The final approval of the Texas partial CCR permit program was received on June 28, 2021 and became effective July 28, 2021.

CYBERSECURITY

In 2013, President Obama issued an Executive Order "Improving Critical Infrastructure Cybersecurity", to develop a voluntary risk-based cybersecurity framework. The National Institute of Standards and Technology ("NIST") framework (the "Framework") was finalized and released in mid-February 2014. The Framework is designed to be a living document and continual updates occur concerning its development. The Framework covers 16 sectors and the portion pertaining to the energy sector will be implemented by the DOE. Compliance is voluntary. The DOE continues to explore methods to encourage compliance, such as possibly issuing grants. In an update provided July 1, 2015, NIST has engaged in education and outreach efforts, as well as a campaign to clarify and highlight guides consistent with the Framework. On December 11, 2015, NIST issued an additional request for information on its "Views on the Framework for Improving Critical Infrastructure Cybersecurity", to receive feedback. NIST released an analysis of the responses received to this request on March 24, 2016, and circulated an updated draft version refining, clarifying, and enhancing the Framework on January 10, 2017. NIST released a second draft of the updated Framework in late 2017, and public comments were due January 19, 2018. NIST released the new Framework on April 16, 2018. Pursuant to an executive order issued by President Trump on May 11, 2017, entitled "Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure", all federal agencies are required to use the Framework to manage cybersecurity risks. In July 2019, NIST published its "Smart Grid Profile", which applies risk management strategies from the Framework to the smart grid. On June 18, 2020, the Federal Energy Regulatory Commission ("FERC") issued its Cybersecurity Incentives Policy White Paper Docket No. Ad20-19-000 discussing a potential new framework for providing transmission incentives to utilities for cybersecurity investments. The Congress continues to make cybersecurity and grid security a priority regarding preparedness of the electric utility sector for cybersecurity threats.

On May 1, 2020, President Trump declared a "national emergency with respect to the threat to the United States bulk-power system" and issued an Executive Order ("EO") regarding transactions involving "bulk-power system electric equipment" developed, manufactured or supplied by a "foreign adversary". Specifically, the EO empowers the Secretary of Energy, in consultation with the heads of other agencies assembled into a task force, to prohibit certain transactions if they raise significant national security concerns, including posing a risk to the health and safety of the United States. As of June 2020, the DOE has taken initial steps, along with FERC and NERC, to begin work on implementing the EO. However, at this time, a formal rulemaking has not been initiated. On January 21, 2021, President Biden temporarily suspended Donald Trump's EO and created a new EO 14028 titled "Improving the Nation's Cybersecurity". This EO charges multiple agencies with enhancing cybersecurity through a variety of initiatives related to the security and integrity of the software supply chain.

On March 7, 2014, FERC directed NERC to develop reliability standards requiring owners and operators of the bulk-power system to address risks due to physical security threats and vulnerabilities. The order gave NERC 90 days to submit one or more proposed standards that require owners and operators of the bulk-power system to take at least three steps to protect physical security. NERC met the deadline and drafted a standard ("CIP-014-1"), which requires transmission owners and operators to (1) perform a risk assessment of their system to identify facilities that, if damaged, could have a critical impact on the operation of the bulk-power system; (2) evaluate potential threats and vulnerabilities to those facilities; and (3) develop and implement a security plan to address potential threats and vulnerabilities. The final rule was issued on November 20, 2014. CPS Energy has taken steps and is compliant to the CIP-014-1 standard requirements.

The FERC acted in July 2016 to improve the cybersecurity of the bulk electric system ("BES") through NERC to develop a supply chain risk management standard to address risks to information systems and related electric system assets. FERC directed NERC to develop a Critical Infrastructure Protection ("CIP") Reliability Standard that requires entities to develop and implement a supply chain management plan for industrial control system hardware, software, and vendor services associated with electric system operations. NERC was required to submit the new CIP standard within one year. The standard was developed and approved by NERC on June 16, 2017. On December 21, 2017, FERC unanimously voted to direct NERC to modify the existing "Cybersecurity Incident Reporting and Response Planning" standards, citing concerns that current reporting "understates the true scope of cyber-related threats facing the bulk electric system". NERC approved the proposed standard on August 10, 2017. The standard was approved by FERC on July 19, 2018, as revised on June 20, 2019 (to extend mandatory reporting of cyber incidents to attempted attacks and events that comprised the system without necessarily impacting a reliability task) and was effective on January 1, 2021. CPS Energy is compliant with this new CIP standard CIP-013.

On June 24, 2020, FERC issued public statements seeking comment on whether the CIP Reliability Standards adequately address the following topics: (i) cybersecurity risks pertaining to data security, (ii) detection of anomalies and events, and (iii) mitigation of cybersecurity events. In addition, the Commission seeks comment on the potential risk of a coordinated cyberattack on geographically distributed targets and whether Commission action including potential modifications to the CIP Reliability Standards would be appropriate to address such risk.

On October 8, 2021, FERC released a report offering recommendations to assist professionals in the bulk-power system improve their compliance with the CIP Reliability Standards and their overall cybersecurity posture.

On July 26, 2021, the Transportation Security Administration ("TSA") issued Security Directive Pipeline 2021-02 as an effort to improve the cybersecurity of the nation's critical natural gas pipelines or liquefied natural gas facilities. In this effort the TSA has mandated that all identified pipeline owners and operators must implement specific critically important mitigation measures aimed to reduce the risk of compromise from a cyberattack. All owners/operators were required to adhere to the directive and implement the controls by January 24, 2022. CPS Energy provides periodic reporting to the TSA related to mitigation and implementation of ongoing controls.

CPS Energy participates in a variety of cyber initiatives and continues to analyze vulnerabilities and update its security, monitoring, and alerting technology to prevent cybersecurity incidents. CPS Energy withstands hundreds of attempted cyberattacks a day and previously brought in specialists from the National Security Agency and Secret Service to assist in preventing attacks and identifying vulnerabilities. Officials with the Department of Homeland Security regularly test and review CPS Energy's computer and security systems.

In addition, CPS Energy uses multiple security measures to protect its physical assets. In-house and third-party physical security audits and analysis are routinely performed. Access control/card reader systems are located throughout CPS Energy facilities, including at substation fences and control houses. Other technologies, such as cameras and lighting, are also employed to deter security threats. As portions of the CPS Energy teams have continued to work from home amid the Events, CPS Energy continues to provide and implement cybersecurity measures to prevent incidents.

CPS Energy also participates with community partners to ensure cybersecurity remains a focal point. On June 18, 2020, the City Council approved \$2.5 million for the Alamo Regional Security Operations Center ("ARSOC"), which will be combined with \$1.5 million in funding from CPS Energy. ARSOC will serve as a central cybersecurity hub at Port San Antonio and will initially house members of the City's and CPS Energy's security teams. The ARSOC was officially launched on December 10, 2021.

TAX CREDITS, REPORTING, & OTHER MATTERS

Beginning with the 112th United States Congress, lawmakers extended various tax credits, including approval of a \$205 billion package on tax credit extenders that includes extensions and changes to a number of energy-related tax credits. The package expired on December 31, 2013, including the tax credit for electricity produced by wind and other renewable resources. Congress in 2014 failed to pass legislation extending these tax credits. At the end of 2015, the 114th Congress passed a five-year extension, modification and phase-out of the Investment Tax Credit ("ITC") for solar power and the Production Tax Credit ("PTC") for wind and other renewables. The bill extended the PTC as-is for two years (including one retroactive year because the credit expired at the end of 2014), and phases out the credit to 80% in 2017, 60% in 2018, and 40% in 2019. The 30% temporary ITC was extended for three additional years (from its original December 31, 2016 expiration) and would then be phased out with a 26% credit in 2020, a 22% credit in 2021, and a 10% credit in 2022.

On September 22, 2009, the EPA finalized the nation's first greenhouse gas reporting system/monitoring regulations that will require large emitters of heat-trapping emissions to collect GHG data. While Congressional action on environmental policy has been limited, the focus has been at the administrative level at the EPA. Additional information can be found in the "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters" section herein. On August 3, 2015, the EPA released its CPP that proposed to reduce carbon dioxide emissions from power plants by 32% (relative to 2005 levels) by 2030. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Carbon Dioxide ("CO_2") and Greenhouse Gases ("GHG")" herein. In February 2016, the U.S. Supreme Court granted an emergency stay of the CPP that put implementation of the rule on hold while the courts hear legal challenges to it. In September 2016, the D.C. Circuit Court heard oral arguments. In early 2017, President Trump directed the Justice Department to ask the court to postpone or forego consideration of the CPP. On October 16, 2017, the EPA proposed to repeal the CPP, citing the plan's inconsistency with the Clean Air Act. Public comment on the proposal was extended to January 16, 2018. On July 9, 2018, the EPA sent its draft rule entitled "State Guidelines for Greenhouse Gas Emissions from Existing Electric Utility Generating Units" to the Office of Information and Regulatory Affairs in the White House OMB. A decision by the D.C. Circuit Court vacated the ACE rule, likely requiring a new framework prospectively for regulating GHG.

The Energy Policy Act of 2005 ("2005 Energy Act") extended limited FERC jurisdiction, known as "FERC-Lite", over public power entities within ERCOT, such as CPS Energy that own transmission lines, and gave FERC authority to delegate certain transmission reliability standard-setting responsibilities to the Energy Reliability Organization ("ERO") and to establish mandatory reliability standards for operation of the nation's transmission system. CPS Energy has operated its electric system under compatible ERCOT reliability standards for many years, so CPS Energy does not anticipate any problems with FERC's reliability standards. CPS Energy's Transmission Owner ("TO"), Transmission Operator ("TOP"), Distribution Owner ("DO"), Generator Owner ("GO"), and Generator Operator ("GOP") functions have all undergone periodic audits. Any findings discovered during the audits were quickly mitigated. Additional information on FERC's authority over CPS Energy can be found in "FERC Authority" below.

The 2005 Energy Act included several provisions that could affect CPS Energy's business and continue to be evaluated by management, including:

- repeal of existing Public Utility Holding Company Act of 1935 requirements;
- conditional termination of the mandatory federal purchase and sale requirements for co-generation and small power production;
- expansion of FERC's merger review authority;

- re-authorization of renewable energy production incentives for solar, wind, geothermal, and biomass, and authorization of new incentives for landfill gas;
- incentives for development of new commercial nuclear power plants and other non-or low-carbon emitting technologies;
- establishment of a 7.5% goal for increased renewable energy use by the federal government by 2013, and a 20% required reduction in energy use by federal buildings by 2015; and
- increased funding for weatherization of low-income homes and state energy efficiency programs.

The 2005 Energy Act also included provisions affecting existing nuclear generating units, including:

- extension of the Price-Anderson Act to 2025 and increases in the retrospective premiums for which licensees are liable for claims resulting from a nuclear incident;
- expansion of the NRC authority to regulate decommissioning trust funds (primarily affecting funds held by former plant licensees);
- direction of the DOE to take responsibility for safe disposal of high-level radioactive waste;
- procedural protections for individuals filing claims under federal whistleblower provisions;
- enhanced provisions relating to NRC oversight of the security of licensed facilities; and
- various decommissioning tax-related adjustments beneficial to federal tax-paying licensees.

Furthermore, the 2005 Energy Act amended the Public Utility Regulatory Policies Act of 1978 ("PURPA") by adding five new standards that Municipal Utilities must consider and determine whether to implement. These new standards address net metering, diversity of fuel sources, efficiency of fossil-fuel-fired generation, time-based or "smart" metering, and the interconnection of distributed generation. CPS Energy considered the new standards and developed five modified standards that more accurately reflect local conditions and priorities. These new standards were approved by the Board on June 25, 2007. In October 2019, FERC proposed to modernize its regulations governing small power producers under PURPA to better address consumer concerns and market changes.

In December 2007, the President signed the Energy Independence and Security Act ("EISA") requiring utilities to consider, for adoption, rejection, or modification by December 19, 2009, the implementation of (1) integrated resource planning; (2) rate design modifications to promote energy efficiency investments; (3) smart grid investments; and (4) smart grid information. CPS Energy studied technologies that would allow implementation of the standards, as modified to fit its needs, and has completed the regulatory assessment as required under the EISA. Municipal Utilities, such as CPS Energy, are designated as "non-regulated" under EISA, as well as the 2005 Energy Act, because those utilities are not regulated by state utility commissions.

FERC AUTHORITY

In 1992, pursuant to the Energy Policy Act of 1992 ("1992 Energy Act"), the FERC required utilities under its jurisdiction to provide access to their electric transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. Municipal Utilities are subject to FERC orders requiring provision of wholesale transmission service to other utilities, qualifying cogeneration facilities, and independent power producers. Under FERC rules promulgated after the 1992 Energy Act, FERC further expanded open access wholesale transmission by requiring public utilities operating in interstate commerce to file open access non-discriminatory transmission tariffs. Because the interconnected ERCOT grid operates outside interstate commerce and because PURA95 and SB 7, State laws discussed below, provide comparable wholesale transmission authority to the PUCT for utilities in ERCOT pursuant to which the PUCT has required open access of transmission facilities in ERCOT, the exercise of FERC authority relating to open access transmission has not been a major factor in the operation of the wholesale market in ERCOT. The 2005 Energy Act authorizes FERC to encourage and approve the voluntary formation of regional transmission organizations to promote fair and open access to electric transmission service and facilitate wholesale competition. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – THE ELECTRIC UTILITY INDUSTRY GENERALLY – Federal Energy Policy" herein. The ERCOT open access system is administered by an ISO conducting many of the functions that would be administered by a Regional Transmission Organization. Section 1211 of the 2005 Energy Act amended the Federal Power Act to include a new section, designated as Section 215, which directed FERC to certify an ERO and develop procedures for establishing, approving, and enforcing electric reliability standards. As discussed herein under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Interconnected System", FERC designated NERC to serve as the ERO and to set and monitor through Regional Entities ("RE") implementation of electric reliability standards. A separate group within the ERCOT region, the Texas Reliability Entity, was selected to serve as the RE for the ERCOT service area, and CPS Energy has developed a comprehensive framework to ensure compliance with the electric reliability standards.

On November 16, 2016, FERC proposed to amend its regulations under the Federal Power Act to remove barriers to the participation of electric storage resources and distributed energy resource aggregations in the capacity, energy, and ancillary service markets operated by regional ISOs. Specifically, FERC proposed to require each ISO to revise its tariff to (1) establish a participation model consisting of market rules that, recognizing the physical and operational characteristics of electric storage resources, accommodates their participation in the organized wholesale electric markets, and (2) define distributed energy resource aggregators as a type of market participant that can participate in the organized wholesale electric markets under the participation model that best accommodates the physical and operational characteristics of its distributed energy resource aggregation. In a per curiam opinion issued by the United States Court of Appeals for the District of Columbia on June 20, 2017, the court denied Advanced Energy Management Alliance's petition to vacate FERC's approval as to capacity performance program changes.

On February 22, 2021, FERC announced it would investigate whether any natural gas or electricity market violations occurred during the 2021 Winter Weather Event. FERC's announcement follows its earlier decision, in partnership with NERC, to investigate the mass outages across ERCOT. As of December 2021, the investigation is still ongoing. On November 16, 2021, FERC and NERC issued a final report examining the 2021 Winter Weather Event. The final report includes additional details regarding the need to strengthen rules for cold weather preparedness and coordination to prevent a reoccurrence of blackouts.

CPS Energy and the STPNOC will continue to monitor and evaluate FERC developments with a potential to impact the gas and electric systems.

THE PUBLIC UTILITY COMMISSION OF TEXAS

The PUCT exercises regulatory authority over the retail and wholesale markets of Texas. During the 87th Texas Legislature in 2021, Senate Bill No. 2154 passed relating to the membership of the PUCT. Now the PUCT is comprised of four commissioners and a chair appointed by the Governor. The PUCT writes rules that determine the workings of the ERCOT market and has enforcement authority relating to violations of its rules and the ERCOT protocols. Beginning in 2021, as a result of legislation passed by the 84th Texas Legislature in 2015, the PUCT requires MOUs to file certificates of convenience and necessity ("CCN") to build transmission outside its city limits. The PUCT adopted new rules, effective July 5, 2016, revising the process to obtain CCNs in accordance with the new legislation. These rules allow for MOUs to continue building transmission outside their service areas plus 10 miles until the 2021 effective date, without having to go to the PUCT for a CCN. Effective May 28, 2017, the PUCT issued a new rule allowing the PUCT, after notice and hearing, to revoke or amend any CCN if the PUCT finds that certain adverse conditions exist. The PUCT does not directly regulate retail rate cases of municipally owned electric utilities, but it does have limited appeal jurisdiction related to ratepayers outside of municipal jurisdiction.

On March 26, 2020, PUCT Commissioners approved a relief order establishing the COVID-19 Electricity Relief Program, which created a fund to enable a temporary exemption from disconnections for non-payment for eligible residential customers in competitive retail areas in ERCOT. The intention of this relief order was to protect affected residential customers and reduce the exposure of the competitive market from excessive COVID-19-related bad debt that could lead to industry upheaval and bankruptcies. On June 16, 2020, PUCT Commissioners directed PUCT Staff to make final modifications to the COVID-19 Electricity Relief Program as the PUCT ended self-enrollment in the program on August 31, 2020. The foregoing relief order does not apply to CPS Energy, but CPS Energy has taken steps to assist customers as further described under "OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO". Due to the 2021 Winter Weather Event, the PUCT halted power disconnections due to non-payments and restricted electric companies from sending "skyrocketing" invoices. The PUCT stated it is investigating the factors that, combined with the 2021 Winter Weather Event, disrupted the flow of power to millions of Texas homes. On June 18, 2021, the PUCT lifted a moratorium on electricity disconnections allowing private electricity companies to shut off power to customers at the end of June 2021. CPS Energy resumed disconnections for customers with past due accounts in September 2021, but briefly paused disconnections during the 2021-2022 holiday season until January 4, 2022.

The funding mechanism created within the program was used for one month and was later revisited by the PUCT. The fund was established by a $0.33 per MWh rider implemented by Transmission and Distribution Utilities ("TDUs") in competitive territories of the State, after an initial loan of $15 million by ERCOT from its project funds. The rider was applied to all customer classes and implemented within ten days of the order being approved. Residential customers unable to pay bills due to unemployment were referred by their Retail Electric Provider to the relief program and were relieved from disconnection. Retail Electric Providers ("REPs") were compensated from the fund at $0.04 per kWh for service to those customers. Also, for those customers, TDUs were compensated directly from the fund instead of compensated through the REPs collections. Commissioners acknowledged and commended the efforts taken by MOUs, Electric Cooperatives, and other vertically integrated utilities to provide these protections to their customers.

TEXAS RELIABILITY ENTITY, INC.

Headquartered in Austin, Texas, Texas Reliability Entity, Inc. ("Texas RE") performs the regional entity functions described in the 2005 Energy Act, which created Section 215 of the Federal Power Act, for the ERCOT region, as mandated by the delegation agreement with the NERC. The delegation agreement was approved by FERC. Texas RE is authorized by NERC to develop, monitor, assess, and enforce compliance with NERC Reliability Standards within the geographic boundaries of the ERCOT region, as well as to assess and periodically report on the reliability and adequacy of the bulk power system. Texas RE is independent of all users, owners, and operators of the bulk power system. The regional entity functions and protocol compliance were previously performed by Texas Regional Entity, a functionally independent division of ERCOT. Texas RE took over all responsibilities of Texas Regional Entity on July 1, 2010. Effective November 16, 2020, Texas RE will no longer monitor protocol compliance. Currently, the PUCT is working with ERCOT to evaluate compliance with ERCOT protocols.

ERCOT

ERCOT is one of eight Regional Reliability Councils in NERC. The ERCOT bulk electric system is located entirely within the State and serves more than 26 million customers, representing approximately 90% of the State's electrical load. The ERCOT service region covers 75%, or 200,000 square miles, of the State and contains a total of 46,500 miles of transmission lines, including 9,249 miles at 345-kV.

In response to legislative directive, ERCOT amended its articles of incorporation to establish an ISO in 1996. Under ERCOT's organizational structure, the ISO reports to the ERCOT Board of Directors, but the PUCT has complete authority to oversee and investigate ERCOT's finances, budget, and operations as necessary to ensure that ERCOT is accountable. ISO responsibilities include security operations of the bulk system, facilitation and efficient use of the transmission system by all market participants, and coordination of regional transmission planning among transmission owning utilities and providers.

ERCOT's statutory functions include establishing and enforcing procedures relating to the reliability of the regional electrical network and accounting for the production and delivery of electricity among generators and all other market participants. The procedures are subject to PUCT oversight and review, and the PUCT chair is an ex-officio member of the ERCOT Board. The PUCT may authorize ERCOT to charge a reasonable and competitively neutral rate to wholesale buyers and sellers to cover the independent organization's costs. Individual electric utilities own sections or components of the ERCOT transmission grid and are responsible for operating and maintaining their own transmission lines and equipment. The ISO coordinates the operation of the transmission grid to ensure its reliability, and ERCOT coordinates with the various transmission-owning electric utilities to make sure the transmission system will meet the needs of the electric market. The 1999-enacted SB 7 (described in greater detail below under "ELECTRIC UTILITY RESTRUCTURING IN TEXAS") provides that a retail electric provider, municipally owned utility, electric cooperative, power marketer, transmission and distribution utility, or Power Generation Company ("PGC") shall observe all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines and procedures established by the ISO.

Under the PUCT's transmission open access rules, each transmission service provider in ERCOT is required to provide transmission service to transmission customers in ERCOT. As compensation for this service, each transmission service provider annually recovers, through ERCOT-wide transmission charges, its Transmission Cost of Service ("TCOS"), which is set by the PUCT. The PUCT approved changes to the Substantive Rule 25.247 that establishes a filing schedule for non-investor-owned transmission service providers ("TSPs") operating within ERCOT effective November 28, 2018. A non-investor-owned TSP that has not had a commission-approved change to its transmission service rate since January 1, 2017 must submit a comprehensive or interim transmission cost of service within two years of the effective date of the rule. In compliance with the scheduling rule, CPS Energy submitted an interim TCOS filing on November 23, 2020. The PUCT approved CPS Energy's requested transmission access fee of ~$3.08 per kW on January 15, 2021. The rule also requires periodic interim or comprehensive filings every 48 months for entities, including CPS Energy, with a wholesale transmission cost of service greater than one percent of the total ERCOT wholesale transmission costs. Therefore, CPS Energy must submit another interim or full filing on or before January 15, 2025. Smaller non-investor owned TSPs with charges less than one percent of the total ERCOT wholesale transmission charges must file every 96 months. There is not an expectation for a mandated full filing soon. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein.

On November 19, 2021, ERCOT released the final Seasonal Assessment of Resource Adequacy ("SARA") for the ERCOT Region for Winter 2021 and on December 29, 2021, the Report on the Capacity Demand and Reserves ("CDR") in the ERCOT Region, 2022-2031 was released. The SARA report indicated the ERCOT region is expected to have sufficient installed generating capacity to serve peak demands in the upcoming winter season, December-February 2022, under normal system conditions. Based on expected winter peak weather conditions, the final winter SARA anticipates a seasonal peak demand of 62,001 MW. Planned resource capacity totaling 84,861 MW is expected to be available to meet the winter peak demand. The CDR Report, which provides a 10-year forecasted planning reserve margin for the ERCOT summer and winter peak load seasons, highlights a forecasted peak demand for summer 2022 of 78,084 MW. The winter 2022-2023 peak demand forecast is 64,961 MW. The planning reserve margin expected for summer 2022 is forecasted to be 23.9%. This is 4.9% points lower than the 28.8% margin for summer 2022 reported in the May 2021 CDR Report. This decrease is mainly due to delays for planned projects that were previously expected to be in service. CPS Energy proactively monitors the ERCOT market closely to ensure it is mitigating risk of exposure to high and volatile prices.

ELECTRIC UTILITY RESTRUCTURING IN TEXAS

During the 1999 Legislative Session, the Texas Legislature enacted SB 7, providing for retail electric open competition. The enactment of SB 7 modified the PURA and required that retail and wholesale competition begin on January 1, 2002. SB 7 continues Texas electric transmission wholesale open access, which came into effect in 1997 and requires all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. SB 7 modifications to PURA also fundamentally redefined and restructured the Texas electric industry. The following discussion of SB 7 applies primarily to ERCOT.

SB 7 includes provisions that apply directly to Municipal Utilities, such as CPS Energy, as well as other provisions that govern investor owned utilities ("IOUs") and electric co-operatives ("Electric Co-ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy suppliers. SB 7 also allows retail customers of those Municipal Utilities and Electric Co-ops that elect to opt-in, on or after that date, to choose their electric energy suppliers. Provisions of SB 7 that apply to the CPS Energy electric system, as well as provisions that apply only to IOUs and Electric Co-ops, are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which CPS Energy and the City could choose to directly participate in the future.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000, and to unbundle their generation, transmission/distribution and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies and possibly operating divisions. If so, these new entities may be owned by a common holding company, but each must operate largely independent of the others. The services offered by such separate entities must be available to other parties on non-discriminatory bases. Municipal Utilities and Electric Co-ops which open their service territories ("opt-in") to retail electric competition are not required to, but may, unbundle their electric system components. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND GAS SALES – Retail Service Area" herein.

ENTITIES THAT HAVE OPTED-IN TO COMPETITION

The following discussion relates to entities that are currently in electric competition in Texas and does not apply to CPS Energy, but could apply if CPS Energy and the City opt-in to electric competition. Generation assets of IOUs are owned by PGCs, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell electricity at market prices. IOU owners of Transmission and Distribution Utilities ("TDUs") are fully regulated by the PUCT. REPs which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas, or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from PGCs, power marketers, and/or other parties and may resell that electricity to retail customers at any location in ERCOT (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). TDUs, Municipal Utilities, and Electric Co-ops that have chosen to participate in competition are obligated to deliver electricity to retail customers and are also required to transport electricity to wholesale buyers.

The PUCT is required to approve the construction of TDUs' new transmission facilities and may order the construction of new facilities in Texas in order to relieve transmission congestion. TDUs are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Retail rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than that of the PUCT.

SB 7 also provides a number of consumer protection provisions. Each service area within the State that participates in retail competition has a designated Provider of Last Resort; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. CPS Energy has the option to be designated as a Provider of Last Resort for its service area if it chooses to opt-in. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each Municipal Utility and Electric Co-op that opts-in to retail competition may designate itself or another qualified entity as the Provider of Last Resort for its service territory. In such cases, the respective Municipal Utility or Electric Co-op, not the PUCT, will set the electric rates for such respective Provider of Last Resort.

Under SB 7, IOUs may recover a portion of their "stranded costs" (the net book value of certain "non-economic" assets less market value and certain "above market" purchased-power costs) and "regulatory assets", which is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market-based rates in the open competition market. SB 7 establishes the procedure to determine the amount of IOU stranded costs and regulatory assets. The PUCT has determined the stranded costs, which have been and will be collected through a non-bypassable competitive transition charge collected from the end retail electric users within the IOU's service territory as it existed on May 1, 1999. The charge is collected primarily as an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing, and refinancing such bonds is secured by a qualified rate order of the PUCT that creates the "competitive transition charge". Neither the State nor the PUCT may amend the qualified rate order in any manner that would impair the rights of the "securitized" bondholders.

The Texas Legislature continues to look at the impacts of SB 7. On May 1, 2018, the Senate Business & Commerce Committee took invited testimony on an interim charge to: examine the competitive nature of the Texas retail electric system and what government competitive intrusions in the free energy markets may have in distorting those markets; review the impact of competitive versus noncompetitive retail electricity markets across the State in terms of price and reliability; and consider the projected impact of establishing competitive electric retail markets statewide. Former CPS Energy President & CEO Paula Gold-Williams provided invited testimony on a panel of MOUs. The MOU panelists addressed the competitive nature of the retail electric market and the contributions offered by MOUs in the ERCOT market. No senators overtly advocated that MOUs and Electric Co-ops be forced to opt-in to retail competition, but a general preference for competitive markets was evident through all phases of the hearing. The 86th Texas Legislature did not consider legislation adversely impacting the MOU business model.

ADDITIONAL IMPACTS OF SENATE BILL 7 DEREGULATION

MOUs and Electric Co-ops are largely exempt from the requirements of SB 7 that apply to IOUs. While IOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of MOUs and Electric Co-ops have the sole discretion to determine whether and when to opt-in to retail competition. However, if a MOU or Electric Co-op has not voted to opt-in, it will not be able to compete for retail energy customers at unregulated rates outside its traditional electric service area or territory.

SB 7 preserves the PUCT's regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for an independent transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 (as amended by the Texas Legislature after 1999) directs the PUCT to determine electric wholesale transmission open access rates on a 100% "postage stamp" pricing methodology.

The greatest potential impact on CPS Energy's electric system from SB 7 could result from a decision by the Board and the City Council to participate in a fully competitive market, particularly in light of the fact that CPS Energy is among the lowest cost producers of electric energy in Texas. On April 26, 2001, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002. However, CPS Energy currently believes that it is taking all steps necessary to prepare for possible competition in the unregulated energy market, should the Board and the City Council make a decision to opt-in, or if future legislation forces MOUs and Electric Co-ops into retail competition.

Any future decision of the Board and the City Council to participate in full retail competition would permit CPS Energy to offer electric energy service to customers located in areas participating in retail choice that are not presently within the certificated service area of CPS Energy. The Board and the City Council could likewise choose to open the CPS Energy service area to competition from other suppliers while choosing not to have CPS Energy compete for retail customers outside its certified service area.

As discussed above, MOUs and Electric Co-ops will also determine the rates for retail use of their distribution systems after they open their territories to retail competition, although the PUCT has established by rule the terms and conditions applicable to have access to those systems. SB 7 also permits MOUs and Electric Co-ops to recover their stranded costs through collection of a non-bypassable transition charge from their customers if so, determined by such entities through procedures that have the effect of procedures available to IOUs under SB 7. Unlike IOUs, the governing body of an MOU determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. MOUs and Electric Co-ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by CPS Energy as to the magnitude of its stranded costs, if any, would be made in conjunction with the decision as to whether or not to participate in retail competition.

An MOU that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate relationships and anti-competitive practices. The PUCT has established by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the distribution facilities of MOUs electing to compete in the retail market.

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants that may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities. The bill also improves the competitive position of MOUs by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of MOUs are made exempt from disclosure under the open meetings and open records acts and the right of Municipal Utilities to enter into risk management and hedging contracts for fuel and energy is clarified. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Fuel Supply", "– RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – WHOLESALE POWER", and "– FINANCIAL MANAGEMENT OF THE SYSTEMS – ENTERPRISE RISK MANAGEMENT & SOLUTIONS" herein for discussion of the Energy Price Risk Management Program in use at CPS Energy.

TEXAS LEGISLATIVE IMPACT ON THE ELECTRIC INDUSTRY

Most Recent and Future Legislative Sessions

The 87th Texas Legislature convened its regular session January 12, 2021 through May 31, 2021. Governor Abbott previously called three subsequent special sessions beginning on July 8th, August 7th, and September 20, 2021. Neither CPS Energy nor the City make any representation regarding any actions the Texas Legislature previously took, and may take in the future, but intends to analyze recent legislation and prospectively monitor proposed legislation for any developments applicable thereto.

Following the 2021 Winter Weather Event, the Legislature began its most comprehensive policy discussion in more than 20 years on addressing the State's power grid and its oversight. See "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event".

The 88th Texas Legislature will convene in regular session on January 10, 2023, which is scheduled to continue through May 29, 2023.

Prior Legislative Sessions

From January 8, 2019 to May 27, 2019, the 86th Texas Legislature convened its regular session. The most notable proposal on which CPS Energy worked was House Bill 61 ("HB 61") which adds its electric and gas utility vehicles to the protections of the Texas Move Over/Slow Down Law. The new law took effect on September 1, 2019.

An additional bill of direct operational impact on CPS Energy was House Bill 4150 ("HB 4150"), which adds comprehensive reporting regarding transmission line inspections and safety incidents for all electric utilities. All utilities (MOUs, IOUs, and Electric Co-ops) are now required to report what percentage of transmission infrastructure, defined as over 60 KV, was inspected during the preceding five-year period, and what percentage is expected to be inspected in the upcoming five-year period. The bill also contains annual reporting requirements on safety education and training taking place or changed/appended, any known noncompliant maintenance issues and incidents, fatalities, and injuries with a corrective action plan. Lastly, the bill requires utilities to inspect lines over public recreational lakes in their service territory for compliance with National Electric Safety Code height requirements. The rulemaking at the PUCT to implement HB 4150 was approved on February 14, 2020 and the first round of reports were due on May 1, 2020.

Other bills of impact to CPS Energy included House Bill 864 ("HB 864") and House Bill 866 ("HB 866"), which pertain to gas infrastructure safety and reporting. The RRCT initiated a comprehensive rulemaking in July 2019 to implement these bills, as well as make other updates to Chapter 8 and Chapter 3.70 of Title 16 of the Texas Administrative Code, as amended, to bring the RRCT rules, definitions, and procedures in line with federal Pipeline and Hazardous Materials Safety Administration ("PHMSA") requirements and sections of State law that relate to the provisions. The RRCT adopted final amendments to its Pipeline Safety & Permit Renewal Rules on December 17, 2019. The amendments to Chapter 8 pertain to pipeline safety, maintenance, incident reporting and changes to the annual risk-based programs that operators like CPS Energy files annually to the RRCT. The proposed amendments to § 3.70 pertain to required pipeline permits. The rulemaking also made changes to the annual schedule by which CPS Energy pays its permit fees.

Two additional bills of note are Senate Bill 1012 ("SB 1012") and Senate Bill 1938 ("SB 1938"). SB 1012, filed at the request of the PUCT, clarifies and reaffirms the current ability of MOUs and Electric Co-ops to own battery storage without having to register as PGCs. SB 1938 codifies within State law certain ERCOT protocols as they pertain to transmission owners' ability to construct off existing transmission endpoints.

Regarding cyber and grid security, three bills passed relevant to the electric utility industry. All these bills were implemented on May 14, 2020 by the PUCT with further action pending at ERCOT. Senate Bill 64 ("SB 64") establishes a program for the PUCT to coordinate and share with utilities best practices on several cyber-related items, including guidance for cybersecurity controls for supply chain risk management. The bill also directs ERCOT to conduct an internal cybersecurity risk assessment and submit an annual confidential report to the PUCT. Senate Bill 475 ("SB 475") creates the "Texas Electric Grid Security Council", an advisory body that will coordinate the sharing of information and implementation of best security practices in the electric industry. This council is comprised of representatives from the PUCT, ERCOT and the Governor's office, and coordinate with industry and specific State and federal entities. Lastly, Senate Bill 936 ("SB 936") requires the PUCT and ERCOT to contract with an entity to act as PUCT's cybersecurity monitor. This bill was also filed at the request of the PUCT.

During its 83rd Legislative Session in 2013, the Texas Legislature reviewed and passed the mission and performance of the PUCT as required by the Texas Sunset Act. This act provides that the Sunset Advisory Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed, and what improvements are needed to ensure that tax dollars are appropriately utilized. Based on recommendations of the Sunset Advisory Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future. The 86th Texas Legislature passed Senate Bill 619 ("SB 619"), which groups the next Sunset review of the PUCT, Office of Public Utility Counsel, and ERCOT in 2024-2025.

During the 84th Legislative Session in 2015, the Texas Legislature passed Senate Bill 776 ("SB 776"), requiring an MOU to obtain a CCN from the PUCT for the construction of a transmission facility in certain circumstances. MOUs must get PUCT-approved CCNs outside of their service territory plus ten miles until September 2021; from that point forward, MOUs must get PUCT-approved CCNs to construct outside their city limits. MOUs can make payments in lieu of taxes on external transmission. An MOU required to apply for a CCN would be entitled to recover payments in lieu of property taxes through its wholesale transmission fees if the utility had a written agreement with the taxing entity, the payments in lieu of taxes were equivalent to the taxes it would have paid if it were a private entity, the governing body of the taxing entity was not the same as the governing body of the utility, and the utility provided the PUCT with a copy of the written agreement and any other information the PUCT deemed necessary. The PUCT rulemaking process on implementation of SB 776 was completed in June 2016. As of the spring of 2019, the PUCT has initiated workshops with MOUs in preparation for the September 2021 implementation date. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – THE ELECTRIC UTILITY NDUSTRY GENERALLY – The Public Utility Commission of Texas (PUCT)".

In 2017, the 85th Texas Legislature convened in general and special sessions. The most notable piece of legislation that passed during these sessions impacting CPS Energy was Senate Bill 758 ("SB 758"), which amends the utility's bill payment assistance program for low-income customers. The enactment of this legislation removed the statutory requirement for CPS Energy and SAWS to notify a low-income customer with disconnection before they could be enrolled in the program. The bill payment assistance program for utility system customers now only requires a determination by the municipality as to low-income status.

Another notable piece of legislation that passed during the 2017 session was the passage of House Bill 1818 ("HB 1818"), the RRCT Sunset Bill. The passage of HB 1818 continued the functions of the RRCT until September 2029, with a focus on agency efficiencies and on pipeline safety. The legislation granted the RRCT the ability to create a pipeline safety and regulatory fee to fill a budget shortfall in its pipeline safety and damage prevention program. The RRCT initiated a rulemaking on this fee that was completed on June 5, 2018 and became effective June 25, 2018. Based on the definitions within the rulemaking, CPS Energy's fees are assessed at $20 per mile of pipe plus an annual $500 permit renewal. An internal assessment of the fee determined that it would be absorbed with CPS Energy's current operations.

ENVIRONMENTAL RESTRICTIONS OF SENATE BILL 7 AND OTHER RELATED REGULATIONS

SB 7, enacted in 1999, contains specified emissions reduction requirements for certain older electric generating units, which would otherwise be exempt from the TCEQ permitting program by "grandfathered" status. Under SB 7, annual emissions of NO_x from such units were reduced by 50% from 1997 levels, beginning May 1, 2003. These emissions have been reported on a yearly basis, and CPS Energy has met the requirements of its NO_x cap for the applicable units for the past compliance years. CPS Energy has final Electric Generating Facility ("EGF") state permits from the TCEQ for its remaining seven older electric generating gas-fired units. CPS Energy may require future additional expenditures for emission control technology. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Air Act" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE

SYSTEMS – Capital Program" herein for discussion of the cumulative economic effect of these requirements together with requirements under Federal Clean Air Act permits.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation, Chapter 117, is directed at all units in the State, including CPS Energy's coal plants. These regulations required a 50% reduction in NO_x emissions statewide beginning May 1, 2005, and system-wide on an annual basis. CPS Energy has met the Chapter 117 cap for each compliance period. Because of the Spruce2 air permitting process, CPS Energy committed to tighter NO_x emission limitations than what is required under Chapter 117 at the Calaveras Power Station upon the Spruce2 unit coming online.

Changes to environmental emission controls may have the greatest effect on coal plants. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Air Act" herein. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. Such changes could have a material impact on the cost of power generated at affected electric generating units.

SB 7 established the State's goal for renewable energy in 1999 but made no special provisions for transmission to interconnect renewable resources. The rapid development of wind power in west Texas since 2001 has shown that wind farms can be built more quickly than traditional transmission facilities. This timing difference poses a dilemma for planning, as it is difficult to know whether a new line will be needed if the generation facilities do not yet exist. A wind farm is difficult to finance if there is no certainty that sufficient transmission will be available to deliver generated electricity. Senate Bill 20 ("SB 20"), enacted by the Texas Legislature in 2005, authorized the PUCT to regulate in this area, and specifically authorized the PUCT to identify areas with sufficient renewable energy potential, known as competitive renewable energy zones ("CREZs") and pre-designate the need for transmission facilities serving the area even if no specific renewable generation projects exist or are under construction. The designation of CREZs in regions with developable renewable resources would be partially based on financial commitments of wind project developers desirous of building in the CREZ. In July 2008, the PUCT voted to create five CREZs in west Texas and the Panhandle. In August 2008, the PUCT further decided that an additional 18,456 MW of wind energy from the five CREZs would be delivered into ERCOT via transmission lines estimated to cost ERCOT rate payers a minimum of $4.93 billion. The PUCT awarded the construction of those transmission lines to transmission service providers ("TSPs") in whose service areas the lines will be located and new entrants seeking to become TSPs. The PUCT's decision was appealed by the City of Garland, and a State District Court has determined that the PUCT should have given municipally owned utilities consideration in the CREZ award process. The PUCT reconsidered and awarded a CREZ line for the City of Garland to construct. CPS Energy does not plan to renew its request for authority to construct any part of the CREZ lines. Under the statewide transmission costs allocation process, CPS Energy will pay approximately 7% of these construction costs. Payments will not start until the lines are constructed and placed into service. In the PUCT's January 2017 "Report to the 85th Texas Legislature – Scope of Competition in Electric Markets in Texas", the PUCT determined that the CREZ project established in 2008 was complete following the installation of a second circuit on a Sharyland line.

The Texas Legislature increased the State's renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUCT is directed to establish a target of 10,000 MW by January 1, 2025. The legislation includes a target of 500 MW from renewable resources other than wind power. In addition, on April 2, 2008, ERCOT filed a report with the PUCT concerning wind power and the transmission facilities that may be necessary to transfer the electric power across the State.

According to the ERCOT Demand and Energy Report, 23.66% of the electricity generated in Texas from January 1, 2021 through November 30, 2021 came from wind energy resources, down from 27.75% for 2020. The total capacity of renewable facilities in Texas as of November 2021, is approximately 35,832 MW which exceeds the 5,256 MW January 1, 2013 goal specified in the PUCT Substantive Rule 25.173 – Goal for Renewable Energy and is above the January 1, 2025 "target" of 10,000 MW of wind generation. On November 16, 2021, wind generation in ERCOT produced a new record of 23,702 MW. ERCOT's wind penetration record was set on March 22, 2021, at 66% of load.

Looking to the future, CPS Energy plans to continue to focus on providing low-cost power from a variety of generation sources including sustainable and lower carbon emitting sources. CPS Energy will continue to focus on high levels of reliability to the communities it serves, while working on customer retention and loyalty.

WHOLESALE MARKET DESIGN DEVELOPMENTS

In May 2017, Calpine and NRG filed an informational report in PUCT Docket 40000 recommending changes to the energy markets with a goal of improving price formation. The report, "Priorities for the Evolution of an Energy-Only Market Design in ERCOT", which was written by Susan Pope and William Hogan of FTI Consulting and Harvard University respectively, critiques the performance of ERCOT's energy-only market and makes numerous suggestions for how the market might perform more efficiently. The PUCT responded by opening Docket 47199 in order to explore market changes including adjusting of the ORDC (defined below) parameters, implementation of Real Time Co-Optimization ("RTC"), and implementation of Marginal Line Losses. At the June 28, 2021, Technical Advisory Committee ("TAC") meeting, ERCOT announced an RTC initiative, which is a three-and-a-half-year project and has been delayed for a minimum of one year. This allows ERCOT room for other work to proceed and for longer-term policy decisions to be made before potentially resuming work.

To improve scarcity price signals, the PUCT instructed ERCOT to implement an Operating Reserve Demand Curve ("ORDC") in June 2014. In June 2018, because of arguments in PUCT Docket 47199 coupled with shrinking reserve margins, the PUCT instructed ERCOT to modify the ORDC to remove out-of-market capacity from the capacity used to calculate reserves. This was a minor adjustment prior to summer 2018. In early 2019, the PUCT endorsed the RTC proposal as well as a two phase ORDC modification that would result in an increase in the reserve adder pricing. Both phases of the ORDC modification were successfully implemented. The first in spring of 2019, and the second phase in the spring of 2020. The ORDC is currently operational as an energy price enhancement mechanism that adds to the energy price based on system conditions. ERCOT calculates the adder based on the probability of a loss of load and the cost of a loss of load. Therefore, as system reserves drop, the adder calculated by ERCOT increases and the price of energy increases.

In April 2019, ERCOT formed the Real-Time Co-Optimization Task Force ("RTCTF"), reporting to the ERCOT TAC, to formulate and vet the policies needed to implement the RTO market change. In February 2020, the ERCOT Board of Directors voted to approve a list of Key Principles. These Key Principles were developed by the RTCTF and were the basis for the protocol changes adopted by the ERCOT Board of Directors in December 2020 with an estimated implementation in late 2024. At the October 2021 ERCOT TAC meeting, the RTCTF presented completion of its charter deliverables. As a result, the ERCOT group dissolved the task force.

In August 2019, the ERCOT market experienced two scarcity events primarily attributed to high demand and low capacity reserves. On August 13, 2019 and August 15, 2019, ERCOT declared Level 1 Energy Emergency Alerts ("EEA1") when capacity reserves reached the trigger levels as described in the ERCOT Nodal Protocols. The EEA1 events resulted in deployment of contracted demand response also known as ERCOT Emergency Response Service ("ERS") and market clearing prices were administratively set to the SWOC of $9,000 per MWh, as is also required by ERCOT protocols.

During the 2021 Winter Weather Event, Texas experienced record-setting low temperatures for a sustained period. It is estimated that over 3 million customers lost electricity for days. ERCOT directed controlled outages to stabilize the grid. On February 13, 2021, ERCOT issued an Emergency Notice for the extreme cold weather event impacting the ERCOT region. On February 15, 2021, ERCOT declared Levels 1, 2, and 3 Energy Emergency Alerts ("EEA1, EEA2, EEA3") and implemented rotating outages at 01:20. On February 17, 2021, at 23:55 ERCOT concluded rotating outages but remained in EEA3 due to the large number of customers who had yet to be reconnected. During the event, the PUCT convened an emergency meeting to address price inconsistencies observed in the market. PUCT Commissioners approved an order in Project 51617 that resulted in market clearing prices being set to the SWOC of $9,000/MWh during load shed events. The basis for their decision was to reinforce the market design principle that anytime load is shed, prices should reflect the value of the load.

Several lawsuits have been filed against ERCOT including a class action suit (which the Texas Supreme Court stated it did not have jurisdiction to determine whether ERCOT retained the ability to invoke sovereign immunity) involving over 400 Texans, and over 100 insurance companies.

Several wholesale market design changes were implemented as a result of legislation enacted in the aftermath of the 2021Winter Weather Event.

On June 24, 2021, the PUCT modified the value of the LCAP by eliminating a provision that ties its value to the natural gas price index and replaces it with a provision that ensures resource entities are able to recover their actual marginal costs when the LCAP is in effect. On December 2, 2021 the PUCT modified the value of the HCAP by lowering it from the current $9,000 to $5,000/MWh.

The PUCT has opened a Project (No. 52373) where several wholesale market design developments are under consideration. In December 2021, the PUCT issued a blueprint for the ERCOT market redesign. Proposed concepts include reform to the ORDC, increase in Demand Response, reform to Emergency Response Services, implementation of ERCOT Contingency Reserve Services as a ramping Ancillary Service, implementation of Fast Frequency Response, development of a voltage support ancillary service product, development of Firm Fuel Supply Service, development of a Load Serving Entity obligation mechanism based on several principles that are still being discussed with Commissioners and stakeholders, development of a Dispatchable Energy Credit system, and development of a backstop reserve mechanism.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Notes is subject to the unqualified approval of the Attorney General of the State of Texas. In addition, these matters were initially subject to approval of certain legal matters by Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C., as Co-Bond Counsel (as original co-bond counsel).

In May 2020 as a result of a regularly-occurring, periodic competitive process, McCall, Parkhurst & Horton L.L.P., as permanent head, and Kassahn & Ortiz, P.C. and Escamilla & Poneck LLP, as rotating co-counsel, were selected to serve as co-bond counsel to CPS Energy. McCall, Parkhurst & Horton L.L.P., as sole-Bond Counsel with respect to the Tax-Exempt Notes, previously delivered an updated opinion, attached hereto as EXHIBIT A, as to the legal matters pertaining to the Tax-Exempt Notes discussed herein.

McCall, Parkhurst & Horton L.L.P., as sole-Bond Counsel, also previously delivered an opinion, attached hereto as EXHIBIT A, approving certain legal matters as it pertains to the Taxable Notes.

TAX MATTERS

TAX-EXEMPT NOTES

TAX EXEMPTION

The delivery of the Tax-Exempt Notes is subject to the opinion of Bond Counsel, to the effect that interest on the Tax-Exempt Notes for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof ("Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of the Tax-Exempt Notes' opinion is attached hereto as APPENDIX A.

In rendering the foregoing opinions, Bond Counsel relied upon representations and certifications of the City and the Board made in a certificate of even date with the initial delivery of the Tax-Exempt Notes pertaining to the use, expenditure, and investment of the proceeds of the Tax-Exempt Notes assumed continuing compliance with the provisions of the Note Ordinance by the City and the Board subsequent to the issuance of the Tax-Exempt Notes. The Note Ordinance contains covenants by the City and the Board with respect to, among other matters, the use of the proceeds of the Tax-Exempt Notes and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Tax-Exempt Notes are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Tax-Exempt Notes to be includable in the gross income of the owners thereof from the date of the issuance of the Tax-Exempt Notes.

Except as described above, Bond Counsel expressed no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Tax-Exempt Notes. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City and the Board described above. No ruling has been sought from the Internal Revenue Service ("IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Tax-Exempt Notes is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer", and the owners of the Tax-Exempt Notes would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Tax-Exempt Notes, the City may have different or conflicting interests from the owners of the Tax-Exempt Notes. Public awareness of any audit of the Tax-Exempt Notes could adversely affect the value and liquidity of the Tax-Exempt Notes during the pendency of the audit, regardless of its ultimate outcome.

ANCILLARY TAX CONSEQUENCES

Prospective purchasers of the Tax-Exempt Notes should be aware that the ownership of tax-exempt obligations such as the Tax Exempt Notes may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust ("FASIT"), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

TAX CHANGES

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Tax-Exempt Notes from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Tax-Exempt Notes. Prospective purchasers of the Tax-Exempt Notes should consult with their own tax advisors with respect to any proposed or future changes in tax law.

TAXABLE NOTES

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

General

The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Taxable Notes and is based on the Code, the regulations promulgated thereunder, published rulings and pronouncements of the IRS and court decisions currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein. A form of the Taxable Notes' opinion is attached hereto as APPENDIX A.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Taxable Notes and does not address U.S. federal gift or estate tax or (as otherwise stated herein) the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be subject to the branch profits tax or, personal holding company provisions of the Code or taxpayers qualifying for the health insurance premium assistance credit) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Taxable Notes as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the "U.S. dollar". This summary is further limited to investors who will hold the Taxable Notes as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

As used herein, the term "U.S. Holder" means a beneficial owner of a Taxable Note who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term "Non-U.S. Holder" means a beneficial owner of a Taxable Note that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF TAXABLE NOTES IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE TAXABLE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE TAXABLE NOTES BEFORE DETERMINING WHETHER TO PURCHASE TAXABLE NOTES.

THIS SUMMARY IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE TAXABLE NOTES UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO U.S. HOLDERS

Periodic Interest Payments and Original Issue Discount

The Taxable Notes are not obligations described in Section 103(a) of the Code. Accordingly, the stated interest paid on the Taxable Notes or original issue discount, if any, accruing on the Taxable Notes will be includable in "gross income" within the meaning of Section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

Disposition of Taxable Notes

An owner will recognize gain or loss on the redemption, sale, exchange or other disposition of a Taxable Note equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner's tax basis in the Taxable Notes. Generally, a U.S. Holder's tax basis in the Taxable Notes will be the owner's initial cost, increased by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Taxable Notes has been held for more than one year.

Defeasance of the Taxable Notes. Defeasance of any Taxable Note may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

State, Local, and Other Tax Consequences

Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the Taxable Notes under applicable state or local laws, or any other tax consequence, including the application of gift and estate taxes. Certain individuals, estates or trusts may be subject to a 3.8% surtax on all or a portion of the taxable interest that is paid on the Taxable Notes. PROSPECTIVE PURCHASERS OF THE TAXABLE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FOREGOING MATTERS.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS

A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Taxable Note, will not be subject to U.S. federal income or withholding tax in respect of a Taxable Note, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Taxable Note.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder's allocable portion of the interest income received by the controlled foreign corporation.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Taxable Notes will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 of the Code or backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

REFUNDABLE TAX CREDIT BONDS

The refundable tax credits to be received by the City in connection with any obligations secured by Net Revenues of the Systems that are designated as obligations entitling the City to the receipt of refundable tax credits from the United States Department of the Treasury under the Code (including, but not limited to, obligations designated as "build America bonds" and "qualified bonds" under the Code) will be considered as an offset to debt service for the purpose of satisfying any debt service coverage requirements under any ordinance, including satisfaction of any rate covenant, reserve fund requirement, or prerequisite to the issuance of additional indebtedness at any lien level.

The City has determined that the reduced amount of refundable tax credit payments to be received from the United States Treasury in relation to its outstanding obligations designated as "build America bonds" and "qualified bonds" under the Code as a result of the automatic reductions in federal spending effective March 1, 2013, pursuant to the Budget Control Act of 2011 (commonly referred to as "Sequestration"), and extensions thereof pursuant to the Bipartisan Budget Act of 2013 signed into law by President Barack Obama on December 26, 2013, will not have a material impact on the financial condition of the City or its ability to pay regularly scheduled debt service on its outstanding obligations when and in the amounts due and owing.

Under current law, Sequestration is scheduled to continue through 2030. The IRS has announced that payments to issuers of direct-pay bonds that are processed on or after October 1, 2020, and on or before September 30, 2030, will be reduced by the 5.7 percent Sequestration rate. The Sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise affects the Sequestration, at which time the Sequestration reduction rate is subject to change. Due to the COVID-19 pandemic, the IRS previously issued notifications related to delayed processing of returns for credit payments for issuers of qualified bonds and the subsequent receipt of payments.

RATINGS

Fitch, Moody's, and S&P have each confirmed the following ratings assigned to CPS Energy's outstanding Senior Lien Obligations, Junior Lien Obligations, and the Notes.

Summary of CPS Energy's Bond and Commercial Paper Ratings

Rating Agency	Senior Lien	Junior Lien	CP[1]
Fitch	AA-	AA-	F1+
Moody's	Aa2	Aa3	P-1
S&P	AA-	A+	A-1

[1] Rating based on both credit strength of the respective Lenders under the Revolving Credit Agreements and the City's subordinate lien pledge of the Systems Net Revenues because the Issuing and Paying Agent can look directly to the City for payment in the event of unavailability of Notes proceeds to pay the principal amount of maturing Notes.

An explanation of the significance of such ratings may be obtained from the company furnishing such rating. The ratings reflect only the respective views of such organizations, and the City or the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the Notes. A securities rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time.

AVAILABLE INFORMATION

CPS Energy is not required to file reports with the SEC with respect to the Notes but will make available upon request copies of its most recent Annual Report, Offering Memorandum and other official statements. Further and more complete information concerning the Systems is contained in the most recent official statements of the City pertaining to its electric and gas system debt (being hereinbefore-described Senior Lien Obligations or Junior Lien Obligations) which are available without charge at www.emma.msrb.org. Requests for information may be directed to CPS Energy, Financial Services, Mail Drop 100602, Post Office Box 1771, San Antonio, Texas 78296-1771. In addition, certain interim unaudited financial reports are made available periodically by CPS Energy to the general public and are accessible at www.cpsenergy.com.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Notes is exempt from the continuing disclosure and material event notice requirements of SEC Rule 15c2-12 ("Rule") pursuant to paragraph (d)(ii) of the Rule, because (1) the Notes are in authorized denominations of $100,000 or more, and (2) the Notes have a maturity of nine months or less. Accordingly, the City and the Board have not and will not contract to provide continuing information to investors after it issues the Notes. However, in connection with its Senior Lien Obligations and Junior Lien Obligations, CPS Energy does file continuing disclosure information on an annual basis with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system where such information is available to the public, free of charge, through an Internet website at www.emma.msrb.org.

Under Texas law, including, but not limited to, Chapter 103, Texas Local Government Code, as amended, and Chapter 1502, Texas Government Code, as amended, the Board must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant, and must file each audit report with the City Clerk within 180 days after the close of the City's or Board's fiscal year. The Board's fiscal records and audit reports are available for public inspection during the regular business hours of the City Clerk. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Public Information Act, Chapter 552, Texas Government Code, as amended. Thereafter, any person may obtain copies of these documents upon submission of a written request to the City Clerk, and upon paying the reasonable copying, handling, and delivery charges for providing this information.

COMPLIANCE WITH PRIOR UNDERTAKINGS

CPS Energy became obligated to make annual disclosure of certain financial information in 1996. CPS Energy, during the past five years, has complied in all material respects with continuing disclosure agreements made by the City for which CPS Energy has agreed to comply on the City's behalf, in accordance with the Rule.

INDEPENDENT AUDITORS

This Offering Memorandum includes the basic financial statements of CPS Energy for the fiscal years ended January 31, 2021 and 2020. These financial statements included in this Offering Memorandum as APPENDIX C have been audited by Baker Tilly Virchow Krause, LLP, independent accountant, as stated in their report thereon, which also appears in APPENDIX C hereto.

As part of its external audit procurement process, CPS Energy issued a Request for Proposal for annual financial audits and related services in April 2018. In August 2018, CPS Energy selected Baker Tilly Virchow Krause, LLP, to serve as its external auditor. CPS Energy negotiated a new two-year term agreement with Baker Tilly Virchow Krause, LLP. The two-year agreement contract was scheduled to expire on August 25, 2020. On May 27, 2020, the Board approved a temporary extension to the contract with Baker Tilly Virchow Krause, LLP of one year to the current audit service engagement, which expired on August 25, 2021. On July 26, 2021, the Board approved the new external auditing firm KPMG LLP, with a term to expire on July 25, 2025, with an option to renew for one additional year.

FORWARD-LOOKING STATEMENTS AND INFORMATION AVAILABLE FROM ONLINE SOURCES

This Offering Memorandum, including the Appendices hereto, contains forward-looking statements within the meaning of the federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the power utility industry and general economic conditions. Such words as "expects", "intends", "plans", "believes", "estimates", "anticipates", or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. Factors which may cause a result different from those expected or anticipated include, among other things, new legislation, increases in suppliers' prices, particularly prices for fuel in connection with the operation of the Systems, changes in environmental compliance requirements, acquisitions, changes in customer power use patterns, natural disasters, and the impact of weather on operating results.

Although CPS Energy believes in making any such forward-looking statement, and its expectations are based on assumptions considered reasonable by CPS Energy, any such forward-looking statement involves uncertainties and is qualified in its entirety by reference to factors both identified within this Offering Memorandum and from publicly available resources about the electric and gas businesses, regulation and regulatory authorities for that business, and the City that could cause the actual results of CPS Energy to differ materially from those contemplated in such forward-looking statements.

Any forward-looking statement speaks only as of the date on which such statement is made, and CPS Energy undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for CPS Energy to predict all of such factors, nor can it assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Offering Memorandum.

MISCELLANEOUS

NO DEALER, BROKER, SALESMAN, OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED IN THIS OFFERING MEMORANDUM OR THE MOST RECENT OFFICIAL STATEMENT WITH RESPECT TO THE SYSTEMS OR THE CITY IN CONNECTION WITH THE OFFERING DESCRIBED HEREIN, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE NOTES OFFERED HEREBY, NOR SHALL THERE BE ANY OFFER OR SOLICITATION OF SUCH OFFER OR SALE OF NOTES IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION, OR SALE. NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM NOR THE SALE OF ANY OF THE NOTES IMPLIES THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF. THE INFORMATION CONTAINED HEREIN HAS BEEN PREPARED BY AND OBTAINED FROM PUBLISHED SOURCES AND OTHER DATA FURNISHED BY THE CITY AND THE BOARD. THE DEALERS MAKE NO REPRESENTATION AND ACCEPT NO LIABILITY AS TO EITHER THE ACCURACY OR COMPLETENESS OF THE INFORMATION HEREIN. ADDITIONAL COPIES OF THIS OFFERING MEMORANDUM MAY BE REQUESTED FROM EACH DEALER REPRESENTATIVE, CITIGROUP GLOBAL MARKETS INC. (212) 723-4453, J.P. MORGAN SECURITIES LLC (212) 834-7224, OR LOOP CAPITAL MARKETS (312) 356-5890.

The Dealers have provided the following sentence for inclusion in this Offering Memorandum. The Dealers have reviewed the information in this Offering Memorandum in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Dealers do not guarantee the accuracy or completeness of such information.

The Dealers and their respective affiliates together comprise a full-service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financings and brokerage activities. Such activities involve or relate to assets, securities and/or instruments of the City (whether directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with (or that are otherwise involved with transactions by) the City. The Dealers and their respective affiliates may have, from time to time, engaged, and may in the future, engage, in transactions with, and performed and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses. Under certain circumstances, the Dealers and their respective affiliates may have certain creditor and/or other rights against the City and any affiliates thereof in connection with such transactions and/or services. In addition, the Dealers and their respective affiliates may currently have and may in the future have investment and commercial banking, trust and other relationships with parties that may relate to assets of, or be involved in the issuance of securities and/or instruments by, the City and affiliates thereof. The Dealers and its affiliates also may communicate independent investment recommendations, market advice or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

This Offering Memorandum, dated May 6, 2022, has been approved by authorized officials of CPS Energy.

CITY OF SAN ANTONIO, TEXAS by and through
CITY PUBLIC SERVICE BOARD OF
SAN ANTONIO, TEXAS

By: /s/ Dr. Willis Mackey
Chair, Board of Trustees
City Public Service Board of San Antonio, Texas

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APPENDIX A

CPS ENERGY

FORM OF OPINIONS OF BOND COUNSEL

September 30, 2020

CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES A (TAX-EXEMPT NOTES)
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES B (TAX-EXEMPT NOTES)
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES C (TAX-EXEMPT NOTES)
IN THE AGGREGATE PRINCIPAL AMOUNT OF $700,000,000

WE HAVE ACTED AS BOND COUNSEL for the City of San Antonio, Texas, a municipal corporation of the State of Texas (the *City*), in connection with the issue of commercial paper notes (collectively, the *Notes*) described as follows:

> CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES A, CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES B, and CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES C, in an aggregate principal amount not to exceed $700,000,000 (the *Notes*); issuable in fully registered form only, in denominations of $100,000 principal amount, or in $5,000 integrals greater than $100,000; dated the dates, bearing interest, maturing on the dates and principal amounts, and transferable and exchangeable as set out in the Notes and in the amended and restated ordinance adopted by the City Council of the City (the *Council*) on April 11, 2019 authorizing their issuance (the *Ordinance*), which Notes shall be designated upon issuance or reissuance from time to time as ("Tax-Exempt") (the *Tax-Exempt Notes*) or ("Taxable") (the *Taxable Notes*). This opinion only applies to the Tax-Exempt Notes.

WE HAVE SERVED AS BOND COUNSEL for the sole purpose of rendering an opinion with respect to the legality and validity of the Notes under the Constitution and general laws of the State of Texas and with respect to the status of the interest on the Tax-Exempt Notes under federal income tax law. In such capacity we have examined relevant provisions of the Constitution and general laws of the State of Texas and of federal income tax law; a transcript of certain certified proceedings of the Council pertaining to the issuance of the Notes, including the Ordinance; certain certifications and representations, as hereinafter described, and other material facts within the knowledge and control of the City and the Board of Trustees (the *Board*) of the City Public Service Board of San Antonio, Texas (the *Systems*), upon which we rely, and certain other customary documents and instruments authorizing and relating to the issuance of the Notes, including the forms of Notes to be executed and delivered by the City from time to time. We have not been requested to investigate or verify, and have not investigated or verified, any original proceedings, records, data, or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the Systems or the disclosure thereof in connection with the sale of the Notes. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Notes. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Ordinance. Our role in connection with the City's

Offering Memorandum prepared for use in connection with the sale of the Notes has been limited as described therein.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the transcript of certified proceedings evidences legal authority for the issuance of the Notes in full compliance with the Constitution and general laws of the State of Texas presently in effect; the Notes, when authenticated and delivered to and paid for by the initial purchasers of the Notes, will be valid and legally binding special obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the enforcement of the rights and remedies of the owners thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, or moratorium or other similar laws affecting the rights of creditors, or the exercise of judicial discretion in accordance with general principles of equity; the Notes have been authorized in accordance with law; and the Notes are payable from and equally secured by a lien on and pledge of (i) the proceeds from (a) the sale of a series or issue of Bonds hereafter issued and to be used to pay outstanding Notes and (b) the sale of Notes issued pursuant to the Ordinance to refund outstanding Notes, (ii) borrowings under and pursuant to the applicable Agreement providing credit to the City under the terms and conditions set forth therein, (iii) the Net Revenues of the Systems, such lien on and pledge of the Net Revenues, however, being subordinate to the prior and superior lien and pledge securing the payment of the Parity Bonds and the Junior Lien Bonds, and (iv) amounts in certain funds established pursuant to the Ordinance.

THE OWNERS OF NOTES shall never have the right to demand payment thereof out of any funds raised or to be raised by ad valorem taxation, or from any source whatsoever other than as specified above.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, based upon the foregoing, that pursuant to section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date hereof (the *Code*), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance with the provisions of the Ordinance and in reliance upon representations and certifications of the City and the Board made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Tax-Exempt Notes, when the Tax-Exempt Notes are authenticated and delivered to and paid for by the initial purchasers thereof, interest on the Tax-Exempt Notes (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OPINION concerning the effect on excludability of interest of subsequent action which under the terms of the Ordinance may be taken only upon receipt of an opinion of counsel of nationally recognized standing in the field of municipal bond law.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Tax-Exempt Notes. Ownership of tax-exempt obligations such as the Tax-Exempt Notes may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, owners of an interest in a FASIT, individuals otherwise qualifying for the earned income tax credit, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully,

McCall, Parkhurst & Horton L.L.P.

March 19, 2021

CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES A (TAXABLE NOTES)
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES B (TAXABLE NOTES)
ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES C (TAXABLE NOTES)
IN THE AGGREGATE PRINCIPAL AMOUNT OF $700,000,000

WE HAVE ACTED AS BOND COUNSEL for the City of San Antonio, Texas, a municipal corporation of the State of Texas (the *City*), in connection with the issue of commercial paper notes (collectively, the *Notes*) described as follows:

> CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES A, CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES B, and CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, SERIES C, in an aggregate principal amount not to exceed $700,000,000 (the *Notes*); issuable in fully registered form only, in denominations of $100,000 principal amount, or in $5,000 integrals greater than $100,000; dated the dates, bearing interest, maturing on the dates and principal amounts, and transferable and exchangeable as set out in the Notes and in the amended and restated ordinance adopted by the City Council of the City (the *Council*) on April 11, 2019 authorizing their issuance (the *Ordinance*), which Notes shall be designated upon issuance or reissuance from time to time as ("Tax-Exempt") (the *Tax-Exempt Notes*) or ("Taxable") (the *Taxable Notes*). This opinion only applies to the Taxable Notes.

WE HAVE SERVED AS BOND COUNSEL for the sole purpose of rendering an opinion with respect to the legality and validity of the Notes under the Constitution and general laws of the State of Texas. In such capacity we have examined relevant provisions of the Constitution and general laws of the State of Texas and of federal income tax law; a transcript of certain certified proceedings of the Council pertaining to the issuance of the Notes, including the Ordinance; certain certifications and representations, as hereinafter described, and other material facts within the knowledge and control of the City and the Board of Trustees (the *Board*) of the City Public Service Board of San Antonio, Texas (the *Systems*), upon which we rely, and certain other customary documents and instruments authorizing and relating to the issuance of the Notes, including the forms of Notes to be executed and delivered by the City from time to time. We have not been requested to investigate or verify, and have not investigated or verified, any original proceedings, records, data, or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the Systems or the disclosure thereof in connection with the sale of the Notes. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Notes. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Ordinance. Our role in connection with the City's Offering Memorandum prepared for use in connection with the sale of the Notes has been limited as described therein.

600 Congress Ave.
Suite 2150
Austin, Texas 78701
T 512.478.3805
F 512.472.0871

717 North Harwood
Suite 900
Dallas, Texas 75201
T 214.754.9200
F 214.754.9250

Two Allen Center
1200 Smith Street, Suite 1550
Houston, Texas 77002
T 713.980.0500
F 713.980.0510

112 E. Pecan Street
Suite 1310
San Antonio, Texas 78205
T 210.225.2800
F 210.225.2984

www.mphlegal.com

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that the transcript of certified proceedings evidences legal authority for the issuance of the Notes in full compliance with the Constitution and general laws of the State of Texas presently in effect; the Notes, when authenticated and delivered to and paid for by the initial purchasers of the Notes, will be valid and legally binding special obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the enforcement of the rights and remedies of the owners thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, or moratorium or other similar laws affecting the rights of creditors, or the exercise of judicial discretion in accordance with general principles of equity; the Notes have been authorized in accordance with law; and the Notes are payable from and equally secured by a lien on and pledge of (i) the proceeds from (a) the sale of a series or issue of Bonds hereafter issued and to be used to pay outstanding Notes and (b) the sale of Notes issued pursuant to the Ordinance to refund outstanding Notes, (ii) borrowings under and pursuant to the applicable Agreement providing credit to the City under the terms and conditions set forth therein, (iii) the Net Revenues of the Systems, such lien on and pledge of the Net Revenues, however, being subordinate to the prior and superior lien and pledge securing the payment of the Parity Bonds and the Junior Lien Bonds, and (iv) amounts in certain funds established pursuant to the Ordinance.

THE OWNERS OF NOTES shall never have the right to demand payment thereof out of any funds raised or to be raised by ad valorem taxation, or from any source whatsoever other than as specified above.

IT IS FURTHER OUR OPINION that the Taxable Notes are not obligations described in Section 103(a) of the Internal Revenue Code of 1986, as amended.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Taxable Notes, including the amount, accrual or receipt of interest on, the Taxable Notes. Owners of the Taxable Notes should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Taxable Notes.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully,

McCall, Parkhurst & Horton L.L.P.

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APPENDIX B

CPS ENERGY

LENDER OVERVIEW

APPENDIX B
CERTAIN INFORMATION CONCERNING THE BANK

Bank of America, N.A. (the *"Bank"*) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the *"Corporation"*) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of December 31, 2021, the Bank had consolidated assets of $2.520 trillion, consolidated deposits of $2.144 trillion and stockholder's equity of $236.427 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2021, together with its subsequent periodic and current reports filed with the Securities and Exchange Commission (the "SEC").

The SEC maintains a website at www.sec.gov which contains the filings that the Corporation files with the SEC such as reports, proxy statements and other documentation. The reports, proxy statements and other information the Corporation files with the SEC are also available at its website, www.bankofamerica.com.

The information concerning the Corporation and the Bank is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the referenced documents and financial statements referenced therein.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case, as filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporation
Office of the Corporate Secretary/Shareholder Relations
One Bank of America Center
150 N College St. NC1-028-28-03
Charlotte, NC 28255

PAYMENTS OF PRINCIPAL AND INTEREST ON THE SERIES A NOTES WILL BE MADE FROM DRAWINGS UNDER THE SERIES A AGREEMENT. ALTHOUGH THE SERIES A AGREEMENT IS A BINDING OBLIGATION OF THE BANK, THE SERIES A NOTES ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE SERIES A NOTES ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery of this information shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date of the most recent filings referenced herein, or that the information contained or referred to in this Appendix B is correct as of any time subsequent to the referenced date.

APPENDIX B
Certain Information Concerning State Street Bank and Trust Company

State Street Bank and Trust Company (the "Bank") is a wholly-owned subsidiary of State Street Corporation (the "Corporation"). The Corporation (NYSE: STT) through its subsidiaries, including the Bank, provides a broad range of financial products and services to institutional investors worldwide. With $43.68T in assets under custody and administration and $4.14T in assets under management as of December 31, 2021, the Corporation operates in more than 100 geographic markets worldwide. As of December 31, 2021, the Corporation had consolidated total assets of $314.62B, consolidated total deposits of $255.04B, total investment securities of $115.83B, total loans, net of unearned income and allowance for losses, of $32.45B, and total shareholders' equity of $27.36B.

The Bank's *Consolidated Reports of Condition and Income for A Bank With Domestic and Foreign Offices Only -- FFIEC 031* (the "Call Reports") through December 31, 2021 have been submitted through the Federal Financial Institutions Examination Council and provided to the Board of Governors of the Federal Reserve System, the primary U.S. federal banking agency responsible for regulating the Corporation and the Bank. Publicly available portions of those Call Reports, and future Call Reports so submitted by the Bank, are available on the Federal Deposit Insurance Corporation's website at *www.fdic.gov*. The Call Reports are prepared in conformity with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles.

Additional financial and other information related to the Corporation and the Bank, including the Corporation's Annual Report on Form 10-K for the year ended December 31, 2021 and additional annual, quarterly and current reports subsequently filed or furnished by the Corporation with the U.S. Securities and Exchange Commission (the "SEC"), can be accessed free of charge on the SEC's website at *www.sec.gov*.

Any statement contained in any document referred to above shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein or in any subsequently submitted, filed or furnished document modifies or supersedes such statement. The delivery hereof shall not create any implication that there has been no change in the affairs of the Bank or the Corporation since the date hereof, or that information contained or referred to in this Appendix is correct as of any time subsequent to this date. The information concerning the Corporation, the Bank or any of their respective affiliates is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

A copy of any or all of the publicly available portions of the documents referred to above, other than exhibits to such documents, may be obtained without charge to each person to whom a copy of this Offering Memorandum has been delivered, on the written request of any such person. Written requests for such copies should be directed to Investor Relations, State Street Corporation, One Lincoln Street, Boston, Massachusetts 02111, telephone number 617-786-3000.

The Series B Agreement is an obligation solely of the Bank and is not an obligation of, or otherwise guaranteed by, the Corporation or any of its affiliates (other than the Bank). Neither the Corporation nor any of its affiliates (other than the Bank) is required to make payments under the Series B Agreement. None of the Bank, the Corporation or any of their respective affiliates makes any representation as to, or is responsible for the suitability of the Series B Notes for any investor, the feasibility or performance of any project or compliance with any securities or tax laws or regulations. The Series B Notes are not direct obligations of, or guaranteed by, the Bank, the Corporation or any of their respective affiliates, except to the extent provided by the Series B Agreement.

Appendix B
THE BANK

The information under this heading has been provided solely by the Bank and is believed to be reliable. This information has not been verified independently by the Issuer. The Issuer makes no representation whatsoever as to the accuracy, adequacy or completeness of such information.

Wells Fargo Bank, National Association

The Bank is a national banking association organized under the laws of the United States of America with its main office at 101 North Phillips Avenue, Sioux Falls, South Dakota 57104, and engages in retail, commercial and corporate banking, real estate lending and trust and investment services. The Bank is an indirect, wholly-owned subsidiary of Wells Fargo & Company ("Wells Fargo"), a diversified financial services company, a financial holding company and a bank holding company registered under the Bank Holding Company Act of 1956, as amended, with its principal executive offices located in San Francisco, California ("Wells Fargo").

The Bank prepares and files Call Reports on a quarterly basis. Each Call Report consists of a balance sheet as of the report date, an income statement for the year-to-date period to which the report relates and supporting schedules. The Call Reports are prepared in accordance with regulatory instructions issued by the Federal Financial Institutions Examination Council. While the Call Reports are supervisory and regulatory documents, not primarily accounting documents, and do not provide a complete range of financial disclosure about the Bank, the reports nevertheless provide important information concerning the Bank's financial condition and results of operations. The Bank's Call Reports are on file with, and are publicly available upon written request to the FDIC, 550 17th Street, N.W., Washington, D.C. 20429, Attention: Division of Insurance and Research. The FDIC also maintains an internet website that contains the Call Reports. The address of the FDIC's website is http://www.fdic.gov. The Bank's Call Reports are also available upon written request to the Wells Fargo Corporate Secretary's Office, Wells Fargo Center, MAC N9305-173, 90 South 7th Street, Minneapolis, MN 55479.

The commitment of the Bank under the Series C Agreement will be solely an obligation of the Bank and will not be an obligation of, or otherwise guaranteed by, Wells Fargo & Company, and no assets of Wells Fargo & Company or any affiliate of the Bank or Wells Fargo & Company will be pledged to the payment thereof. Payment under the Series C Agreement will not be insured by the FDIC.

The information contained in this Appendix B, including financial information, relates to and has been obtained from the Bank, and is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Any financial information provided in this Appendix B is qualified in its entirety by the detailed information appearing in the Call Reports referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of the Bank since the date hereof.

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APPENDIX C

CPS ENERGY

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
JANUARY 31, 2021 AND 2020
AND INDEPENDENT AUDITOR'S REPORT

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CITY PUBLIC SERVICE
OF SAN ANTONIO, TEXAS

BASIC FINANCIAL STATEMENTS

Years Ended January 31, 2021 and 2020

(With Independent Auditors' Report Thereon)

City Public Service of San Antonio, Texas

Basic Financial Statements
For the Fiscal Year Ended January 31, 2021 and 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") serves as an introduction to the financial statements of City Public Service Board of San Antonio (also referred to as "CPS Energy" or the "Company"). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the fiscal year ended January 31, 2021 ("FY2021"), compared to the fiscal year ("FY") ended January 31, 2020 ("FY2020"). It also provides an overview of CPS Energy's general financial condition and results of operations for FY2020, compared to the previous fiscal year ended January 31, 2019 ("FY2019"). This MD&A has been prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and should be read in conjunction with the audited financial statements and accompanying notes that follow.

BASIC FINANCIAL STATEMENTS OVERVIEW

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Statements of Net Position present CPS Energy's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of the end of each fiscal year.

Assets are separated into current and noncurrent categories and are reported in the order of liquidity. Current assets include unrestricted cash and cash equivalents; investments; customer, interest and other accounts receivable; and inventories, as well as prepayments and other current assets. Noncurrent assets include cash and cash equivalents, investments, and interest and other accounts receivable that have been restricted by state laws, ordinances or contracts. Noncurrent assets also include the pension regulatory asset, other noncurrent assets and net capital assets.

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

Consistent with the reporting of assets on the Statements of Net Position, liabilities are segregated into current and noncurrent categories. Current liabilities include the current maturities of debt, accounts payable and accrued liabilities. Noncurrent liabilities include net long-term debt, asset retirement obligations, decommissioning net costs refundable, net pension liability and other noncurrent liabilities.

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

The Statements of Net Position report net position as the difference between (a) the sum of assets and deferred outflows of resources and (b) the sum of liabilities and deferred inflows of resources. The components of net position are classified as net investment in capital assets, restricted or unrestricted. An unrestricted designation indicates the net funds are available for operations.

Within the Statements of Revenues, Expenses and Changes in Net Position, operating results are reported separately from nonoperating results, which primarily relate to financing and investing. Other payments to the City of San Antonio ("City"), contributed capital, impairment loss, and the effect of the South Texas Project's ("STP") defined-benefit plan funding obligations are also reported separately as components of the change in net position. These statements identify revenue generated from sales to cover operating and nonoperating expenses. Operating expenses are presented by major cost categories. Revenues remaining are available to service debt, fulfill City Payment commitments, finance capital expenditures and cover contingencies.

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. Generally Accepted Accounting Principles ("GAAP"). Contributions and income are recorded when earned and benefits and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. The Pension Plan and the Employee Benefit Plans apply all applicable GASB pronouncements.

FINANCIAL HIGHLIGHTS AND SIGNIFICANT ACCOUNTING POLICIES

Allowance for Funds Used During Construction ("AFUDC") – To reflect funding methodology, the AFUDC rate includes both a debt and an equity component. The blended rate is composed of 50% equity and 50% debt based on construction funding forecasts. The investment rate is reviewed quarterly to determine if any adjustments are necessary. Alternate AFUDC rates are applied to projects costing more than $100 million, reflecting the method by which they are funded.

Asset Retirement Obligations ("ARO") – CPS Energy accounts for AROs in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations*, by recognizing the obligations as a liability based on the best estimate of the current value of outlays expected to be incurred once the assets are retired. See Note 17 – Asset Retirement Obligations.

Battery Energy Storage Systems ("BESS") – On September 20, 2016, CPS Energy accepted a $3.0 million New Technology Implementation Grant from the Texas Commission on Environmental Quality ("TCEQ"). The grant proceeds subsidized the purchase of a lithium-ion 10MW battery installed near the Southwest Research Institute substation and adjacent to solar generation resources. The battery allows generation produced during peak solar intervals to be made available later during peak demand intervals. Grant proceeds were recorded as contributed capital and are exempt from City Payment. CPS Energy completed the project and BESS became operational in June 2020. CPS Energy submitted a request for reimbursement to the TCEQ after completion of the project and received payment in August 2020.

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

Subsidy Reduction	Period Covered
6.6%	October 1, 2017, through September 30, 2018
6.2%	October 1, 2018, through September 30, 2019
5.9%	October 1, 2019, through September 30, 2020
5.7%	October 1, 2020, through September 30, 2030

Transaction details for CPS Energy's BABs issuances are provided in Note 7 – Revenue Bonds.

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

Contributed Capital – Third-party contributions made for construction of capital assets flow through the Statements of Revenues, Expenses and Changes in Net Position and are shown on the Statements of Net Position as a component of net investment in capital assets. The amount reported for contributed capital was $74.1 million at January 31, 2021, as compared with $59.5 million at January 31, 2020. This included donated assets of $7.8 million and $4.0 million, respectively. The remaining portion of these balances, $66.3 million at January 31, 2021, and $55.5 million for January 31, 2020, represents contributions received from customers as payments for utility extensions and services, as well as funding for community initiatives and other local partnership projects.

Counterparty Risk – CPS Energy is exposed to counterparty risk associated with various transactions primarily related to debt, investments, fuel hedging 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 the Company. The Company 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.

CPS Energy Component Units – As required under GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, the assets and liabilities accumulated for CPS Energy's two nuclear decommissioning trusts ("Decommissioning Trusts" or "Trusts") for STP Units 1 and 2 are combined into the CPS Energy financial statements using the blended method of inclusion. Initially, CPS Energy owned a 28% interest in STP Units 1 and 2. In May 2005, CPS Energy purchased an additional 12% interest in these units. Assets from an associated decommissioning trust were also received with this purchase. CPS Energy reports the assets in both Trusts —the 28% interest and the 12% interest—as component units.

As required under GASB Statement No. 84, *Fiduciary Activities,* the Pension Plan and Employee Benefit Plans are reported as fiduciary component units. The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position report the combined assets and liabilities and plan activities of these Plans. See Note 9 – Employee Pension Plan, Note 10 – Other Postemployment Benefits and Required Supplementary Information for required disclosures of the Pension Plan and the Employee Benefit Plans.

Decommissioning – CPS Energy accounts for its legal obligation to decommission STP Units 1 and 2 in accordance with GASB Statement No. 83. The Company has recognized its pro rata share of an ARO based on the best estimate of the current values of outlays expected to be incurred to decommission the units, determined by the most recent cost study. A new cost study is performed every 5 years; in years after the latest study, the Statement requires the current value of the Company's ARO be adjusted for the effects of inflation or deflation, at least annually. In addition to the ARO, the Company has recorded deferred outflows of resources that are being amortized over the remaining useful life of the plant. See Note 17 – Asset Retirement Obligations for the criteria for determining the timing and pattern of recognition for the decommissioning liability. See Note 13 – South Texas Project for additional details on the most recent cost study.

Additionally, due to requirements under the Code of Federal Regulations governing nuclear decommissioning trust funds, a zero-net position approach is applied in accounting for the Decommissioning Trusts. Accordingly, current year and prior year activity in the Trusts is reported in the nonoperating income (expense) section of the Statements of Revenues, Expenses and Changes in Net Position as decommissioning net costs recoverable (refundable). The cumulative effect of activity in the Trusts is reported on the Statements of Net Position as a noncurrent liability referred to as Decommissioning net costs refundable since any excess funds are payable to customers. Going forward, prolonged unfavorable economic conditions could result in the assets of the Trusts being less than the estimated decommissioning liability. In that case, instead of an excess as currently exists, there would be a deficit that would be reported as decommissioning net costs recoverable and would be receivable from customers.

A project to develop an independent spent fuel storage installation ("Dry Cask Storage Project") was recently completed at STP to provide for storage of spent nuclear fuel after the spent fuel pool has reached capacity. CPS Energy's Decommissioning Trusts have separate spent fuel management accounts that paid for these costs. By contract, spent fuel will eventually be removed to final storage by the Department of Energy ("DOE"). The DOE failed to meet the contractual start date to receive spent fuel, and STP and other utilities have reached settlement agreements with the DOE. In the most recent settlement agreement dated September 1, 2020, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through calendar year 2022.

Ongoing costs for the spent fuel management project are being funded by the STP owners (CPS Energy; the City of Austin; and NRG South Texas LP, a wholly owned subsidiary of NRG Energy, Inc.) as expenditures are incurred. CPS Energy is entitled to request reimbursement at its discretion from its Decommissioning Trusts for the Company's portion of allowable costs. Annually, the South Texas Project Nuclear Operating Company ("STPNOC") submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned to the owners by STP upon receipt from the DOE. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Trusts. Spent fuel management costs that do not qualify for reimbursement by the DOE or the Trusts are recorded as operation and maintenance ("O&M") expense or capital costs.

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

Electric Reliability Council of ("ERCOT") Nodal Market System – ERCOT is the independent system operator managing the flow of electric power for approximately 90% of the electric load for the state of Texas. ERCOT schedules power on the electric grid in a nodal market with more than 8,000 pricing nodes. In the nodal market system, generators are required to make their capacity and ancillary services available to ERCOT, and load-serving entities purchase their supply needs from ERCOT in the day-ahead market and true up in the real-time market. As both a generator and load-serving entity, CPS Energy is an active participant in the nodal market system and actively monitors and manages its exposure to the risks inherent in the retail and wholesale markets.

Federal and State Grant Programs – Periodically, federal or state grants are made available to CPS Energy as a subrecipient for a portion of grant funds allocated to the state of Texas or as direct awards. Grant receipts are recorded as nonoperating income and generally reimburse CPS Energy for costs, recorded as operating expenses, incurred in the administration of the program. Federal or state grants that subsidize in whole or a partial amount of capital assets are recognized as contributed capital. These accounting treatments result in no impact to the Company's net position. Revenues associated with the grant-related programs are exempt from payments of a percentage of gross revenues made to the City. Grant funding received by the Company is subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Flexible Rate Revolving Note ("FRRN") Private Placement Program – On May 27, 2020, CPS Energy Board of Trustees ("Board") authorized the reestablishment of a flexible rate revolving note purchase agreement to provide additional liquidity in support of the Company's electric and gas systems ("Systems"). The program initially became effective on April 28, 2009, and through annual renewals authorizes the issuance of such notes through November 1, 2028. Under the current program, CPS Energy can issue taxable or tax-exempt notes with individual maturities of one year or less at fixed or variable interest rates in an aggregate principal amount at any one time outstanding not to exceed $100 million. There was no balance outstanding under this program at January 31, 2021.

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 FY2021, 48% of distribution and 35% of generation natural gas volumes were hedged. In FY2020, 33% of distribution and 28% of generation natural gas volumes were hedged. See Note 12 – Other Financial Instruments.

Pension Plan – The financial statements of the Pension Plan are separately audited and reported as of December 31, 2020, with comparative totals as of December 31, 2019. The financial results of the Pension Plan are included as part of the basic financial statements and are presented in combination with the Employee Benefit Plans in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. Additionally, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, required disclosures are provided in Note 9 – Employee Pension Plan and in Required Supplementary Information.

Postemployment Benefits Other Than Pension ("OPEB") – The Employee Benefit Plans are separately audited and reported as of December 31, 2020, with comparative totals as of December 31, 2019. The financial results of the Employee Benefit Plans are included as part of the basic financial statements and are presented in combination with the Pension Plan in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position.

Additionally, in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, required disclosures are provided in Note 10 – Other Postemployment Benefits and in Required Supplementary Information.

Rate Increases – Rates are set by the Board and approved by the San Antonio City Council. On November 7, 2013, the City Council approved a 4.25% increase in both CPS Energy's electric and natural gas base rates, which were effective February 2014.

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

SA Energy Acquisition Public Facility Corporation ("PFC") – The PFC is a public, nonprofit corporation organized under the laws of the state of Texas pursuant to the Texas Public Facility Corporation Act, Chapter 303, Texas Local Government Code. The PFC was organized in FY2008 to assist its sponsor, the City, in the procurement of natural gas and in financing, refinancing or providing public facilities to be devoted to public use. The PFC is a component unit of the City.

On June 14, 2007, the PFC entered into a Natural Gas Supply Agreement with the City, acting by and through CPS Energy. This gas supply agreement provides for the sale to CPS Energy, on a pay-as-you-go basis, of all-natural gas to be delivered to the PFC under a Prepaid Natural Gas Sales Agreement. Under this prepaid gas agreement between the PFC and the gas supplier, the PFC prepaid the cost of a specified supply of natural gas to be delivered over 20 years. CPS Energy's net savings resulting from this transaction are passed on, in their entirety, to its distribution gas customers. The financial statements of the PFC are separately audited and reported.

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

Annually, approximately $9.3 million of **STEP** expenses are funded through the electric base rate and reported as O&M expenses. **STEP** expenses in excess of this initial amount per year are recovered through the fuel adjustment factor over a period of 12 months, or longer for certain **STEP** expenses, beginning in the subsequent fiscal year after the costs are incurred and have been independently validated. These **STEP** recoveries are accrued as a regulatory asset referred to as **STEP** net costs recoverable. At January 31, 2021 and 2020, the net costs recoverable was $48.2 million and $72.8 million, respectively.

Solar Prepayments – In November 2011, the Company entered into a prepaid agreement for purchased power from San Antonio-area solar energy facilities with a total of 30 MW of capacity. In FY2013, $77.0 million in prepayments were made for approximately 60% of the anticipated annual output over a period of 25 years. At January 31, 2021, of the remaining prepayment balance, $3.1 million was classified as current and $47.6 million was classified as noncurrent. At January 31, 2020, of the remaining prepayment balance, $3.1 million was classified as current and $50.7 million was classified as noncurrent. The balance of the output is purchased on a pay-as-you-go basis.

STP Units 1 and 2 – Correlating to CPS Energy's 40% interest in STP Units 1 and 2 that have been in operation since 1988 and 1989, respectively, the applicable financial results of the nonprofit special-purpose operations project are combined within these financial statements. These units are licensed by the NRC to operate until 2047 and 2048, respectively. STP follows Financial Accounting Standards Board guidance. See Note 13 – South Texas Project.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(Dollars in thousands)

	Fiscal Year Ended January 31,			Change			
	2021	2020	2019	2021 vs. 2020		2020 vs. 2019	
Revenues and nonoperating income							
Electric	**$2,359,076**	$ 2,426,396	$ 2,576,715	$ (67,320)	-2.8%	$ (150,319)	-5.8%
Gas	**150,704**	142,782	167,444	7,922	5.5%	(24,662)	-14.7%
Total operating revenues	**2,509,780**	2,569,178	2,744,159	(59,398)	-2.3%	(174,981)	-6.4%
Nonoperating income, net	**36,889**	72,059	55,914	(35,170)	-48.8%	16,145	28.9%
Total revenues and nonoperating income	**2,546,669**	2,641,237	2,800,073	(94,568)	-3.6%	(158,836)	-5.7%
Expenses							
Operating expenses							
Fuel, purchased power and distribution gas	**730,257**	692,583	824,753	37,674	5.4%	(132,170)	-16.0%
Operation and maintenance	**591,183**	567,456	573,491	23,727	4.2%	(6,035)	-1.1%
Annual OPEB and pension expense	**63,703**	79,635	33,402	(15,932)	-20.0%	46,233	138.4%
Energy efficiency and conservation (STEP)	**48,193**	72,815	69,124	(24,622)	-33.8%	3,691	5.3%
STEP net costs recoverable	**23,193**	235	19,912	22,958	9,769.4%	(19,677)	-98.8%
Regulatory assessments	**94,648**	82,622	86,202	12,026	14.6%	(3,580)	-4.2%
Decommissioning	**19,608**	18,000	16,525	1,608	8.9%	1,475	8.9
Depreciation and amortization	**436,098**	421,000	445,227	15,098	3.6%	(24,227)	-5.4%
Total operating expenses	**2,006,883**	1,934,346	2,068,636	72,537	3.7%	(134,290)	-6.5%
Nonoperating expenses							
Interest and debt-related	**196,835**	202,285	201,925	(5,450)	-2.7%	360	0.2%
Payments to the City of San Antonio	**330,564**	342,988	361,351	(12,424)	-3.6%	(18,363)	-5.1%
Total nonoperating expenses	**527,399**	545,273	563,276	(17,874)	-3.3%	(18,003)	-3.2%
Total expenses	**2,534,282**	2,479,619	2,631,912	54,663	2.2%	(152,293)	-5.8%
Income before other changes in net position	**12,387**	161,618	168,161	(149,231)	-92.3%	(6,543)	-3.9%
Other payments to the City of San Antonio	**(12,018)**	(11,979)	(11,766)	(39)	-0.3%	(213)	-1.8%
Contributed capital	**74,080**	59,507	54,936	14,573	24.5%	4,571	8.3%
Special item - plant impairment	**—**	—	(182,723)	—	—%	182,723	-100.0%
Effect of defined benefit plan funding obligations - STP	**(25,021)**	(18,668)	(8,145)	(6,353)	-34.0%	(10,523)	-129.2%
Change in net position	**49,428**	190,478	20,463	(141,050)	-74.1%	170,015	830.8%
Net position – beginning	**3,704,505**	3,514,027	3,493,564	190,478	5.4%	20,463	0.6%
Net position – ending	**$3,753,933**	$ 3,704,505	$ 3,514,027	$ 49,428	1.3%	$ 190,478	5.4%

Total Revenues and Nonoperating Income

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

To meet its combined sales requirements for retail customers within the greater San Antonio certificated area and wholesale customers outside of this area, electric energy is primarily generated by CPS Energy from three sources—coal, nuclear and gas. Approximately 82.1% and 83.5% of its customers' electric energy needs in FY2021 and FY2020, respectively, were produced from CPS Energy's generating units. In addition to the energy produced from Company-owned facilities, CPS Energy also purchased power from third parties, including producers of renewable energy, such as solar-generated and wind-generated power.

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

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

Net nonoperating income of $36.9 million decreased $35.2 million from FY2020, primarily due to the lower interest rate environment in the current year.

<u>FY2020</u> – Representing 97.3% of total revenues and nonoperating income, electric and gas revenues of $2,569.2 million decreased by $175.0 million, or 6.4%, compared to FY2019.

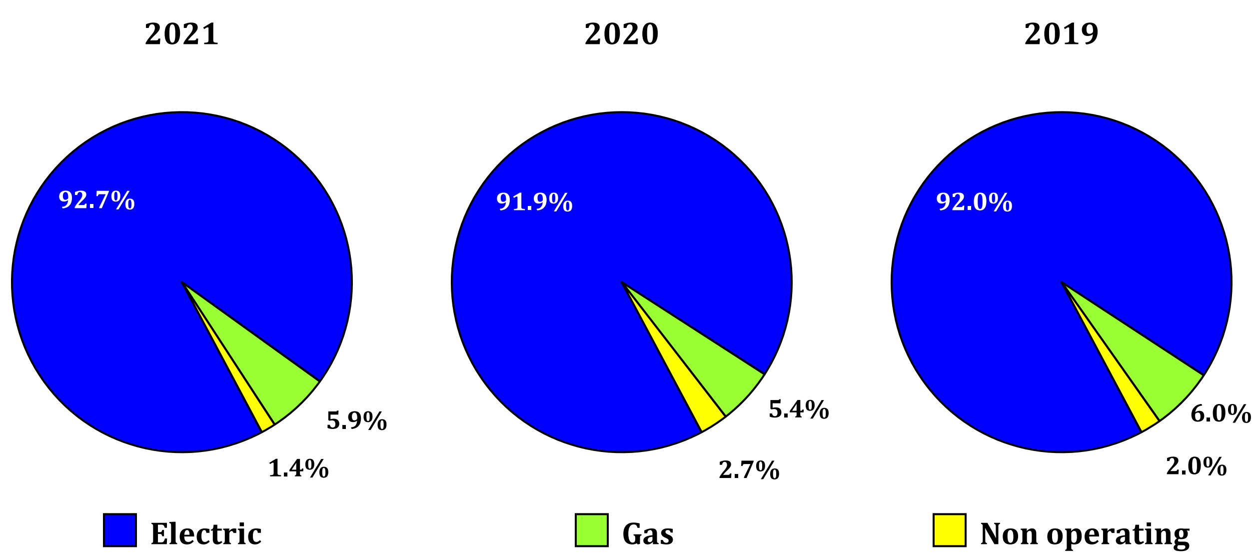
Approximately 83.5% and 86.2% of its customers' electric energy needs in FY2020 and FY2019, respectively, were produced from CPS Energy's generating units.

Representing 91.9% of CPS Energy's total revenues and nonoperating income, electric operating revenue of $2,426.4 million decreased by $150.3 million from FY2019. Contributing to the decrease were lower wholesale recoveries resulting from lower sales volumes stemming from the J.T. Deely Units 1 and 2 retirement in FY2019, as well as lower retail fuel recoveries due to lower gas prices.

Representing 5.4% of total revenues and nonoperating income, gas revenue totaled $142.8 million, a $24.7 million decrease from FY2019. This decrease was primarily due to lower fuel recoveries as a result of a lower natural gas prices.

Net nonoperating income of $72.1 million increased $16.1 million from FY2019, primarily due to improved investment results compared to FY2019.

Total Revenues and Nonoperating Income
Fiscal Year Ended January 31,



See accompanying Independent Auditors' report.

Operating Expenses

FY2021 – Operating expenses of $2,006.9 million were $72.5 million, or 3.7%, above FY2020 total of $1,934.3 million.

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

O&M expenses (including annual OPEB and pension expense and STP O&M) of $654.9 million were $7.8 million, or 1.2%, higher than last year primarily due to the increased outside services related to Power Generation.

STEP expense of $48.2 million was $24.6 million less than last year's expense of $72.8 million, primarily due to lower solar rebate program activity. These amounts represent costs incurred in the current year above the approximately $9.3 million funded through the base rate and recorded as O&M expenses. The related contra expense account, **STEP** net costs recoverable, reflects the net change during the period in expenses delayed to future periods when they will be recognized concurrent with their recovery through rate adjustments. This contra expense was $23.2 million compared to $0.2 million for last year. This operating statement item reflects the transfer of these costs to/from the Statements of Net Position as they are deferred or amortized.

Regulatory assessments, including those charged by the Public Utility Commission of Texas ("PUCT") and ERCOT, of $94.6 million were $12.0 million higher due to increased transmission costs of service ("TCOS") expenses.

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

Depreciation and amortization expense of $436.1 million was $15.1 million higher than FY2020 expense of $421.0 million due to normal increased plant-in-service.

FY2020 – Operating expenses of $1,934.3 million were $134.3 million, or 6.5%, below FY2019 total of $2,068.6 million.

Combined electric and gas fuel costs, which are passed through to customers, totaled $692.6 million and comprised 35.8% of total operating expenses. Electric fuel and purchased power costs of $648.9 million decreased $112.0 million, or 14.7%, below FY2019 primarily due to lower wholesale volumes resulting from reduced capacity from retirement of J.T. Deely Units 1 and 2 in FY2019. Distribution gas costs of $43.7 million decreased by $20.1 million, or 31.5%, from FY2019 due to lower natural gas prices.

Operation and maintenance expenses (including annual OPEB and pension expense and STP O&M) of $647.1 million were $40.2 million, or 6.6%, higher than FY2019 primarily due to higher OPEB and pension expense resulting from the unfavorable benefit trusts' investment performance in calendar year 2018.

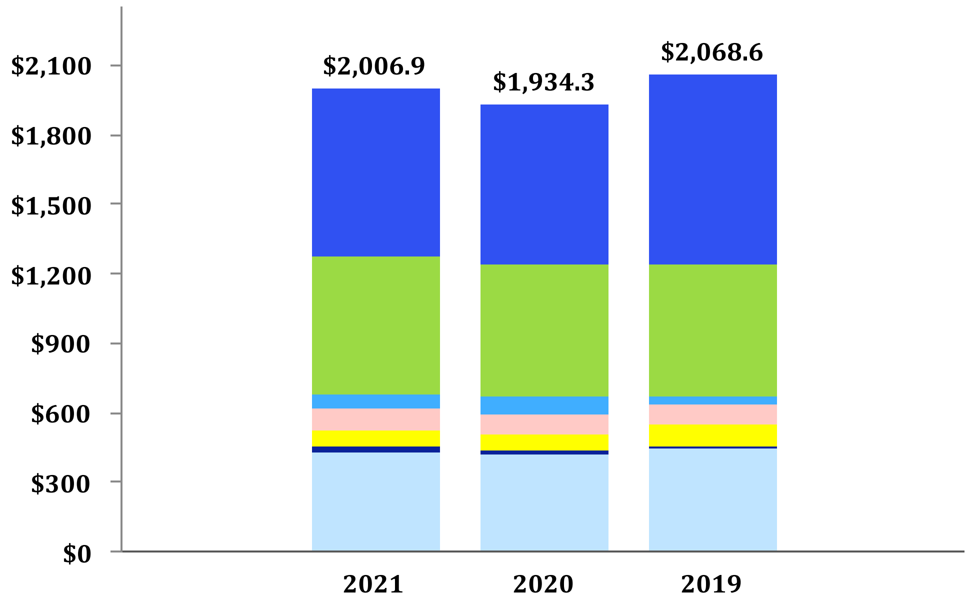
STEP expense of $72.8 million was $3.7 million higher than the FY2019 expense of $69.1 million, primarily due to additional solar program funds awarded in FY2019. The related contra expense was $0.2 million compared to $19.9 million FY2019.

Regulatory assessments, including those charged by the PUCT and ERCOT, of $82.6 million were $3.6 million lower due to decreased TCOS expenses.

Decommissioning expense of $18.0 million was comparable to the FY2019 expense of $16.5 million.

Depreciation and amortization expense of $421.0 million was $24.2 million lower than the FY2019 expense of $445.2 million due to decreased plant-in-service balance in the first part of the year resulting from the J.T. Deely Units 1 and 2 retirement.

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



	2021	2020	2019
Fuel, purchased power and distribution gas	**$730.3**	$692.6	$824.8
Operation and maintenance	**591.2**	567.5	573.5
Annual OPEB and pension expense	**63.7**	79.6	33.4
Regulatory assessments	**94.6**	82.6	86.2
Energy efficiency and conservation (STEP) & STEP net costs recoverable	**71.4**	73.0	89.0
Decommissioning	**19.6**	18.0	16.5
Depreciation and amortization	**436.1**	421.0	445.2

Nonoperating Expenses

FY2021 – Interest expense and other debt-related costs, including amortization of debt expense and AFUDC, totaled $196.8 million and were $5.5 million, or 2.7%, lower than FY2020. The decrease was due to lower interest rates and reduced debt service expense.

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

FY2020 – Interest expense and other debt-related costs, including amortization of debt expense and AFUDC, totaled $202.3 million and were comparable to FY2019's $201.9 million.

The payments to the City totaled $343.0 million and were $18.4 million lower than FY2019 due to lower operating revenues.

Other Changes in Net Position

FY2021 – Net income of $12.4 million was $149.2 million lower than last year's net income of $161.6 million, a decrease of 92.3%, primarily due to lower retail revenues as a result of greater bad debt attributable to the impact of COVID-19 and lower wholesale revenues from fewer market opportunities, as well as lower nonoperating income due to the impact from the lower interest rate environment in the current year.

Other payments to the City totaled $12.0 million and were comparable to last year.

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

The effect of the STP defined benefit plan funding obligations, which represents 40% of the change in the unfunded pension and other post-retirement benefits liability at STP, was $(25.0) million compared to $(18.7) million in FY2020 due to the remeasurement of the STP defined benefit plan obligation.

CPS Energy's change in net position was $49.4 million compared to $190.5 million last year, an unfavorable change of $141.1 million, primarily due to the net income drivers previously explained.

FY2020 – Net income of $161.6 million was $6.6 million lower than FY2019 net income of $168.2 million, a decrease of 3.9%, primarily due to higher pension and OPEB expenses, partially offset by lower depreciation and favorable investment performance.

Other payments to the City totaled $12.0 million in FY2020 and were comparable to FY2019.

Contributed capital of $59.5 million was $4.6 million higher than FY2019. Primarily contributing to the increase were greater reimbursed projects completed in FY2020.

The effect of the STP defined benefit plan funding obligations was $(18.7) million compared to $(8.1) million in FY2019. The $(10.6) million net change is primarily due to the remeasurement of the STP defined benefit plan obligations.

CPS Energy's change in net position was $190.5 million compared to $20.5 million in FY2019, a favorable change of $170.0 million, primarily due to the FY2019 impairment of J.T. Deely Units 1 and 2.

FINANCIAL POSITION

Statements of Net Position Summary

(Dollars in thousands)

	January 31,			Change			
	2021	2020	2019	2021 vs. 2020		2020 vs. 2019	
Assets							
Current assets	**$ 1,089,283**	$ 1,031,139	$ 920,160	$ 58,144	5.6%	$ 110,979	12.1%
Noncurrent assets							
Restricted	**1,281,873**	1,244,334	1,347,313	37,539	3.0%	(102,979)	-7.6%
Other noncurrent assets	**519,799**	444,963	539,733	74,836	16.8%	(94,770)	-17.6%
Capital assets, net	**8,638,055**	8,500,046	8,154,670	138,009	1.6%	345,376	4.2%
Total assets	**11,529,010**	11,220,482	10,961,876	308,528	2.7%	258,606	2.4%
Deferred outflows of resources	**703,160**	806,747	731,136	(103,587)	-12.8%	75,611	10.3%
Total assets plus deferred outflows of resources	**$ 12,232,170**	$ 12,027,229	$ 11,693,012	$ 204,941	1.7%	$ 334,217	2.9%
Liabilities							
Current liabilities	**$ 633,991**	$ 671,631	$ 577,533	$ (37,640)	-5.6%	$ 94,098	16.3%
Long-term debt, net	**5,919,679**	5,776,840	5,895,297	142,839	2.5%	(118,457)	-2.0%
Other noncurrent liabilities	**1,748,443**	1,736,742	1,532,797	11,701	0.7%	203,945	13.3%
Total liabilities	**8,302,113**	8,185,213	8,005,627	116,900	1.4%	179,586	2.2%
Deferred inflows of resources	**176,124**	137,511	173,358	38,613	28.1%	(35,847)	-20.7%
Total liabilities plus deferred inflows of resources	**8,478,237**	8,322,724	8,178,985	155,513	1.9%	143,739	1.8%
Net position							
Net investment in capital assets	**2,602,517**	2,563,140	2,123,616	39,377	1.5%	439,524	20.7%
Restricted	**577,993**	596,669	778,629	(18,676)	-3.1%	(181,960)	-23.4%
Unrestricted	**573,423**	544,696	611,782	28,727	5.3%	(67,086)	-11.0%
Total net position	**3,753,933**	3,704,505	3,514,027	49,428	1.3%	190,478	5.4%
Total liabilities plus deferred inflows of resources plus net position	**$ 12,232,170**	$ 12,027,229	$ 11,693,012	$ 204,941	1.7%	$ 334,217	2.9%

Current Assets

FY2021 – Current assets at January 31, 2021, of $1,089.3 million were $58.1 million higher than the balance at January 31, 2020, due to increases of $54.3 million in customer accounts receivable related to COVID-19 impacts and suspending disconnects, offering payment plans and working with customers on assistance programs. As well as increases of $29.6 million in current interest and other accounts receivable, $19.3 million in coal inventory, and $10.5 million in current prepayments. These increases were partially offset by a decrease of $53.4 million in materials and supplies due to several long-term service agreement parts being installed in the current year .

FY2020 – Current assets at January 31, 2020, of $1,031.1 million were $111.0 million higher than the balance at January 31, 2019, due to increases of $61.2 million in materials and supplies, $24.9 million in prepayments, $12.2 million in the General Fund, $10.3 million in coal inventory, $5.1 million in current interest and other accounts receivable, $3.6 million in insurance reserves, and $2.4 million in solar farm deposits. These increases were partially offset by decreases of $4.2 million in customer accounts receivable, $3.3 million in gas inventory, and $1.2 million in customer deposits.

Noncurrent Restricted Assets

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

FY2020 – Noncurrent restricted assets totaled $1,244.3 million at January 31, 2020, a decrease of $103.0 million compared to January 31, 2019. The overall variance was largely attributable to decreases of $171.4 million in the Repair and Replacement Account and $11.0 million in the Debt Service Account. These decreases were partially offset by an increase of $79.2 million in the Decommissioning Trusts balance.

Other Noncurrent Assets

FY2021 – Other noncurrent assets increased to $519.8 million at January 31, 2021, from $445.0 million at January 31, 2020. The $74.8 million change reflects an increase of $34.4 million in the net OPEB asset primarily due to favorable market performance and favorable impact of demographic gains largely attributable to the Health Plan. There was also an increase of $18.4 million in the long-term service agreement inventory, partially offset by a decrease of $24.6 million in **STEP** net costs recoverable.

FY2020 – Other noncurrent assets decreased to $445.0 million at January 31, 2020, from $539.7 million at January 31, 2019. The $94.7 million change reflects decreases of $58.1 million in the long-term service agreement inventory, $37.1 million in the net OPEB asset and $5.3 million in the pension regulatory asset, partially offset by increases of $3.7 million **STEP** net costs recoverable and $2.3 million in unamortized bond expense.

Deferred Outflows of Resources

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

FY2020 – Deferred outflows of resources increased $75.6 million, from $731.1 million at January 31, 2019, to $806.7 million at January 31, 2020, primarily due to increases of $40.6 million in deferred outflows related to pension and OPEB to reflect updated actuarial valuations, $29.0 million for unrealized losses on fuel hedges and $6.8 million in unamortized asset retirement obligations costs.

Capital Assets, Net

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

	January 31,			Change			
	2021	2020	2019	2021 vs. 2020		2020 vs. 2019	
Nondepreciable assets							
Land	$ **105,393**	$ 104,517	$ 104,991	$ 876	0.8 %	$ (474)	-0.5%
Land easements	**107,718**	107,520	107,531	198	0.2 %	(11)	—%
Construction-in-progress	**497,379**	702,054	580,984	(204,675)	-29.2 %	121,070	20.8%
Total nondepreciable assets	**710,490**	914,091	793,506	(203,601)	-22.3 %	120,585	15.2%
Depreciable/amortizable assets							
Electric plant							
Buildings and structures	**512,185**	517,970	531,183	(5,785)	-1.1 %	(13,213)	-2.5%
Systems and improvements	**5,820,010**	5,599,931	5,414,331	220,079	3.9 %	185,600	3.4%
Total electric plant	**6,332,195**	6,117,901	5,945,514	214,294	3.5 %	172,387	2.9%
Gas plant							
Buildings and structures	**82**	84	86	(2)	-2.4 %	(2)	-2.3%
Systems and improvements	**702,048**	670,136	625,783	31,912	4.8 %	44,353	7.1%
Total gas plant	**702,130**	670,220	625,869	31,910	4.8 %	44,351	7.1%
General plant							
Buildings and structures	**318,274**	169,786	177,979	148,488	87.5 %	(8,193)	-4.6%
Machinery and equipment	**257,910**	264,562	283,455	(6,652)	-2.5 %	(18,893)	-6.7%
Other	**2,157**	2,535	2,967	(378)	-14.9 %	(432)	-14.6%
Total general plant	**578,341**	436,883	464,401	141,458	32.4 %	(27,518)	-5.9%
Intangibles							
Software	**166,740**	194,196	186,937	(27,456)	-14.1 %	7,259	3.9%
Other	**26,136**	30,182	31,202	(4,046)	-13.4 %	(1,020)	-3.3%
Total intangibles	**192,876**	224,378	218,139	(31,502)	-14.0 %	6,239	2.9%
Nuclear fuel	**122,023**	136,573	107,241	(14,550)	-10.7 %	29,332	27.4%
Total depreciable/ amortizable assets	**7,927,565**	7,585,955	7,361,164	341,610	4.5 %	224,791	3.1%
Total capital assets, net	**$ 8,638,055**	$ 8,500,046	$ 8,154,670	$ 138,009	1.6 %	$ 345,376	4.2%

FY2021 – At January 31, 2021, net capital assets of $8,638.1 million increased $138.0 million from $8,500.0 million at January 31, 2020. The increase was primarily due to a $214.3 million increase in electric plant, a $141.5 million increase in general plant, and a $31.9 million increase in gas plant. The increase was partially offset by a $6.7 million decrease in general machinery and equipment and a $31.5 million decrease in intangible assets. Total depreciable/ amortizable assets increased $341.6 million.

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

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

FY2020 – At January 31, 2020, net capital assets of $8,500.0 million increased $345.4 million from $8,154.7 million at January 31, 2019. The increase was primarily due to a $172.4 million increase in electric plant due to the $87.1 million JBSA electric and gas infrastructure asset purchase, $44.4 million increase in gas plant, and a $6.2 million increase in intangible assets. The increase was partially offset by a $18.9 million decrease in general machinery and equipment. Total depreciable/amortizable assets increased $224.8 million.

Of the total plant-in-service and construction-in-progress additions, $748.9 million was related to new construction and net removal costs. These additions included funding with $317.3 million of debt, $55.5 million from contributed capital and $376.1 million from the Repair and Replacement Account.

Current Liabilities

FY2021 – Excluding current maturities of debt of $164.5 million, current liabilities decreased $41.0 million, from $510.5 million at January 31, 2020, to $469.5 million at January 31, 2021. The lower balance was primarily due to decreases of $32.9 million in accounts payable and accrued liabilities and $4.5 million in STP operating, maintenance and construction payables.

FY2020 – Excluding current maturities of debt of $161.2 million, current liabilities increased $69.7 million, from $440.8 million at January 31, 2019, to $510.5 million at January 31, 2020. The higher balance was primarily due to increases of $44.9 million in accounts payable and accrued liabilities, $22.2 million in STP operating, maintenance and construction payables, and $4.1 million in current customer advances partially offset by a decrease of $1.7 million payable to the City.

Other Noncurrent Liabilities

FY2021 – Excluding the noncurrent portion of debt of $5,919.7 million, noncurrent liabilities increased $11.7 million to $1,748.4 million at January 31, 2021, primarily due to increases of $36.2 million in decommissioning net costs refundable, $26.7 million in asset retirement obligations, $20.2 million in STP OPEB and pension liability, $17.4 million million in long-term service agreement liability and $4.2 million in operating reserves, partially offset by decreases of $84.4 million in net pension liability and $8.9 million in other liabilities.

FY2020 – Excluding the noncurrent portion of debt of $5,776.8 million, noncurrent liabilities increased $203.9 million to $1,736.7 million at January 31, 2020, primarily due to increases of $122.3 million in net pension liability, $61.2 million in decommissioning net costs refundable, $25.1 million in asset retirement obligations, $7.4 million in other liabilities and $2.9 million in operating reserves. These increases were partially offset by decreases of $13.1 million in long-term service agreement liability and $1.2 million in STP OPEB and pension liability.

Deferred Inflows of Resources

FY2021 – Deferred inflows of resources increased $38.6 million, from $137.5 million at January 31, 2020, to $176.1 million at January 31, 2021, primarily due to increases of $31.8 million in deferred inflows related to pension and OPEB and $10.8 million in unrealized gains on fuel hedges, partially offset by a decrease of $3.5 million in deferred inflows for unrealized future recoveries related to the JBSA agreement.

FY2020 – Deferred inflows of resources decreased $35.9 million, from $173.4 million at January 31, 2019, to $137.5 million at January 31, 2020, primarily due to a $118.6 million decrease in deferred inflows related to pension and OPEB partially offset by an increase of $84.3 million in deferred inflows for unrealized future recoveries related to the JBSA agreement.

FINANCING AND DEBT COVENANTS COMPLIANCE

Long-Term Debt (Excluding Commercial Paper)

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

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

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

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

Summary of Debt Rollforward Activity[1]

(In thousands)

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

[1]Excludes commercial paper, discounts and premiums.

FY2020 – At January 31, 2020, CPS Energy's total debt was $5,447.0 million, excluding commercial paper, discounts and premiums. This long-term debt was composed of $4,737.1 million in fixed-interest-rate instruments and $709.9 million in variable-interest-rate instruments. Fixed-interest-rate long-term debt had an overall weighted-average yield of 4.1%. Separately, the variable-rate bonds had a weighted-average yield of 2.2%.

Issuances – On September 25, 2019, CPS Energy issued $114.7 million of New Series 2019 Senior Lien Revenue Refunding Bonds. Bond proceeds, including the $22.8 million premium associated with the bonds, were used to refund $116.8 million par value of the New Series 2012 Revenue Bonds. The refunding transaction resulted in net present value debt service savings of $3.1 million, or 2.7%, of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in FY2026 through FY2030, is 1.5%.

On November 21, 2019, CPS Energy issued $252.6 million of Series 2019 Junior Lien Revenue Refunding Bonds. Bond proceeds, including $52.8 million premium associated with the bonds, were used to partially refund $100.0 million par value of the 2010A Senior Lien Revenue Bonds (BABs) and $200.0 million of the 2010B Junior Lien Revenue Bonds (BABs). The refunding transaction resulted in a net present value debt service savings of $50.1 million, or 16.7%, of the par amount of the bonds being refunded. The true interest cost for this issuance, which has maturities in FY2033 through FY2041, is 2.9%.

On December 2, 2019, CPS Energy remarketed $124.2 million of Series 2015A Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of $0.9 million premium, in conjunction with the remarketing, resulted in a principal paydown for the remarketed bonds of approximately $0.4 million. The bonds have maturities in FY2029 through FY2033. The coupon rate for these bonds is 1.75%, with a current yield of 1.6% and true interest cost of 4.3%, which reflects stepped interest rate provisions applicable to the bonds.

On December 2, 2019, CPS Energy remarketed $99.7 million of Series 2015C Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of $0.7 million premium, in conjunction with the remarketing, resulted in a principal paydown for the remarketed bonds of approximately $0.3 million. The bonds have maturities in FY2039 through FY2046. The coupon rate for these bonds is 1.75%, with a current yield of 1.6% and true interest cost of 5.2%, which reflects stepped interest rate provisions applicable to the bonds.

On January 28, 2020, CPS Energy issued $134.6 million of New Series 2020 Senior Lien Revenue Refunding Bonds. Proceeds, including the $36.4 million premium associated with the bonds, were used to refund $170.0 million par value of the Commercial Paper Series A. The true interest cost for this issue, which has maturities in FY2026 through FY2049, is 3.1%.

On January 28, 2020, CPS Energy issued $127.8 million of Series 2020 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the $3.1 million premium associated with the bonds, were used to refund $50.0 million and $80.0 million par value of the Commercial Paper Series A and 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 FY2042 through FY2049, is 5.0%. The bonds were issued as multi-modal variable-rate instruments with initial term rates of 1.75% and a stepped rate of 7.0%, which is only applicable if the bonds are not remarketed before their expiration date.

Reductions – On January 28, 2020, $108.0 million of New Series 2016 Senior Lien Revenue Refunding Bonds were legally defeased with cash. Under the defeasance, the debt obligations were technically voided, as the cash was escrowed with a third party to service the debt. As a result, $12.5 million was recorded as cost of defeasance representing the additional cash put into escrow for the interest that would have been incurred in FY2022 through FY2025.

CPS Energy made principal payments of $136.7 million in FY2020. Additional principal paydowns related to refunding and defeasance transactions during the year totaled $749.4 million.

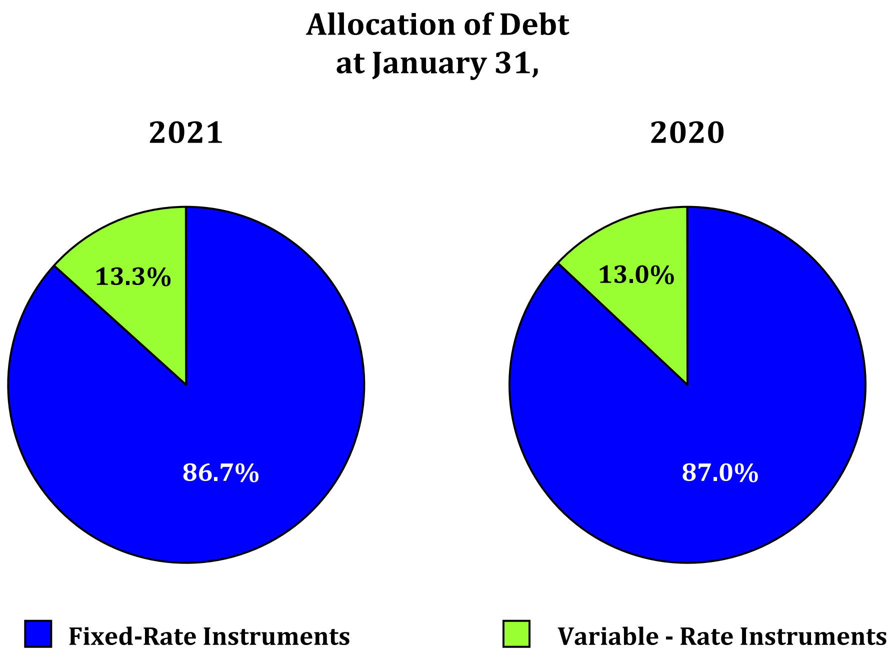
Summary of Debt Rollforward Activity[1]

(In thousands)

Balance Outstanding February 1, 2019	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2020
$ 5,479,405	$ 853,620	$ (886,050)	$ 5,446,975

[1]Excludes commercial paper, discounts and premiums.

See accompanying Independent Auditors' report.



Note: Graphs exclude commercial paper.

Commercial Paper

CPS Energy maintains a commercial paper program to provide taxable and tax-exempt financing for various purposes. In 1988, the San Antonio City Council adopted an ordinance authorizing the issuance of up to $300 million in tax-exempt commercial paper. The current ordinances allow for the issuance of three separate series of commercial paper to provide funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed $700 million to the extent of support from liquidity facilities. As of January 31, 2021, there was a total of $700 million in liquidity support. The ordinances allow for the issuance of taxable commercial paper, as well as tax-exempt commercial paper. Eligible projects include fuel acquisition, capital improvements to the electric and gas systems ("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 New Series Bonds (senior lien obligations) and Series Bonds (junior lien obligations). Scheduled maximum maturities cannot extend beyond April 11, 2049.

The commercial paper has been classified as long-term in accordance with the refinancing terms under three revolving credit agreements with a consortium of banks, which support the commercial paper program. The Series A agreement provides $400 million in liquidity support for the Series A Notes and is effective through June 21, 2023. The Series B agreement provides $200 million in liquidity support for the Series B Notes and the Series C agreement provides $100 million in liquidity support for the Series C Notes. The Series B and Series C agreements are both effective through June 21, 2022. Under the terms of these revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed $700 million for paying principal due under the commercial paper program. At January 31, 2021, there was no amount outstanding under the revolving credit agreements. Further, there have been no borrowings under the agreements since inception of the program. See Note 6 – Revenue Bond and Commercial Paper Ordinances Requirements and Note 8 – Commercial Paper and Related Revolving Credit Agreements.

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

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

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

Summary of Commercial Paper Rollforward Activity
(In thousands)

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

FY2020 – *Issuances* – CPS Energy issued a total of $320.0 million in commercial paper during the fiscal year ended January 31, 2020, to fund construction costs.

Reductions – CPS Energy made reductions of $430.0 million related to commercial paper refunding transactions and principal paydowns in FY2020.

At January 31, 2020, the outstanding commercial paper balance was $95.0 million, all of which was issued as tax-exempt.

Summary of Commercial Paper Rollforward Activity
(In thousands)

Balance Outstanding February 1, 2019	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2020
$ 205,000	$ 320,000	$ (430,000)	$ 95,000

The weighted-average interest rate on outstanding commercial paper was 0.1% at January 31, 2021, and 1.4% at January 31, 2020. The weighted-average maturity of commercial paper at January 31, 2021 and 2020, was 19 and 146 days, respectively.

Compliance

With respect to all New Series Bonds outstanding at January 31, 2021, the net revenues of the Systems are pledged to the payment of principal and interest thereon. All New Series Bonds are issued as senior lien obligations, and the principal and interest thereon have a first lien upon the net revenues of CPS Energy's Systems.

The Series 2010A Junior Lien BABs; the Series 2013 and Series 2014 Junior Lien Revenue Bonds; the Series 2015A and 2015B Variable-Rate Junior Lien Revenue Refunding Bonds; the Series 2015C and 2015D Variable-Rate Junior Lien Revenue Bonds; the Series 2018 Variable-Rate Junior Lien Revenue Refunding Bonds; and the Series 2020 Variable-Rate Junior Lien Revenue Refunding Bonds were issued as junior lien obligations. The borrowings from the junior lien obligations are equally and ratably secured by and payable from the net revenues of CPS Energy's Systems. The pledge is subordinate and inferior to the pledge of net revenues securing the senior lien obligations, but prior and superior to the lien on, and pledge of, the net revenues securing the payment of the commercial paper notes.

The commercial paper revolving credit agreements permit CPS Energy to borrow up to an aggregate amount, not to exceed $700.0 million, for paying amounts due under the commercial paper program. The commercial paper outstanding is also secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of senior lien and junior lien obligations.

At January 31, 2021 and 2020, CPS Energy was in compliance with the terms and provisions of the documents related to the senior and junior lien obligations, and the commercial paper programs.

Debt Service

CPS Energy has taken the position that the BABs direct subsidy should be deducted from debt service when calculating the debt service coverage ratio since the subsidy is received directly by the trustee and is to be used solely for debt service. Therefore, at January 31, 2021, the debt service coverage calculations included a BABs direct subsidy deduction of $12.7 million for the senior lien debt and $18.4 million for both the senior and junior lien debt. At January 31, 2020, the debt service coverage calculations included a BABs direct subsidy deduction of $14.3 million for the senior lien debt and $23.3 million for both the senior and junior lien debt.

BABs Subsidy Sequestration – Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government has reduced the BABs subsidy which resulted in an increase in CPS Energy's debt-related interest expense of approximately $1.1 million and $1.5 million in FY2021 and FY2020, respectively.

The following table illustrates the debt service coverage ratios in accordance with the bond ordinances and also provides the ratios without the direct subsidy deduction:

Debt service Coverage Ratios
at January 31, 2021

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

Debt service Coverage Ratios
at January 31, 2020

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	4.95x	4.65x
Senior and Junior lien debt	2.97x	2.79x

The ratio of debt to debt and net position was 60.5% and 59.9% at January 31, 2021 and 2020, respectively.

Summary of CPS Energy's Bond and Commercial Paper Ratings

	Ratings at January 31, 2021		
	Senior Lien Debt	Junior Lien Debt	Commercial Paper
Fitch Ratings	AA+	AA+	F1+
Moody's Investors Service	Aa1	Aa2	P-1
S&P Global Ratings	AA	AA-	A-1+

As of January 31, 2021, Fitch Ratings had affirmed the ratings of CPS Energy as noted in the above table, however the rating outlook had been revised to Negative from Stable during the fiscal year. Both Moody's Investors Service and S&P Global Ratings still maintained a Stable outlook as of year end. See Note 18 - Subsequent Events for further ratings information subsequent to year end.

CURRENTLY KNOWN FACTS

Strategic Initiatives – In support of CPS Energy's commitment to provide world-class energy solutions to meet the diverse and unique needs of its customers, CPS Energy is now focused on its ***Flexible Path***SM Strategy. The ***Flexible Path*** is the Company's strategic approach to prudently leverage its existing community-owned generation assets to bridge to a future that enables more low and nonemitting resources such as wind, solar, energy storage, and new technology. CPS Energy will use its ***Guiding Pillars*** of ***Reliability, Customer Affordability, Security, Safety, Environmental Responsibility*** and ***Resiliency***, as key priorities to drive this strategy. These ***Guiding Pillars*** are all grounded in ***Financial Responsibility***.

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

In June 2019, CPS Energy announced the ***Flex*POWER Bundle**SM. The ***Flex*POWER Bundle**, an important part of the ***Flexible Path***, is a deliberately blended approach to power generation through which CPS Energy will consider adding more solar capacity, energy battery storage and new technologies. The ***Flex*POWER Bundle** is a diversified solution that recognizes 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 ***Flex*POWER Bundle** generation solution will ensure the community has the power to thrive while maximizing the existing community-owned generation assets.

In July 2020, CPS Energy released a Request for Information ("RFI") to identify potential non- or low-emitting generation and demand side resources consistent with the utility's ***Flexible Path*** vision. The RFI responses informed the design of two strategic CPS Energy initiatives, the ***Flex*POWER Bundle** and ***Flex*STEP**. CPS Energy released two Requests for Proposals ("RFP"), one for generation resources in support of ***Flex*POWER Bundle** and an RFP in support for ***Flex*STEP** for both tried and true energy efficiency programs and for new and innovative demand side solutions.

Both the ***Flexible Path*** and the ***Flex*POWER Bundle** will help the community move closer to a cleaner energy footprint and align with the City's Climate Action and Adaptation Plan initiative that was approved by the Board through a resolution in FY2021. CPS Energy anticipates the implementation of many more programs and strategic partnerships under the **F*lexible Path***SM and the ***Flex*POWER Bundle**SM.

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

- GASB Statement No. 87, *Leases*, requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the Company's leasing activities. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2022. The Company has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2022. The Company has initiated an evaluation of the impact that adoption of this Statement will have on its accounting for allowance for funds used during construction ("AFUDC").

- GASB Statement No. 91, *Conduit Debt Obligations,* provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice for commitments extended by issuers and other arrangements with conduit debt obligations. The standard also clarifies the existing definition of conduit debt obligations and improves required note disclosures. This standard will become effective in CPS Energy's fiscal year ending January 31, 2023; however, because CPS Energy's debt instruments do not include conduit debt obligations, there is no expected impact on the Company's financial statements.

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

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

Legislation and Regulations – The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") was signed into law on July 21, 2010. Title VII of the Dodd-Frank Act, known as the "Wall Street Transparency and Accountability Act of 2010," substantially modified portions of the Commodity Exchange Act with respect to swap transactions. The law was designed to reduce risk, establish new business conduct rules, increase transparency and promote market integrity within the financial system. The Dodd-Frank Act gave the Commodity Futures Trading Commission ("CFTC") and the Securities and Exchange Commission ("SEC") statutory authority to regulate the over-the-counter derivative instruments market, including many of the commodities that are currently being traded or hedged by CPS Energy in accordance with its own policies and procedures. The CFTC and SEC, as well as U.S. prudential regulators charged with guarding against systemic risk to the banking and financial system, propose, finalize and implement rules pursuant to the legislation. CPS Energy is subject to some of the CFTC and SEC rules, including swap transaction reporting and recordkeeping, in addition to other administrative rules and regulations, such as the Independent Registered Municipal Advisor rule that impacts capital market participants. As an "end-user" CPS Energy is exempt from clearing and margining its over-the-counter positions and from capital requirements related to its commodities activities.

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

On January 19, 2020, the D.C. Court of Appeals vacated the Affordable Clean Energy ("ACE") rule and remanded it to the Environment Protection Agency ("EPA"). The D.C. Circuit Court determined the EPA did not act lawfully in adopting the 2019 ACE Rule and therefore cancelled it and sent it back to the EPA.

In 2017 under the Trump Administration, the EPA repealed the Obama Administration's Clean Power Plan ("CPP") and put into effect the ACE rule as a replacement under the section 111(d) of the Clean Air Act. Both the CPP and the ACE rule mark the EPA's attempts to regulate carbon dioxide (CO_2) emissions from existing fossil fuel-fired power plants. The incoming administration under Biden will be able to draft a new rule, but it will take time to get through the regulatory process – from 2-3 year to develop a draft, issue a proposal, take comments, and publish the final rule.

The Generation Sector Industrial Effluent Guidelines Rule for power plant wastewater was finalized in 2016, with the latest compliance date of December 31, 2023. The Phase 1 rule's effective date was delayed for two years until November 2020. The EPA issued a proposed rule in November 2019 and final rule in October 2020, extending the final deadline to December 2028 for Zero Liquid Discharge technology which is CPS Energy's preferred option.

In July 2018, the EPA completed area designations for the 2015 ozone standards by designating eight counties in the San Antonio, Texas metropolitan area. The rule was published in the Federal Register on July 25, 2018. The EPA designated Bexar County as an Ozone Nonattainment area and the remaining seven counties – Atascosa, Bandera, Comal, Guadalupe, Kendall, Medina, and Wilson as Unclassifiable (insufficient data to classify). Bexar County is classified as Marginal Nonattainment which is the least stringent. Due to ozone readings in 2020, the area is expected to be designated Moderate Nonattainment in late 2021. The City of San Antonio ("COSA") has developed an Ozone Action Master Plan, and CPS Energy is working with COSA and the Alamo Area Council of Governments. CPS Energy developed an internal Ozone Action Plan and will continue its ***Flexible Path*** strategy to reduce emissions. On

January 29, 2021, the D.C. Circuit vacated a few challenged provisions of the EPA's rule implementing the 2015 Ozone National Ambient Air Quality Standards, which will impact how the TCEQ develops the State Implementation Plan.

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

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

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

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

COVID-19 – Worldwide, national and local community transmission of novel coronavirus, COVID-19, has resulted in economic uncertainties at the national, state and local level. Within CPS Energy's service territory, state and local officials have implemented requirements for nonessential businesses to either temporarily close or take measures that will slow the spread of the virus. With the temporary closures and restrictions, CPS Energy's revenues have been impacted, with usage in some customer classes increasing while other classes decreasing. Additionally, CPS Energy has suspended service disconnects and waived late fees for customers on payment plans during this time of uncertainty. As a result of this decision, outstanding customer accounts receivable has increased with additional customers participating in payment plans as well as a larger portion of bills aged and past due. Additionally, the allowance for doubtful accounts has increased as the aged receivables balance outstanding has grown. In response to the increased financial assistance need of the community, CPS Energy developed an outreach program to proactively contact customers and educate them on various discounts and affordability programs offered. The Company continues to evaluate the economic and financial impact from these actions.

Winter Storm Event – Subsequent to year end, a winter storm swept through the continental United States that severely affected the Texas electrical grid. As a result, the operations and Systems of CPS Energy, were significantly disrupted. In addition, Texas utilities, including CPS Energy, were faced with unprecedented financial costs associated with the effects of the storm on gas prices and prices of purchased power. See Note 18 – Subsequent Events for further discussion of the impact of this event.

REQUESTS FOR INFORMATION

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

Independent Auditors' Report

To the Board of Trustees of
City Public Service of San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the 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, 2021 and 2020, and the related notes to the financial statements, which collectively comprise CPS Energy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the CPS Energy fiduciary activities as of and for the years ended December 31, 2020 and 2019. Those statements were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the amounts included for CPS Energy fiduciary activities, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. The January 31, 2021 audit was also conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the fiduciary activities were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CPS Energy's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary activities of CPS Energy as of January 31, 2021 and 2020, and the respective changes in financial position and cash flows (if applicable) thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the financial statements, subsequent to the date of the financial statements, CPS Energy has been impacted by the market response to the February 2021, Winter Storm Uri. Our opinions are not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued a report dated April 26, 2021 on our consideration of CPS Energy’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other mattersy. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CPS Energy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CPS Energy's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Austin, Texas
April 26, 2021

STATEMENTS OF NET POSITION

	January 31, 2021	January 31, 2020
	(In thousands)	
Assets		
Current assets		
Cash and cash equivalents	**$ 429,308**	$ 174,647
Investments	**39,626**	296,237
Interest and other accounts receivable	**88,018**	58,431
Customer accounts receivable, less allowance for doubtful accounts of $55.2 million at January 31, 2021, and $15.5 million at January 31, 2020	**252,698**	198,402
Inventories, at average costs		
Materials and supplies, net	**108,277**	161,707
Fossil fuels	**80,490**	61,341
Prepayments and other	**90,866**	80,374
Total current assets	**1,089,283**	1,031,139
Noncurrent assets		
Restricted		
Cash and cash equivalents	**109,128**	247,564
Investments	**1,165,603**	989,076
Interest and other accounts receivable	**7,142**	7,694
Pension regulatory asset	**229,148**	234,477
Other noncurrent assets	**290,651**	210,486
Capital assets, net	**8,638,055**	8,500,046
Total noncurrent assets	**10,439,727**	10,189,343
Total assets	**11,529,010**	11,220,482
Deferred outflows of resources		
Unrealized contributions and losses related to pension and OPEB	**125,167**	213,833
Unrealized losses on fuel hedges	**1,849**	33,564
Unamortized debt reacquisition costs	**71,458**	61,391
Unamortized costs for asset retirement obligations	**504,686**	497,959
Total deferred outflows of resources	**703,160**	806,747
Total assets plus deferred outflows of resources	**$ 12,232,170**	$ 12,027,229

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF NET POSITION

	January 31, 2021	January 31, 2020
	(In thousands)	
Liabilities		
Current liabilities		
Current maturities of debt	**$ 164,495**	$ 161,160
Accounts payable and accrued liabilities	**469,496**	510,471
Total current liabilities	**633,991**	671,631
Noncurrent liabilities		
Long-term debt, net	**5,919,679**	5,776,840
Asset retirement obligations	**1,056,170**	1,029,485
Decommissioning net costs refundable	**156,422**	120,262
Net pension liability	**293,722**	378,128
Other noncurrent liabilities	**242,129**	208,867
Total noncurrent liabilities	**7,668,122**	7,513,582
Total liabilities	**8,302,113**	8,185,213
Deferred inflows of resources		
Unrealized gains on fuel hedges	**10,765**	—
Unrealized gains related to pension and OPEB	**84,158**	52,314
Unrealized future revenues	**81,201**	85,197
Total deferred inflows of resources	**176,124**	137,511
Total liabilities plus deferred inflows of resources	**8,478,237**	8,322,724
Net position		
Net investment in capital assets	**2,602,517**	2,563,140
Restricted		
Debt service	**8,185**	1,153
Ordinance	**569,808**	595,516
Unrestricted	**573,423**	544,696
Total net position	**3,753,933**	3,704,505
Total liabilities plus deferred inflows of resources plus net position	**$ 12,232,170**	$ 12,027,229

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended January 31, 2021	2020
	(In thousands)	
Operating revenues		
Electric		
Retail	**$ 2,224,460**	$ 2,208,571
Wholesale	**134,616**	217,825
Total electric operating revenues	**2,359,076**	2,426,396
Gas	**150,704**	142,782
Total operating revenues	**2,509,780**	2,569,178
Operating expenses		
Fuel, purchased power and distribution gas	**730,257**	692,583
Operation and maintenance	**591,183**	567,456
Annual OPEB and pension	**63,703**	79,635
Energy efficiency and conservation (STEP)	**48,193**	72,815
STEP net costs recoverable	**23,193**	235
Regulatory assessments	**94,648**	82,622
Decommissioning	**19,608**	18,000
Depreciation and amortization	**436,098**	421,000
Total operating expenses	**2,006,883**	1,934,346
Operating income	**502,897**	634,832
Nonoperating income (expense)		
Interest and other income, net	**17,281**	54,059
Decommissioning Trusts investment income and change in fair value	**56,511**	80,448
Decommissioning net costs recoverable (refundable)	**(36,903)**	(62,448)
Interest and other expense	**(233,582)**	(257,855)
Amortization of debt-related costs	**27,671**	40,697
Allowance for funds used during construction	**9,076**	14,873
Payments to the City of San Antonio	**(330,564)**	(342,988)
Total nonoperating income (expense)	**(490,510)**	(473,214)
Income before other changes in net position	**12,387**	161,618
Other payments to the City of San Antonio	**(12,018)**	(11,979)
Contributed capital	**74,080**	59,507
Effect of defined benefit plan funding obligations – STP	**(25,021)**	(18,668)
Change in net position	**49,428**	190,478
Net position – beginning	**3,704,505**	3,514,027
Net position – ending	**$ 3,753,933**	$ 3,704,505

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 31,	
	2021	2020
	(In thousands)	
Cash flows from operating activities		
Cash received from customers	**$ 2,430,049**	$ 2,567,210
Cash received from City services billed	**140,703**	142,323
Cash payments to suppliers for goods and services	**(1,185,057)**	(1,204,456)
Cash payments to employees for service	**(242,152)**	(230,181)
Cash payments to the City for services billed	**(140,791)**	(142,284)
Net cash provided (used) by operating activities	**1,002,752**	1,132,612
Cash flows from capital and related financing activities		
Cash paid for additions to utility plant and net removal costs	**(651,859)**	(720,946)
Contributed capital	**66,317**	55,211
Proceeds from the sale of capital assets	**—**	14,020
Proceeds from issuance of revenue bonds and commercial paper	**326,241**	322,546
Principal payments on revenue bonds and cash defeasance of debt	**(161,160)**	(566,720)
Interest paid	**(237,675)**	(245,507)
Debt issue and cash defeasance costs paid	**(3,194)**	(18,107)
Net cash provided (used) by capital and related financing activities	**(661,330)**	(1,159,503)
Cash flows from noncapital financing activities		
Cash payments to the City of San Antonio	**(343,259)**	(356,704)
Cash flows from investing activities		
Purchases of investments	**(640,445)**	(568,675)
Proceeds from sales and maturities of investments	**696,160**	734,987
Interest and other income	**62,347**	55,464
Net cash provided (used) by investing activities	**118,062**	221,776
Net increase (decrease) in cash and cash equivalents	**116,225**	(161,819)
Cash and cash equivalents at beginning of period	**422,211**	584,030
Cash and cash equivalents at end of period	**$ 538,436**	$ 422,211

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 31,	
	2021	2020
	(In thousands)	
Reconciliation of operating income to net cash provided by operating activities		
Cash flows from operating activities		
Operating income	**$ 502,897**	$ 634,832
Noncash items included		
Depreciation and amortization	**436,098**	421,000
Nuclear fuel amortization	**49,156**	47,243
Provision for doubtful accounts	**46,422**	7,832
Changes in current assets and liabilities		
(Increase) decrease in customer accounts receivable, net	**(100,718)**	(3,679)
(Increase) decrease in other receivables	**(25,061)**	(5,595)
(Increase) decrease in materials and supplies	**53,430**	(61,165)
(Increase) decrease in fossil fuels	**(19,149)**	(6,996)
(Increase) decrease in prepayments and other	**(3,195)**	(24,837)
Increase (decrease) in accounts payable and accrued liabilities	**(12,455)**	47,936
Changes in noncurrent and other assets and liabilities		
(Increase) decrease in other noncurrent assets and prepaid costs	**(28,491)**	94,422
Increase (decrease) in customer service deposits payable	**(374)**	(526)
Increase (decrease) in asset retirement obligation	**26,685**	25,135
Increase (decrease) in noncurrent liabilities	**(62,961)**	97,977
Changes in deferred outflows of resources	**108,624**	(22,332)
Changes in deferred inflows of resources	**31,844**	(118,635)
Net cash provided (used) by operating activities	**$ 1,002,752**	$ 1,132,612
Noncash financing activities		
Bond proceeds deposited into an escrow account for purposes of refunding long-term debt	**$ 520,245**	$ 970,328
Donated assets received and recorded	**$ 7,763**	$ 4,035
Capital asset additions	**$ —**	$ 87,054

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF FIDUCIARY NET POSITION

	December 31,	
	2020	2019
	(In thousands)	
Assets		
Cash and cash equivalents	**$ 37,755**	$ 48,724
Cash and cash equivalents collateral from securities lending	**43,584**	36,751
Receivables		
Accrued interest and dividends receivable	**4,212**	3,690
Receivable from federal government under Medicare Part D	**121**	110
Investment trades pending receivable	**—**	357
Receivable from property managers and others	**756**	47
Total receivables	**5,089**	4,204
Investments		
U.S. Government securities, partially pledged in 2016	**106,444**	116,999
Corporate bonds	**258,191**	223,536
Global bond funds	**62,482**	81,869
Senior loan fund	**88,418**	84,724
Domestic equities	**947,477**	836,082
Low-volatility equities	**178,153**	176,021
International equities	**259,746**	224,538
Specialized funds	**26,648**	26,824
Master limited partnerships	**96,725**	129,464
Alternative investments	**57,553**	62,035
Real estate	**118,157**	95,918
Investment in partnership	**51,000**	54,000
Total investments	**2,250,994**	2,112,010
Prepayments and other	**—**	—
Total assets	**$ 2,337,422**	$ 2,201,689
Liabilities		
Accounts payable and other liabilities	**$ 773**	$ 782
Investment trades pending payable	**1,329**	552
Investment and administrative expenses payable	**741**	527
Securities lending obligation	**43,584**	36,751
Accrued health claims payable	**4,870**	4,745
Long-term debt	**—**	29,000
Total liabilities	**51,297**	72,357
Net position restricted for pension and other postemployment benefits	**2,286,125**	2,129,332
Total liabilities plus net position	**$ 2,337,422**	$ 2,201,689

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	December 31,	
	2020	2019
	(In thousands)	
Additions		
Contributions		
Employer	**$ 91,887**	$ 108,457
On-behalf payments from federal government	**936**	807
Participants	**27,855**	26,623
Total contributions	**120,678**	135,887
Investment income		
Interest and dividend income	**24,107**	24,790
Securities lending income	**279**	1,706
Real estate rental income	**6,054**	9,973
Net realized and unrealized gain (loss) on investments	**185,206**	304,693
Miscellaneous income	**40**	262
Total investment income (loss)	**215,686**	341,424
Investment expenses	**(8,036)**	(13,226)
Net investment income (loss)	**207,650**	328,198
Total additions	**328,328**	464,085
Deductions		
Benefits paid	**166,465**	154,749
Interest expense	**719**	1,135
Administrative expenses	**4,351**	3,669
Total deductions	**171,535**	159,553
Change in fiduciary net position	**156,793**	304,532
Fiduciary net position – beginning	**2,129,332**	1,824,800
Fiduciary net position – ending	**$ 2,286,125**	$ 2,129,332

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS
January 31, 2021 and 2020

1. Summary of Significant Accounting Policies

Reporting Entity – City Public Service Board of San Antonio (also referred to as "CPS Energy" or the "Company") has been owned by the City of San Antonio, Texas ("City") since 1942. CPS Energy provides electricity and natural gas to San Antonio and surrounding areas. As a municipally owned utility, CPS Energy is exempt from the payment of income taxes, state franchise taxes, use taxes, and real and personal property taxes. CPS Energy provides certain payments and benefits to the City as permitted by bond ordinances. CPS Energy's financial results are also included within the comprehensive annual financial report of the City.

The decision to include applicable component units in CPS Energy's financial statements was made by applying the criteria set forth in Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 84*, Fiduciary Activities*. The following legally separate entities, for which CPS Energy is financially accountable and with which a financial benefit/burden relationship exists, 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".

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. Additional disclosures in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – Amendment of GASB Statement No. 27*, are presented for the Pension Plan in Note 9 – Employee Pension Plan and in Required Supplementary Information ("RSI"). Additional disclosures, in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, are presented for the Employee Benefit Plans in Note 10 – Other Postemployment Benefits and RSI.

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.

Fiscal Year ("FY") – The fiscal years ended January 31, 2021 and 2020, are referred to herein as "FY2021" and "FY2020," respectively.

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.

The fiduciary financial statements of the Pension Plan and the Employee Benefit Plans are reported using the economic resources measurement focus and are prepared on the accrual basis of accounting in conformity with U.S.

GAAP. Contributions and income are recorded when earned and benefits and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. The Pension Plan and the Employee Benefit Plans apply all applicable GASB pronouncements.

In accordance with the utility systems' revenue bond ordinances, CPS Energy has adopted the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners ("NARUC"). The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

FY2020 GASB pronouncement implementations:

- GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. Evaluation of the Company's fiduciary activities resulted in the identification of the Pension Plan and Employee Benefit Plans meeting the criteria to be reported under this guidance. Implementation of GASB Statement No. 84 resulted in the addition of the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position as part of the basic financial statements. The additional statements present the combined activity of the separately audited Pension Plan and Employee Benefit Plans.

- GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61,* improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. CPS Energy does not have a majority equity interest in an organization, therefore, the guidance was not applicable and had no impact on the Company's financial statements.

FY2021 GASB pronouncement implementations:

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

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

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

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

Future GASB pronouncement implementations:

- GASB Statement No. 87, *Leases*, requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the Company's leasing activities. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2022. The Company has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.

- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2022. The Company has initiated an evaluation of the impact that adoption of this Statement will have on its accounting for allowance for funds used during construction ("AFUDC").

- GASB Statement No. 91, *Conduit Debt Obligations,* provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice for commitments extended by issuers and other arrangements with conduit debt obligations. The standard also clarifies the existing definition of conduit debt obligations and improves required note disclosures. This standard will become effective in CPS Energy's fiscal year ending January 31, 2023; however, because CPS Energy's debt instruments do not include conduit debt obligations, there is no expected impact on the Company's financial statements.

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

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

The following information is presented alphabetically:

Accounts Receivable – Accounts receivable are recorded at the invoiced amounts plus an estimate of unbilled revenue receivable. 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 $55.2 million and $15.5 million for fiscal years ended January 31, 2021 and 2020, respectively. As a result of COVID-19 impacts on outstanding accounts receivable balances, the allowance for uncollectible accounts increased as a result of the suspension of disconnects and customers being unable to pay. In June 2020, CPS Energy established the customer outreach program ("CORE program") to expand efforts to contact customers by proactively calling those that were largely impacted by the pandemic and educate them on various discounts and affordability programs offered. 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 $46.4 million and $7.8 million for the fiscal years ended January 31, 2021 and 2020, respectively. At January 31, 2021 and 2020, customer accounts receivables were $245.7 million and $162.0 million, respectively.

Allowance for Funds Used During Construction ("AFUDC") – To reflect funding methodology, the AFUDC rate includes both a debt and an equity component. The blended rate is composed of 50% equity and 50% debt based on construction funding forecasts. The investment rate is reviewed quarterly to determine if any adjustments are necessary. Alternate AFUDC rates are applied to projects costing more than $100 million, reflecting the method by which they are funded.

Asset Retirement Obligations ("ARO") – CPS Energy accounts for AROs in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations*, by recognizing the obligations as a liability based on the best estimate of the current value of outlays expected to be incurred once the assets are retired. See Note 17 – Asset Retirement Obligations.

Build America Bonds ("BABs") – The American Recovery and Reinvestment Act ("ARRA") of 2009 provided authority for the issuance of BABs, which were issuable in calendar years 2009 and 2010 as taxable bonds. The ARRA permitted the issuer or the issuer's paying agent to receive subsidy payments equal to 35% of the bond's interest costs directly from the U.S. Department of the Treasury. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, the federal government reduced the BABs subsidy as noted below:

Subsidy Reduction	Period Covered
6.6%	October 1, 2017, through September 30, 2018
6.2%	October 1, 2018, through September 30, 2019
5.9%	October 1, 2019, through September 30, 2020
5.7%	October 1, 2020, through September 30, 2030

CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating debt service since the subsidy is received directly by a trustee to be used solely for BABs debt service payments. Transaction details for CPS Energy's BABs issuances are provided in Note 7 – Revenue Bonds.

Capital Assets – The costs of additions and replacements of assets identified as major components or property units are capitalized. Maintenance and replacement of minor items are charged to operating expense. For depreciable assets that are retired due to circumstances other than impairment, the cost of the retired asset, plus removal costs and less salvage, is charged to accumulated depreciation. Per the financial reporting requirements of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, any losses associated with capital asset impairments will be charged to operations, not to accumulated depreciation.

A constructed utility plant is stated at the cost of construction, including expenditures for contracted services; equipment, material and labor; indirect costs, including general engineering, labor, equipment and material overheads; and AFUDC, or capitalized interest. AFUDC is applied to projects that require 30 days or more to complete.

Proceeds from customers to partially fund construction expenditures are reported as contributed capital in the Statements of Revenues, Expenses and Changes in Net Position as increases in net position in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The amount reported for contributed capital was $74.1 million and $59.5 million at January 31, 2021 and 2020, respectively. This included donated assets of $7.8 million and $4.0 million, respectively. The remaining portion of these balances, $66.3 million for FY2021 and $55.5 million for FY2020, represents contributions received from customers as payments for utility extensions and services, as well as funding for community initiatives and other local partnership projects.

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.1% for both FY2021 and FY2020.

The estimated useful lives of depreciable capital assets for FY2021 and FY2020 were as follows:

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

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

Thresholds contained in the Company's capitalization policy, procedures and guidelines for FY2021 and FY2020 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

Cash Equivalents and Investments, Unrestricted and Restricted – CPS Energy's investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments. CPS Energy's investments with a maturity date longer than one year from the purchase date are accounted for at fair value. As available, fair values are determined by using generally accepted financial reporting services, publications and broker-dealer information. The specific identification method is used to determine costs in computing gains or losses on sales of securities. CPS Energy also reports all investments of the Decommissioning Trusts at fair value. The investments of the Pension Plan and the Employee Benefit Plans are also reported at fair value in the fiduciary financial statements. Refer to Note 3 – Fair Value Measurement for additional information.

Restricted funds are generally for uses other than current operations. They are designated by law, ordinance or contract, and are often used to acquire or construct noncurrent assets. Restricted funds consist primarily of unspent bond or commercial paper proceeds, debt service required for the New Series Bonds (senior lien obligations), Series Bonds (junior lien obligations), commercial paper, and funds for future construction or contingencies. Restricted funds also include customer assistance programs that receive proceeds from outside parties and the assets of the Decommissioning Trusts. Also included in the restricted funds classification is the Repair and Replacement Account, restricted in accordance with the Company's bond ordinances.

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

For additional disclosures provided in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, see Note 2 – Cash, Cash Equivalents and Investments. These disclosures address investment exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, as applicable.

Compensated Absences – Employees earn vacation benefits based upon their employment status and years of service. At January 31, 2021 and 2020, the accrued liabilities for those vested benefits were $24.4 million and $22.3 million, respectively, which were recorded as accrued liabilities on the Statements of Net Position.

Decommissioning – CPS Energy accounts for its legal obligation to decommission STP Units 1 and 2 in accordance with GASB Statement No. 83. The Company has recognized its pro rata share of an ARO based on the best estimate of the current values of outlays expected to be incurred to decommission the units, determined by the most recent cost study. A new cost study is performed every 5 years; in years after the latest study, the Statement requires the current value of the Company's ARO be adjusted for the effects of inflation or deflation, at least annually. In addition to the ARO, the Company has recorded deferred outflows of resources that are being amortized over the remaining useful life of the plant. See Note 17 – Asset Retirement Obligations for the criteria for determining the timing and pattern of recognition for the decommissioning liability. See Note 13 – South Texas Project for additional details on the most recent cost study.

Additionally, due to requirements under the Code of Federal Regulations governing nuclear decommissioning trust funds, a zero-net position approach is applied in accounting for the Decommissioning Trusts. Accordingly, current year and prior year activity in the Trusts is reported in the nonoperating income (expense) section of the Statements of Revenues, Expenses and Changes in Net Position as decommissioning net costs recoverable (refundable). The cumulative effect of activity in the Trusts is reported on the Statements of Net Position as a noncurrent liability referred to as Decommissioning net costs refundable since any excess funds are payable to customers. Going forward, prolonged unfavorable economic conditions could result in the assets of the Trusts being less than the estimated decommissioning liability. In that case, instead of an excess as currently exists, there would be a deficit that would be reported as decommissioning net costs recoverable and would be receivable from customers.

A project to develop an independent spent fuel storage installation ("Dry Cask Storage Project") was recently completed at STP to provide for storage of spent nuclear fuel after the spent fuel pool has reached capacity. CPS Energy's Decommissioning Trusts have separate spent fuel management accounts that paid for these costs. By contract, spent fuel will eventually be removed to final storage by the Department of Energy ("DOE"). The DOE failed to meet the contractual start date to receive spent fuel, and STP and other utilities have reached settlement agreements with the DOE. In the most recent settlement agreement dated September 1, 2020, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through calendar year 2022.

Ongoing costs for the spent fuel management project are being funded by the STP owners (CPS Energy; the City of Austin; and NRG South Texas LP, a wholly owned subsidiary of NRG Energy, Inc.) as expenditures are incurred. CPS Energy is entitled to request reimbursement at its discretion from its Decommissioning Trusts for the Company's portion of allowable costs. Annually, the South Texas Project Nuclear Operating Company ("STPNOC") submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned to the owners by STP upon receipt from the DOE. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Trusts. Spent fuel management costs that do not qualify for reimbursement by the DOE or the Trusts are recorded as operation and maintenance ("O&M") expense or capital costs.

Deferred Inflows of Resources – Deferred inflows of resources related to pension and OPEB amounted to $84.2 million and $52.3 million at January 31, 2021 and 2020, respectively. Deferred inflows of resources related to unrealized future revenue associated with the sale of the communication towers totaled $0.4 million and $0.9 million at January 31, 2021 and 2020, respectively. Deferred inflows of resources related to future recoveries associated with the FY2020 Joint Base San Antonio ("JBSA") agreement totaled $80.8 million and $84.3 million at January 31, 2021 and 2020, respectively.

Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred outflows or deferred inflows of resources on the Statements of Net Position until the expiration of the contract underlying the hedged expected fuel purchase transaction. When fuel hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel expense. Deferred inflows of resources related to fuel hedges totaled $10.8 million at January 31, 2021. There were no deferred inflows of resources related to fuel hedges at January 31, 2020.

Deferred Outflows of Resources – Deferred outflows of resources related to pension and OPEB amounted to $125.2 million and $213.8 million at January 31, 2021 and 2020, respectively.

Deferred outflows of resources related to fuel hedges totaled $1.8 million and $33.6 million at January 31, 2021 and 2020, respectively.

For current and advance refundings of debt, the difference between the reacquisition price and the net carrying amount of the old debt is recorded as unamortized reacquisition costs and reported as deferred outflows of resources. These amounts are amortized as components of interest expense over the shorter of the remaining life of the refunding or the refunded debt. At January 31, 2021 and 2020, reacquisition costs totaled $71.5 million and $61.4 million, respectively.

Deferred outflows of resources related to AROs associated with the decommissioning of STP Units 1 and 2, and the retirement of the fuel storage tanks, and vaults totaled $504.7 million and $498.0 million at January 31, 2021 and 2020, respectively.

Federal and State Grant Programs – Periodically, federal or state grants are made available to CPS Energy as a subrecipient for a portion of grant funds allocated to the state of Texas or as direct awards. Grant receipts are recorded as nonoperating income and generally reimburse CPS Energy for costs, recorded as operating expenses, incurred in the administration of the program. Federal or state grants that subsidize in whole or a partial amount of capital assets are recognized as contributed capital. These accounting treatments result in no impact to the Company's net position. Revenues associated with the grant-related programs are exempt from payments of a percentage of gross revenues made to the City. Grant funding received by the Company is subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Flexible Rate Revolving Note ("FRRN") Private Placement Program – In FY2010, the San Antonio City Council adopted an ordinance authorizing the establishment of the FRRN Private Placement Program, 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. Under the program, maturity dates cannot extend beyond November 1, 2028. The most recent note purchase agreement under the program was terminated in calendar 2019. On May 27, 2020, CPS Energy Board of Trustees ("Board") authorized the reestablishment of a flexible rate revolving note purchase agreement to provide additional liquidity in support of the Company's Systems. Under the current program, CPS Energy can issue taxable or tax-exempt notes with individual maturities of one year or less at fixed or variable interest rates in an aggregate principal amount at any one time outstanding not to exceed $100 million. There was no balance outstanding under this program at January 31, 2021.

Generation Asset Purchase – In FY2013, CPS Energy purchased the Rio Nogales combined-cycle natural gas electric generating plant in Seguin, Texas. In conjunction with the purchase, CPS Energy entered into a Tax Exemption Settlement Agreement in which CPS Energy agreed to pay $25.5 million to certain parties to compromise, terminate claims and settle any disputes relating to the exemption of ad valorem taxes involving the parties to this agreement. The payment was recorded as an intangible asset that is being amortized over the life of the agreement, which runs through December 2041.

Inventories – CPS Energy maintains inventories for its materials and supplies and fossil fuels. In total, CPS Energy reported ending inventories of $188.8 million and $223.0 million at January 31, 2021 and 2020, respectively. Included in these amounts was CPS Energy's portion of STP inventories, which are valued at the lower of average cost or net realizable value. CPS Energy's directly managed inventories are valued using an average costing approach and are subject to write-off when deemed obsolete. CPS Energy has established a reserve for excess and obsolete inventory that is based on a combination of inventory aging and specific identification of items that can be written off. The reserve is intended to adjust the net realizable value of inventory CPS Energy may not be able to use due to obsolescence. The balance in the reserve amounted to $6.2 million and $5.9 million at January 31, 2021 and 2020, respectively.

Long-Term Debt – To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2021 and 2020, 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 7 – 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.

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 $293.7 million and $378.1 million at January 31, 2021 and 2020, respectively. For additional information, see Note 9 – Employee Pension Plan.

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

Prepayments – Included in prepayments is the balance related to an agreement entered in November 2011 for purchased power from San Antonio-area solar energy facilities with a total of 30 megawatt ("MW") of capacity. In FY2013, $77.0 million in prepayments were made for approximately 60% of the anticipated annual output over a period of 25 years. At January 31, 2021, of the remaining prepayment balance, $3.1 million was classified as current and $47.6 million was classified as noncurrent. At January 31, 2020, of the remaining prepayment balance, $3.1 million was classified as current and $50.7 million was classified as noncurrent. The balance of the output is purchased on a pay-as-you-go basis.

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

2021, the City Council approved an additional extension of the **STEP Bridge** program until July 2022 to allow additional time to recover from COVID-19 related program impacts and to continue gathering public and stakeholder input for ***Flex*STEP**SM. ***Flex*STEP** is CPS Energy's next generation of energy efficiency and conservation programs.

Annually, approximately $9.3 million of **STEP** expenses are funded through the electric base rate and reported as O&M expenses. **STEP** expenses in excess of this initial amount per year are recovered through the fuel adjustment factor over a period of 12 months, or longer for certain **STEP** expenses, beginning in the subsequent fiscal year after the costs are incurred and have been independently validated. These **STEP** recoveries are accrued as a regulatory asset referred to as **STEP** net costs recoverable. At January 31, 2021 and 2020, the net costs recoverable was $48.2 million and $72.8 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 11 – Other Obligations and Risk Management.

Net OPEB (Asset) Liability – A net OPEB (asset) liability is recorded in accordance with GASB Statement No. 75. The asset or liability is the difference between the actuarial total OPEB liabilities and the Employee Benefit Plans' fiduciary net positions as of the measurement date. The net OPEB (asset) liability was $(41.0) million and $(6.6) million at January 31, 2021 and 2020, respectively. For additional information, see Note 10 – Other Postemployment Benefits.

Assets Held for Sale – During FY2021, evaluation of surplus properties resulted in identification and reclassification of several real estate properties from capital assets, net to other noncurrent assets on the Statements of Net Position. The surplus properties that are now reflected as assets held for sale include the former main office complex, the Villita Assembly Building and a former customer service center. At January 31, 2021, assets held for sale had a net book value of $45.64 million. No amounts were reflected under other noncurrent assets for these properties at January 31, 2020.

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

Rate Increases – Rates are set by the Board and approved by the San Antonio City Council. On November 7, 2013, the City Council approved a 4.25% increase in both CPS Energy's electric and natural gas base rates, which were effective February 2014.

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

Regulatory Accounting – Regulatory accounting applies to governmental entities with rate-regulated operations, such as CPS Energy, that fall within the scope of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. 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.

Beginning in FY2014, with the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, CPS Energy adopted the use of regulatory accounting to account for debt issuance costs. Prior to FY2014, the Company had historically reported debt issuance costs as assets and amortized them over the life of the related debt. Under GASB Statement No. 65, debt issuance costs no longer meet the definition of an asset, nor do they meet the definition of a deferred outflow of resources; therefore, they must be expensed in the period incurred. CPS Energy establishes regulatory assets for the debt issuance costs that GASB Statement No. 65 would otherwise require be expensed. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt as the designated rate-recovery period. See Note 7 – Revenue Bonds for additional information.

The Company also elected to use regulatory accounting in conjunction with the implementation of GASB Statement No. 68 in FY2015, which required immediate recognition of the Company's previously unrecognized net pension liability. For governmental entities other than those whose operations are rate regulated, the GASB Statement No. 68 adoption accounting required a charge to net position (equity) for the net effect of the restatements required to recognize the net pension liability. CPS Energy elected to use regulatory accounting, as allowed under GASB Statement No. 62, to create a regulatory asset representing the net effect of the prior period restatements, which totaled $266.5 million and is being amortized over a rate-recovery period of 50 years. The amortization expense was $5.3 million for FY2021 and FY2020 and is included in annual OPEB and pension expense on the Statements of Revenues, Expenses and Changes in Net Position. See Note 9 – Employee Pension Plan for additional information.

Revenues and Expenses – Revenues are recorded when earned. Customers' meters are read, or periodically estimated, and bills are prepared monthly based on billing cycles. Beginning in 2014, CPS Energy began replacing existing electric and gas meters with new "smart meters" that allow two-way communication between the meters and CPS Energy. One of the benefits of the smart meters is that they allow each meter to be read electronically without having to send a meter reader out to manually read each meter to determine the current billing period's electric or gas consumption. As system growth continues to increase, CPS Energy will continue to install and replace electric and gas meters with smart meters to optimize efficiencies.

Rate tariffs include adjustment clauses that permit recovery of electric and gas fuel costs. CPS Energy uses historical information from prior fiscal years as partial bases to estimate and record earned revenue not yet billed (unbilled revenue). This process involves an extrapolation of customer usage over the days since the last meter read through the last day of the monthly period. Also included in unbilled revenue are the over/under-recoveries of electric and gas fuel costs and regulatory assessments. Unbilled revenue receivable recorded at January 31, 2021 and 2020, including estimates for electric fuel and gas costs, was $28.6 million and $21.4 million, respectively.

An adjustment clause in CPS Energy's rate tariffs also permits recovery of regulatory assessments. CPS Energy recovers assessments from the PUCT for transmission access charges and from the Texas Independent System Operator, also known as ERCOT, for its operating costs and other charges applicable to CPS Energy as a wholesale provider of power to other utilities. Regulatory assessments as of January 31, 2021 and 2020, were $94.6 million and $82.6 million, respectively.

Operating revenues include receipts from energy sales, ancillary services and miscellaneous revenue, such as late payment fees and rental income, related to the operation of the Systems. Operating expenses are recorded as incurred and include those costs that result from the ongoing operations of the Systems.

Nonoperating income consists primarily of investment income, including fair value adjustments. Certain miscellaneous income amounts from renting general property, providing various services and rental income from the sale of communication towers are also recorded as nonoperating income when they are not directly identified with the Systems.

Service Concession Arrangement ("SCA") – In accordance with GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, a service concession arrangement between CPS Energy, owner, and Thousand Trails Management Services, Inc. ("TTMSI"), provider, was signed on November 20, 2009. TTMSI provides labor, supervision, management, services and equipment for Braunig Lake Park and Calaveras Lake Park, which are owned by CPS Energy. Gross receipts are distributed based on the contract agreement, which expires on November 30, 2024. CPS Energy is to retain ownership of both parks upon expiration of the arrangement.

At January 31, 2021 and 2020, a receivable was recorded in the amount of $1.5 million and $1.2 million, respectively, related to the TTMSI SCA. This balance represents the net amount of gross receipts less expenditures as of January 31, 2021 and 2020, respectively, for both parks. The asset book values as of January 31, 2021 and 2020, were $0.8 million for each park.

Statements of Cash Flows – 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. CPS Energy's Statements of Cash Flows separately list the noncash transactions.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses reported during the fiscal periods. Accordingly, actual results could differ from those estimates.

2. Cash, Cash Equivalents and Investments

CPS Energy's cash deposits at January 31, 2021 and 2020, 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,	
	2021	2020
Cash		
Petty cash funds on hand (current)	**$ 44**	$ 50
Deposits with financial institutions		
Unrestricted CPS Energy deposits (current)	**30,504**	1,320
Restricted CPS Energy deposits (noncurrent)		
Capital projects	**22**	126
Debt service	**274**	796
Project Warm	**—**	335
Total cash	**30,844**	2,627
Cash equivalents		
Investments with original maturities of 90 days or less		
CPS Energy unrestricted (current)	**398,760**	173,277
CPS Energy restricted (noncurrent)	**77,889**	220,493
Decommissioning Trusts – restricted (noncurrent)	**30,943**	25,814
Total cash equivalents	**507,592**	419,584
Total cash and cash equivalents	**$ 538,436**	$ 422,211

Summary of Cash, Cash Equivalents and Investments

(In thousands)

	January 31, 2021	January 31, 2020
Cash and cash equivalents		
CPS Energy – unrestricted and restricted	**$ 507,493**	$ 396,397
Decommissioning Trusts – restricted	**30,943**	25,814
Total cash and cash equivalents	**538,436**	422,211
Gross investments – current and noncurrent CPS Energy – unrestricted and restricted	**1,014,708**	1,062,823
Decommissioning Trusts – restricted	**698,113**	642,074
Total gross investments	**1,712,821**	1,704,897
Investments with original maturities of 90 days or less included in cash and cash equivalents CPS Energy – unrestricted and restricted	**(476,649)**	(393,770)
Decommissioning Trusts – restricted	**(30,943)**	(25,814)
Total cash equivalents	**(507,592)**	(419,584)
Total gross investments less cash equivalents	**1,205,229**	1,285,313
Total cash, cash equivalents and investments	**$ 1,743,665**	$ 1,707,524

Public Funds Investment Act ("PFIA") – CPS Energy's investments and the investments held in the Decommissioning Trusts are subject to the rules and regulations of the PFIA. The PFIA regulates what types of investments can be made, requires written investment policies, mandates training requirements of investment officers, requires internal management reports to be produced at least quarterly, and provides for the selection of authorized brokers/dealers and investment managers.

Investments of CPS Energy – CPS Energy's allowable investments are defined by Board resolution, CPS Energy Investment Policy, the Investment Committee, bond ordinances, commercial paper ordinances, a revolving financial program ordinance, and state law. These investments are subject to market risk, and their fair value will vary as interest rates fluctuate. All CPS Energy investments are held in trust custodial funds by independent banks.

Investments of the Decommissioning Trusts – CPS Energy's investments in the Decommissioning Trusts are held by an independent trustee. Investments are limited to those defined by Board resolution, the South Texas Project Decommissioning Trust Investment Policy, the Investment Committee, the Trust Agreements and state law, as well as PUCT and Nuclear Regulatory Commission ("NRC") guidelines. Allowable investments for the Decommissioning Trusts include all types directly permissible for CPS Energy, except for investment pools. Additionally, permitted are investments in equities and corporate bonds (including international securities traded in U.S. dollars and on U.S. stock exchanges). In accordance with the Trusts' Investment Policy, total investments can include a maximum of 60% equity securities. To further reduce the overall risk of the portfolio, the target allocations for both Trusts are 64.0% fixed income, 27.0% equities and 9.0% U.S. real estate investment trusts.

Permissible Investments

Investment Description	CPS Energy Investments	Decommissioning Trusts Investments
U.S. Government, U.S. Government Agency, or U.S. Government-guaranteed obligations	✓	✓
Collateralized mortgage obligations issued by the U.S. Government, or other obligations for which principal and interest are guaranteed by the U.S. or state of Texas	✓	✓
Fully secured certificates of deposit offered by a broker or issued by a depository institution that has its main office or branch office in the state of Texas	✓	✓
Direct repurchase agreements	✓	✓
Reverse repurchase agreements	✓	✓
Defined bankers' acceptances and commercial paper	✓	✓
No-load money market mutual funds	✓	✓
Investment pools	✓	Not Permitted
Equities	Not Permitted	✓
Investment quality obligations of states, agencies, counties, cities and political subdivisions of any state	✓	✓
Corporate bonds	Not Permitted	✓
International securities	Not Permitted	✓
No-load commingled funds	Not Permitted	✓
Securities lending programs	✓	✓
Other specific types of secured or guaranteed investments	✓	✓

Cash, Cash Equivalents and Investments by Fund

(In thousands)

	January 31, 2021	January 31, 2020
Unrestricted		
Cash and cash equivalents	**$ 429,308**	$ 174,647
Investments	**39,626**	296,237
Total unrestricted (current)	**468,934**	470,884
Restricted		
Debt service		
Cash and cash equivalents	**8,662**	1,944
Total debt service	**8,662**	1,944
Capital projects		
Cash and cash equivalents	**68,211**	54,251
Total capital projects	**68,211**	54,251
Ordinance		
Cash and cash equivalents	**1,312**	165,202
Investments	**498,433**	365,315
Total ordinance	**499,745**	530,517
Project Warm		
Cash and cash equivalents	**—**	353
Investments	**—**	7,501
Total Project Warm	**—**	7,854
Decommissioning Trusts		
Cash and cash equivalents	**30,943**	25,814
Investments	**667,170**	616,260
Total Decommissioning Trusts	**698,113**	642,074
Total restricted		
Cash and cash equivalents	**109,128**	247,564
Investments	**1,165,603**	989,076
Total restricted (noncurrent)	**1,274,731**	1,236,640
Total cash, cash equivalents and investments (unrestricted and restricted)	**$ 1,743,665**	$ 1,707,524

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. Cash, cash equivalents and fixed-income investments are also exposed to inflation, liquidity, political, legal, event, reinvestment and timing (call) risks. Additionally, equity investments are exposed to political, legal, event, market and general economic risks. Due to market fluctuations, it is possible that substantial changes in the fair value of investments could occur after the end of the reporting period.

CPS Energy's investments and the investments in the Decommissioning Trusts are managed with a conservative focus. The Investment Policies are structured to ensure compliance with bond ordinances, the PFIA, the Public Funds Collateral Act, the NRC, the PUCT, other applicable state statutes and Board resolutions relating to investments. CPS Energy identifies and manages risks by following an appropriate investment oversight strategy, establishing and monitoring compliance with Investment Policies and procedures, and continually monitoring prudent controls over risks.

Summary of Investments (Including Cash Equivalents) by Organizational Structure and Type[1]

(In thousands)

	January 31, 2021	January 31, 2020
CPS Energy investments		
U.S. Treasuries, U.S. Agencies, municipal bonds, CDs, commercial paper, investment pools and money market mutual funds	**$ 1,014,708**	$ 1,062,822
Decommissioning Trusts		
U.S. Treasuries, U.S. Agencies, municipal bonds and money market mutual funds	**253,406**	239,218
Corporate bonds	**164,744**	148,752
Foreign bonds	**12,877**	13,186
Subtotal	**431,027**	401,156
Common stock	**206,858**	179,629
Real estate investment trusts	**59,461**	60,538
Preferred stock	**767**	751
Total Decommissioning Trusts	**698,113**	642,074
Total investments	**$ 1,712,821**	$ 1,704,896

[1] Excludes cash of $30.8 million and $2.6 million as of January 31, 2021 and 2020, 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 no fixed maturities.

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)	**January 31, 2021**				January 31, 2020			
Investment Type	**Carrying Value**	Fair Value	Allocation	WAM	Carrying Value	Fair Value	Allocation	WAM
U.S. Treasuries	**$ 19,916**	$ 19,916	1.96%	4.9	$ 27,989	$ 27,989	2.63%	1.0
U.S. Agencies								
Federal Agriculture Mtg Corp	**—**	—	—%	—	5,001	5,001	0.47%	0.2
Federal Farm Credit Bank	**80,193**	80,193	7.90%	6.6	163,578	163,578	15.39%	4.0
Federal Home Loan Bank	**32,129**	32,129	3.17%	5.1	62,226	62,226	5.85%	4.8
Federal Home Loan Mortgage Corp	**98,035**	98,035	9.66%	3.7	88,851	88,851	8.36%	3.4
Federal National Mortgage Assn	**137,956**	137,956	13.60%	4.3	146,707	146,707	13.80%	4.8
Small Business Administration	**16,255**	16,255	1.60%	6.1	22,678	22,678	2.13%	6.6
Municipal bonds	**153,575**	153,575	15.13%	2.6	152,023	152,023	14.30%	2.3
Investment pools	**371,020**	371,020	36.57%	—	297,415	297,415	28.00%	—
Money market mutual funds	**105,629**	105,629	10.41%	—	96,354	96,354	9.07%	—
Total fixed-income portfolio	**$1,014,708**	$ 1,014,708	100.00%	2.2	$ 1,062,822	$ 1,062,822	100.00%	2.3

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, 2021 and 2020, 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)	**January 31, 2021**			January 31, 2020		
Credit Rating	**Carrying Value**	Fair Value	Allocation	Carrying Value	Fair Value	Allocation
U.S. Treasuries (AA+)	**$ 19,916**	$ 19,916	1.96%	$ 27,989	$ 27,989	2.63%
AAA / Aaa	**451,575**	451,575	44.50%	408,064	408,064	38.39%
AA+ / Aa1	**454,657**	454,657	44.81%	526,317	526,317	49.52%
AA / Aa2	**49,420**	49,420	4.87%	51,885	51,885	4.89%
AA- / Aa3	**12,583**	12,583	1.24%	19,423	19,423	1.83%
A+ / A1	**—**	—	—%	2,775	2,775	0.26%
Not rated[1]	**26,557**	26,557	2.62%	26,369	26,369	2.48%
Total fixed-income portfolio	**$ 1,014,708**	$ 1,014,708	100.00%	$ 1,062,822	$ 1,062,822	100.00%

[1]Interest bearing deposit accounts which still meet PFIA/CPS Energy Investment Policy requirements.

Decommissioning Trusts Investments

As mentioned previously, the Decommissioning Trusts report their assets on a calendar year basis; therefore, information related to the Trusts is as of December 31, 2020 and 2019. 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 6.22 years and 5.87 years for the period ending December 31, 2020 and 2019, 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 41.1% and 39.3% of the fixed-income portfolio for the 28% Decommissioning Trust at December 31, 2020 and 2019, respectively. Total other debt securities (corporate and foreign issuers) amounted to 41.6% and 43.1% of the fixed-income portfolio for the 12% Decommissioning Trust at December 31, 2020 and 2019, respectively.

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

(Dollars in thousands)	**December 31, 2020**			December 31, 2019		
Investment Type – 28% Trust	**Fair Value**	Allocation	WAD	Fair Value	Allocation	WAD
U.S. Treasuries	$ **62,842**	20.15%	6.9	$ 56,964	19.64%	9.0
U.S. Agencies						
Federal Home Loan Mortgage Corp	**47,571**	15.26%	1.8	42,967	14.81%	3.9
Federal National Mortgage Assn	**32,658**	10.47%	2.5	40,062	13.81%	4.2
Government National Mortgage Assn	**4,127**	1.32%	1.2	3,732	1.29%	8.9
Small Business Administration	**4,327**	1.39%	3.5	4,737	1.63%	5.3
Municipal bonds – Texas	**1,628**	0.52%	8.4	1,188	0.41%	10.4
Municipal bonds – other states	**9,463**	3.03%	9.0	8,038	2.77%	10.0
Corporate bonds	**116,785**	37.45%	7.2	103,035	35.53%	6.4
Foreign bonds	**11,238**	3.60%	5.8	11,036	3.81%	5.0
Money market mutual funds	**21,179**	6.81%	—	18,272	6.30%	—
Total 28% Trust fixed-income portfolio	**311,818**	100.00%	5.6	290,031	100.00%	6.3
Investment Type – 12% Trust						
U.S. Treasuries	**22,700**	19.04%	8.6	19,480	17.53%	10.7
U.S. Agencies						
Federal Home Loan Mortgage Corp	**20,329**	17.05%	1.6	17,372	15.63%	3.5
Federal National Mortgage Assn	**9,620**	8.07%	2.8	11,405	10.26%	4.2
Government National Mortgage Assn	**668**	0.56%	1.6	1,468	1.32%	7.2
Small Business Administration	**1,962**	1.65%	3.7	1,993	1.79%	5.2
Municipal bonds – Texas	**833**	0.70%	8.3	551	0.50%	10.3
Municipal bonds – other states	**3,735**	3.13%	8.6	3,447	3.11%	10.0
Corporate bonds	**47,959**	40.23%	6.7	45,717	41.14%	6.2
Foreign bonds	**1,639**	1.37%	6.0	2,150	1.93%	4.5
Money market mutual funds	**9,764**	8.20%	—	7,542	6.79%	—
Total 12% Trust fixed-income portfolio	**119,209**	100.00%	5.8	111,125	100.00%	6.5
Total Trusts fixed-income portfolio	$ **431,027**			$ 401,156		

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, 2020 and 2019.

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

(Dollars in thousands)	December 31, 2020		December 31, 2019	
Credit Rating – 28% Trust	**Fair Value**	Allocation	Fair Value	Allocation
U.S. Treasuries (AA+)	**$ 62,842**	20.15 %	$ 56,964	19.64 %
AAA / Aaa	**30,169**	9.68 %	25,749	8.88 %
AA+ / Aa1	**91,674**	29.40 %	100,577	34.68 %
AA/Aa2	**3,546**	1.15 %	2,855	1.00 %
AA- / Aa3	**2,595**	0.83 %	1,862	0.64 %
A+ / A1	**3,089**	0.99 %	5,712	1.97 %
A/A2	**10,137**	3.25 %	10,608	3.66 %
A-/A3	**25,228**	8.09 %	24,429	8.42 %
BBB+/Baa1	**36,623**	11.74 %	30,060	10.36 %
BBB / Baa2	**19,867**	6.37 %	16,368	5.64 %
BBB-/Baa3	**11,628**	3.73 %	9,086	3.13 %
BB+/Ba1	**3,129**	1.00 %	552	0.19 %
BB/Ba2	**—**	— %	529	0.18 %
BB-/Ba3	**634**	0.20 %	—	— %
Not Rated[1]	**10,657**	3.42 %	4,680	1.61 %
Total 28% Trust fixed-income portfolio	**311,818**	100.00 %	290,031	100.00 %
Credit Rating – 12% Trust				
U.S. Treasuries (AA+)	**22,700**	19.04 %	19,480	17.53 %
AAA /Aaa	**14,690**	12.34 %	11,969	10.78 %
AA+/Aa1	**34,292**	28.77 %	37,452	33.70 %
AA / Aa2	**1,410**	1.18 %	1,401	1.26 %
AA-/Aa3	**704**	0.59 %	501	0.45 %
A+/A1	**351**	0.29 %	2,770	2.49 %
A/A2	**4,913**	4.12 %	4,719	4.25 %
A-/A3	**11,313**	9.49 %	11,470	10.32 %
BBB+/Baa1	**12,581**	10.55 %	11,571	10.41 %
BBB/Baa2	**5,638**	4.73 %	4,957	4.46 %
BBB-/Baa3	**2,806**	2.35 %	2,002	1.80 %
BB+/Ba1	**70**	0.06 %	—	— %
BB/Ba2	**—**	— %	29	0.03 %
BB-/Ba3	**49**	0.04 %	—	— %
Not Rated[1]	**7,692**	6.45 %	2,804	2.52 %
Total 12% Trust fixed-income portfolio	**119,209**	100.00 %	111,125	100.00 %
Total Trusts fixed-income portfolio	**$ 431,027**		$ 401,156	

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

Foreign currency risk – With the exception of dedicated foreign-equity portfolios, 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 $12.9 million at December 31, 2020, and $13.2 million at December 31, 2019. In accordance with the Investment Policy, investments in international equity securities are limited to international commingled funds, American Depository Receipts and exchange-traded funds that are diversified across countries and industries. The international equity portfolio is limited to 20% of the total portfolio. Total foreign equity securities amounted to 14.0% and 13.5% of the 28% Trust's total portfolio at December 31, 2020 and 2019, respectively. Total foreign equity securities held by the 12% Trust amounted to 12.5% and 12.2% of the Trust's portfolio at December 31, 2020 and 2019, respectively.

Fiduciary Funds' Investments

As mentioned previously, the fiduciary financial statements include the CPS Energy Pension Plan and the CPS Energy Group Health Plan, CPS Energy Group Life Insurance Plan and the CPS Energy Long-Term Disability Income Plan, (collectively "the Plans"). The Plans report their assets on a calendar year basis; therefore, information related to the Plans is as of December 31, 2020 and 2019. The tables in this section address interest rate risk exposure by investment type, concentration of credit risk, credit risk and foreign currency risk. Investments held by the Plans are recorded at fair value and net asset value. All assets held by the Plans are held in irrevocable trusts.

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

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

Debt Securities Indices Benchmarks

	December 31,	
	2020	2019
Barclays Aggregate (Total investment grade)	**6.20**	5.90
Bloomberg Barclays High-yield (High-yield corporate bonds and bond funds)	**3.60**	3.00
Credit Suisse Leveraged Loan Index (Senior loan funds)	**0.25**	0.25
Bloomberg Barclays 60/40 Sovereign Credit Fund (Global bond funds)	**7.86**	7.55

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

(Dollars in thousands)	**December 31, 2020**		December 31, 2019	
Investment Type – Pension Plan	**Fair Value**	WAD	Fair Value	WAD
U.S. Treasury and Agency:				
Notes and bonds	**37,908**	8.03	34,174	9.23
Collateralized mortgage obligations	**14,301**	2.41	23,514	3.24
Mortgage pass-through securities	**25,783**	2.60	27,882	3.85
Commercial mortgage-backed securities	**7,857**	4.50	7,324	4.70
Asset-backed securities	**10,193**	2.10	10,773	1.83
Corporate bonds	**63,225**	7.57	46,227	6.95
Municipal bonds	**616**	18.00	563	17.29
Total investment grade	**159,883**	5.96	150,457	5.88
Senior loan fund (floating rate)	**73,082**	0.36	69,991	0.44
Global bond fund	**47,569**	5.01	67,073	4.57
High-yield corporate bonds	**140,295**	2.87	129,609	2.69
Total Pension Plan investments in debt securities	**420,829**		417,130	
Investment Type – Health Plan				
U.S. Treasury and Agency:				
Notes and bonds	**8,318**	6.30	6,424	8.42
Collateralized mortgage obligations	**1,604**	2.07	4,695	2.60
Mortgage pass-through securities	**6,201**	2.23	7,365	3.82
Commercial mortgage-backed securities	**247**	8.02	301	3.10
Asset-backed securities	**—**	—	12	0.36
Corporate bonds	**14,349**	7.46	9,737	6.93
Total investment grade	**30,719**	5.81	28,534	5.71
Senior loan fund (floating rate)	**12,930**	0.36	12,383	0.44
High-yield corporate bonds	**11,629**	2.45	10,751	2.34
High-yield bond fund[1]	**10,690**	3.40	9,935	3.21
Global bond fund	**12,917**	5.01	12,403	4.57
Total Health Plan investments in debt securities	**78,885**		74,006	
Investment Type – Life Plan				
U.S. Treasury and Agency:				
Notes and bonds	**1,538**	6.76	1,566	8.42
Collateralized mortgage obligations	**386**	1.67	1,098	2.67
Mortgage pass-through securities	**1,302**	2.24	1,661	3.79
Commercial mortgage-backed securities	**58**	8.02	88	2.96
Asset-backed securities	**—**	—	2	0.36
Corporate bonds	**3,118**	7.21	2,192	6.80
Total investment grade	**6,402**	5.77	6,607	5.69
Senior loan fund (floating rate)	**2,186**	0.36	2,135	0.44
Global bond fund	**1,762**	5.01	2,169	4.57
High-yield corporate bonds	**1,969**	2.47	1,819	2.38
High-yield bond fund[1]	**2,019**	3.40	1,877	3.21
Total Life Plan investments in debt securities	**14,338**		14,607	
Investment Type – Disability Plan				
U.S. Treasury and Agency:				
Notes and bonds	**166**	6.34	112	9.39
Collateralized mortgage obligations	**38**	1.64	88	2.61
Mortgage pass-through securities	**121**	2.15	135	3.60
Commercial mortgage-backed securities	**—**	—	10	2.76
Corporate bonds	**266**	7.84	193	6.84
Total investment grade	**591**	5.86	538	5.79
Senior loan fund (floating rate)	**220**	0.36	215	0.44
Global bond fund	**233**	5.01	224	4.57
High-yield bond fund[1]	**439**	3.40	408	3.21
Total Disability Plan investments in debt securities	**1,483**		1,385	
Total investments in debt securities for the Plans	**$ 515,535**		$ 507,128	

[1]The high-yield bond fund at December 31, 2019, was a mutual fund (closed in 2020) and reported duration to worst in lieu of the weighted-average duration.

Credit Risk – In accordance with its investment policy, the Administrative Committee manages credit risk by (a) limiting high grade domestic debt investment managers to no more than 15% of their portfolio in below A rated bonds, (b) limiting high grade domestic debt investment managers to no more than 2.5% of their portfolio in below BBB rated bonds and (c) limiting investment in high-yield debt securities using high-yield investment managers to no more than 15% of total Plan investments. At December 31, 2020 and 2019, investments for all the Plans were held in accordance with the investment policy.

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

(Dollars in thousands)	**December 31, 2020**		December 31, 2019	
Credit Rating – Pension Plan	**Fair Value**	Allocation	Fair Value	Allocation
AAA	**$ 21,110**	5.00 %	$ 37,922	9.09 %
AA	**93,129**	22.10 %	99,353	23.82 %
A	**42,925**	10.20 %	42,441	10.17 %
BBB	**54,960**	13.10 %	44,759	10.73 %
Less than BBB	**206,677**	49.10 %	190,750	45.73 %
Not Rated	**2,028**	0.50 %	1,905	0.46 %
Total Pension Plan investments in debt securities	**420,829**	100.00 %	417,130	100.00 %
Credit Rating – Health Plan				
AAA	**4,042**	5.10 %	6,008	8.12 %
AA	**17,795**	22.60 %	19,633	26.53 %
A	**9,931**	12.60 %	8,700	11.76 %
BBB	**11,694**	14.80 %	7,391	9.99 %
Less than BBB	**35,009**	44.40 %	31,961	43.19 %
Not Rated	**414**	0.50 %	313	0.41 %
Total Health Plan investments in debt securities	**78,885**	100.00 %	74,006	100.00 %
Credit Rating – Life Plan				
AAA	**566**	3.95 %	1,055	7.22 %
AA	**3,518**	24.54 %	4,571	31.29 %
A	**2,129**	14.85 %	1,901	13.01 %
BBB	**1,965**	13.70 %	1,349	9.24 %
Less than BBB	**6,088**	42.46 %	5,677	38.86 %
Not Rated	**72**	0.50 %	54	0.38 %
Total Life Plan investments in debt securities	**14,338**	100.00 %	14,607	100.00 %
Credit Rating – Disability Plan				
AAA	**71**	4.80 %	115	8.30 %
AA	**355**	24.00 %	358	25.85 %
A	**181**	12.20 %	163	11.77 %
BBB	**210**	14.20 %	140	10.11 %
Less than BBB	**659**	44.40 %	605	43.68 %
Not Rated	**7**	0.40 %	4	0.29 %
Total Disability Plan investments in debt securities	**1,483**	100.00 %	1,385	100.00 %
Total investment in debt securities for the Plans	**$ 515,535**		$ 507,128	

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, 2020 and 2019, for the Plans.

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

(Dollars in thousands)	**December 31, 2020**			December 31, 2019		
Issuer – Plan	**Fair Value**	% Debt Securities	Policy Limit %	Fair Value	% Debt Securities	Policy Limit %
Federal National Mortgage Assn. – Pension	**$ 30,543**	7.26%	50%	$ 31,933	7.66%	50%
Federal National Mortgage Assn. – Health	**5,804**	7.36%	50%	7,289	9.85%	50%
Federal National Mortgage Assn. – Life	**1,278**	8.92%	50%	1,509	10.33%	50%
Federal National Mortgage Assn. – Disability	**117**	7.87%	50%	114	8.20%	50%

As of December 31, 2020 and 2019, 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, 2020 and 2019. 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.

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

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

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

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

Lending income is earned if the returns on the cash collateral invested exceed the rebate paid to borrowers of the securities. The income is then shared with the lending agent to cover its fees based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate, part of the payment to the borrower would come from the Plans' resources and the lending agent based on the rate split. The Plans are responsible for losses, if any, related to the investment of cash collateral. No losses were incurred in 2020 or 2019.

Loans that are collateralized with noncash securities generate income when the borrower pays a loan premium for the securities loaned. This income is split at the same ratio as the earnings for cash collateral. The collateral pledged to the Plans for the loaned securities is held by the lending agent. These securities are not available to the Plans for selling or pledging unless the borrower is in default of the loan.

Securities are marked-to-market daily, and additional cash or securities are required from the borrower if the market value of the collateral falls below 100%. Cash collateral is reported on the Statements of Fiduciary Net Position as an asset, with a corresponding liability for the obligation to repay the cash collateral. Noncash collateral for the securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, the Plans have authorized the lending agent to seize the collateral held. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible the original securities may not be able to be replaced. The lending agent has indemnified the Plans from any loss due to borrower default in the event the collateral is not sufficient to replace the securities.

The Plans had no credit risk exposure to borrowers because the amount the Plans owed to borrowers exceeded the amounts the borrowers owed at December 31, 2020 and 2019.

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

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

	December 31, 2019		
Outstanding Loans – Pension Plan	Loan Fair Value	Collateral Value	Collateral %
Cash loans	$ 35,049	$ 35,927	102.51 %
Noncash loans	14,734	15,424	104.68 %
Total Pension Plan outstanding loans	$ 49,783	$ 51,351	103.15 %
Outstanding Loans – Health Plan			
Cash loans	$ 714	$ 730	102.22 %
Noncash loans	3,455	3,553	102.82 %
Total Health Plan outstanding loans	$ 4,169	$ 4,283	102.72 %
Outstanding Loans – Life Plan			
Cash loans	$ 92	$ 94	102.11 %
Noncash loans	897	918	102.40 %
Total Life Plan outstanding loans	$ 989	$ 1,012	102.38 %

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

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

	December 31, 2019				
Plan	Securities Lending Income	Rebates to Borrowers	Net Income	Lending Agent Fees	Securities Lending Net Income to the Plan
Pension	$ 1,438	$ 1,172	$ 266	$ 80	$ 186
Health	242	212	30	9	21
Life	26	21	5	1	4
Total	$ 1,706	$ 1,405	$ 301	$ 90	$ 211

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 prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities and U.S. Government Treasury securities are examples of Level 1 inputs.

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

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

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

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

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

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

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

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

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

CPS Energy's fair value measurements are performed on a recurring basis. The table on the following page presents fair value balances and their levels within the fair value hierarchy for CPS Energy as of January 31, 2021 and 2020, and Decommissioning Trusts investment balances as of December 31, 2020 and 2019. 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, 2021 and 2020

(In thousands)

	January 31, 2021				January 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Fair Value Investments								
CPS Energy								
U.S. Treasuries	**$ 19,916**	**$ —**	**$ —**	**$ 19,916**	$ 27,989	$ —	$ —	$ 27,989
U.S. Agencies								
Federal Agricultural Mortgage Corp	**—**	**—**	**—**	**—**	—	5,001	—	5,001
Federal Farm Credit Bank	**—**	**80,193**	**—**	**80,193**	—	163,578	—	163,578
Federal Home Loan Bank	**—**	**32,129**	**—**	**32,129**	—	62,226	—	62,226
Federal Home Loan Mortgage Corp	**—**	**98,035**	**—**	**98,035**	—	88,851	—	88,851
Federal National Mortgage Assn	**—**	**137,956**	**—**	**137,956**	—	146,707	—	146,707
Small Business Administration	**—**	**16,255**	**—**	**16,255**	—	22,678	—	22,678
Municipal bonds	**—**	**153,575**	**—**	**153,575**	—	152,023	—	152,023
Total CPS Energy fair value investments	**$ 19,916**	**$ 518,143**	**$ —**	**$ 538,059**	$ 27,989	$ 641,064	$ —	$ 669,053

	December 31, 2020				December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Decommissioning Trusts Investments								
28% Trust								
U.S. Treasuries	**$ 62,842**	**$ —**	**$ —**	**$ 62,842**	$ 56,964	$ —	$ —	$ 56,964
U.S. Agencies								
Federal Home Loan Mortgage Corp	**—**	**47,571**	**—**	**47,571**	—	42,967	—	42,967
Federal National Mortgage Assn	**—**	**32,658**	**—**	**32,658**	—	40,062	—	40,062
Government National Mortgage Assn	**—**	**4,127**	**—**	**4,127**	—	3,732	—	3,732
Small Business Administration	**—**	**4,327**	**—**	**4,327**	—	4,737	—	4,737
Municipal bonds – Texas	**—**	**1,628**	**—**	**1,628**	—	1,188	—	1,188
Municipal bonds – other states	**—**	**9,463**	**—**	**9,463**	—	8,038	—	8,038
Corporate bonds	**—**	**116,785**	**—**	**116,785**	—	103,035	—	103,035
Foreign bonds	**—**	**11,238**	**—**	**11,238**	—	11,036	—	11,036
Total 28% Trust fair value fixed-income portfolio	**62,842**	**227,797**	**—**	**290,639**	56,964	214,795	—	271,759
Equity securities								
Common stock	**153,686**	**—**	**—**	**153,686**	134,184	—	—	134,184
Real estate investment trusts	**43,509**	**—**	**—**	**43,509**	44,277	—	—	44,277
Preferred stock	**—**	**767**	**—**	**767**	—	751	—	751
Total 28% Trust fair value investments	**260,037**	**228,564**	**—**	**488,601**	235,425	215,546	—	450,971
12% Trust								
U.S. Treasuries	**22,700**	**—**	**—**	**22,700**	19,480	—	—	19,480
U.S. Agencies								
Federal Home Loan Mortgage Corp	**—**	**20,329**	**—**	**20,329**	—	17,372	—	17,372
Federal National Mortgage Assn	**—**	**9,620**	**—**	**9,620**	—	11,405	—	11,405
Government National Mortgage Assn	**—**	**668**	**—**	**668**	—	1,468	—	1,468
Small Business Administration	**—**	**1,962**	**—**	**1,962**	—	1,993	—	1,993
Municipal bonds – Texas	**—**	**833**	**—**	**833**	—	551	—	551
Municipal bonds – other states	**—**	**3,735**	**—**	**3,735**	—	3,447	—	3,447
Corporate bonds	**—**	**47,959**	**—**	**47,959**	—	45,717	—	45,717
Foreign bonds	**—**	**1,639**	**—**	**1,639**	—	2,150	—	2,150
Total 12% Trust fair value fixed-income portfolio	**22,700**	**86,745**	**—**	**109,445**	19,480	84,103	—	103,583
Equity securities								
Common stock	**53,172**	**—**	**—**	**53,172**	45,445	—	—	45,445
Real estate investment trusts	**15,952**	**—**	**—**	**15,952**	16,261	—	—	16,261
Total 12% Trust fair value investments	**91,824**	**86,745**	**—**	**178,569**	81,186	84,103	—	165,289
Total Trusts fair value investments	**351,861**	**315,309**	**—**	**667,170**	316,611	299,649	—	616,260
Total fair value investments	**$ 371,777**	**$ 833,452**	**$ —**	**$1,205,229**	$ 344,600	$ 940,713	$ —	$1,285,313

	January 31, 2021				January 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Financial Instruments								
Current fuel hedges	**$ 5,522**	**$ 2,059**	**$ —**	**$ 7,581**	$ 947	$ 153	$ —	$ 1,100
Noncurrent fuel hedges	**2,772**	**4,093**	**—**	**6,865**	746	1,461	—	2,207
Total financial instruments - Assets	**$ 8,294**	**$ 6,152**	**$ —**	**$ 14,447**	$ 1,693	$ 1,614	$ —	$ 3,307
Liabilities								
Financial Instruments								
Current fuel hedges	**$ (686)**	**$ (398)**	**$ —**	**$ (1,084)**	$ (22,432)	$ (3,111)	$ —	$ (25,543)
Noncurrent fuel hedges	**(978)**	**(701)**	**—**	**(1,679)**	(8,492)	(1,353)	—	(9,845)
Total financial instruments - (Liabilities)	**$ (1,664)**	**$ (1,099)**	**$ —**	**$ (2,763)**	$ (30,924)	$ (4,464)	$ —	$ (35,388)
Total financial instruments	**$ 6,630**	**$ 5,053**	**$ —**	**$ 11,683**	$ (29,231)	$ (2,850)	$ —	$ (32,081)

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, 2020 and 2019. The Plans' investment balances presented exclude amounts related to cash collateral related to securities lending.

Fair Value Measurements as of December 31, 2020 and 2019

(In thousands)

	December 31, 2020				December 31, 2019			
Pension Plan	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
U.S. Government securities	**$ —**	**$ 86,465**	**$ —**	**$ 86,465**	$ —	$ 93,457	$ —	$ 93,457
Corporate bonds	**—**	**213,713**	**—**	**213,713**	—	186,609	—	186,609
Global bond funds	**—**	**47,569**	**—**	**47,569**	—	67,073	—	67,073
Domestic equities	**80,541**	**717,913**	**—**	**798,454**	88,009	607,714	—	695,723
Low-volatility equities	**—**	**77,695**	**—**	**77,695**	—	75,351	—	75,351
International equities	**144,086**	**—**	**—**	**144,086**	116,425	—	—	116,425
Specialized funds	**22,510**	**—**	**—**	**22,510**	22,342	—	—	22,342
Alternative investments	**—**	**—**	**—**	**—**	—	11,728	—	11,728
Investment in partnership	**—**	**—**	**51,000**	**51,000**	—	—	54,000	54,000
Total Pension Plan investments by fair value level	**247,137**	**1,143,355**	**51,000**	**1,441,492**	226,776	1,041,932	54,000	1,322,708
Investments measured at net asset value (NAV):								
Senior loan fund				**73,082**				69,991
Low-volatility equity fund				**70,987**				72,026
International equities fund				**76,160**				72,587
Master limited partnership fund				**79,958**				107,022
Alternative investments – multi-strategy hedge fund				**47,106**				37,517
Real estate funds – open end				**103,570**				85,822
Total investments measured at NAV				**450,863**				444,965
Total Pension Plan fair value investments				**1,892,355**				1,767,673
Health Plan								
U.S. Government securities	**—**	**16,370**	**—**	**16,370**	—	18,785	—	18,785
Corporate bonds	**10,690**	**25,978**	**—**	**36,668**	9,935	20,500	—	30,435
Global bond fund	**—**	**12,917**	**—**	**12,917**	—	12,403	—	12,403
Domestic equities	**82,931**	**40,873**	**—**	**123,804**	78,573	39,162	—	117,735
Low volatility equities	**—**	**24,821**	**—**	**24,821**	—	24,118	—	24,118
International equities	**13,403**	**—**	**—**	**13,403**	11,073	—	—	11,073
Specialized funds	**2,979**	**—**	**—**	**2,979**	2,848	—	—	2,848
Alternative investments – funds	**—**	**—**	**—**	**—**	—	3,167	—	3,167
Total Health Plan investments by fair value level	**110,003**	**120,959**	**—**	**230,962**	102,429	118,135	—	220,564
Investments measured at NAV:								
Senior loan fund				**12,930**				12,383
International equities fund				**19,579**				18,660
Master limited partnerships				**13,903**				18,608
Alternative investments – multi-strategy hedge fund				**10,447**				8,321
Real estate fund - open end				**11,516**				7,040
Total investments measured at NAV				**68,375**				65,012
Total Health Plan fair value investments				**299,337**				285,576

	December 31, 2020				December 31, 2019			
Life Plan	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
U.S. Government securities	**—**	**3,284**	**—**	**3,284**	—	4,413	—	4,413
Corporate bonds	**2,019**	**5,087**	**—**	**7,106**	1,877	4,013	—	5,890
Global bond fund	**—**	**1,762**	**—**	**1,762**	—	2,169	—	2,169
Senior loan fund	**2,186**	**—**	**—**	**2,186**	2,136	—	—	2,136
Domestic equities	**16,461**	**6,103**	**—**	**22,564**	14,253	5,970	—	20,223
Low volatility equities	**—**	**4,163**	**—**	**4,163**	—	4,044	—	4,044
International equities	**2,478**	**—**	**—**	**2,478**	2,039	—	—	2,039
Specialized funds	**796**	**—**	**—**	**796**	1,273	—	—	1,273
Alternative investments	**—**	**—**	**—**	**—**	—	1,302	—	1,302
Total Life Plan investments by fair value level	**23,940**	**20,399**	**—**	**44,339**	21,578	21,911	—	43,489
Investments measured at NAV:								
International equities fund				**3,315**				3,159
Master limited partnerships				**2,593**				3,471
Real estate fund – open end				**2,788**				2,773
Total investments measured at NAV				**8,696**				9,403
Total Life Plan fair value investments				**53,035**				52,892
Disability Plan								
U.S. Government securities	**—**	**325**	**—**	**325**	—	345	—	345
Corporate bonds	**439**	**266**	**—**	**705**	408	193	—	601
Global bond fund	**—**	**233**	**—**	**233**	—	224	—	224
Senior loan fund	**220**	**—**	**—**	**220**	215	—	—	215
Domestic equities	**2,655**	**—**	**—**	**2,655**	2,402	—	—	2,402
Low volatility equities	**487**	**—**	**—**	**487**	482	—	—	482
International equities	**724**	**—**	**—**	**724**	594	—	—	594
Specialized funds	**363**	**—**	**—**	**363**	361	—	—	361
Total Disability Plan investments by fair value level	**4,888**	**824**	**—**	**5,712**	4,462	762	—	5,224
Investments measured at NAV:								
Master limited partnerships				**271**				362
Real estate fund – open end				**284**				283
Total investments measured at NAV				**555**				645
Total Disability Plan fair value investments				**6,267**				5,869
Total investments at fair value for the Plans	**$ 385,968**	**$1,285,537**	**$ 51,000**	**$2,250,994**	$ 355,245	$1,182,740	$ 54,000	$2,112,010

The following table summarizes changes in the Plan's Level 3 assets as of December 31, 2020 and 2019.

(In thousands)	Level 3 Assets					
	Pension			Health		Total
	Real Estate Direct	Investment in Partnership	Alternative Investments	Domestic Equities	Real Estate	
Balance at December 31, 2018	$ 47,125	$ 67,769	$ 220	$ —	$ 7,875	$ 122,989
Net realized and unrealized gains/ (losses)	(4,111)	(13,157)	(68)	—	(215)	(17,551)
Dispositions/distribution	(43,014)	(500)	(152)	—	(7,660)	(51,326)
Investments / contributions	—	(112)	—	—	—	(112)
Balance at December 31, 2019	—	54,000	—	—	—	54,000
Net realized and unrealized gains/ (losses)	—	1,186	—	—	—	1,186
Dispositions/distribution	—	(5,034)	—	—	—	(5,034)
Investments / contributions	—	848	—	—	—	848
Balance at December 31, 2020	**$ —**	**$ 51,000**	**$ —**	**$ —**	**$ —**	**$ 51,000**

The following table shows quantitative information about unobservable inputs related to the Level 3 fair value measurements used to derive values at December 31, 2020 and 2019. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurements respectively.

(Dollars in thousands)

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

	December 31, 2019			
	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Type – Pension Plan				
Investment in partnership	$ 54,000	Income Approach –	Discount Rate	9.75%
		Discounted Cash Flow	Terminal Capitalization	8.25%
Total Pension Plan	$ 54,000			

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

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

(Dollars in thousands)

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

Investments Measured at the Net Asset Value at December 31, 2019

(Dollars in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Type – Pension Plan				
Senior loan fund	$ 69,991	$ —	Monthly	20 days
Low-volatility equity fund	72,026	—	Daily/Monthly	30 days
International equities fund	72,587	—	Monthly	30 days
Master limited partnerships	107,022	—	Monthly	30 days
Multi-strategy hedge fund	37,517	—	Quarterly	90 days
Real estate fund - open end	85,822	17,600	Quarterly	30–60 days
Total Pension Plan	444,965	17,600		
Type – Health Plan				
Senior loan fund	12,383	—	Monthly	20 days
International equities fund	18,660	—	Monthly	30 days
Master limited partnerships	18,608	—	Monthly	30 days
Multi-strategy hedge fund	8,321	—	Quarterly	90 days
Real estate fund - open end	7,040	4,400	Quarterly	45 days
Total Health Plan	65,012	4,400		
Type – Life Plan				
International equities fund	3,159	—	Monthly	30 days
Master limited partnerships	3,471	—	Monthly	30 days
Real estate fund – open end	2,773	—	Quarterly	45 days
Total Life Plan	9,403	—		
Type – Disability Plan				
Master limited partnerships	362	—	Monthly	30 days
Real estate fund – open end	283	—	Quarterly	45 days
Total Disability Plan	645	—		
Total Plans	$ 520,025	$ 22,000		

4. Disaggregation of Current Accounts Receivable and Accounts Payable

Accounts Receivable – Net customer accounts receivable as of January 31, 2021, included $28.6 million for unbilled revenue receivable and $224.1 million for billed utility services. Interest and other accounts receivable included $17.0 million for regulatory-related accounts receivable, $0.1 million for interest receivable and $70.9 million for other miscellaneous accounts receivable.

Net customer accounts receivable as of January 31, 2020, included $21.4 million for unbilled revenue receivable and $177.0 million for billed utility services. Interest and other accounts receivable included $13.4 million for regulatory-related accounts receivable, $0.2 million for interest receivable and $44.8 million for other miscellaneous accounts receivable.

Accounts Payable – At January 31, 2021, accounts payable and accrued liabilities included $238.8 million related to standard operating supplier and vendor accounts payable, including fuels payable; $64.0 million for employee-related accounts payable; $63.2 million for customer-related accounts payable; $52.5 million for STP-related accounts payable; and $50.8 million for other miscellaneous accounts payable and accrued liabilities.

At January 31, 2020, accounts payable and accrued liabilities included $273.5 million related to standard operating supplier and vendor accounts payable, including fuels payable; $47.1 million for employee-related accounts payable; $57.9 million for customer-related accounts payable; $57.0 million for STP-related accounts payable; and $74.7 million for other miscellaneous accounts payable and accrued liabilities.

5. Capital Assets, Net

General Description – CPS Energy's plant-in-service includes four power stations that are solely owned and operated by the Company. In total, there are 17 generating units at these four power stations, two of which are coal-fired and 15 of which are gas-fired. CPS Energy also has two solar generating units, one which also includes battery storage. Excluding STP (nuclear units), the following is a list of power stations and their respective generating units as of January 31, 2021:

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. As of January 31, 2021, CPS Energy had several real estate properties held for sale which included the former main office complex, the Villita Assembly Building and a former customer service center that are reflected as part of other noncurrent assets on the Statements of Net Position.

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

In conjunction with the Rio Nogales plant purchase, CPS Energy entered into a Tax Exemption Settlement Agreement in which CPS Energy agreed to pay $25.5 million to certain parties to compromise, terminate claims and settle any disputes relating to the exemption of ad valorem taxes involving the parties to this agreement. The payment was recorded as an intangible asset that is being amortized over the life of the agreement, which runs through December 2041.

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

As part of normal operations, CPS Energy evaluates whether surplus property exists within the capital asset portfolio and whether such property should be sold. As of January 31, 2021, there were no real estate transactions. However, CPS Energy held real estate for sale comprised of the former main office complex, the Villita Assembly Building and a former customer service center at January 31, 2021, which combined had a total net book value of $45.6 million reflected as part of noncurrent assets on the Statements of Net Position.

Impairments – There were no capital asset impairments identified for FY2021 and FY2020.

Investment in STP Units 1 and 2 – STP is currently a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by STPNOC, a nonprofit Texas corporation special-purpose entity, which is financed and controlled by the owners. CPS Energy's 40% interest in STP Units 1 and 2 is included in plant assets. See Note 13 – South Texas Project.

STP Capital Investment

(Dollars in thousands)

	January 31,	
	2021	2020
STP capital assets, net		
Land	**$ 5,701**	$ 5,701
Construction-in-progress	**6,364**	37,112
Electric and general plant	**841,756**	828,768
Intangibles	**9,879**	9,879
Nuclear fuel	**122,023**	136,573
Total STP capital assets, net	**$ 985,723**	$ 1,018,033
Total CPS Energy capital assets, net	**$ 8,638,055**	$ 8,500,046
STP capital investment as a percentage of total CPS Energy capital assets, net	**11.4 %**	12.0 %

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 FY2021 and FY2020:

FY2021 Capital Asset Rollforward

(In thousands)

	February 1, 2020	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	**January 31, 2021**
Nondepreciable assets					
Land	$ 104,517	$ 28	$ 848		**$ 105,393**
Land easements	107,520	—	198	—	**107,718**
Construction-in-progress	702,054	551,890	(756,565)	—	**497,379**
Total nondepreciable assets	914,091	551,918	(755,519)	—	**710,490**
Depreciable/amortizable assets					
Electric plant	11,526,076	54,967	481,064	(94,656)	**11,967,451**
Gas plant	1,087,227	12,444	44,399	(1,019)	**1,143,051**
General plant	706,557	3,412	148,147	(34,230)	**823,886**
Intangibles					
Software	281,522	—	705	(33,147)	**249,080**
Other	38,572	—	—	—	**38,572**
Nuclear fuel	1,077,859	34,607	—	—	**1,112,466**
Total depreciable/ amortizable assets	14,717,813	105,430	674,315	(163,052)	**15,334,506**
Accumulated depreciation and amortization					
Electric plant	(5,408,175)	(334,615)	—	107,534	**(5,635,256)**
Gas plant	(417,007)	(24,827)	—	913	**(440,921)**
General plant	(269,674)	(44,600)	35,650	33,079	**(245,545)**
Intangibles					
Software	(87,326)	(28,161)	—	33,147	**(82,340)**
Other	(8,390)	(3,895)	—	(151)	**(12,436)**
Nuclear fuel	(941,286)	(49,157)	—	—	**(990,443)**
Total accumulated depreciation and amortization	(7,131,858)	(485,255)	35,650	174,522	**(7,406,941)**
Capital assets, net	$ 8,500,046	$ 172,093	$ (45,554)	$ 11,470	**$ 8,638,055**

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

Other – Depreciation and amortization expense for the period totaled $436.1 million, while amortization of nuclear fuel of $49.2 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

FY2020 Capital Asset Rollforward

(In thousands)

	February 1, 2019	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	January 31, 2020
Nondepreciable assets					
Land	$ 104,991	$ 1,536	$ 3,278	$ (5,288)	$ 104,517
Land easements	107,531	—	(11)	—	107,520
Construction-in-progress	580,984	575,455	(454,849)	464	702,054
Total nondepreciable assets	793,506	576,991	(451,582)	(4,824)	914,091
Depreciable/amortizable assets					
Electric plant	11,077,814	139,682	339,107	(30,527)	11,526,076
Gas plant	1,021,214	11,728	54,342	(57)	1,087,227
General plant	726,142	7,867	24,602	(52,054)	706,557
Intangibles					
Software	259,520	—	33,531	(11,529)	281,522
Other	38,572	—	—	—	38,572
Nuclear fuel	1,001,284	76,575	—	—	1,077,859
Total depreciable/amortizable assets	14,124,546	235,852	451,582	(94,167)	14,717,813
Accumulated depreciation and amortization					
Electric plant	(5,132,300)	(320,576)	—	44,701	(5,408,175)
Gas plant	(395,345)	(23,443)	—	1,781	(417,007)
General plant	(261,741)	(49,690)	—	41,757	(269,674)
Intangibles					
Software	(72,583)	(26,271)	—	11,528	(87,326)
Other	(7,370)	(1,020)	—	—	(8,390)
Nuclear fuel	(894,043)	(47,243)	—	—	(941,286)
Total accumulated depreciation and amortization	(6,763,382)	(468,243)	—	99,767	(7,131,858)
Capital assets, net	$ 8,154,670	$ 344,600	$ —	$ 776	$ 8,500,046

Cash flow information – Cash paid for additions and net removal costs totaled $630.3 million. This amount includes $736.3 million in additions to construction-in-progress and electric, gas and general plant, net JBSA gas and electric systems acquisition of $87.1 million, plus net salvage and removal costs of $5.5 million, partially offset by $14.9 million in AFUDC and $4.0 million in donated assets. Net cash proceeds received from the sale of capital assets totaled $14.0 million.

Other – Depreciation and amortization expense for the period totaled $421.0 million, while amortization of nuclear fuel of $47.2 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

6. Revenue Bond and Commercial Paper Ordinances Requirements

Senior Lien – As of January 31, 2021, the bond ordinances for New Series Bonds contained, among others, the following provisions:

Revenue deposited in CPS Energy's General Account shall be pledged and appropriated to be used in the following priority for:

- Maintenance and operating expenses of the Systems;
- Payment of the New Series Bonds;
- Payment of prior lien bonds, including junior lien obligations;

- Payment of the notes and the credit agreement (as defined in the ordinance authorizing commercial paper);
- Payment of any inferior lien obligations issued, which are inferior in lien to the New Series Bonds, the prior lien bonds and the notes and credit agreement;
- An annual amount equal to 6% of the gross revenues of the Systems to be deposited in the Repair and Replacement Account;
- Cash payments and benefits to the General Fund of the City not to exceed 14% of the gross revenues of the Systems; and
- Any remaining net revenues of the Systems in the General Account to the Repair and Replacement Account, which is used to partially fund construction costs.

The maximum amount in cash to be transferred or credited to the City's General Fund from the net revenues of the Systems during any fiscal year shall not exceed 14% of the gross revenues of the Systems, less the value of gas and electric services of the Systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system and other authorized exclusions. The percentage of gross revenues of the Systems to be paid over, or credited to, the City's General Fund each fiscal year shall be determined (within the 14% limitation) by the governing body of the City.

The net revenues of the Systems are pledged to the payment of principal and interest on the New Series Bonds, which are classified as senior lien obligations. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the Systems.

Junior Lien – The Series Bonds are composed of two categories of debt: fixed-interest-rate and variable-interest-rate. The junior lien fixed-interest-rate Series Bonds are similar to the senior lien New Series Bonds, as they have fixed and set interest rates for the life of the bonds. The junior lien Variable-Rate Note bonds are variable-interest-rate debt instruments of the City. The junior lien obligations are payable solely from, and equally and ratably secured by, a junior lien on and pledge of the net revenues of the Systems, subject and subordinate to liens and pledges securing the outstanding senior lien obligations and any additional senior lien obligations hereafter issued, and superior to the pledge and lien securing the currently outstanding commercial paper obligations, all as fully set forth in the ordinances authorizing the issuance of the junior lien obligations as noted below:

The City agrees that it will maintain rates and charges for the sale of electric energy, gas or other services furnished, provided and supplied by the Systems to the City and all other consumers, which shall be reasonable and nondiscriminatory, and which will produce income and revenues sufficient to pay:

- All operation and maintenance expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502 of the Texas Government Code, as amended;
- The interest on, and principal of, all senior lien bonds, as defined in the New Series Bond ordinances, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the senior lien bonds;
- The interest on, and principal of, the prior lien bonds, including the junior lien obligations and any additional junior lien obligations hereafter issued (all as defined in the New Series Bond ordinances), as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the junior lien obligations and any additional junior lien obligations;
- To the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the commercial paper), the interest on and principal of all notes (as defined in said ordinance), and the credit agreement (as defined in said ordinance); and
- Any inferior lien obligations or any other legal debt or obligation of the Systems as and when the same shall become due.

Commercial Paper – As of January 31, 2021, the commercial paper ordinances contain, among others, the following provisions: authorized capacity of $700 million, ability to issue tax-exempt or taxable commercial paper, ability to issue multiple series notes and final maturity on April 11, 2049.

To secure the payment of commercial paper principal and interest, a pledge is made of:
- Proceeds from
  - The sale of bonds and additional notes issued for such purposes, and
  - The sale of Project Notes;

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

CPS Energy's outstanding debt agreements specify certain events of default or breach of a financial covenant or failure to make debt service. Such an event would trigger a covenant requiring the City to charge rates sufficient to make debt service payments and satisfy debt service coverage. During the years ended January 31, 2021 and 2020, CPS Energy did not default on any terms of its debt agreements.

7. Revenue Bonds

On September 25, 2019, CPS Energy issued $114.7 million of New Series 2019 Senior Lien Revenue Refunding Bonds. Bond proceeds, including the $22.8 million premium associated with the bonds, were used to refund $116.8 million par value of the New Series 2012 Revenue Bonds. The refunding transaction resulted in net present value debt service savings of $3.1 million, or 2.7%, of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in FY2026 through FY2030, is 1.5%.

On November 21, 2019, CPS Energy issued $252.6 million of Series 2019 Junior Lien Revenue Refunding Bonds. Bond proceeds, including $52.8 million premium associated with the bonds, were used to partially refund $100.0 million par value of the 2010A Senior Lien Revenue Bonds (BABs) and $200.0 million of the 2010B Junior Lien Revenue Bonds (BABs). The refunding transaction resulted in a net present value debt service savings of $50.1 million, or 16.7%, of the par amount of the bonds being refunded. The true interest cost for this issuance, which has maturities in FY2033 through FY2041, is 2.9%.

On December 2, 2019, CPS Energy remarketed $124.2 million of Series 2015A Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of $0.9 million premium, in conjunction with the remarketing, resulted in a principal paydown for the remarketed bonds of approximately $0.4 million. The bonds have maturities in FY2029 through FY2033. The coupon rate for these bonds is 1.75%, with a current yield of 1.6% and true interest cost of 4.3%, which reflects stepped interest rate provisions applicable to the bonds.

On December 2, 2019, CPS Energy remarketed $99.7 million of Series 2015C Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of $0.7 million premium, in conjunction with the remarketing, resulted in a principal paydown for the remarketed bonds of approximately $0.3 million. The bonds have maturities in FY2039 through FY2046. The coupon rate for these bonds is 1.75%, with a current yield of 1.6% and true interest cost of 5.2%, which reflects stepped interest rate provisions applicable to the bonds.

On January 28, 2020, CPS Energy issued $134.6 million of New Series 2020 Senior Lien Revenue Refunding Bonds. Proceeds, including the $36.4 million premium associated with the bonds, were used to refund $170.0 million par value of the Commercial Paper Series A. The true interest cost for this issue, which has maturities in FY2026 through FY2049, is 3.1%.

On January 28, 2020, CPS Energy issued $127.8 million of Series 2020 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the $3.1 million premium associated with the bonds, were used to refund $50.0 million and $80.0 million par value of the Commercial Paper Series A and 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 FY2042 through FY2049, is 5.0%. The bonds were issued as multi-modal variable-rate instruments with initial term rates of 1.75% and a stepped rate of 7.0%, which is only applicable if the bonds are not remarketed before their expiration date.

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

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

Revenue Bond Summary

(Dollars in thousands)

	Issues	Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2021	2021	2020
Tax-exempt new series bonds	2012, 2015, 2016, 2017 2018, 2018A, 2019, and 2020	2021-2049	4.0%	**$ 2,389,090**	$ 2,550,250
Taxable new series bonds	2009C[1], 2010A[1], 2012 and 2020	2031-2048	3.6%	**1,477,480**	1,059,225
Total new series bonds			3.8%	**3,866,570**	3,609,475
Taxable series bonds	2010A[1]	2038-2041	3.8%	**300,000**	300,000
Tax-exempt variable-rate series bonds	2015A, 2015B, 2015C 2015D, 2018, 2020	2026-2044	1.9%	**709,310**	709,860
Tax-exempt series bonds	2014, 2019	2026-2048	4.2%	**452,640**	827,640
Total series bonds			4.1%	**1,461,950**	1,837,500
Total long-term revenue bonds outstanding				**5,328,520**	5,446,975
Less: Current maturities of bonds				**164,495**	161,160
Total revenue bonds outstanding, net of current maturities				**$ 5,164,025**	$ 5,285,815

[1]Direct Subsidy Build America Bonds

Build America Bonds Direct Subsidy – The ARRA of 2009 provided authority for the issuance of BABs, which were issuable in calendar years 2009 and 2010 as taxable bonds. The ARRA permitted the issuer or the issuer's paying agent to receive a subsidy payment equal to 35% of the bond's interest directly from the U.S. Department of the Treasury.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government has reduced the BABs subsidy through sequestration reduction. For the year ended January 31, 2021, after a sequestration reduction totaling $1.1 million, the total subsidy recorded for the 2009C and 2010A Senior Lien BABs and the 2010A Junior Lien BABs was $18.4 million. For the year ended January 31, 2020, the total subsidy recorded for the 2009C and 2010A Senior Lien BABs and the 2010A and 2010B Junior Lien BABs was $23.3 million, which included a reduction totaling $1.5 million.

As of January 31, 2021, 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
2022	$ 164,495	$ 233,387	$ (18,443)	$ 379,439
2023	169,790	231,469	(18,443)	382,816
2024	172,780	229,302	(18,443)	383,639
2025	180,880	222,385	(18,443)	384,822
2026	152,730	223,952	(18,443)	358,239
2027-2031	927,125	1,049,316	(92,770)	1,883,671
2032-2036	1,135,440	806,961	(90,979)	1,851,422
2037-2041	1,438,206	490,363	(42,578)	1,885,991
2042-2046	754,559	182,169	—	936,728
2047-2049	232,515	21,843	—	254,358
Totals	$ 5,328,520	$ 3,691,147	$ (318,542)	$ 8,701,125

The previous table includes senior lien and junior lien bonds. Interest on the senior lien bonds and the junior lien fixed-rate bonds is based upon the stated coupon rates of each series of bonds outstanding. The direct subsidy associated with the BABs has been presented in a separate column and includes the impact of sequestration. CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating total debt service since the subsidy is received directly by the trustee to be used solely for BABs debt service payments.

The Series 2015A and Series 2015B Junior Lien Bonds were issued as multi-modal variable-rate bonds. The Series 2015A Junior Lien Bonds were remarketed in FY2020 and utilize an interest rate of 1.75% through their term rate period's expiration in FY2025. A stepped rate of 7.0% is assumed in the previous table for this series thereafter through applicable final maturity. The Series 2015B Junior Lien Bonds were remarketed in FY2018 and utilize an interest rate of 2.0% through their term rate period's expiration in FY2022. A stepped rate of 7.0% is assumed in the previous table for this series thereafter through applicable final maturity.

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

The Series 2018 Junior Lien Bonds were issued as multi-modal variable-rate bonds that utilize an interest rate of 2.75% through their term rate period's expiration in FY2023. A stepped rate of 8.0% is assumed in the previous table for each series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

The Series 2020 Junior Lien Bonds were issued as multi-modal variable-rate bonds that utilize an interest rate of 1.75% through their term rate period's expiration in FY2026. A stepped rate of 7.0% is assumed in the previous table for each series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

Pursuant to guidance provided in GASB Statement No. 65, debt reacquisition costs meet neither the definition of an asset nor a liability and are therefore required to be classified as deferred outflows or inflows of resources on the Statements of Net Position. The debt refundings that occurred in FY2021 and FY2020 resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $22.5 million and $29.5 million, respectively. Debt reacquisition costs reported as deferred outflows of resources totaled $71.5 million at January 31, 2021, and $61.4 million at January 31, 2020. These amounts are amortized as components of interest expense using the effective interest method over the shorter of the remaining life of the refunding or the refunded debt.

CPS Energy, as a rate-regulated entity and in accordance with guidance found in GASB Statement No. 62, establishes regulatory assets for debt issuance costs that would otherwise be required to be expensed in accordance with GASB Statement No. 65. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt. Debt issuance costs, which are reported within other noncurrent assets on the Statements of Net Position, totaled $37.8 million at both January 31, 2021 and 2020.

FY2021 Long-Term Debt Activity

(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding 02-01-2020	Additions During Year	Decreases During Year	**Balance Outstanding 01-31-2021**
Revenue and refunding bonds							
2009C taxable	$ 375,000	2039	3.944	$ 375,000	$ —	$ —	**$ 375,000**
2010A taxable	380,000	2041	3.834	280,000	—	—	**280,000**
2010A taxable – Junior Lien	300,000	2041	3.806	300,000	—	—	**300,000**
2012 taxable	521,000	2042	4.382	404,225	—	—	**404,225**
2012 tax-exempt	655,370	2025	2.552	655,370	—	(75,755)	**579,615**
2013 tax-exempt – Junior Lien	375,000	2048	4.753	375,000	—	(375,000)	**—**
2014 tax-exempt – Junior Lien	200,000	2044	4.142	200,000	—	—	**200,000**
2015A tax-exempt – Junior Lien	125,000	2033	Variable	124,205	—	—	**124,205**
2015B tax-exempt – Junior Lien	125,000	2033	Variable	123,275	—	—	**123,275**
2015 tax-exempt	320,530	2032	2.992	237,700	—	—	**237,700**
2015 tax-exempt	235,000	2039	3.476	235,000	—	—	**235,000**
2015C tax-exempt – Junior Lien	100,000	2045	Variable	99,740	—	—	**99,740**
2015D tax-exempt – Junior Lien	100,000	2046	Variable	100,000	99,450	(100,000)	**99,450**
2016 tax-exempt	544,260	2034	2.144	411,140	—	(38,575)	**372,565**
2017 tax-exempt	40,685	2047	1.126	120	—	(120)	**—**
2017 tax-exempt	267,320	2047	3.804	267,320	—	—	**267,320**
2017 tax-exempt	194,980	2047	3.619	194,980	—	—	**194,980**
2018 tax-exempt	218,285	2028	2.745	169,135	—	(46,710)	**122,425**
2018A tax-exempt	130,220	2048	3.654	130,220	—	—	**130,220**
2018 tax-exempt – Junior Lien	134,870	2048	Variable	134,870	—	—	**134,870**
2019 tax-exempt	114,685	2030	1.462	114,685	—	—	**114,685**
2019 tax-exempt – Junior Lien	252,640	2041	2.885	252,640	—	—	**252,640**
2020 tax-exempt	134,580	2049	3.132	134,580	—	—	**134,580**
2020 tax-exempt – Junior Lien	127,770	2049	Variable	127,770	—	—	**127,770**
2020 taxable	418,255	2048	2.864	—	418,255	—	**418,255**
Bonds outstanding				5,446,975	517,705	(636,160)	**5,328,520**
Current maturities				(161,160)	(3,335)	—	**(164,495)**
(Discount) premium				396,025	1,012	(61,384)	**335,654**
Revenue bonds, net				5,681,840	515,382	(697,544)	**5,499,679**
Commercial paper, tax-exempt			Variable	95,000	325,000	—	**420,000**
Long-term debt, net				$ 5,776,840	$ 840,382	$ (697,544)	**$ 5,919,679**

FY2020 Long-Term Debt Activity
(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding 02-01-2019	Additions During Year	Decreases During Year	Balance Outstanding 01-31-2020
Revenue and refunding bonds							
2009C taxable	$ 375,000	2039	3.944	$ 375,000	$ —	$ —	$ 375,000
2010A taxable	380,000	2041	3.834	380,000	—	(100,000)	280,000
2010A taxable – Junior Lien	300,000	2041	3.806	300,000	—	—	300,000
2010B taxable – Junior Lien	200,000	2037	4.101	200,000	—	(200,000)	—
2012 taxable	521,000	2042	4.382	521,000	—	(116,775)	404,225
2012 tax-exempt	655,370	2025	2.552	655,370	—	—	655,370
2013 tax-exempt – Junior Lien	375,000	2048	4.753	375,000	—	—	375,000
2014 tax-exempt – Junior Lien	200,000	2044	4.142	200,000	—	—	200,000
2014 tax-exempt – Junior Lien	262,530	2020	1.220	81,205	—	(81,205)	—
2015A tax-exempt – Junior Lien	125,000	2033	Variable	124,555	124,205	(124,555)	124,205
2015B tax-exempt – Junior Lien	125,000	2033	Variable	123,275	—	—	123,275
2015 tax-exempt	320,530	2032	2.992	237,700	—	—	237,700
2015 tax-exempt	235,000	2039	3.476	235,000	—	—	235,000
2015C tax-exempt – Junior Lien	100,000	2046	Variable	100,000	99,740	(100,000)	99,740
2015D tax-exempt – Junior Lien	100,000	2046	Variable	100,000	—	—	100,000
2016 tax-exempt	544,260	2034	2.144	519,140	—	(108,000)	411,140
2017 tax-exempt	40,685	2021	1.126	6,485	—	(6,365)	120
2017 tax-exempt	267,320	2047	3.804	267,320	—	—	267,320
2017 tax-exempt	194,980	2047	3.169	194,980	—	—	194,980
2018 tax-exempt	218,285	2028	2.745	218,285	—	(49,150)	169,135
2018A tax-exempt	130,220	2048	3.654	130,220	—	—	130,220
2018 tax-exempt – Junior Lien	134,870	2048	Variable	134,870	—	—	134,870
2019 tax-exempt	114,685	2030	1.462	—	114,685	—	114,685
2019 tax-exempt – Junior Lien	252,640	2041	2.885	—	252,640	—	252,640
2020 tax-exempt	134,580	2049	3.132	—	134,580	—	134,580
2020 tax-exempt – Junior Lien	127,770	2049	Variable	—	127,770	—	127,770
Bonds outstanding				5,479,405	853,620	(886,050)	5,446,975
Current maturities				(136,720)	(24,440)	—	(161,160)
(Discount) premium				347,612	116,797	(68,384)	396,025
Revenue bonds, net				5,690,297	945,977	(954,434)	5,681,840
Commercial paper, tax-exempt			Variable	205,000	320,000	(430,000)	95,000
Long-term debt, net				$ 5,895,297	$ 1,265,977	$ (1,384,434)	$ 5,776,840

8. Commercial Paper and Related Revolving Credit Agreements

In 1988, the San Antonio City Council adopted an ordinance authorizing the issuance of up to $300 million in tax-exempt commercial paper. The current ordinances allow for the issuance of three separate series of commercial paper to provide funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed $700 million to the extent of support from liquidity facilities. As of January 31, 2021, there was a total of $700 million in liquidity support. The ordinances allow for the issuance of taxable, as well as tax-exempt commercial paper. Eligible projects include fuel acquisition, capital improvements to the Systems, and refinancing or refunding any outstanding obligations, which are secured by and payable from a lien and/or a pledge of net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing senior lien and junior lien obligations. Scheduled maximum maturities cannot extend beyond April 11, 2049.

The commercial paper has been classified as long-term in accordance with the refinancing terms under three revolving credit agreements with a consortium of banks, which support the commercial paper program. Each revolving credit agreement relates to a particular series of notes and provides liquidity support in the amount specified. The Series A agreement provides $400 million in liquidity support for the Series A Notes and is effective through June 21, 2023. The Series B agreement provides $200 million in liquidity support for the Series B Notes and the Series C agreement provides $100 million in liquidity support for Series C Notes. The Series B and Series C agreements are both effective through June 21, 2022. Under the terms of these revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed $700 million for the purpose of paying principal due under the commercial paper program. At January 31, 2021, there was no amount outstanding under the revolving credit agreements. Further, there have been no borrowings under the agreements since inception of the program.

During FY2021, CPS Energy issued a total of $325.0 million in commercial paper. As of January 31, 2021 and 2020,the outstanding commercial paper balance was $420.0 million and $95.0 million, respectively, all of which was tax exempt.

Commercial Paper Summary

(Dollars in thousands)

	January 31,	
	2021	2020
Commercial paper outstanding	**$ 420,000**	$ 95,000
New commercial paper issues	**$ 325,000**	$ 320,000
Weighted-average interest rate of outstanding	**0.1 %**	1.4 %
Average life outstanding (number of days)	**19**	146

9. Employee Pension Plan

Plan Description – The CPS Energy Pension Plan (the "Pension Plan") is a self-administered, single-employer, defined-benefit contributory pension plan covering substantially all employees who have attained age 21 and completed one year of service. It is sponsored by and may be amended at any time by CPS Energy, acting by and through the Employee Benefits Oversight Committee ("EBOC"), which includes the President & CEO, the Chief Financial Officer, and the Audit & Finance Committee of the Board. Pension Plan assets are segregated from CPS Energy's assets and are separately managed by the Administrative Committee, whose members are appointed by the EBOC. The Pension Plan reports results on a calendar year basis, and the separately audited financial statements, which contain historical trend information, may be obtained at www.cpsenergy.com or by contacting Benefit Trust Administration at CPS Energy. The Pension Plan's financial statements include certain disclosures related to CPS Energy's net pension liability. However, because the financial reporting and pension measurement dates for the Pension Plan and CPS Energy are not aligned, the Pension Plan's disclosures will vary from information provided by CPS Energy in this footnote and in the accompanying RSI. The Pension Plan, along with the Employee Benefit Plans are included in the fiduciary financial statements.

In addition to the defined-benefit Pension Plan, CPS Energy has two Restoration Plans that were effective as of January 1, 1998, which supplement benefits paid from the Pension Plan due to Internal Revenue Code restrictions on benefit and compensation limits. The benefits due under those Restoration Plans have been paid annually by CPS Energy.

Benefits Provided – Participants become fully vested in the benefits of the Pension Plan upon attainment of age 40 or after completion of seven years of vesting service before age 40. Normal retirement age is 65; however, early retirement is available with 25 years of benefit service, as well as to those employees who are age 55 or older with at least ten years of benefit service. Pension Plan benefits consist of a normal retirement annuity calculated based primarily on length of service and compensation. Benefits are reduced for retirement before age 55 with 25 years or more of benefit service or before age 62 with less than 25 years of service. If early retirement occurs due to disability, the reductions in benefits normally associated with early retirement are modified.

Payments to retirees are adjusted each year by an amount equal to 50% of the change in the Consumer Price Index-U, limited to a maximum adjustment of 5% each year, with no reduction allowed below the retirees' initial benefit levels.

The following table presents information about Pension Plan participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate the net pension liability, as of the measurement dates, for the fiscal years ended January 31, 2021 and 2020, were:

	January 31,	
	2021	2020
Active participants	**2,983**	2,942
Participants currently receiving benefits	**2,450**	2,427
Participants entitled to deferred benefits	**218**	205
Total plan participants	**5,651**	5,574

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 31, 2019, valuation is the basis for contributions in FY2021. With recommendations from the Administrative Committee, composed of a cross-functional group of active and retired CPS Energy employees, the Company establishes funding levels, considering annual actuarial valuations. Generally, participating employees contribute 5.0% of their total compensation, commencing with the effective date of participation and continuing until normal or early retirement, completion of 44 years of benefit service, or termination of employment. Participants who leave CPS Energy service before becoming eligible for retirement benefits receive a return of the total amount they contributed to the Pension Plan, plus the vested portion of accumulated interest. Beginning January 1, 2015, through December 31, 2017, the employee contribution interest crediting rate was 5.50%. Beginning January 1, 2018, the employee contribution interest crediting rate was 5.25%.

The balance of Pension Plan contributions is the responsibility of CPS Energy, giving consideration to actuarial information, budget controls, legal requirements, compliance, and industry and/or community norms. For FY2021 and FY2020, the amount to be funded was established using a general target near the 30-year 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, 2021 and 2020, was measured as of January 31, 2020 and 2019, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2019 and 2018, rolled forward using generally accepted actuarial procedures to the January 31, 2020 and 2019, measurement dates, respectively.

Changes in Net Pension Liability

(In thousands)

	Fiscal Year Ended January 31, 2021	2020
Total pension liability		
Service cost	**$ 36,861**	$ 37,175
Interest cost	**143,079**	137,954
Changes in assumptions	**(4,940)**	(10,129)
Differences between expected and actual experience	**(2,685)**	(19,385)
Benefit payments	**(101,037)**	(96,969)
Net change in total pension liability	**71,278**	48,646
Total pension liability, beginning of period	**1,988,963**	1,940,317
Total pension liability, end of period	**2,060,241**	1,988,963
Plan fiduciary net position		
Employer contributions	**(73,435)**	(58,700)
Participant contributions	**(14,758)**	(13,363)
(Earnings) loss on Plan assets	**(169,004)**	48,316
Benefit payments	**101,037**	96,969
Administrative expenses	**476**	391
Net change in Plan fiduciary net position	**(155,684)**	73,613
Plan fiduciary net position, beginning of period	**(1,610,835)**	(1,684,448)
Plan fiduciary net position, end of period	**(1,766,519)**	(1,610,835)
Net pension liability, end of period	**$ 293,722**	$ 378,128

CPS Energy recorded $56.6 million and $66.1 million in pension expense for the fiscal years ended January 31, 2021 and 2020, respectively.

Actuarial Assumptions – Significant actuarial assumptions used in the January 1, 2019, valuation include a rate of return on the investment of present and future assets of 7.25%, a discount rate on Pension Plan liabilities of 7.25%, annual projected salary increases averaging 5.36% per year and annual post-retirement cost-of-living increases of 1.5%. The projected salary increases include an inflation rate of 3.00%. Mortality rates were based on the RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2018. The actuarial methods and assumptions are the same as those used in the prior year except for the mortality table assumption that was updated to better reflect anticipated future Pension Plan experience and an increase in the inflation rate that was previously 2.30%.

The actuarial assumptions used in the January 1, 2019 and 2018, valuations for amounts reported in FY2021 and FY2020, respectively, were based on the results of an actuarial experience study completed in 2017 covering experience for the period January 1, 2012, through December 31, 2016.

The long-term expected rate of return on Pension Plan investments was determined based on a blend of historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions, developed on a geometric basis. An economic simulation method was used in which best-estimate ranges of expected future rates of return (expected returns net of Pension Plan investment expense) for each major asset class were combined using simulations that ensure the economic consistency of each individual trial, and then reduced by a factor representing inflation to produce a long-term expected real rate of return for each major asset class.

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

Asset Class	Assumed Asset Allocation	Expected Real Rate of Return
Equities	52.5%	5.0%
Debt securities	25.5%	3.1%
Alternative investments	22.0%	4.8%
Total investments	100.0%	

Discount Rate – The discount rate used to measure the total pension liability for FY2021 and FY2020 was 7.25%. 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.

An actuarial experience study was completed in calendar 2020 covering the period January 1, 2017, through January 1, 2019. As a result of the study, the discount rate was lowered to 7.00% to more closely reflect actual experience. This change in assumption will be reflected in the January 1, 2020, actuarial valuation with a measurement date of January 31, 2021, to be recorded in the fiscal year ending January 31, 2022.

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)

	Net Pension Liability at January 31,	
Discount rate	**2021**	2020
1% decrease - 6.25%	**$ 555,213**	$ 629,018
Current discount rate - 7.25%	**293,722**	378,128
1% increase - 8.25%	**75,747**	169,246

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

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension – The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for CPS Energy at January 31, 2021 and 2020:

(In thousands)	January 31, 2021	January 31, 2020
Deferred outflows of resources		
Differences between projected and actual earnings on pension assets	**$ —**	$ 39,624
Changes in assumptions	**49,799**	66,352
Differences between expected and actual experience in the measurement of total pension liability	**9,069**	12,743
Employer's contributions to the Plan subsequent to the measurement of total pension liability	**56,025**	73,435
Total deferred outflows of resources	**$ 114,893**	$ 192,154
Deferred inflows of resources		
Differences between projected and actual earnings on pension assets	**$ (17,735)**	$ —
Changes in assumptions	**(10,761)**	(8,394)
Differences between expected and actual experience in the measurement of total pension liability	**(28,056)**	(40,389)
Total deferred inflows of resources	**$ (56,552)**	$ (48,783)

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,	
2022	$ (20,286)
2023	1,589
2024	26,300
2025	(4,124)
2026	(1,163)
Total	$ 2,316

10. Other Postemployment Benefits

Plan Descriptions – The Company provides certain health and welfare benefits for active and retired employees through the CPS Energy Group Health, Group Life Insurance and Long-Term Disability Income Plans (collectively, "Employee Benefit Plans"). CPS Energy employees and their dependents may elect to participate in the plans and most employees continue eligibility upon retirement from the Company. Disclosures included in this footnote are limited to information related only to those benefits provided on a postemployment basis. Assets of the postemployment benefit plans are held in three separate, single-employer contributory plans:

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

- CPS Energy Group Life Insurance Plan ("Life Plan") – a defined-benefit contributory plan that provides life insurance benefits; and
- CPS Energy Long-Term Disability Income Plan ("Disability Plan") – a defined-benefit contributory plan that provides disability income benefits.

The Employee Benefit Plans may be amended at any time by CPS Energy, acting by and through the EBOC, which includes the President & CEO, the Chief Financial Officer, and the Audit & Finance Committee of the Board.

The Employee Benefit Plans' assets are segregated from CPS Energy's assets and are separately managed by an Administrative Committee whose members are appointed by the EBOC. The Employee Benefit Plans report results on a calendar year basis and issue separately audited financial statements that may be obtained by contacting Benefit Trust Administration at CPS Energy. The Employee Benefit Plans' financial statements include certain disclosures related to CPS Energy's net OPEB (asset) liability. However, because the financial reporting and OPEB measurement dates for the Employee Benefit Plans and CPS Energy are not aligned, the Employee Benefit Plans' disclosures will vary from information provided by CPS Energy in this footnote and in the accompanying RSI. The Employee Benefit Plans along with the Pension Plan are included in the fiduciary financial statements.

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

The following tables present information about the Employee Benefit Plans' participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate the net OPEB liability, as of the measurement dates, for the fiscal years ended January 31, 2021 and 2020, were:

	January 31, 2021		
	Health	**Life**	**Disability**
Active participants	**2,983**	**2,983**	**3,071**
Non-active participants	**1,921**	**2,330**	**67**
Total plan participants	**4,904**	**5,313**	**3,138**

	January 31, 2020		
	Health	Life	Disability
Active participants	2,942	2,942	3,065
Non-active participants	1,985	2,325	68
Total plan participants	4,927	5,267	3,133

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, 2019, valuation was the basis for contributions in FY2021.

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 FY2021 and FY2020.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, known as Medicare Part D, established prescription drug coverage for Medicare beneficiaries. One of the provisions of Medicare Part D entitled the Health Plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the Health Plan on behalf of certain plan participants. These payments totaled $0.8 million and $0.9 million for FY2021 and FY2020, respectively. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D,* future projected payments from the federal government have not been used to lessen total projected obligations under the Company's Health Plan.

Active employees contribute to the Life Plan at a rate of $0.13 per $1,000 of insurance per month on amounts in excess of $20,000. Individuals who retired prior to February 1, 1993, contribute at a rate of $0.13 per $1,000 of insurance per month on amounts in excess of $20,000 plus 2.25% of the difference between that amount and the aggregate rate for retiree coverage for each year the sum of retirement age and service is less than 95. Those who retired on or after February 1, 1993, contribute $0.13 per $1,000 of insurance per month on amounts in excess of $20,000 plus a percentage of the CPS Energy contribution, based on number of years of service, if they retired with less than 35 years. Based on the funded status of the Life Plan, the Company made no contributions in FY2021 and FY2020.

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 FY2021 and 0.3% of covered-employee payroll in FY2020.

Net OPEB (Asset) Liability – CPS Energy's net OPEB (asset) liability at January 31, 2021 and 2020, was measured as of January 31, 2020 and 2019, respectively. The total OPEB liability used to calculate the net OPEB (asset) liability was determined by actuarial valuations as of January 1, 2019 and 2018, rolled forward using generally accepted actuarial procedures to the January 31, 2020 and 2019, measurement dates, respectively.

FY2021 Changes in Net OPEB (Asset) Liability

(In thousands)

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

FY2020 Changes in Net OPEB (Asset) Liability

(In thousands)

	Health	Life	Disability	Total
Total OPEB liability				
Service cost	$ 4,466	$ 473	$ 620	$ 5,559
Interest cost	18,032	3,284	475	21,791
Changes in assumptions	(2,190)	594	189	(1,407)
Differences between expected and actual experience	1,763	(936)	(656)	171
Benefit payments	(11,390)	(4,028)	(880)	(16,298)
Net change in total OPEB liability	10,681	(613)	(252)	9,816
Total OPEB liability, beginning of period	253,241	46,800	6,366	306,407
Total OPEB liability, end of period	263,922	46,187	6,114	316,223
Plan fiduciary net position				
Employer contributions	—	—	(1,000)	(1,000)
Participant contributions	—	(1,030)	(274)	(1,304)
Medicare Part D payment	(872)	—	—	(872)
(Earnings) loss on Plan assets	10,571	2,135	205	12,911
Benefit payments	11,390	4,028	880	16,298
Administrative expense	1,223	28	19	1,270
Net change in Plan fiduciary net position	22,312	5,161	(170)	27,303
Plan fiduciary net position, beginning of period	(289,821)	(54,921)	(5,396)	(350,138)
Plan fiduciary net position, end of period	(267,509)	(49,760)	(5,566)	(322,835)
Total OPEB (asset) liability, end of period	$ (3,587)	$ (3,573)	$ 548	$ (6,612)

CPS Energy recorded $1.7 million and $8.2 million in OPEB expense for the years ended January 31, 2021 and 2020, respectively, as summarized in the following table:

(In thousands)	January 31,	
	2021	2020
Health	**$ 1,492**	$ 7,534
Life	**(17)**	76
Disability	**249**	553
Total	**$ 1,724**	$ 8,163

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

Significant actuarial assumptions used in the calculations for the January 1, 2018, actuarial valuations for FY2020 included: (a) a rate of return on the investment of present and future assets of 7.25% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 2.3% per year for the Health, Life and Disability Plans, (c) projected annual base salary increases for the Health Plan ranging from 3.1% to 11.6% depending on age, and (d) overall medical and prescription cost increases projected at 6.45% for 2018, decreasing annually thereafter based on medical trend assumptions. Mortality rates for retirees were based on the RP-2014 Mortality Table adjusted backwards to 2006 with Mortality Improvement Scale MP-2014 and projected with Mortality Improvement Scale MP-2017, with employee rates before termination and healthy annuitant rates after termination. Mortality rates for disabled lives were based on the 1987 Commissioners Group Disabled Life Mortality Table.

The actuarial assumptions used in the January 1, 2019 and 2018, valuations for amounts reported in FY2021 and FY2020, respectively, were based on the results of an actuarial experience study completed in 2017 covering experience for the period January 1, 2012, through December 31, 2016.

The long-term expected rate of return on Employee Benefit Plans investments was determined based on a blend of historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions, developed on a geometric basis. An economic simulation method was used in which best-estimate ranges of expected future rates of return (expected returns on Employee Benefit Plans investment expense) for each major asset class were combined using simulations that ensure the economic consistency of each individual trial, then reduced by a factor representing inflation to produce a long-term expected real rate of return for each major asset class. The assumed asset allocation and expected real rate of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Expected Real Rate of Return
Equities	54.5%	5.0%
Debt securities	28.5%	3.0%
Alternative investments	17.0%	5.0%
Total investments	100.0%	

Discount Rate and Healthcare Cost Trend Rates – The discount rate used to measure the total OPEB liability for FY2021 and FY2020 was 7.25%. 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.

An actuarial experience study was completed in calendar 2020 covering the period January 1, 2017, through January 1, 2019. As a result of the study, the discount rate was lowered to 7.00% to more closely reflect actual experience. This change in assumption will be reflected in the January 1, 2020, actuarial valuation with a measurement date of January 31, 2021, to be recorded in the fiscal year ending January 31, 2022.

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

	Net OPEB (Asset) Liability at January 31, 2020			
	Health	Life	Disability	Total
Discount rate				
1% decrease - 6.25%	$ 26,237	$ 2,789	$ 682	$ 29,708
Current discount rate - 7.25%	(3,587)	(3,573)	548	(6,612)
1% increase - 8.25%	(29,017)	(8,754)	409	(37,362)

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,	
	2021	2020
Healthcare Cost Trend Rates		
1% decrease	**$ (61,349)**	$ (34,640)
Current healthcare cost trend rates	**(34,871)**	(3,587)
1% increase	**(3,077)**	34,079

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

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – The following tables present information about the OPEB-related deferred outflows of resources and deferred inflows of resources for CPS Energy at January 31, 2021 and 2020:

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

	January 31, 2020			
	Health	Life	Disability	Total
Deferred outflows of resources				
Changes in assumptions	$ 6,898	$ 503	$ 226	$ 7,627
Differences between projected and actual earnings on OPEB assets	7,853	1,838	319	10,010
Differences between expected and actual experience in the measurement of total OPEB liability	1,769	1,359	146	3,274
Employer's contributions to the Plan subsequent to the measurement of total OPEB liability	—	—	769	769
Total deferred outflows of resources	$ 16,520	$ 3,700	$ 1,460	$ 21,680
Deferred inflows of resources				
Changes in assumptions	$ (1,860)	$ (326)	$ —	$ (2,186)
Differences between expected and actual experience in the measurement of total OPEB liability	—	(792)	(553)	(1,345)
Total deferred inflows of resources	$ (1,860)	$ (1,118)	$ (553)	$ (3,531)

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,				
2022	$ (7,163)	$ (457)	$ (143)	$ (7,763)
2023	(2,687)	270	(99)	(2,516)
2024	1,843	1,158	(41)	2,960
2025	(4,430)	(383)	(199)	(5,012)
2026	(3,564)	148	(129)	(3,545)
Thereafter	(2,114)	105	(61)	(2,070)
Total	$ (18,115)	$ 841	$ (672)	$ (17,946)

11. 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 90.3% as of January 31, 2021, and 70.7% as of January 31, 2020.

FY2021 Other Liabilities Rollforward

(In thousands)

	Balance Outstanding 2-1-2020	Additions During Year	Decreases During Year	**Balance Outstanding 1-31-2021**	**Amounts Due within One Year**	**Noncurrent Balance Outstanding**
Customer deposits	$ 38,108	$ 19,845	$ (21,925)	$ **36,028**	$ **21,277**	$ **14,751**
Operating reserves	38,344	15,614	(12,140)	**41,818**	**3,121**	**38,697**
STP pension and OPEBs	87,622	29,028	(8,837)	**107,813**	—	**107,813**
Pollution remediation liability	3,674	3,981	(6,163)	**1,492**	**229**	**1,263**
Project Warm	7,870	144	(8,014)	—	—	—
Notes payable	2,117	—	(2,117)	—	—	—
Fuel hedges	34,706	9,034	(40,769)	**2,971**	**1,353**	**1,618**
Long-term service agreement liability	57,354	62,841	(76,790)	**43,405**	—	**43,405**
Other	25,731	110,275	(101,381)	**34,625**	**43**	**34,582**
Total other long-term liabilities	$ 295,526	$ 250,762	$ (278,136)	$ **268,152**	$ **26,023**	$ **242,129**

FY2020 Other Liabilities Rollforward

(In thousands)

	Balance Outstanding 2-1-2019	Additions During Year	Decreases During Year	Balance Outstanding 1-31-2020	Amounts Due within One Year	Noncurrent Balance Outstanding
Customer deposits	$ 39,275	$ 23,152	$ (24,319)	$ 38,108	$ 22,984	$ 15,124
Operating reserves	35,700	18,165	(15,521)	38,344	3,830	34,514
STP pension and OPEBs	88,819	28,633	(29,830)	87,622	—	87,622
Pollution remediation liability	2,662	1,890	(878)	3,674	3,187	487
Project Warm	7,860	249	(239)	7,870	—	7,870
Notes payable	2,231	129	(243)	2,117	—	2,117
Fuel hedges	5,225	36,903	(7,422)	34,706	25,098	9,608
Long-term service agreement liability	58,131	65,415	(66,192)	57,354	31,322	26,032
Other	24,689	100,953	(99,911)	25,731	238	25,493
Total other long-term liabilities	$ 264,592	$ 275,489	$ (244,555)	$ 295,526	$ 86,659	$ 208,867

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

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

In FY2017, delivery was completed and title was transferred to CPS Energy for all three sets of AGP parts. AGP parts not immediately required for maintenance procedures are recorded to inventory until the installation process for each set of parts at the power plant is initiated, at which time the costs are reclassified to capital assets. At January 31, 2021, the liability for the purchase, along with other LTSA payment obligations, was recorded as a liability on the Statements of Net Position.

The balance of the AVR LTSA obligation at January 31, 2021, totaled $13.3 million which was reported as a noncurrent liability on the Statements of Net Position. The balance of the AVR LTSA obligation at January 31, 2020, totaled $31.1 million of which $16.6 million and $14.5 million were reported as a current and noncurrent liability, respectively.

Rio Nogales – In March 2017, the existing Rio Nogales power plant LTSA contract was amended primarily to add a provision for the advance purchase from GE of four new sets of AGP parts to eventually be installed at the power plant. At January 31, 2021, one set of spare parts was reported as inventory.

The balance of the Rio Nogales LTSA obligation at January 31, 2021, totaled $30.1 million which was reported as a noncurrent liability, on the Statements of Net Position. The balance of the Rio Nogales LTSA obligation at January 31, 2020, totaled $26.3 million of which $14.8 million and $11.5 million were reported as a current and noncurrent liability, respectively.

Insurance and Reserves – CPS Energy is exposed to various risks of loss including, but not limited to, those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major risks. The property insurance program provides $3.5 billion of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, and fire damage coverage for construction equipment and valuable papers. The deductible for the property insurance policy is $1.0 million for nonpower plant/nonsubstation locations, $2.5 million for substations and $5.0 million for power plant locations.

The liability insurance program includes:

- $100 million of excess general liability coverage over a retention amount of $3 million;
- $25 million of fiduciary liability coverage;
- $100 million of employment practices liability coverage; and
- Other property and liability insurance coverage, which includes directors & officers, cyber insurance, commercial crime, employee travel and event insurance.

CPS Energy also manages its own workers' compensation program. To support this program, $35 million of excess workers' compensation coverage over a retention amount of $3 million is maintained. No claims exceeded insurance coverage and there were no decreases in coverage in FY2021 or FY2020.

Actuarial studies are performed periodically to assess the adequacy of CPS Energy insurance reserve retentions. Actuarial valuations include nonincremental claims expenses. An actuarial study was last completed in the fourth quarter of FY2021.

The remaining balance under the Property Reserves (Environmental) column at January 31, 2021, relates to estimated obligations for the cleanup, closure and post-closure care requirements of the Company's landfills. CPS Energy has seven landfill 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.

FY2021 and FY2020 Reserve Rollforward
(In thousands)

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

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.

12. Other Financial Instruments

Fuel Hedging – The 1999 Texas utility deregulation legislation, Senate Bill 7, contains provisions modifying the PFIA to allow municipal utilities the ability to purchase and sell energy-related derivative instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil and electric energy. In 2002, CPS Energy began hedging its exposure to changes in natural gas prices, with the goal of controlling fuel costs to native load customers and stabilizing the expected cash flows associated with wholesale power transactions.

CPS Energy reports its derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses recognition, measurement and disclosures related to derivative instruments. CPS Energy does not use derivative instruments for speculative purposes. The only derivative instruments entered are for the purposes of risk mitigation; therefore, these instruments are considered potential hedging derivative instruments under GASB Statement No. 53.

On December 14, 2020, the Board reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. The essential goal of the Energy Price Risk Management Policy is to provide a framework for the operation of a fuel and energy price hedging program to better manage CPS Energy's risk exposure in order to stabilize pricing and costs for the benefit of CPS Energy and its customers.

In accordance with the requirements of GASB Statement No. 53, all fuel hedges are reported on the Statements of Net Position at fair value. The fair value of option contracts is determined using a Black Scholes pricing model based on the New York Mercantile Exchange ("NYMEX") closing futures prices as of the last day of the reporting period. For fixed-price contracts, the fair value is calculated by deriving the difference between the closing futures prices on the last day of the reporting period and the futures or basis swap purchase prices at the time the positions were established. See additional disclosures regarding fuel hedge fair values at Note 3 – Fair Value Measurement.

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

As of January 31, 2020, the total fair value of outstanding hedge instruments was a net liability of $32.1 million. Fuel hedging instruments with a fair value of $1.0 million and $(25.5) 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 $2.0 million and $(9.6) million are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

All hedging derivative instruments were evaluated for effectiveness at January 31, 2021 and 2020. 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 $1.8 million and $33.6 million at January 31, 2021 and 2020, respectively. The deferred inflows of resources related to fuel hedges totaled $10.8 million at January 31, 2021. There were no deferred inflows of resources related to fuel hedges at January 31, 2020.

In FY2021 and FY2020, as a result of revisions to the expected volumes of some underlying physical transactions, it was determined that a group of existing financial hedge positions were no longer effective. Offsetting financial positions were executed, and fair value of the ineffective hedges resulted in losses totaling $2.7 million and $0.3 million, respectively, which were recognized as a reduction to investment income.

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

Fuel Derivative Instrument Transactions as of January 31, 2021

(Dollars in thousands)

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

Fuel Derivative Instrument Transactions as of January 31, 2020

(Dollars in thousands)

Type of Transaction	Referenced Index	Duration	Volumes (MMBtu)	Fair Value	FY2020 Change in Fair Value
Long Natural Gas Swap	Henry Hub	Feb 2020 through Feb 2023	39,242,075	$ (15,386)	$ (13,231)
Short Natural Gas Swap	Henry Hub	Feb 2020 through Dec 2022	2,893,913	1,385	1,200
Long Natural Gas Call Option	Henry Hub	Feb 2020 through Jan 2023	30,584,576	1,615	1,657
Short Natural Gas Call Option	Henry Hub	Apr 2020 through Mar 2021	440,914	(1)	(1)
Short Natural Gas Put Option	Henry Hub	Feb 2020 through Jan 2023	30,584,576	(4,464)	(4,278)
Long HSC Basis Swap	Henry Hub	Feb 2020 through Feb 2023	21,878,324	(561)	(1,280)
Short HSC Basis Swap	Henry Hub	Feb 2020 through Dec 2022	753,913	(27)	80
Long HSC Gas Daily Swap	Henry Hub	Feb 2020	4,495	—	27
Long WAHA Basis Swap	Henry Hub	Feb 2020 through Jan 2023	25,487,722	(14,636)	(14,033)
Short WAHA Basis Swap	Henry Hub	Apr 2020	402,977	(40)	(40)
Long WAHA Gas Daily Swap	Henry Hub	Feb 2020	901,871	34	48
				$ (32,081)	$ (29,851)

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, 2021, 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 2021, the HSC price was $2.47 per MMBtu, the WAHA price was $2.49 per MMBtu and the Henry Hub price was $2.47 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 and sells 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 FY2021 and FY2020.

13. South Texas Project

Units 1 and 2 – CPS Energy is one of three participant owners of STP, a two-unit nuclear power plant with Unit 1 having a nominal output of approximately 1,321 MW and Unit 2 approximately 1,310 MW. The other owners in STP Units 1 and 2 are NRG and the City of Austin. The units, along with their support facilities and administrative offices, are located on a 12,220-acre site in Matagorda County, Texas. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS Energy’s 40% ownership in STP Units 1 and 2 represents approximately 1,052 MW of total plant capacity.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, STPNOC, a Texas nonprofit, nonmember corporation created by the owners, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. STPNOC is financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs STPNOC, with each owner appointing one member to serve with STPNOC’s chief executive officer.

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

Suspension of Used Nuclear Fuel Fee – Under the Nuclear Waste Policy Act ("NWPA"), the DOE has an obligation to provide for the permanent disposal of high-level radioactive waste, which includes used nuclear fuel at U.S. commercial nuclear power plants such as STP. To fund that obligation, all owners or operators of commercial nuclear power plants entered into a standard contract under which the owners paid a fee to the DOE based on the amount of electricity generated and sold from the power plant, along with additional assessments. In exchange for collecting this fee and the assessments, the DOE undertook the obligation to develop a high-level waste repository for safe, long-term storage of the fuel and, no later than January 31, 1998, to transport and dispose of the used fuel. The NARUC challenged further collection of this fee; and on November 19, 2013, the Court ruled in favor of NARUC and ordered the DOE to submit to the U.S. Congress a proposal to reduce the fee to zero until certain conditions are met. While the reporting to the DOE of used nuclear fuel volumes will continue, effective May 16, 2014, the rate was reduced to zero.

DOE Settlement and Dry Cask Storage Project ("ISFSI" or the "Dry Cask Storage Project") – Multiple cases have been filed in the U.S. Court of Federal Claims by the existing owners or operators of nuclear facilities against the DOE related to its failure to meet its obligations under the NWPA. The owners/operators were seeking damages related to ongoing used nuclear fuel storage costs incurred because the DOE did not meet its obligation. On August 31, 2000, in *Maine Yankee Atomic Power Company, et al. v. United States*, the U.S. Court of Appeals for the Federal Circuit affirmed that the DOE had breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. STPNOC, on behalf of the owners of STP, and other utilities have reached settlement agreements with the DOE. In the most recent settlement agreement dated September 1, 2020, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through calendar year 2022. Pursuant to STPNOC’s analysis of NRC guidance, the first dry cask storage campaign was completed in calendar year 2019, with 12 dry casks stored at the ISFSI.

Ongoing costs for the spent fuel management project are being funded by the STP owners as expenditures are incurred. CPS Energy is entitled to request reimbursement at its discretion from its Decommissioning Trusts for the Company’s portion of allowable costs. Annually, STPNOC submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned to the owners by STP to the owners upon receipt of funds from the DOE. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Trusts. Any costs not reimbursable by the DOE or the Trusts are recorded as an O&M expense or capital costs.

Texas Commission on Environmental Quality ("TCEQ") Violations – On January 11, 2018, STPNOC received a draft notice of enforcement letter from the TCEQ for three violations, which all occurred in 2016. The violations were identified and reported by STPNOC to TCEQ and are related to STP's air quality permit. These deviations were included in STP's 2017 semi-annual report submitted to the TCEQ in February 2017.

On February 15, 2018, the TCEQ transmitted a proposed agreed order assessing a nominal administrative penalty regarding the Notice of Enforcement issued on January 11, 2018, for late reporting of the air quality permit deviation in 2016. The order acknowledges that STP submitted the report in February 2017 and did not require any additional corrective action. On June 26, 2018, the TCEQ issued a letter approving closure of the enforcement action received in January 2018 related to an air quality permit violation that occurred in 2016. The TCEQ acknowledged that corrective action was complete, and the administrative penalty had been paid. No further action is required.

In May 2020, STP informed the Board and Owners of the outcome of a conference call with the NRC Office of Investigation ("OI") regarding the NRC's investigation of an event that involved nuclear fuel damage during the spring 2017 refueling outage. The NRC OI investigated the event and confirmed the two contractor employees willfully provided inaccurate information in their personal statements. Since one of the contractor employees is a supervisor STP reported that the NRC was considering escalated enforcement to Level III with the possibility of a Civil Penalty. On July 6, STP received the inspection report from the NRC regarding the investigation completed in March 2020 for the March 2017 event that damaged two fuel assemblies. This inspection report, also referred to as a "Choice Letter", includes one apparent violation of 10CFR50.9(a) for escalated enforcement and one Green Non-Cited Violation. The apparent violation describes a contract refueling spotter/supervisor failing to provide complete and accurate information during the root cause evaluation of the incident. Escalated enforcement is being pursued due to the contractor being a supervisor. The Choice Letter provides STP with response options for responding to the apparent violation. STP had 30 days to respond to this letter. STP has taken the option to provide a written response to the NRC choice letter received on July. As part of that response letter, STP will include the following information: (1) the reason for the apparent violation, (2) the corrective steps that have been taken and the results achieved, (3) the corrective steps that will be taken, and (4) the date when full compliance was achieved. STP submitted the response letter to the NRC on August 5.

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, effective November 1, 2018, the maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $138 million, taking into account a 5% adjustment for administrative fees and subject to adjustment for inflation every 5 years, for the number of operating nuclear units and for each licensed reactor, payable at $20 million per year per reactor for each nuclear incident. CPS Energy and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests. For purposes of these assessments, STP currently has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC in accordance with the financial protection requirements of the Price-Anderson Act. A nuclear liability policy, with a maximum limit of $450 million for the nuclear industry, provides protection from nuclear-related claims. A Master Worker Certificate policy, also with a maximum limit of $450 million for the nuclear industry, provides protection from radiation tort claims of workers at nuclear facilities.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of approximately $1.1 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP Units 1 and 2 currently maintain nuclear property insurance at or above the legally required amount. The nuclear property insurance consists of primary property damage insurance and excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited ("NEIL"). A retrospective assessment could occur if property losses, as a result of an accident at any nuclear plant insured by NEIL, exceed the accumulated funds available to NEIL. CPS Energy also maintains accidental outage insurance through STP's NEIL membership that provides weekly indemnity payments for an insured property loss subject to an applied deductible period.

Nuclear Decommissioning – In 1991, CPS Energy started accumulating funds for decommissioning of its 28% ownership in STP Units 1 and 2 in an external trust in accordance with NRC regulations. The 28% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excess or deficient funds related to the 28% Trust will be distributed to or received from CPS Energy's ratepayers after decommissioning is complete.

In conjunction with the acquisition of the additional 12% interest in STP Units 1 and 2 in May 2005, the Company also assumed control of a relative portion of the decommissioning trust previously established by the prior owner, American Electric Power ("AEP"). The 12% Decommissioning Trust's assets and related liabilities are also included in CPS Energy's financial statements as a component unit. Subject to PUCT approval as may be requested in the future, excess or deficient funds related to the 12% Trust will be distributed to or received from AEP's ratepayers after decommissioning is complete.

CPS Energy, together with the other owners of STP Units 1 and 2, files a certificate of financial assurance with the NRC for the decommissioning of the nuclear power plant every two years or upon transfer of ownership. The certificate assures that CPS Energy and the other owners meet the minimum decommissioning funding requirements mandated by the NRC. The owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically.

In FY2009, CPS Energy determined that some pre-shutdown decommissioning and spent fuel management activities would be required prior to shutdown of STP Units 1 and 2. As a result, separate trust accounts were created to pay for pre-shutdown decommissioning activities. Additionally, funds in the Trusts applicable to spent fuel management were transferred to separate spent fuel management accounts so that they were not commingled with funds allocable to pre-shutdown or post-shutdown decommissioning costs. Based on projected costs, the spent fuel management accounts are currently fully funded; therefore, no contributions were made to these accounts in FY2021 or FY2020. In FY2021 and FY2020, 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 2020 or 2019. 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 2020 or 2019.

The most recent cost study, which was finalized in May 2018, estimated decommissioning costs for the 28% ownership in STP Units 1 and 2 at $694.1 million and $297.5 million for the 12% ownership in STP Units 1 and 2 in 2018 dollars. Included in the cost study was a 10% contingency component as required to comply with the PUCT. Based on the level of funds accumulated in the 28% Trust and an analysis of this cost study, the Company determined that no further decommissioning contributions would be required to be deposited into the Trust.

As of December 31, 2020 and 2019, CPS Energy had accumulated $513.9 million and $473.0 million, respectively, in the 28% Trust. Total funds are allocated to decommissioning costs, pre-shutdown decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC as of December 31, 2020, the 28% Trust funds allocated to decommissioning costs totaled $329.0 million, which exceeded the calculated financial assurance amount of $118.3 million.

As of December 31, 2020 and 2019, $189.5 million and $173.9 million, respectively, had been accumulated in the 12% Trust. Total funds are allocated to decommissioning costs, pre-shutdown decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC as of December 31, 2020, the 12% Trust funds allocated to decommissioning costs totaled $131.4 million, which exceeded the calculated financial assurance amount of $50.7 million.

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

Both Decommissioning Trusts also have separate calendar year financial statements, which are separately audited and can be obtained by contacting the Controller at CPS Energy.

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

The noncontributory defined-benefit pension plan covers certain employees. Effective January 1, 2007, STPNOC approved a change to the pension plan to preclude the eligibility of employees hired after December 31, 2006, in the plan. Employees hired after this date receive enhanced matching contributions under the STP Nuclear Operating Company Savings Plan.

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

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

Employees whose eligible compensation exceeds the limitations established under the 1974 Employee Retirement Income Security Act, $285 thousand for calendar 2020 and $280 thousand for calendar 2019, 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 $25.0 million and $18.7 million for FY2021 and FY2020, respectively, and was reflected as a decrease in Other Changes in Net Position on the Statements of Revenues, Expenses and Changes in Net Position.

14. Commitments and Contingencies

Purchase and construction commitments were approximately $6,233.4 million at January 31, 2021. This amount includes construction commitments, provisions for coal purchases through December 2021 and natural gas purchases through June 2027; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for wind power through 2038, solar power through 2044, landfill power through 2029, and raw uranium associated with STP fabrication and conversion services needed for refueling through December 2026.

On January 20, 2009, the Board approved a policy statement affirming that CPS Energy's strategic direction centers on transforming from a company focused on providing low-cost power from traditional generation sources to a company providing competitively priced power from a variety of sources, including low and noncarbon emitting sources. As a community owned provider and as part of our ***Flexible Path***SM strategy, CPS Energy has a balanced approach of leveraging our community-owned assets with the emergence of new technology. Our strategy is focused around energy considerations of ***Reliability, Customer Affordability, Safety, Security, Environmental Responsibility,*** and

Resiliency. To be sustainable, CPS Energy needs to balance its financial viability, environmental commitments and social responsibility as a community-owned provider.

In FY2008, CPS Energy entered into a Natural Gas Supply Agreement with the SA Energy Acquisition Public Facility Corporation ("PFC"), a component unit of the City, to purchase, to the extent of its gas utility requirements, all-natural gas to be delivered under a Prepaid Natural Gas Sales Agreement. Under the Prepaid Natural Gas Sales Agreement between the PFC and a third-party gas supplier, the PFC prepaid the cost of a specified supply of natural gas to be delivered over 20 years.

In FY2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority ("BDA") to upgrade the electric and gas utility systems located within Brooks City-Base. CPS Energy and BDA each committed to invest $6.3 million ($4.2 million in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. Annual reductions to BDA's obligation were made from incremental revenues to the City for electric and gas sales to customers that reside on the BDA-developed property. Annual reductions to BDA's obligation were also made in accordance with contract terms for economic development at Brooks City-Base that benefited CPS Energy's Systems. At January 31, 2021, capital renewals and upgrades of $14.8 million have surpassed the $12.6 million commitment. BDA has met its obligation, net of annual interest, of $4.2 million.

In September 2010, CPS Energy and the University of Texas at San Antonio ("UTSA") entered into an agreement ("Strategic Alliance") whereby UTSA agreed to perform services for CPS Energy in support of its function as a provider of electric and gas utility services while supporting the progress of the City of San Antonio in renewable energy technologies and energy research. The Strategic Alliance calls for CPS Energy to invest up to but not exceeding $50 million over 10 years. Investment committed through January 31, 2021, was approximately $10.2 million from funds currently allocated to research and development. The original agreement expired September 2020, CPS Energy extended the agreement for one year to complete ongoing research activities. This extension committed an additional investment of $750,000 for an approximately $11 million total investment. Future research will be based on any new agreements developed between the two parties.

CPS Energy sells excess power into the wholesale market with a balanced portfolio that includes a mix of short-term (less than a month) and mid-term (one month to a year) transactions with market participants and long-term (one to five years) and super long-term (5 years or more) wholesale power agreements with other public power entities and cities. In addition to a long-standing wholesale power relationship with the city of Floresville, the Company currently has agreements to provide either full or partial requirements to six other public power entities. These agreements have varying terms expiring between December 2021 and December 2025. The volumes committed under these agreements represent approximately 5% of current capacity. The Company regularly monitors the market values of these transactions to manage contract provisions with the counterparties.

On June 20, 2011, CPS Energy announced its New Energy Economy initiative. The program is designed to focus on more clean energy sources rather than traditional energy sources and includes several major initiatives to which the Company has committed:

- CPS Energy offers customers the opportunity to better manage their home's energy use through the Wi-Fi Thermostat Rewards program. The program gives customers access to a wide choice of programmable thermostat options. Customers benefit from better control of their home's air conditioning use and the visibility to program settings from their mobile devices. Customers in Wi-Fi Thermostat Rewards can choose to have a CPS Energy contractor install a free programmable thermostat in their place of residence. Alternatively, they can purchase and self-install their own thermostat from a list of qualifying devices and receive a rebate from CPS Energy. In exchange for the rebate, customers allow CPS Energy to periodically control and interrupt service to manage peak energy periods. The program is funded through **STEP**. As of January 31, 2021, there were 115,058 CPS Energy customers enrolled in Wi-Fi Thermostat Rewards and 34,444 thermostats under renewal.

- The Company completed the replacement of approximately 23,500 high pressure sodium vapor streetlights with 250-Watt equivalent Light Emitting Diode ("LED") streetlights for the City. The streetlights use 60% less energy than standard sodium lights and are designed to last 12 to 15 years, thereby reducing maintenance costs. Approximately $2.2 million of the deployment costs were funded through **STEP**, with the remainder being funded by the City. The installation of an additional 1,500 LED streetlights is currently on hold pending direction from the City on lighting for the downtown area.

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

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

- In November 2011, the Company entered into a $77.0 million prepaid agreement for purchased power equal to approximately 60% of the anticipated output from 30 MW of solar energy facilities in the San Antonio area. The unamortized balance of the prepayment was $50.7 million and $53.7 million at January 31, 2021 and 2020, 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 500 MW for all solar farm facilities included in 25-year power purchase agreements mentioned above:

Facility	Capacity in MW[1]	Achieved Commercial Operations
Alamo 1	39.2	December 2013
St. Hedwig (Alamo 2)	4.4	March 2014
Walzem (Alamo 3)	5.5	January 2015
Eclipse (Alamo 4)	39.6	August 2014
Helios (Alamo 5)	95.0	December 2015
Sirius 1 (Alamo 6)	110.2	March 2017
Solara (Alamo 7)	106.4	September 2016
Sirius 2 (Pearl)	50.0	October 2017
Lamesa 2 (Ivory)	50.0	December 2018
Total 25-year power purchase capacity	500.3	

[1] Capacity 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 pilot solar initiatives – Roofless Solar and SolarHostSA. Roofless Solar is offered by CPS Energy in partnership with Clean Energy Collective ("CEC"). CEC built a 1 MW community solar farm in the CPS Energy service territory and sold 107.5-Watt panels in the array to customers who wanted to enjoy the benefits of solar power without having to install their own system. On June 18, 2015, CPS Energy entered into an agreement to purchase the output from the solar farm for 25 years. During FY2021, CPS Energy opted to purchase the solar farm from CEC and assumed maintenance and operational responsibility for the solar farm. Additionally, as part of the purchase, the original agreement related to the purchase of the output was nullified. 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 an additional 5 MW. Big Sun will be installing community solar panels on carports at commercial businesses across San Antonio. The panels will be sold to customers who will receive bill credits from CPS Energy for their share of the solar production. For the SolarHostSA program, CPS Energy partnered with PowerFin Partners to install up to 5 MW of rooftop systems on customer homes and businesses. The program provides participating customers a monthly credit for hosting the systems on their rooftops. The program makes solar accessible to more customers by eliminating the significant upfront cost of traditional rooftop systems. On August 12, 2015, CPS Energy entered into an agreement to purchase the output from the rooftop systems for an initial term of 20 years.

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

15. Leases

Capital Leases

CPS Energy was not a contracted party to any capital leases during FY2021 or FY2020, either as a lessee or lessor.

Operating Leases

Leases Related to Communication Towers Sale – In FY2014, the Company entered into an agreement to sell 69 of its communication towers to an independent third party. Title to 62 of the towers was conveyed to the purchaser in January 2014. Resolution of easement issues related to the remaining sites was concluded in early FY2017, resulting in the transfer of title to the purchaser for five additional towers for a total of 67 towers. CPS Energy retained title to the remaining two towers. Additionally, new licensing agreements were entered into between CPS Energy and the purchaser for CPS Energy's ongoing use of the towers and the purchaser's use of CPS Energy's communication buildings for a period of 40 years, with three five-year options by the purchaser to extend the agreement. See Note 5 – Capital Assets, Net for additional information related to the sale.

In accordance with lease guidance provided in GASB Statement No. 62, leases related to the communication towers sale, both with CPS Energy as lessor and as lessee, have been classified as operating leases. Future minimum lease payment information provided in this footnote includes lease revenue and lease expense to be recognized as a result of the following lease components of the communication towers sale:

- **Lease of Tower Space for CPS Energy Communication Equipment** – The parties to the sale transaction agreed that no cash would be paid by CPS Energy for the space it leased on the communication towers for the 40-year term of the lease agreement. As a result, the total sale transaction proceeds received from the purchaser were reduced by an amount representing an advance payment to the purchaser of the net present value of the estimated total lease obligation. This value represents a prepaid lease expense to the Company, benefiting a period of time equal to the 40-year term of the leases. In accordance with GASB Statement No. 62, the value of this prepaid lease obligation for space on the 67 towers was recorded at fair value and totaled $20.2 million, which is being amortized to lease expense over the 40-year term.

- **Lease of Communication Building Space** – The parties agreed that no cash would be paid by the purchaser for the space it leased in CPS Energy's communication buildings for the term of the lease agreement. As a result, the total sale transaction proceeds received from the purchaser included an additional amount representing an advance payment by the purchaser of the net present value of the estimated total lease obligation. This value represents unearned lease revenue to CPS Energy to be generated over a period of time equal to the 40-year term of the leases. In accordance with GASB Statement No. 62, the value of this unearned lease revenue for space in the 67 communication buildings was recorded at fair value and totaled $6.8 million, which is being amortized to nonoperating income over the 40-year term.

Additionally, the communication towers sale transaction included an assignment of existing operating lease agreements with tenants who had equipment located on the towers. At the time of sale, there were approximately 127 lease agreements outstanding, with CPS Energy as lessor for space on the towers and in the Company's communication buildings, having remaining terms varying from fewer than two years to ten years. In FY2014, these leases provided approximately $2.8 million in proceeds to the Company, which was recognized as nonoperating income. With the sale of the towers, these leases were assigned to the purchaser, and the right to collect future cash flows from the leases was conveyed. The estimated net present value of these cash flows, including annual escalations based on estimated future Consumer Price Indices, totaled approximately $6.5 million for the 62 towers conveyed in the initial closing plus an additional $0.5 million for the five towers subsequently conveyed. Proceeds to the Company from the towers sale transaction included a purchase price for these leases, which was recorded as a deferred inflow of resources totaling $6.5 million in accordance with guidance provided in GASB Statement No. 65. As of January 31, 2021 and 2020, the balance of unearned revenue reported as a deferred inflow of resources was $0.4 million and $0.9 million, respectively. Revenue from the sale of future revenues related to these leases will be recognized over the term of the original leases in accordance with guidance provided in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

Following is a brief description of CPS Energy's current leases, as well as future minimum payments and receipts related to those leases.

CPS Energy as Lessee – CPS Energy has entered into operating lease agreements to secure the usage of communication towers space, railroad cars, natural gas storage facilities, land, office space, parking lot space and engineering equipment. The lease for the parking lot space and several of the leases for office space, as well as the lease of communication towers space, include an escalation in the monthly payment amount after the first year of each lease.

CPS Energy's projected future minimum lease payments for noncancellable operating leases with terms in excess of one year are as follows:

(In thousands)

Year Ended January 31,	Operating Lease Payments
2022	$ 6,900
2023	5,242
2024	3,407
2025	1,687
2026	1,699
Thereafter	73,501
Total future minimum lease payments	$ 92,436

CPS Energy's minimum lease payments for all operating leases for which the Company was the lessee amounted to $9.5 million in FY2021 compared to $8.8 million in FY2020.

CPS Energy as Lessor – CPS Energy has entered into operating lease agreements allowing cable and telecommunication companies to attach telephone, cable and fiber-optic lines to CPS Energy's electric poles. Operating leases also exist between CPS Energy and telecommunication companies allowing the companies to attach communication equipment to CPS Energy's communication and transmission towers. As described previously, CPS Energy sold 67 of its communication towers to a third party.

CPS Energy has three operating leases for the use of land that the Company owns, and it has entered multiple agricultural leases allowing the lessees to use CPS Energy's land for sheep and cattle grazing. The three land leases contain provisions for contingent lease receipts based on the Consumer Price Index. Additionally, the majority of the operating leases pertaining to the use of CPS Energy's transmission towers contain provisions for contingent lease receipts that will equal the lesser of a 15% increase in the prior five-year lease payment or the percentage increase in the Consumer Price Index over the same five-year period.

Projected future minimum lease receipts to CPS Energy for noncancellable operating leases with terms in excess of one year are as follows:

(In thousands)

Year Ended January 31,	Operating Lease Receipts
2022	$ 1,102
2023	968
2024	905
2025	676
2026	927
Thereafter	25,261
Total future minimum lease receipts	$ 29,839

CPS Energy's minimum lease receipts for all operating leases for which the Company was the lessor amounted to $8.5 million in both FY2021 and FY2020. Contingent lease receipts amounted to $0.02 million in FY2021 and $0.03 million in FY2020. Sublease receipts for FY2021 amounted to $0.03 million and $0.01 million in FY2020.

16. Pollution Remediation Obligations

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that a liability be recognized for expected outlays for remediating existing pollution when certain triggering events occur. The general nature of existing pollution that has been identified at CPS Energy sites is consistent with that experienced within the electric and gas utilities industry. Under most circumstances, the triggering event most relevant to the Company is the voluntary commencement of activities to clean up pollution.

Under Federal Energy Regulatory Commission guidance, reserves have been established for dismantling and closure costs. In FY2008, in preparation for implementation of GASB Statement No. 49, a portion of those reserves were reclassified to remediation and dismantling reserve accounts reported on the Statements of Net Position within other liabilities. When a triggering event occurs, those reserves will be reclassified as a pollution remediation liability also reported within other liabilities.

The pollution remediation liability was $1.5 million and $3.7 million as of January 31, 2021 and 2020, respectively. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49, utilizing information provided by the Company’s environmental staff and consultants.

CPS Energy adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, in FY2019. Certain pollution remediation obligations presented and accounted for under GASB Statement No. 49 were not affected by implementation of GASB Statement No. 83.

17. Asset Retirement Obligations (“ARO”)

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. In addition to the AROs, the Company has recorded associated deferred outflows of resources that are being amortized over the remaining useful life of the respective asset groups. The following asset groups have been included in the ARO reflected on the Statements of Net Position:

- **STP Units 1 and 2** – CPS Energy is one of three participants in STP, currently a two-unit nuclear power plant located in Matagorda County, Texas. The Code of Federal Regulations provides the main decommissioning requirements mandated by the Nuclear Regulatory Commission ("NRC") that issues the operational license of the site. The asset retirement obligation is based on an external cost study performed every five years. The most recent study was finalized in May 2018 and estimates costs in 2018 dollars. The associated costs are being amortized utilizing a straight-line method over the estimated remaining useful lives of the units. Total asset lives for the units are 60 years based on the operating license extensions. The deferred outflows of resources are based on the estimated remaining useful life of the assets at the time of implementation. CPS Energy has established two decommissioning trusts that are reported as blended component units combined into the CPS Energy financial statements to cover the eventual decommissioning associated with STP Units 1 and 2. At January 31, 2021 and 2020, the ARO related to STP Units 1 and 2 was $1,042.4 million and $1,016.6 million, respectively.

- **Vaults** – CPS Energy has approximately 198 underground vaults with useful lives of 46 years. The vaults have regulatory requirements to be met prior to removal and after retirement under the Code of Federal Regulations and the Texas Commission on Environmental Quality ("TCEQ"). Methods and assumptions to determine the associated liability were based on an internal calculation of cost per square foot of each vault which includes assessment, remediation, transportation and disposal costs. The associated costs are being amortized utilizing a straight-line method over the average estimated remaining useful life of the vaults. At January 31, 2021 and 2020, the ARO related to the vaults was $10.0 million and $9.2 million, respectively.

- **Fuel Storage Tanks** – CPS Energy has 14 underground fuel storage tanks with useful lives of 30 years. The storage tanks have regulatory requirements to be met for removal or permanent closure after retirement under the Texas Administrative Code. The methods and assumptions used to determine the liability associated with the tanks were based on a cost analysis performed by an outside engineering consulting firm in July 2018. The associated retirement costs are being amortized utilizing a straight-line method over the average estimated remaining useful life of the storage tanks. At January 31, 2021 and 2020, the ARO related to the storage tanks was $3.8 million and $3.7 million, respectively.

18. Subsequent Events

Sale of Assets

On February 5, 2021, CPS Energy sold the Navarro building, part of the former main office complex, for $22.3 million. The Navarro building was included as real estate held for sale, part of noncurrent assets on the Statements of Net Position, as of January 31, 2021. See Note 5 – Capital Assets, Net for additional information regarding real estate properties held for sale.

Texas 2021 Winter Weather Event ("2021 Event")

General – From February 14, 2021, through February 19, 2021, the continental United States experienced a severe winter storm resultant from the southern migration of a polar vortex that meteorologists characterize as the most significant, in terms of scope and duration, since monitoring of these weather phenomenon began in the 1950s. Texas was impacted with widespread, record-breaking cold weather that resulted in San Antonio experiencing three consecutive days of record low temperatures and record low daily-high temperatures and wind chills of 6 degrees Fahrenheit.

The Texas utilities market on both a state-wide and local basis realized significant operational and financial disruption as the Texas Governor issued a disaster declaration in all 254 counties within the state. As the winter storm swept across the State of Texas, ERCOT implemented rolling blackouts to conserve electricity and address energy needs across the entire state. Due to the severity of the winter storm and the corresponding increase in demand on the Texas grid, combined with limited availability of generation, approximately 4 million Texas residents sustained widespread and prolonged outages starting Monday, February 15, 2021, that continued throughout the week. On February 19, 2021, ERCOT announced the existence of sufficient electric system generation to allow a return to normal conditions, with remaining power outages being primarily attributable to localized damage requiring repair.

The Governor requested a Federal Emergency Declaration from the White House which was granted on February 21, 2021. The Texas Governor also declared reform of ERCOT as an emergency item for the current Texas Legislature and has called the resignation of its leadership. On Friday, February 19, 2021, the Texas Attorney General issued Civil Investigative Demands to ERCOT and investor-owned power companies regarding power outages, emergency plans, energy pricing, and related issues resulting from the impacts of the 2021 Event. For additional information related to the 2021 Event, see the voluntary material event notice dated April 6, 2021, the most recent notice as of the release of these financial statements, at https://emma.msrb.org/MarketActivity/ContinuingDisclosureDetails/P11131647.

Direct Impact to the Systems – Beginning February 12, 2021, and continuing over the next several days, the natural gas and real-time wholesale power markets experienced extreme price volatility. With the increasing demand for electricity and natural gas, prices increased also. CPS Energy's combined gas distribution and electric generation needs increased in volumes of approximately 30%. Gas prices also reached unprecedented levels. Gas that normally trades between $2-$4/MMBtu traded above $100/MMBtu and in some cases up to $400/MMBtu. Additionally, power prices in ERCOT reached the market cap of $9,000/MWh and remained at these levels through most of the winter storm.

Financial Implications – During the 2021 winter storm, CPS Energy incurred significant costs purchasing power from the ERCOT market. While there were periods of time when CPS Energy was a net seller of power in the ERCOT market, there were also periods of time when CPS Energy's generation plants were not producing power equivalent to CPS Energy's obligations. In those cases, CPS Energy incurred large purchased power costs totaling approximately $365 million. To date, approximately, $272 million of the purchased power costs have been paid.

CPS Energy also incurred significant costs associated with natural gas fuel purchases for CPS Energy’s gas distribution and gas-fired electric generation needs. Purported charges for natural gas are currently estimated at approximately $670 million. Of the approximate $670 million in purported natural gas costs, approximately $95 million has been paid and another $143 million has been conceded as owed under the Disputed Payment Provision, as defined below.

Reconciliations and analysis of gas volumes delivered, and power transacted with ERCOT are ongoing. As a result of the temporary deviation from protocols, ERCOT aggregated activity for multiple days and invoiced market participants, including CPS Energy, for that aggregate activity. As a result, ERCOT has experienced short payments from some of its market participants. To date, CPS Energy has been short paid a cumulative amount of approximately $18 million. CPS Energy continues to closely monitor short payment notices from ERCOT. Additionally, CPS Energy is closely monitoring the repricing discussions. Dependent on how the repricing is structured, CPS Energy believes the repricing, if executed, would provide for a reduction in the purchased power costs described above.

Liquidity and Short-Term Financing – As of March 31, 2021, CPS Energy’s cash and cash equivalents balances in the General Fund and the Repair and Replacement Fund were approximately $749.6 million. On March 29, 2021, CPS Energy issued $100.0 million in taxable commercial paper. The proceeds will be used to pay purchased power costs and conceded natural gas costs. Additionally, CPS Energy completed a previously planned refunding of its outstanding $420.0 million in commercial paper as of January 31, 2021, with long-term fixed rate debt financing on April 8, 2021. On April 22, 2021, CPS Energy issued $90.0 million in tax-exempt commercial paper. The proceeds will be used to pay construction costs.

On February 26, 2021, CPS Energy had drawn down the proceeds of the entirety of the $100.0 million capacity Flexible Rate Revolving Note program to pay purchased power costs and conceded natural gas costs. The taxable notes are being secured by a pledge of investment collateral and a limited, subordinate and inferior lien on a pledge of net revenues in the amount of $0.1 million.

CPS Energy and the City have been collaboratively working to allow CPS Energy to temporarily delay the payments to the City while working through the final resolution of the costs for the 2021 Event. Amounts due in February 2021 have been accrued and will be paid to the City. There is no contemplated change to future City payment calculations. Payments are expected to resume in April 2021 after the implementation of CPS Energy's short-term financing plan.

CPS Energy anticipates sufficient liquidity to accommodate worst case financial scenarios resulting from the 2021 Event. However, on March 1, 2021, CPS Energy’s Board of Trustees approved an additional short-term financing of up to $500 million in capacity to provide assurance of sufficient liquidity. This incremental liquidity was also approved by City Council on March 18, 2021. This short-term financing program will provide CPS Energy with additional liquidity, if needed, however, CPS Energy does not expect to access this available credit unless other available sources have been otherwise committed or exhausted.

Long-Term Financing – After utilizing all options to reduce or eliminate the higher costs associated with the 2021 Event, any final amount for the natural gas and purchased power costs will be addressed through long-term financing options. In that case, CPS Energy would also pursue the establishment of a rate-supported regulatory asset. The costs recorded in this regulatory asset are expected to be amortized over a period of 10 or more years through fuel costs. A regulatory asset must be approved by CPS Energy’s Board of Trustees and by City Council. The proceeds from this recovery are expected to be available for the debt service on the long-term debt that will be issued to refinance obligations initially issued as short-term or interim financing. Customer affordability remains a key focus area in the plan to recover these costs.

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

Rating Agency Actions – On February 24, 2021, Fitch Ratings, Inc. ("Fitch") placed CPS Energy (along with every other retail and wholesale public power utility within the geographic footprint of ERCOT and rated by Fitch) on Rating Watch Negative. On February 26, 2021, S&P Global Ratings ("S&P") placed CPS Energy on CreditWatch with negative implications. On March 4, 2021, Fitch downgraded CPS Energy's currently outstanding senior lien and junior lien long-term ratings to AA- (negative outlook) and removed CPS Energy from Rating Watch Negative.

On March 8, 2021, Moody's Investors Service, Inc. ("Moody's") affirmed CPS Energy's currently outstanding senior and junior lien long-term ratings of Aa1 and Aa2, respectively, but assigned a negative outlook to each. The short-term rating of P-1 was also affirmed.

On March 10, 2021, S&P downgraded CPS Energy's currently outstanding senior and junior lien long-term ratings to AA- and A+, respectively. The short-term rating was lowered to A-1. The ratings remain on CreditWatch with negative implications. CPS Energy has requested ratings from Fitch, Moody's and S&P for its planned commercial paper refunding. CPS Energy is committed to taking prudent actions consistent with maintaining its high investment grade ratings.

Litigation Proceedings – On March 12, 2021, CPS Energy filed suit against ERCOT to protect customers from excessive, illegitimate and illegal prices. CPS Energy is seeking, among other things, a declaratory judgment to prevent ERCOT from wrongfully declaring a default by CPS Energy based on a force majeure event and due to ERCOT's prior material breach for the short payments of approximately $18 million to CPS Energy. The requested judgment would also prevent ERCOT from requiring CPS Energy to pay for the default of others caused by the excessive prices during the 2021 Event and would prevent ERCOT from charging CPS Energy for any amounts associated with the overcharges that occurred on February 18 and February 19, 2021. The outcome of this pending litigation is uncertain as of the issuance of these financial statements.

On March 19, 2021, in response to receipt of invoices and prepayment demands from Energy Transfer, the parent company of Houston Pipeline Company, LP ("HPL") and Oasis Pipeline ("Oasis"), two natural gas suppliers, CPS Energy filed suit against HPL and Oasis seeking, among other relief, a temporary restraining order that prohibits both HPL and Oasis from declaring default under their natural gas supply contracts with CPS Energy. Pursuant to market standard gas supply contracts, CPS Energy, in the event of a dispute concerning the payment, is permitted to pay a conceded amount owed for natural gas delivered and withhold the balance pending resolution of the payment dispute ("Disputed Payment Provision"). In this filing, CPS Energy conceded a total of approximately $52.0 million of a combined $308.9 million in natural gas charges claimed as owed by HPL and Oasis by their respective due dates. The Court granted CPS Energy's request for temporary restraining order against HPL and Oasis and set a March 31, 2021 trial date for a temporary injunction regarding the same. The outcome of this pending litigation is uncertain as of the issuance of these financial statements.

On March 22, 2021, CPS Energy also filed suit against 14 other gas suppliers, after paying the amounts it concedes are due and owing pursuant to the Disputed Payment Provision, to seek a declaration that CPS Energy only be required to pay prices for natural gas that are unconscionable and lawful. CPS Energy was also granted a temporary restraining order against EDF Trading North America, LLC, a gas supplier who improperly demanded adequate assurance before CPS Energy's invoice was due, to prevent this entity from declaring that CPS Energy is in default under its contract while CPS Energy is disputing the lawfulness of certain charges under the Disputed Payment Provision. A temporary injunction hearing has been set for April 5, 2021. The outcome of this pending litigation is uncertain as of the issuance of these financial statements.

CPS Energy and other power companies have been included as parties in various lawsuits filed by local residents as a direct result of the 2021 Event. Additionally, CPS Energy has also been named in a suit from a vendor for contested fees that are unpaid. The outcome of these pending suits are uncertain as of the issuance of these financial statements.

Operations - As the economic landscape continues to reflect a positive trend both at the national and local level, management is evaluating the appropriate time frame for resuming service disconnects for nonpayment in FY2022.

REQUIRED SUPPLEMENTARY INFORMATION ("RSI")
January 31, 2021 and 2020
(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,								
	2020	2019	2018	2017	2016	2015	2014	2013	2012
Total pension liability									
Service cost	**$ 36,861**	$ 37,175	$ 32,569	$ 31,547	$ 30,183	$ 32,591	$ 33,417	$ 33,470	$ 31,420
Interest cost	**143,079**	137,954	132,861	128,991	122,800	117,802	116,155	112,356	105,013
Changes in assumptions	**(4,940)**	(10,129)	77,574	—	—	38,296	—	—	—
Differences between expected and actual experience	**(2,685)**	(19,385)	6,025	(18,647)	19,691	(35,634)	(24,410)	25,158	(13,581)
Benefit payments	**(101,037)**	(96,969)	(93,550)	(91,230)	(91,293)	(84,319)	(74,352)	(70,677)	(66,147)
Net change in total pension liability	**71,278**	48,646	155,479	50,661	81,381	68,736	50,810	100,307	56,705
Total pension liability, beginning of period	**1,988,963**	1,940,317	1,784,838	1,734,177	1,652,796	1,584,060	1,533,250	1,432,943	1,376,238
Total pension liability, end of period	**2,060,241**	1,988,963	1,940,317	1,784,838	1,734,177	1,652,796	1,584,060	1,533,250	1,432,943
Plan fiduciary net position									
Employer contributions	**(73,435)**	(58,700)	(46,200)	(44,500)	(46,000)	(55,800)	(44,400)	(39,016)	(37,687)
Participant contributions	**(14,758)**	(13,363)	(13,039)	(12,144)	(11,563)	(12,140)	(12,569)	(12,332)	(11,745)
(Earnings) loss on Plan assets	**(169,004)**	48,316	(246,772)	(207,196)	52,945	(85,520)	(145,883)	(110,529)	(22,510)
Benefit payments	**101,037**	96,969	93,550	91,230	91,293	84,319	74,352	70,677	66,147
Administrative expenses	**476**	391	389	—	—	—	—	—	—
Net change in Plan fiduciary net position	**(155,684)**	73,613	(212,072)	(172,610)	86,675	(69,141)	(128,500)	(91,200)	(5,795)
Plan fiduciary net position, beginning of period	**(1,610,835)**	(1,684,448)	(1,472,376)	(1,299,766)	(1,386,441)	(1,317,300)	(1,188,800)	(1,097,600)	(1,091,805)
Plan fiduciary net position, end of period	**(1,766,519)**	(1,610,835)	(1,684,448)	(1,472,376)	(1,299,766)	(1,386,441)	(1,317,300)	(1,188,800)	(1,097,600)
Net pension liability, end of period	**$ 293,722**	$ 378,128	$ 255,869	$ 312,462	$ 434,411	$ 266,355	$ 266,760	$ 344,450	$ 335,343
Plan fiduciary net position as a percentage of the total pension liability	**85.7 %**	81.0 %	86.8 %	82.5 %	74.9 %	83.9 %	83.2 %	77.5 %	76.6 %
Covered payroll	**$ 271,449**	$ 254,241	$ 242,477	$ 235,360	$ 256,236	$ 261,085	$ 260,730	$ 251,136	$ 241,318
Net pension liability as a percentage of covered payroll	**108.2 %**	148.7 %	105.5 %	132.8 %	169.5 %	102.0 %	102.3 %	137.2 %	139.0 %

Notes to Schedule

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

Schedules of Employer Contributions to CPS Energy Pension Plan – The following schedules, present multiyear trend information regarding employer contributions to the Pension Plan. Information is presented related to all periods for which the required data is available. The amounts presented are determined as of the fiscal years ending:

(Dollars in thousands)

	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarially determined contribution	**$ 56,025**	$ 53,435	$ 58,657	$ 46,234	$ 44,532	$ 46,001	$ 48,696	$ 44,362	$ 39,016
Contributions in relation to the actuarially determined contribution	**56,025**	73,435	58,700	46,200	44,500	46,000	55,800	44,400	39,016
Contribution deficiency (excess)	**$ —**	$ (20,000)	$ (43)	$ 34	$ 32	$ 1	$ (7,104)	$ (38)	$ —
Covered payroll	**$ 282,302**	$ 271,449	$ 254,241	$ 242,477	$ 235,360	$ 256,236	$ 261,085	$ 260,730	$ 251,136
Contributions as a percentage of covered payroll	**19.8%**	27.1%	23.1%	19.1%	18.9%	18.0%	21.4%	17.0%	15.5%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal cost
Amortization method	Level percent; layered periods
Remaining amortization period	28 years
Asset valuation method	Market value gains/losses recognized over 5 years, beginning with calendar year 2014; expected value adjusted market value method for all prior periods
Inflation	3.0% for FY2021 and for previous years presented per year, compounded annually
Salary increases	Average, including inflation: 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	7.25% per year, compounded annually, for FY2021 through FY2019, 7.50% for FY2018 and FY2017; 7.75% for prior years
Mortality	Based on 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	1.50% per year

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

Schedules of Changes in CPS Energy Net OPEB Liability and Related Ratios – The following schedules present multiyear trend information that demonstrates the components of change in the net OPEB (asset) liability from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts are presented on a net OPEB (asset) liability measurement date basis for the following periods:

Health Plan

(Dollars in thousands)

	Measurement Period Ended January 31,					
	2020	2019	2018	2017	2016	2015
Total OPEB liability						
Service cost	**$ 4,300**	$ 4,466	$ 3,376	$ 3,435	$ 3,319	$ 3,207
Interest cost	**17,624**	18,032	17,182	18,176	17,601	17,050
Changes in Plan benefits	**—**	—	415	(19,185)	—	—
Changes in assumptions	**(4,246)**	(2,190)	9,657	—	—	—
Differences between expected and actual experience	**(19,010)**	1,763	—	475	—	—
Benefit payments	**(12,475)**	(11,390)	(12,197)	(14,001)	(12,756)	(13,275)
Net change in total OPEB liability	**(13,807)**	10,681	18,433	(11,100)	8,164	6,982
Total OPEB liability, beginning of period	**263,922**	253,241	234,808	245,908	237,744	230,762
Total OPEB liability, end of period	**250,115**	263,922	253,241	234,808	245,908	237,744
Plan fiduciary net position						
Employer contributions	**—**	—	—	(8,500)	(8,806)	(3,200)
Medicare Part D payment	**(842)**	(872)	(998)	(933)	(976)	(933)
(Earnings) loss on Plan assets	**(30,260)**	10,571	(41,718)	(38,949)	9,765	(12,536)
Benefit payments	**12,475**	11,390	12,197	14,001	12,756	13,275
Administrative expense	**1,150**	1,223	1,346	1,622	1,456	1,137
Net change in Plan fiduciary net position	**(17,477)**	22,312	(29,173)	(32,759)	14,195	(2,257)
Plan fiduciary net position, beginning of period	**(267,509)**	(289,821)	(260,648)	(227,889)	(242,084)	(239,827)
Plan fiduciary net position, end of period	**(284,986)**	(267,509)	(289,821)	(260,648)	(227,889)	(242,084)
Net OPEB (asset) liability, end of period	**$ (34,871)**	$ (3,587)	$ (36,580)	$ (25,840)	$ 18,019	$ (4,340)
Plan fiduciary net position as a percentage of the total OPEB liability	**113.9%**	101.4%	114.4%	111.0%	92.7%	101.8%
Covered-employee payroll	**$ 244,010**	$ 228,240	$ 220,522	$ 223,523	$ 215,964	$ 242,652
Net OPEB (asset) liability as a percentage of covered-employee payroll	**-14.3%**	-1.6%	-16.6%	-11.6%	8.3%	-1.8%

Notes to Schedule

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

Life Plan

(Dollars in thousands)

	Measurement Period Ended January 31,					
	2020	2019	2018	2017	2016	2015
Total OPEB liability						
Service cost	**$ 511**	$ 473	$ 349	$ 336	$ 325	$ 313
Interest cost	**3,308**	3,284	3,432	3,256	3,244	3,228
Changes in assumptions	**309**	594	(457)	—	—	—
Differences between expected and actual experience	**840**	(936)	—	2,378	—	—
Benefit payments	**(3,895)**	(4,028)	(3,813)	(3,469)	(3,358)	(3,313)
Net change in total OPEB liability	**1,073**	(613)	(489)	2,501	211	228
Total OPEB liability, beginning of period	**46,187**	46,800	47,289	44,788	44,577	44,349
Total OPEB liability, end of period	**47,260**	46,187	46,800	47,289	44,788	44,577
Plan fiduciary net position						
Participant contributions	**(1,053)**	(1,030)	(1,000)	(972)	(930)	(911)
(Earnings) loss on Plan assets	**(5,702)**	2,135	(8,066)	(6,936)	2,102	(2,460)
Benefit payments	**3,895**	4,028	3,813	3,469	3,358	3,313
Administrative expenses	**30**	28	30	27	21	16
Net change in Plan fiduciary net position	**(2,830)**	5,161	(5,223)	(4,412)	4,551	(42)
Plan fiduciary net position, beginning of period	**(49,760)**	(54,921)	(49,698)	(45,286)	(49,837)	(49,795)
Plan fiduciary net position, end of period	**(52,590)**	(49,760)	(54,921)	(49,698)	(45,286)	(49,837)
Net OPEB (asset) liability, end of period	**$ (5,330)**	$ (3,573)	$ (8,121)	$ (2,409)	$ (498)	$ (5,260)
Plan fiduciary net position as a percentage of the total OPEB liability	**111.3%**	107.7%	117.4%	105.1%	101.1%	111.8%
Covered-employee payroll	**$ 244,010**	$ 218,003	$ 210,631	$ 198,704	$ 191,984	$ 218,939
Net OPEB (asset) liability as a percentage of covered-employee payroll	**-2.2%**	-1.6%	-3.9%	-1.2%	-0.3%	-2.4%

Notes to Schedule

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

Disability Plan

(Dollars in thousands)

	Measurement Period Ended January 31,					
	2020	2019	2018	2017	2016	2015
Total OPEB liability						
Service cost	**$ 580**	$ 620	$ 516	$ 527	$ 509	$ 492
Interest cost	**402**	475	473	455	448	426
Changes in assumptions	**11**	189	94	—	—	—
Differences between expected and actual experience	**(673)**	(656)	—	255	—	—
Benefit payments	**(977)**	(880)	(1,012)	(974)	(775)	(559)
Net change in total OPEB liability	**(657)**	(252)	71	263	182	359
Total OPEB liability, beginning of period	**6,114**	6,366	6,295	6,032	5,850	5,491
Total OPEB liability, end of period	**5,457**	6,114	6,366	6,295	6,032	5,850
Plan fiduciary net position						
Employer contributions	**(769)**	(1,000)	(1,300)	(700)	(175)	(175)
Participant contributions	**(291)**	(274)	(265)	(260)	(248)	(211)
(Earnings) loss on Plan assets	**(603)**	205	(627)	(501)	158	(177)
Benefit payments	**977**	880	1,012	974	775	559
Administrative expenses	**14**	19	18	15	14	18
Net change in Plan fiduciary net position	**(672)**	(170)	(1,162)	(472)	524	14
Plan fiduciary net position, beginning of period	**(5,566)**	(5,396)	(4,234)	(3,762)	(4,286)	(4,300)
Plan fiduciary net position, end of period	**(6,238)**	(5,566)	(5,396)	(4,234)	(3,762)	(4,286)
Net OPEB (asset) liability, end of period	**$ (781)**	$ 548	$ 970	$ 2,061	$ 2,270	$ 1,564
Plan fiduciary net position as a percentage of the total OPEB liability	**114.3%**	91.0%	84.8%	67.2%	62.4%	73.3%
Covered-employee payroll	**$ 251,482**	$ 224,137	$ 216,558	$ 212,904	$ 205,704	$ 218,939
Net OPEB (asset) liability as a percentage of covered-employee payroll	**-0.3%**	0.2%	0.4%	1.0%	1.1%	0.7%

Notes to Schedule

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

Schedules of Employer Contributions to CPS Energy OPEB Plans – The following schedules present multi-year trend information regarding employer contributions to the OPEB Plans. Information is presented related to all periods for which the required data is available. The amounts presented are determined as of the fiscal years ending:

Health Plan

(Dollars in thousands)

	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	**$ 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	28 years
Asset valuation method	Market value gains/losses recognized over 5 years
Healthcare cost trend rates	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	5.8% 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 3.1% to 11.6% for FY2021, FY2020 and FY2019; ranging from 4.0% to 9.5% for previous years
Investment Rate of Return	7.25% per year, compounded annually, for FY2021, FY2020, and FY2019; 7.50% for FY2018 and FY2017; 7.75% for previous years
Mortality	RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2018 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 1987 Commissioners Group Disable Life Mortality Table

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

Life Plan

(Dollars in thousands)

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

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal cost
Amortization method	Level percent; open periods
Remaining amortization period	5 years
Asset valuation method	Market value gains/losses recognized over 5 years
Inflation	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 3.1% to 11.6% for FY2021 and FY2020; 4.54% average, including inflation for FY2019; 4.78% average, including inflation, in prior years
Investment rate of return	7.25% per year, compounded annually, for FY2021 through FY2019, 7.50% for previous years
Mortality	Based on RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2018; 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 1987 Commissioners Group Disable Life Mortality Table

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

Disability Plan

(Dollars in thousands)

	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	**$ 614**	$ 769	$ 1,045	$ 1,035	$ 886	$ 793
Contributions in relation to the actuarially determined contribution	**614**	769	1,000	1,300	700	175
Contribution deficiency (excess)	**$ —**	$ —	$ 45	$ (265)	$ 186	$ 618
Covered-employee payroll	**$ 259,520**	$ 251,482	$ 224,137	$ 216,558	$ 212,904	$ 205,704
Contributions as a percentage of covered-employee payroll	**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 percent; open periods
Asset valuation method	Market value gains/losses recognized over 5 years
Remaining amortization period	5 years
Inflation	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 3.1% to 11.6% for FY2021 and FY2020; 4.72% average, including inflation for FY2019; 4.78% average, including inflation for previous years
Investment rate of return	7.25% per year, compounded annually for FY2021 through FY2019, 7.50% for previous years
Mortality	Healthy mortality based on RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2018Disabled mortality based on 1987 Commissioners Group Disable Life Mortality Table

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

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

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

GLOSSARY OF TERMS

Advance Refunding: A bond issuance in which new bonds are sold at a lower interest rate than outstanding ones. The proceeds are then invested in an irrevocable escrow; when the older bonds become callable, they are paid off with the invested proceeds. Changes to federal tax law in late calendar 2017 eliminated the ability of governments to issue tax-exempt advance refunding bonds. Taxable advance refundings of tax-exempt or taxable bonds are still permitted.

Allowance for Funds Used During Construction ("AFUDC"): A cost accounting procedure whereby interest charges on borrowed funds and a return on equity for capital used to finance construction are added to the cost of utility plant being constructed (i.e., capitalized interest).

Amortize: To reduce an original amount or an account balance on an installment basis.

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

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

Build America Bonds ("BABs"): Taxable municipal bonds created under the American Recovery and Reinvestment Act of 2009 that carry special federal subsidies for either the bondholder or the bond issuer.

Call Option: An option contract giving the owner the right (but not the obligation) to buy a specified amount of an underlying asset at a specified price within a specified time.

Capital Asset: An asset with a life of more than one year that is not bought and sold in the ordinary course of business.

Cash and Cash Equivalents: The value of assets that can be converted into cash immediately. Usually includes bank accounts and marketable securities, such as government bonds. Cash equivalents on the Statements of Net Position include securities with an original maturity of 90 days or less.

Commercial Paper: A short-term note with a maximum maturity of 270 days. Maturities for commercial paper notes, however, can be extended indefinitely for the life of the program that supports the commercial paper notes.

Component Unit: A legally separate entity for which the elected officials of the primary government are financially accountable and with which a financial benefit/burden relationship exists. The nature and significance of its relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Decommissioning: The process related to permanently taking a plant out of service, including decontaminating and removing buildings or other structures.

Defeasance: A provision that legally discharges a borrower for debt incurred when the borrower sets aside cash or bonds sufficient to service the outstanding debt.

Deferred Inflows of Resources: Acquisition of net assets applicable to a future reporting period.

Deferred Outflows of Resources: Consumption of net assets applicable to a future reporting period.

Depreciation: Amount allocated during the period to expense the cost of acquiring a capital asset over the useful life of the asset.

Derivative Instrument: In finance, a security for which price is dependent upon or derived from one or more underlying assets. The derivative instrument itself is merely a contract between two or more parties. Examples of derivative instruments include futures and options.

Electric Reliability Council of Texas ("ERCOT"): An organization whose mission is to direct and ensure reliable and cost-effective operation of the electric transmission grid in Texas and to enable fair and efficient market-driven solutions to meet customers' electric service needs.

Fair Value: The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Energy Regulatory Commission ("FERC"): Independent federal agency created within the U.S. Department of Energy. FERC is vested with broad regulatory authority over wholesale electric, natural gas and oil production, and the licensing of hydroelectric facilities.

Financial Accounting Standards Board ("FASB"): Board composed of independent members who create and interpret generally accepted accounting principles ("GAAP") applicable to private sector entities in the United States.

Fiscal Year ("FY"): The 12-month period covered by the income statement. A fiscal year may or may not coincide with a calendar year. For CPS Energy, the fiscal year is from February 1 through January 31.

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

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

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

Futures: Financial contracts obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange.

Generally Accepted Accounting Principles ("GAAP"): Conventions, rules and procedures that serve as the norm for the fair presentation of financial statements. The Governmental Accounting Standards Board is responsible for setting GAAP for state and local governments.

Governmental Accounting Standards Board ("GASB"): The authoritative standard-setting body for accounting and financial reporting for governmental entities in the United States.

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

Lease: A legal agreement to pay rent to the lessor for a stated period of time. Sometimes the lease is in substance a purchase of an asset and a financing arrangement (i.e., a capital lease).

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

MMBtu: 1,000,000 British Thermal Units ("BTU"). A BTU is the standard unit for measuring the quantity of heat energy, such as the heat content of fuel. It is the amount of heat energy necessary to raise the temperature of one pound of water one-degree Fahrenheit at sea level pressure.

Management's Discussion & Analysis ("MD&A"): A section of the basic financial statements that contains objective and easily readable analysis from management about the company's financial condition and its operations to assist users in assessing the company's financial position.

Megawatt ("MW"): A measure of electric power. A megawatt equals 1,000 kilowatts or 1,000,000 watts.

Mothballed: A generation resource that is placed in an inactive state so that it can neither be brought into operation immediately nor counted towards the electric transmission grid's reserve margin.

National Association of Regulatory Utility Commissioners ("NARUC"): A nonprofit organization whose members include the governmental agencies that are engaged in the regulation of utilities and carriers in the 50 United States, the District of Columbia, Puerto Rico and the Virgin Islands. NARUC's member agencies regulate the activities of energy, water and telecommunications utilities.

Natural Gas Basis Swap: A financial contract that allows the purchaser to lock in the price difference between two natural gas delivery points or hubs, such as the Houston Ship Channel and Henry Hub, Louisiana.

Net Costs Recoverable/Refundable: Certain costs that are required to be accrued as a regulatory asset or a regulatory liability under GASB Statement No. 62 if regulation provides assurance that these costs can be recovered or refunded through rates in the future.

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

Net Pension Liability: The difference between the actuarial total pension liability and a pension plan's fiduciary net position of as the measurement date.

Net Revenue: Per the New Series Bond Ordinance, all income and revenues from the operation of the

Company's electric and gas systems after the deduction of maintenance and operating expenses.

New Series Bonds: A CPS Energy term used to distinguish bonds that have a first lien on the net revenues of CPS Energy's Systems.

Other Postemployment Benefits ("OPEBs"): Postemployment benefits other than pension benefits. OPEBs include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination benefits.

Public Utility Commission of Texas ("PUCT"): The governmental commission that regulates the rates and services of telephone utilities; investor-owned electric, water and sewer utilities; electric, water and sewer utilities in unincorporated areas; and radio companies statewide. The PUCT does not have authority to regulate retail activities of municipally owned utilities.

Refunding: Retiring all or a portion of an outstanding bond issue after the first call date by using money from the sale of a new offering.

Regulatory Asset/Liability: Specific costs, revenues or gains that a government with qualifying rate-regulated operations is allowed to defer, until recovered through future rates, that would otherwise be immediately recognized in the statement of revenues, expenses and changes in net position.

Required Supplementary Information ("RSI"): Schedules, statistical data and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.

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

Revenue Bonds: Bonds issued by a municipality in which the issuer pledges to the bondholders its revenues as security for the bonds.

SA Energy Acquisition Public Facility Corporation ("PFC"): A public nonprofit corporation organized under the laws of the state of Texas pursuant to the Texas Public Facility Corporation Act, Chapter 303, Texas Local Government Code. The PFC was organized to assist the City of San Antonio in financing, refinancing or providing public facilities, including natural gas, to be devoted to public use.

South Texas Project ("STP"): A two-unit nuclear plant with a capacity of 2,700 MW of electricity, enough to provide service for more than one million homes and businesses.

South Texas Project Nuclear Operating Company ("STPNOC"): A not-for-profit entity that provides for the licensing, construction, operation and maintenance of the jointly owned and operated electric generation facilities of STP.

Tax-Exempt Bond: A bond usually issued by a municipal, county or state government for which interest payments are not subject to the bondholders' federal income tax and, in some cases, state and local income tax.

Transmission Costs of Service ("TCOS"): A functional classification of expenses and capital expenditures relating to the operation and maintenance of the transmission plant. The transmission function is that portion of the utility system used for the purpose of transmitting electrical energy in bulk to other principal parts of the system or to other utility systems.

True Interest Cost: The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds.

Weighted-Average Duration ("WAD"): The weighted-average time to return a dollar of principal and interest and incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows and is used as an estimate of the interest rate risk of a fixed-income investment— especially those with payment terms dependent on market interest rates.

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

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

MUNICIPALLY OWNED ELECTRIC & GAS UTILITY

SAN ANTONIO, TEXAS 2022

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS COMMERCIAL PAPER NOTES, DATED SEPTEMBER 13, 2021

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Voluntary Disclosure

Other Event-based Disclosures: Updated Commercial Paper Offering Memorandum, dated 05/06/2022

Document

File	Period Date
CPS OM 2022.pdf	05/06/2022

Associated Securities

The following are associated with this continuing disclosure submission.

CUSIP-6	Issuer Name
79625G	CITY OF SAN ANTONIO, TEXAS
79625Y	SAN ANTONIO TEX ELEC & GAS REV IAM COML PAPER NTS 3/A2 SER A
79626F	SAN ANTONIO TEX ELEC & GAS REV IAM COML PAPER NTS 3/A2 SER C
79626L	SAN ANTONIO TEX ELEC & GAS REV IAM COML PAPER NTS 3/A2 SER B
796253	CITY OF SAN ANTONIO, TEXAS
796300	CITY OF SAN ANTONIO, TEXAS

Total CUSIPs associated with this submission: 1018

The disclosure will be published for the following securities.

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
79625GEZ2	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2023	2.412
79625GFA6	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2024	2.712
79625GFB4	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2025	3.041
79625GFC2	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2026	3.146
79625GFD0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2027	3.196
79625GFE8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2028	3.238
79625GFF5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2029	3.418
79625GFG3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2030	3.458
79625GFH1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2031	3.608

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
79625GFJ7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2032	3.758
79625GFK4	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2033	3.908
79625GFL2	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2034	4.058
79625GFM0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2035	4.158
79625GFN8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2036	4.258
79625GFP3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2037	4.308
79625GFQ1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2042	4.365
79625GFR9	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022	04/01/2022	02/01/2047	4.445
79625GFS7	REVENUE REFUNDING BONDS, NEW SERIES 2022	04/01/2022	02/01/2023	5
79625GFT5	REVENUE REFUNDING BONDS, NEW SERIES 2022	04/01/2022	02/01/2024	5
79625GFU2	REVENUE REFUNDING BONDS, NEW SERIES 2022	04/01/2022	02/01/2025	5
79625GED1	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2026	5
79625GEE9	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2027	5
79625GEF6	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2028	5
79625GEG4	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2029	5
79625GEH2	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2030	5
79625GEJ8	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2031	5
79625GEK5	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2032	5
79625GEL3	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2033	5
79625GEM1	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2034	5
79625GEN9	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2035	5
79625GEP4	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2036	5
79625GEQ2	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2037	4
79625GER0	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2038	5
79625GES8	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2039	4
79625GET6	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2040	5
79625GEU3	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2041	4

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
79625GEV1	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2042	5
79625GEW9	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2043	4
79625GEX7	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2044	5
79625GEY5	ELECTRIC AND GAS SYSTEMS FIXED AND VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2022	01/01/2022	02/01/2049	2
79625GDJ9	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2031	5
79625GDK6	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2032	5
79625GDL4	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2033	5
79625GDM2	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2034	5
79625GDN0	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2035	5
79625GDP5	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2036	5
79625GDQ3	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2037	5
79625GDR1	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2038	5
79625GDS9	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2039	5
79625GDT7	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2040	5
79625GDU4	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2041	5
79625GDV2	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2046	5
79625GDW0	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A	03/01/2021	02/01/2049	5
79625GDB6	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2020	11/01/2020	02/01/2034	2.142
79625GDC4	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2020	11/01/2020	02/01/2035	2.242
79625GDD2	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2020	11/01/2020	02/01/2036	2.392
79625GDE0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2020	11/01/2020	02/01/2037	2.492
79625GDF7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2020	11/01/2020	02/01/2040	2.875
79625GDG5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2020	11/01/2020	02/01/2048	2.905
79625GBX0	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2020	01/28/2020	02/01/2049	1.75
79625GBY8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2026	5
79625GBZ5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2027	5
79625GCA9	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2028	5
79625GCB7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2029	5
79625GCC5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2030	5
79625GCD3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2031	5
79625GCE1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2032	5
79625GCF8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2033	5

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
79625GCG6	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2034	5
79625GCH4	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2035	5
79625GCJ0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2036	5
79625GCK7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2037	5
79625GCL5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2038	5
79625GCM3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2039	5
79625GCN1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2040	5
79625GCP6	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2041	5
79625GCQ4	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2042	5
79625GCR2	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2045	5
79625GCS0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS NEW SERIES 2020	01/01/2020	02/01/2049	5
79625GBK8	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019	11/01/2019	02/01/2033	5
79625GBL6	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019	11/01/2019	02/01/2034	5
79625GBM4	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019	11/01/2019	02/01/2035	5
79625GBN2	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019	11/01/2019	02/01/2036	3
79625GBP7	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019	11/01/2019	02/01/2036	5
79625GBQ5	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019	11/01/2019	02/01/2037	5
79625GBR3	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019	11/01/2019	02/01/2037	3
79625GBS1	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019	11/01/2019	02/01/2038	4
79625GBT9	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019	11/01/2019	02/01/2039	4
79625GBU6	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2019	11/01/2019	02/01/2041	4
79625GBC6	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2019	09/01/2019	02/01/2026	4
79625GBD4	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2019	09/01/2019	02/01/2027	4
79625GBE2	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2019	09/01/2019	02/01/2027	5
79625GBF9	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2019	09/01/2019	02/01/2028	4
79625GBG7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2019	09/01/2019	02/01/2028	1.5
79625GBH5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2019	09/01/2019	02/01/2029	4
79625GBJ1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2019	09/01/2019	02/01/2030	4
79625YAB0	BK NTS	06/21/2019	06/21/2026	
79626FAB0	BK NTS	06/21/2019	06/21/2025	
79626LAB7	BK NTS	06/21/2019	06/01/2025	
79625GAK9	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2026	5
79625GAL7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2027	5

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
79625GAM5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2028	5
79625GAN3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2029	5
79625GAP8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2030	5
79625GAQ6	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2031	5
79625GAR4	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2032	5
79625GAS2	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2033	5
79625GAT0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2034	5
79625GAU7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2035	5
79625GAV5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2036	5
79625GAW3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2037	5
79625GAX1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2038	5
79625GAY9	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2039	5
79625GAZ6	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2040	5
79625GBA0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2044	5
79625GBB8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018A	12/01/2018	02/01/2048	5
79625GAJ2	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2018	12/01/2018	02/01/2048	2.75
79625GAA1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018	11/01/2018	02/01/2020	4
79625GAB9	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018	11/01/2018	02/01/2020	5
79625GAC7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018	11/01/2018	02/01/2021	4
79625GAD5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018	11/01/2018	02/01/2021	5
79625GAE3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018	11/01/2018	02/01/2027	5
79625GAF0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018	11/01/2018	02/01/2027	4
79625GAG8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018	11/01/2018	02/01/2028	5
79625GAH6	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2018	11/01/2018	02/01/2028	4
7962536X5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2026	5
7962536Y3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2027	5
7962536Z0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2028	5
7962537A4	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2029	5
7962537B2	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2030	5
7962537C0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2031	5
7962537D8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2032	5
7962537E6	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2033	5
7962537F3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2034	5

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
7962537G1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2035	5
7962537H9	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2036	5
7962537J5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2037	4
7962537K2	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2038	4
7962537L0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2039	5
7962537M8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2040	5
7962537N6	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2041	5
7962537P1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2042	5
7962537Q9	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2017	08/01/2017	02/01/2047	5
7962535Z1	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2018	5
7962536A5	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2019	5
7962536B3	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2020	5
7962536C1	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2021	5
7962536D9	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2026	5
7962536E7	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2027	5
7962536F4	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2028	5
7962536G2	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2029	5
7962536H0	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2030	5
7962536J6	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2031	5
7962536K3	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2032	5
7962536L1	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2033	5
7962536M9	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2034	5
7962536N7	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2035	5
7962536P2	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2036	5
7962536Q0	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2037	5
7962536R8	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2038	5
7962536W7	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2039	5
7962536S6	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2042	5
7962536T4	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2042	4
7962536U1	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2047	5
7962536V9	REVENUE AND REFUNDING BONDS, NEW SERIES 2017	04/01/2017	02/01/2047	4
7962535D0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2020	5
7962535E8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2021	5

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
7962535F5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2022	5
7962535G3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2023	5
7962535H1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2024	5
7962535J7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2025	5
7962535K4	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2026	5
7962535L2	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2027	5
7962535M0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2028	4
7962535V0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2028	5
7962535N8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2029	5
7962535P3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2030	5
7962535Q1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2031	5
7962535W8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2031	3
7962535R9	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2032	4
7962535U2	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2032	5
7962535S7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2033	4
7962535T5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2016	07/01/2016	02/01/2034	4
79625GCT8	REV REF BDS 2016	07/01/2016	02/01/2022	5
79625GCX9	REV REF BDS 2016	07/01/2016	02/01/2022	5
79625GCU5	REV REF BDS 2016	07/01/2016	02/01/2023	5
79625GCY7	REV REF BDS 2016	07/01/2016	02/01/2023	5
79625GCV3	REV REF BDS 2016	07/01/2016	02/01/2024	5
79625GCZ4	REV REF BDS 2016	07/01/2016	02/01/2024	5
79625GCW1	REV REF BDS 2016	07/01/2016	02/01/2025	5
79625GDA8	REV REF BDS 2016	07/01/2016	02/01/2025	5
7962534N9	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2026	5
7962534P4	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2027	3
7962534Q2	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2028	3
7962534R0	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2029	3.25
7962534S8	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2030	3.2
7962534T6	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2031	3.35
7962534U3	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2032	5
7962534V1	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2033	4
7962534W9	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2034	4

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
7962534X7	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2035	4
7962534Y5	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2036	4
7962534Z2	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2037	4
7962535A6	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2038	4
7962535B4	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES 2015	11/01/2015	02/01/2039	4
7962534M1	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE BONDS SERIES 2015C	11/01/2015	12/01/2045	3
79625GDH3	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE BONDS SERIES 2015D	11/01/2015	12/01/2045	1.125
79625GBV4	VARIABLE RATE JUNIOR LIEN REVENUE BONDS SERIES 2015C	11/01/2015	12/01/2045	1.75
7962534L3	VARIABLE RATE JUNIOR LIEN REVENUE BONDS, SERIES 2015D	11/01/2015	12/01/2045	3
7962533R1	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2018	5
7962533S9	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2019	5
7962533T7	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2020	5
7962533U4	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2021	5
7962533V2	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2022	5
7962533W0	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2023	5
7962534G4	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2023	3.5
7962533X8	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2024	5
7962534H2	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2024	3.5
7962533Y6	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2025	5
7962533Z3	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2026	5
7962534A7	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2027	5
7962534B5	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2028	3.125
7962534C3	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2029	3.25
7962534D1	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2030	4
7962534E9	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2031	5
7962534F6	REVENUE REFUNDING BONDS, NEW SERIES 2015	08/01/2015	02/01/2032	5
7962537R7	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2015B (2017 REMARKETING)	01/01/2015	02/01/2033	2
79625GDX8	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2015B, DECEMBER 1, 2021 FIXED RATE CONVERSION	01/01/2015	02/01/2029	3
79625GDY6	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2015B, DECEMBER 1, 2021 FIXED RATE CONVERSION	01/01/2015	02/01/2030	3
79625GDZ3	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2015B, DECEMBER 1, 2021 FIXED RATE CONVERSION	01/01/2015	02/01/2031	3
79625GEA7	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2015B, DECEMBER 1, 2021 FIXED RATE CONVERSION	01/01/2015	02/01/2031	4

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
79625GEB5	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2015B, DECEMBER 1, 2021 FIXED RATE CONVERSION	01/01/2015	02/01/2032	4
79625GEC3	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2015B, DECEMBER 1, 2021 FIXED RATE CONVERSION	01/01/2015	02/01/2033	4
79625GBW2	TEXAS ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2015A	01/01/2015	02/01/2033	1.75
7962533P5	VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS	01/01/2015	02/01/2033	
7962533Q3	VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2015B	01/01/2015	02/01/2033	
7962535Y4	VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2015A	01/01/2015	02/01/2033	2.25
7962533D2	JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2014	11/01/2014	02/01/2016	5
7962533E0	JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2014	11/01/2014	02/01/2017	2
7962533J9	JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2014	11/01/2014	02/01/2017	5
7962533F7	JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2014	11/01/2014	02/01/2018	2
7962533K6	JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2014	11/01/2014	02/01/2018	5
7962533G5	JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2014	11/01/2014	02/01/2019	2
7962533L4	JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2014	11/01/2014	02/01/2019	5
7962533H3	JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2014	11/01/2014	02/01/2020	3
7962533M2	JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2014	11/01/2014	02/01/2020	5
7962532S0	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2014 (CPS ENERGY)	06/01/2014	02/01/2026	5
7962532T8	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2014 (CPS ENERGY)	06/01/2014	02/01/2027	5
7962532U5	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2014 (CPS ENERGY)	06/01/2014	02/01/2028	5
7962532V3	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2014 (CPS ENERGY)	06/01/2014	02/01/2029	5
7962532W1	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2014 (CPS ENERGY)	06/01/2014	02/01/2030	5
7962532X9	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2014 (CPS ENERGY)	06/01/2014	02/01/2031	5
7962532Y7	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2014 (CPS ENERGY)	06/01/2014	02/01/2032	5
7962532Z4	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2014 (CPS ENERGY)	06/01/2014	02/01/2033	5
7962533A8	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2014 (CPS ENERGY)	06/01/2014	02/01/2034	5
7962533C4	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2014 (CPS ENERGY)	06/01/2014	02/01/2039	5
7962533B6	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2014 (CPS ENERGY)	06/01/2014	02/01/2044	5
79626LAA9	BK NT	06/26/2013	06/24/2016	
7962532P6	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2013	06/01/2013	02/01/2038	5
7962532Q4	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2013	06/01/2013	02/01/2043	5
7962532R2	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, SERIES 2013	06/01/2013	02/01/2048	5
796300AU5	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2016	1.078
796300AV3	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS,	06/01/2013	08/15/2017	1.537

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	TAXABLE SERIES 2013 (STARBRIGHT PROJECT)			
796300AW1	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2018	1.737
796300AX9	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2019	2.036
796300AY7	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2020	2.336
796300AZ4	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2021	2.682
796300BA8	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2022	2.932
796300BB6	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2023	3.132
796300BC4	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2024	3.332
796300BD2	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2025	3.532
796300BE0	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2026	3.682
796300BF7	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2027	3.832
796300BG5	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2028	3.932
796300BH3	STARBRIGHT INDUSTRIAL DEVELOPMENT CORPORTATION CONTRACT REVENUE REFUNDING BONDS, TAXABLE SERIES 2013 (STARBRIGHT PROJECT)	06/01/2013	08/15/2033	4.75
79625YAA2	BK NT	10/17/2012	12/31/2018	0
79626FAA2	BK NT	10/17/2012	12/31/2018	0
7962532L5	ELECTRIC AND GAS SYSTEMS (CPS ENERGY) VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2012C	10/15/2012	12/01/2027	2
7962532N1	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2012A	10/15/2012	12/01/2027	2
7962533N0	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2012A REMARKETING	10/15/2012	12/01/2027	2
7962535X6	ELECTRIC AND GAS SYSTEMS VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2012C	10/15/2012	12/01/2027	2
7962532M3	VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS SERIES 2012B	10/15/2012	12/01/2027	2
7962535C2	VARIABLE RATE JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2012B	10/15/2012	12/01/2027	1.75
7962532A9	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2021	4
7962532E1	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2021	5
7962532B7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2022	4
7962532F8	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2022	5
7962532C5	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2023	4
7962532G6	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2023	5
7962532K7	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2023	5

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7962532H4	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2024	5
7962532J0	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2024	5.25
796253Z88	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2024	3
7962532D3	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2025	5.25
796253Z96	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2012	06/01/2012	02/01/2025	5
796253Z39	ELECTRIC AND GAS SYSTEMS REVENUE BONDS TAXABLE NEW SERIES 2012	03/01/2012	02/01/2026	3.722
796253Z47	ELECTRIC AND GAS SYSTEMS REVENUE BONDS TAXABLE NEW SERIES 2012	03/01/2012	02/01/2027	3.822
796253Z54	ELECTRIC AND GAS SYSTEMS REVENUE BONDS TAXABLE NEW SERIES 2012	03/01/2012	02/01/2028	3.972
796253Z62	ELECTRIC AND GAS SYSTEMS REVENUE BONDS TAXABLE NEW SERIES 2012	03/01/2012	02/01/2029	4.077
796253Z70	ELECTRIC AND GAS SYSTEMS REVENUE BONDS TAXABLE NEW SERIES 2012	03/01/2012	02/01/2030	4.127
796253Z21	ELECTRIC AND GAS SYSTEMS REVENUE BONDS TAXABLE NEW SERIES 2012	03/01/2012	02/01/2042	4.427
796253Y71	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2011	11/01/2011	02/01/2016	5
796253Y89	ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2011	11/01/2011	02/01/2017	5
796253Y30	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS, TAXABLE SERIES 2010A (DIRECT SUBSIDY - BUILD AMERICA BONDS)	10/01/2010	02/01/2041	5.808
796253Y48	ELECTRIC AND GAS SYSTEMS, JUNIOR LIEN REVENUE REFUNDING BONDS, TAXABLE - SERIES 2010B, DIRECT SUBSIDY - BUILD AMERICA BONDS	10/01/2010	02/01/2037	6.308
796253U91	TEXAS ELECTRIC AND GAS SYSTEMS REVENUE BONDS, TAXABLE NEW SERIES 2010A (DIRECT SUBSIDY - BUILD AMERICA BONDS)	02/01/2010	02/01/2041	5.718
796253V25	TEXAS ELECTRIC AND GAS SYSTEMS REVENUE BONDS, TAXABLE NEW SERIES 2010A (DIRECT SUBSIDY - BUILD AMERICA BONDS)	02/01/2010	02/01/2041	6.168
796253U26	CTFS 2016-ZM0313	06/25/2009	02/01/2031	
796253U34	CTFS 2016-ZM0313	06/25/2009	02/01/2031	
796253T93	ELECTRIC AND GAS SYSTEMS REVENUE BONDS NEW SERIES, 2009C (BUILD AMERICA BONDS)	06/12/2009	02/01/2039	5.985
796253U42	ELECTRIC AND GAS SYSTEM REVENUE REFUNDING BONDS NEW SERIES 2009D	06/01/2009	02/01/2017	5
796253U59	ELECTRIC AND GAS SYSTEM REVENUE REFUNDING BONDS NEW SERIES 2009D	06/01/2009	02/01/2018	5
796253U67	ELECTRIC AND GAS SYSTEM REVENUE REFUNDING BONDS NEW SERIES 2009D	06/01/2009	02/01/2019	5
796253U75	ELECTRIC AND GAS SYSTEM REVENUE REFUNDING BONDS NEW SERIES 2009D	06/01/2009	02/01/2020	5
796253U83	ELECTRIC AND GAS SYSTEM REVENUE REFUNDING BONDS NEW SERIES 2009D	06/01/2009	02/01/2021	5
796253X98	REV REF BDS 2009D	06/01/2009	02/01/2021	5
796253Y22	REV REF BDS 2009D	06/01/2009	02/01/2021	5
796253P89	REV REF BDS 2009A	02/01/2009	02/01/2015	3.25
796253P97	REV REF BDS 2009A	02/01/2009	02/01/2015	5
796253Q21	REV REF BDS 2009A	02/01/2009	02/01/2016	3.25
796253Q39	REV REF BDS 2009A	02/01/2009	02/01/2016	5
796253Q47	REV REF BDS 2009A	02/01/2009	02/01/2017	3.25

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796253Q54	REV REF BDS 2009A	02/01/2009	02/01/2017	4
796253Q62	REV REF BDS 2009A	02/01/2009	02/01/2017	5
796253Q70	REV REF BDS 2009A	02/01/2009	02/01/2018	3.25
796253Q88	REV REF BDS 2009A	02/01/2009	02/01/2018	4
796253Q96	REV REF BDS 2009A	02/01/2009	02/01/2018	5
796253R20	REV REF BDS 2009A	02/01/2009	02/01/2019	3.5
796253R38	REV REF BDS 2009A	02/01/2009	02/01/2019	4
796253R46	REV REF BDS 2009A	02/01/2009	02/01/2019	5
796253R53	REV REF BDS 2009A	02/01/2009	02/01/2020	4
796253R61	REV REF BDS 2009A	02/01/2009	02/01/2020	5.25
796253R79	REV REF BDS 2009A	02/01/2009	02/01/2021	4
796253R87	REV REF BDS 2009A	02/01/2009	02/01/2021	5.25
796253R95	REV REF BDS 2009A	02/01/2009	02/01/2022	5.25
796253S29	REV REF BDS 2009A	02/01/2009	02/01/2023	5.25
796253S37	REV REF BDS 2009A	02/01/2009	02/01/2024	4.5
796253S45	REV REF BDS 2009A	02/01/2009	02/01/2024	5.25
796253S52	REV REF BDS 2009A	02/01/2009	02/01/2024	4.625
796253S60	REV REF BDS 2009A	02/01/2009	02/01/2025	5.25
796253S78	REV REF BDS 2009A	02/01/2009	02/01/2026	5.25
796253S86	REV REF BDS 2009A	02/01/2009	02/01/2027	5.25
796253S94	REV REF BDS 2009A	02/01/2009	02/01/2028	5.25
796253T28	REV REF BDS 2009A	02/01/2009	02/01/2028	4.75
796253T36	REV REF BDS 2009A	02/01/2009	02/01/2029	5
796253T44	REV REF BDS 2009A	02/01/2009	02/01/2029	5.25
796253T51	REV REF BDS 2009A	02/01/2009	02/01/2030	5
796253T69	REV REF BDS 2009A	02/01/2009	02/01/2031	5.25
796253T77	REV REF BDS 2009A	02/01/2009	02/01/2034	5
796253T85	REV REF BDS 2009A	02/01/2009	02/01/2028	4.75
796253X72	REV REF BDS 2009A	02/01/2009	02/01/2034	5
796253X80	REV REF BDS 2009A	02/01/2009	02/01/2034	5
796253N99	RFDG-SER A	12/01/2008	02/01/2010	5.5
796253P22	RFDG-SER A	12/01/2008	02/01/2011	5.5
796253P30	RFDG-SER A	12/01/2008	02/01/2012	5.5

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796253P48	RFDG-SER A	12/01/2008	02/01/2013	5.5
796253P55	RFDG-SER A	12/01/2008	02/01/2014	5.5
796253P63	RFDG-SER A	12/01/2008	02/01/2015	5.5
796253P71	RFDG-SER A	12/01/2008	02/01/2016	5.5
796253X56	RFDG-SER A	12/01/2008	02/01/2016	5.5
796253X64	RFDG-SER A	12/01/2008	02/01/2016	5.5
796253XZ0	DRIVERS-SER 3247	04/14/2005	02/01/2013	
796253YA4	DRIVERS-SER 3247	04/14/2005	02/01/2013	
796253YD8	DRIVERS-SER 3247	04/14/2005	02/01/2013	
796253YE6	DRIVERS-SER 3247	04/14/2005	02/01/2013	
796253H47	DRIVERS-SER 3247	04/14/2005	08/01/2013	
796253H54	DRIVERS-SER 3247	04/14/2005	08/01/2013	
796253ZT2	DRIVERS-SER 3247	04/14/2005	02/01/2014	
796253ZU9	DRIVERS-SER 3247	04/14/2005	02/01/2014	
796253G63	DRIVERS-SER 3247	04/14/2005	02/01/2015	
796253G71	DRIVERS-SER 3247	04/14/2005	02/01/2015	
796253XR8	DRIVERS-SER 3247	04/14/2005	02/01/2023	
796253XS6	DRIVERS-SER 3247	04/14/2005	02/01/2023	
796253N73	DRIVERS-SER 3247	04/14/2005	02/01/2027	0
796253N81	DRIVERS-SER 3247	04/14/2005	02/01/2027	0
796253M33	CTFS SER 2869	07/03/2008	02/01/2032	
796253M41	CTFS SER 2869	07/03/2008	02/01/2032	
796253J60	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2017	5
796253J78	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2018	5
796253J86	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2019	4
796253J94	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2020	5
796253K27	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2021	5
796253K35	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2022	5
796253K43	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2023	5
796253K50	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2024	5
796253K68	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2025	5
796253K76	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2026	5
796253K84	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2027	5

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253K92	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2028	5
796253L26	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2029	5
796253L34	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2032	5
796253L42	ELEC AND GAS SYS REV BDS CPS ENERGY 2008	06/15/2008	02/01/2032	4.5
796253H88	CTFS SER D167	05/22/2008	02/01/2026	
796253H96	CTFS SER D167	05/22/2008	02/01/2026	
796253H62	CTFS SER 2510	03/06/2008	02/01/2024	
796253H70	CTFS SER 2510	03/06/2008	02/01/2024	
796253G89	CTFS 2450	02/21/2008	02/01/2023	
796253G97	CTFS 2450	02/21/2008	02/01/2023	
796253B68	REV REF BDS 2007	06/15/2007	02/01/2015	5
796253B76	REV REF BDS 2007	06/15/2007	02/01/2015	4
796253B84	REV REF BDS 2007	06/15/2007	02/01/2016	5
796253B92	REV REF BDS 2007	06/15/2007	02/01/2016	4
796253C26	REV REF BDS 2007	06/15/2007	02/01/2017	5
796253C34	REV REF BDS 2007	06/15/2007	02/01/2017	4
7962534J8	REV REF BDS 2007	06/15/2007	02/01/2018	5
7962534K5	REV REF BDS 2007	06/15/2007	02/01/2018	5
796253C42	REV REF BDS 2007	06/15/2007	02/01/2018	5
796253C59	REV REF BDS 2007	06/15/2007	02/01/2019	5
796253C67	REV REF BDS 2007	06/15/2007	02/01/2020	5
796253C75	REV REF BDS 2007	06/15/2007	02/01/2021	5
796253C83	REV REF BDS 2007	06/15/2007	02/01/2022	5
796253C91	REV REF BDS 2007	06/15/2007	02/01/2023	5
796253D25	REV REF BDS 2007	06/15/2007	02/01/2024	5
796253D33	REV REF BDS 2007	06/15/2007	02/01/2025	5
796253D41	REV REF BDS 2007	06/15/2007	02/01/2026	5
796253D58	REV REF BDS 2007	06/15/2007	02/01/2027	5
796253D66	REV REF BDS 2007	06/15/2007	02/01/2032	5
796253X31	REV REF BDS 2007	06/15/2007	02/01/2032	5
796253X49	UNREFUNDED BALANCE	06/15/2007	02/01/2032	5
796253ZV7	RFDG-SER B	01/15/2007	02/01/2008	4
796253ZW5	RFDG-SER B	01/15/2007	02/01/2009	4

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796253ZX3	RFDG-SER B	01/15/2007	02/01/2010	4
796253ZY1	RFDG-SER B	01/15/2007	02/01/2011	4
796253ZZ8	RFDG-SER B	01/15/2007	02/01/2012	4.25
796253A28	RFDG-SER B	01/15/2007	02/01/2013	5
796253A36	RFDG-SER B	01/15/2007	02/01/2014	5
796253A44	RFDG-SER B	01/15/2007	02/01/2015	5
796253A51	RFDG-SER B	01/15/2007	02/01/2016	5
796253A69	RFDG-SER B	01/15/2007	02/01/2017	5
796253A77	RFDG-SER B	01/15/2007	02/01/2018	5
796253A85	RFDG-SER B	01/15/2007	02/01/2019	4.1
796253A93	RFDG-SER B	01/15/2007	02/01/2020	4.15
796253B27	RFDG-SER B	01/15/2007	02/01/2021	4.2
796253ZC9	SYS-SER A	08/15/2006	02/01/2009	5
796253ZD7	SYS-SER A	08/15/2006	02/01/2009	4
796253ZE5	SYS-SER A	08/15/2006	02/01/2010	5
796253ZF2	SYS-SER A	08/15/2006	02/01/2010	4
796253ZG0	SYS-SER A	08/15/2006	02/01/2011	5
796253ZH8	SYS-SER A	08/15/2006	02/01/2011	4
796253ZJ4	SYS-SER A	08/15/2006	02/01/2012	5
796253ZK1	SYS-SER A	08/15/2006	02/01/2013	5
796253ZL9	SYS-SER A	08/15/2006	02/01/2014	5
796253ZM7	SYS-SER A	08/15/2006	02/01/2015	5
796253ZN5	SYS-SER A	08/15/2006	02/01/2021	5
796253ZP0	SYS-SER A	08/15/2006	02/01/2022	5
796253ZQ8	SYS-SER A	08/15/2006	02/01/2023	5
796253ZR6	SYS-SER A	08/15/2006	02/01/2024	5
796253ZS4	SYS-SER A	08/15/2006	02/01/2025	5
796253WX6	FLOATERS 2006-K15	11/26/2003	02/01/2011	
796253WY4	FLOATERS 2006-K15	11/26/2003	02/01/2011	
796253QF2	FLOATERS 2006-K15	11/26/2003	02/01/2014	
796253QG0	FLOATERS 2006-K15	11/26/2003	02/01/2014	
796253JK9	FLOATERS 2006-K15	11/26/2003	02/01/2015	
796253JL7	FLOATERS 2006-K15	11/26/2003	02/01/2015	

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796253ZA3	FLOATERS 2006-K15	11/26/2003	02/01/2019	
796253ZB1	FLOATERS 2006-K15	11/26/2003	02/01/2019	
796253W99	REF REV BDS 2005 A	10/01/2005	02/01/2025	5
796253YN6	REF REV BDS 2005 A	10/01/2005	02/01/2021	4.4
796253YP1	REF REV BDS 2005 A	10/01/2005	02/01/2022	4.45
796253YQ9	REF REV BDS 2005 A	10/01/2005	02/01/2023	4.5
796253YR7	REF REV BDS 2005 A	10/01/2005	02/01/2024	5
796253YS5	REF REV BDS 2005 A	10/01/2005	02/01/2025	5
796253X23	RFDG-SYS-SER A	10/01/2005	02/01/2025	5
796253YF3	STARS CTFS-BNP-SER 112	04/21/2005	02/01/2019	
796253GM8	P-FLOAT-PT 2649	12/18/1997	02/01/2012	
796253GN6	P-FLOAT-PT 2649	12/18/1997	02/01/2012	
796253GP1	P-FLOAT-PT 2649	12/18/1997	02/01/2012	
796253GQ9	P-FLOAT-PT 2649	12/18/1997	02/01/2012	
796253GR7	P-FLOAT-PT 2649	12/18/1997	02/01/2012	
796253GS5	P-FLOAT-PT 2649	12/18/1997	02/01/2012	
796253GT3	P-FLOAT-PT 2649	12/18/1997	02/01/2012	
796253VD1	P-FLOAT-PT 2649	12/18/1997	02/01/2012	
796253VE9	P-FLOAT-PT 2649	12/18/1997	02/01/2012	
796253QW5	P-FLOAT-PT 2649	12/18/1997	02/01/2014	
796253QX3	P-FLOAT-PT 2649	12/18/1997	02/01/2014	
796253QY1	P-FLOAT-PT 2649	12/18/1997	02/01/2014	
796253QZ8	P-FLOAT-PT 2649	12/18/1997	02/01/2014	
796253RA2	P-FLOAT-PT 2649	12/18/1997	02/01/2014	
796253RB0	P-FLOAT-PT 2649	12/18/1997	02/01/2014	
796253RC8	P-FLOAT-PT 2649	12/18/1997	08/01/2014	
796253RD6	P-FLOAT-PT 2649	12/18/1997	08/01/2014	
796253RE4	P-FLOAT-PT 2649	12/18/1997	08/01/2014	
796253RF1	P-FLOAT-PT 2649	12/18/1997	08/01/2014	5
796253RG9	P-FLOAT-PT 2649	12/18/1997	08/01/2014	5
796253RH7	P-FLOAT-PT 2649	12/18/1997	08/01/2014	5
796253QV7	P-FLOAT-PT 2649	12/18/1997	02/01/2015	
796253RJ3	P-FLOAT-PT 2649	12/18/1997	02/01/2015	

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253RK0	P-FLOAT-PT 2649	12/18/1997	02/01/2015	
796253RL8	P-FLOAT-PT 2649	12/18/1997	02/01/2015	
796253RM6	P-FLOAT-PT 2649	12/18/1997	02/01/2015	5.375
796253RN4	P-FLOAT-PT 2649	12/18/1997	02/01/2015	5.375
796253RP9	P-FLOAT-PT 2649	12/18/1997	02/01/2015	5.375
796253CH3	P-FLOAT-PT 2649	12/18/1997	02/01/2016	
796253CJ9	P-FLOAT-PT 2649	12/18/1997	02/01/2016	
796253CK6	P-FLOAT-PT 2649	12/18/1997	02/01/2016	
796253CL4	P-FLOAT-PT 2649	12/18/1997	02/01/2016	4.942
796253CM2	P-FLOAT-PT 2649	12/18/1997	02/01/2016	4.942
796253CN0	P-FLOAT-PT 2649	12/18/1997	02/01/2016	4.942
796253UM2	P-FLOAT-PT 2649	12/18/1997	02/01/2016	0
796253UN0	P-FLOAT-PT 2649	12/18/1997	02/01/2016	0
796253UK6	P-FLOAT-PT 2649	12/18/1997	02/01/2017	0
796253UL4	P-FLOAT-PT 2649	12/18/1997	02/01/2017	0
796253WT5	P-FLOAT-PT 2649	12/18/1997	02/01/2017	
796253YJ5	P-FLOAT-PT 2649	12/18/1997	02/01/2017	
796253ER9	P-FLOAT-PT 2649	12/18/1997	02/01/2019	
796253ET5	P-FLOAT-PT 2649	12/18/1997	02/01/2019	
796253EV0	P-FLOAT-PT 2649	12/18/1997	02/01/2019	
796253UZ3	P-FLOAT-PT 2649	12/18/1997	02/01/2019	
796253VA7	P-FLOAT-PT 2649	12/18/1997	02/01/2019	
796253YL0	P-FLOAT-PT 2649	12/18/1997	02/01/2020	
796253XX5	P-FLOAT-PT 2649	12/18/1997	02/01/2024	
796253W73	REF REV BDS 2005	03/15/2005	02/01/2025	5
796253XJ6	REF REV BDS 2005	03/15/2005	02/01/2022	5
796253XK3	REF REV BDS 2005	03/15/2005	02/01/2023	5
796253XL1	REF REV BDS 2005	03/15/2005	02/01/2023	5
796253XM9	REF REV BDS 2005	03/15/2005	02/01/2024	5
796253XN7	REF REV BDS 2005	03/15/2005	02/01/2025	5
796253XB3	RFDG	03/15/2005	02/01/2016	5
796253XC1	RFDG	03/15/2005	02/01/2016	5
796253XD9	RFDG	03/15/2005	02/01/2017	5

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253XE7	RFDG	03/15/2005	02/01/2018	4
796253XF4	RFDG	03/15/2005	02/01/2018	5
796253XG2	RFDG	03/15/2005	02/01/2019	5
796253XH0	RFDG	03/15/2005	02/01/2020	5
796253XP2	RFDG-MBIA-IBC	03/15/2005	02/01/2017	5
796253XQ0	RFDG-MBIA-IBC	03/15/2005	02/01/2020	5
796253W81	UNREFUNDED BAL-REF	03/15/2005	02/01/2025	5
796253Y55	ELECTRIC AND GAS SYSTEMS JUNIOR LIEN REVENUE BONDS SERIES 2004	11/18/2004	12/01/2027	1.15
796253XA5	SYS JR LIEN REV BDS 2004	11/18/2004	12/01/2027	2.2
796253YX4	SYS JR LIEN REV BDS 2004	11/18/2004	12/01/2027	3.55
796253G55	SYS JR LIEN REV BDS SERIES 2004	11/18/2004	12/01/2027	3.625
796253W57	SYS JR LIEN REV BDS SERIES 2004	11/18/2004	12/01/2027	3.625
796253W65	SYS JR LIEN REV BDS SERIES 2004 REMARKETED TO NEW CUSIP	11/18/2004	12/01/2027	3.625
796253WQ1	RDC RR II R 3011-2	08/28/2003	02/01/2018	
796253WS7	RDC RR II R 3011-2	08/28/2003	02/01/2018	
796253GU0	ROLS RR II R 3011-2	06/25/1998	05/13/2009	
796253GV8	ROLS RR II R 3011-2	06/25/1998	02/01/2012	
796253N24	ROLS RR II R 3011-2	06/25/1998	02/01/2011	
796253N32	ROLS RR II R 3011-2	06/25/1998	02/01/2011	
796253N40	ROLS RR II R 3011-2	06/25/1998	02/01/2011	
796253N57	ROLS RR II R 3011-2	06/25/1998	02/01/2011	
796253N65	ROLS RR II R 3011-2	06/25/1998	02/01/2011	
796253YY2	ROLS RR II R 3011-2	06/25/1998	02/01/2013	
796253YZ9	ROLS RR II R 3011-2	06/25/1998	02/01/2013	
796253G30	ROLS RR II R 3011-2	06/25/1998	07/01/2015	
796253G48	ROLS RR II R 3011-2	06/25/1998	07/01/2015	
796253WM0	ROLS RR II R 3011-2	06/25/1998	02/01/2016	
796253WL2	ROLS RR II R 3011-2	06/25/1998	02/01/2018	
796253WN8	ROLS RR II R 3011-2	06/25/1998	02/01/2018	
796253V90	RFDG	07/01/2003	02/01/2013	5.25
796253W24	RFDG	07/01/2003	02/01/2013	5.25
796253VJ8	RFDG	07/01/2003	02/01/2005	4
796253VK5	RFDG	07/01/2003	02/01/2007	5.25

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253VL3	RFDG	07/01/2003	02/01/2008	5.25
796253VM1	RFDG	07/01/2003	02/01/2009	5.25
796253VN9	RFDG	07/01/2003	02/01/2010	5.25
796253VP4	RFDG	07/01/2003	02/01/2011	5.25
796253VQ2	RFDG	07/01/2003	02/01/2013	5.25
796253WZ1	RFDG-FSA-CR	07/01/2003	02/01/2011	5.25
796253VR0	RFDG-SER A	07/01/2003	02/01/2005	3
796253VS8	RFDG-SER A	07/01/2003	02/01/2006	3
796253VT6	RFDG-SER A	07/01/2003	02/01/2007	5
796253VU3	RFDG-SER A	07/01/2003	02/01/2008	2.35
796253VV1	RFDG-SER A	07/01/2003	02/01/2009	2.65
796253VW9	RFDG-SER A	07/01/2003	02/01/2010	3
796253VX7	RFDG-SER A	07/01/2003	02/01/2011	5
796253VY5	RFDG-SER A	07/01/2003	02/01/2012	3.25
796253WK4	RFDG-SER A	07/01/2003	02/01/2012	3.25
796253VZ2	RFDG-SER A	07/01/2003	02/01/2013	5.25
796253WA6	RFDG-SER A	07/01/2003	02/01/2014	5.25
796253W32	RFDG-SER A	07/01/2003	02/01/2014	5.25
796253W40	RFDG-SER A	07/01/2003	02/01/2014	5.25
796300AA9	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2007	2.18
796300AB7	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2008	2.57
796300AC5	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2009	2.98
796300AD3	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2010	3.29
796300AE1	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2011	3.56
796300AF8	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2012	3.77
796300AG6	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2013	3.91
796300AH4	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2014	4.01
796300AJ0	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2015	4.11
796300AM3	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2016	4.26
796300AN1	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2017	4.41
796300AP6	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2018	4.51
796300AQ4	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2019	4.61
796300AR2	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2020	4.66

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796300AS0	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2021	4.71
796300AT8	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2022	4.76
796300AK7	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2023	4.75
796300AL5	REV BDS STARBRIGHT PROJ 2003	06/01/2003	08/15/2033	5.11
796253Y97	JR LIEN REV BDS 2003	05/15/2003	02/01/2033	
796253VH2	SYS-JR LIEN	05/15/2003	02/01/2033	0.03
796253V74	2010-RFDG-SYS	08/01/2002	02/01/2017	5.375
796253V82	2010-RFDG-SYS	08/01/2002	02/01/2017	5.375
796253RZ7	RFDG-SYS	08/01/2002	02/01/2008	5.25
796253SA1	RFDG-SYS	08/01/2002	02/01/2008	3.125
796253SB9	RFDG-SYS	08/01/2002	02/01/2009	5
796253SC7	RFDG-SYS	08/01/2002	02/01/2009	3.4
796253SD5	RFDG-SYS	08/01/2002	02/01/2010	5
796253SE3	RFDG-SYS	08/01/2002	02/01/2010	3.5
796253SF0	RFDG-SYS	08/01/2002	02/01/2011	5.25
796253SG8	RFDG-SYS	08/01/2002	02/01/2011	3.7
796253SH6	RFDG-SYS	08/01/2002	02/01/2012	5.25
796253SJ2	RFDG-SYS	08/01/2002	02/01/2012	3.8
796253SK9	RFDG-SYS	08/01/2002	02/01/2012	5.25
796253UF7	RFDG-SYS	08/01/2002	02/01/2012	5.25
796253SL7	RFDG-SYS	08/01/2002	02/01/2013	5.375
796253SM5	RFDG-SYS	08/01/2002	02/01/2013	3.875
796253SN3	RFDG-SYS	08/01/2002	02/01/2013	5.375
796253SP8	RFDG-SYS	08/01/2002	02/01/2014	5.375
796253SQ6	RFDG-SYS	08/01/2002	02/01/2014	5.375
796253VG4	RFDG-SYS	08/01/2002	02/01/2014	5.375
796253SR4	RFDG-SYS	08/01/2002	02/01/2015	5.375
796253UP5	RFDG-SYS	08/01/2002	02/01/2015	5.375
796253SS2	RFDG-SYS	08/01/2002	02/01/2016	5.375
796253XT4	RFDG-SYS	08/01/2002	02/01/2016	5.375
796253XV9	RFDG-SYS	08/01/2002	02/01/2016	5.375
796253ST0	RFDG-SYS	08/01/2002	02/01/2017	5.375
796253XU1	RFDG-SYS	08/01/2002	02/01/2017	5.375

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253XW7	RFDG-SYS	08/01/2002	02/01/2017	5.375
796253SU7	RFDG-SYS	08/01/2002	02/01/2018	5.375
796253SV5	RFDG-SYS	08/01/2002	02/01/2019	5.375
796253SW3	RFDG-SYS	08/01/2002	02/01/2020	5.375
796253UR1	BRUTS-A12	09/27/2002	02/01/2012	
796253US9	BRUTS-A12	09/27/2002	02/01/2012	
796253UT7	BRUTS-A12	09/27/2002	02/01/2013	
796253UQ3	BRUTS-A12	09/27/2002	02/01/2014	
796253UU4	BRUTS-A12	09/27/2002	02/01/2014	
796253QJ4	BRUTS-A12	09/27/2002	02/01/2017	0
796253QK1	BRUTS-A12	09/27/2002	02/01/2017	0
796253QL9	BRUTS-A12	09/27/2002	02/01/2017	
796253QM7	BRUTS-A12	09/27/2002	02/01/2017	
796253RR5	BRUTS-A12	09/27/2002	02/01/2017	
796253RS3	BRUTS-A12	09/27/2002	02/01/2017	
796253QN5	RFDG-SYS	10/01/2001	02/01/2004	5
796253QP0	RFDG-SYS	10/01/2001	02/01/2007	5
796253QQ8	RFDG-SYS	10/01/2001	02/01/2008	5
796253QR6	RFDG-SYS	10/01/2001	02/01/2009	5.25
796253QS4	RFDG-SYS	10/01/2001	02/01/2010	6
796253QT2	RFDG-SYS	10/01/2001	02/01/2010	5.5
796253QU9	RFDG-SYS	10/01/2001	02/01/2011	5.5
796253V58	RFDG-SYS	10/01/2001	02/01/2011	5.5
796253V66	RFDG-SYS	10/01/2001	02/01/2011	5.5
796253QB1	ZTC-NO 6-A	12/20/2000	02/01/2016	0
796253QC9	ZTC-NO 6-A	12/20/2000	02/01/2016	0
796253NZ1	SER A-FSA-CR	11/15/2000	02/01/2004	5
796253PA4	SER A-FSA-CR	11/15/2000	02/01/2004	5.5
796253PB2	SER A-FSA-CR	11/15/2000	02/01/2005	5.25
796253PC0	SER A-FSA-CR	11/15/2000	02/01/2006	4.625
796253PD8	SER A-FSA-CR	11/15/2000	02/01/2007	4.625
796253PE6	SER A-FSA-CR	11/15/2000	02/01/2008	4.7
796253PF3	SER A-FSA-CR	11/15/2000	02/01/2009	4.75

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253PG1	SER A-FSA-CR	11/15/2000	02/01/2010	4.8
796253PH9	SER A-FSA-CR	11/15/2000	02/01/2012	5.75
796253PJ5	SER A-FSA-CR	11/15/2000	02/01/2013	5.75
796253PK2	SER A-FSA-CR	11/15/2000	02/01/2014	5.75
796253PL0	SER A-FSA-CR	11/15/2000	02/01/2015	5.75
796253PM8	SER A-FSA-CR	11/15/2000	02/01/2016	5.75
796253PZ9	SER A-FSA-CR	11/15/2000	02/01/2016	5.75
796253PN6	SER A-FSA-CR	11/15/2000	02/01/2017	5.75
796253QA3	SER A-FSA-CR	11/15/2000	02/01/2017	5.75
796253PP1	SER B	11/15/2000	02/01/2002	6.5
796253PQ9	SER B	11/15/2000	02/01/2003	6.55
796253PR7	SER B	11/15/2000	02/01/2004	6.63
796253PS5	SER B	11/15/2000	02/01/2005	6.73
796253PT3	SER B	11/15/2000	02/01/2006	6.82
796253PU0	SER B	11/15/2000	02/01/2007	6.91
796253PV8	SER B	11/15/2000	02/01/2008	6.96
796253PW6	SER B	11/15/2000	02/01/2009	7.01
796253PX4	SER B	11/15/2000	02/01/2010	7.06
796253PY2	SER B	11/15/2000	02/01/2021	7.41
796253F31	PREREFUNDED-2007-SER A	11/01/1998	02/01/2016	5.25
796253F49	PREREFUNDED-2007-SER A	11/01/1998	02/01/2017	5
796253F56	PREREFUNDED-2007-SER A	11/01/1998	02/01/2018	5
796253GW6	REV REF BDS 1998 A	11/01/1998	02/01/1999	4
796253GX4	REV REF BDS 1998 A	11/01/1998	02/01/2000	4.25
796253GY2	REV REF BDS 1998 A	11/01/1998	02/01/2001	4.5
796253GZ9	REV REF BDS 1998 A	11/01/1998	02/01/2002	5
796253HA3	REV REF BDS 1998 A	11/01/1998	02/01/2003	4.5
796253HB1	REV REF BDS 1998 A	11/01/1998	02/01/2004	5
796253HC9	REV REF BDS 1998 A	11/01/1998	02/01/2005	5
796253HD7	REV REF BDS 1998 A	11/01/1998	02/01/2006	5
796253HE5	REV REF BDS 1998 A	11/01/1998	02/01/2007	5
796253HF2	REV REF BDS 1998 A	11/01/1998	02/01/2008	5
796253HG0	REV REF BDS 1998 A	11/01/1998	02/01/2009	5.125

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253HH8	REV REF BDS 1998 A	11/01/1998	02/01/2010	5.25
796253SX1	REV REF BDS 1998 A	11/01/1998	02/01/2010	5.25
796253TP7	REV REF BDS 1998 A	11/01/1998	02/01/2010	5.25
796253HJ4	REV REF BDS 1998 A	11/01/1998	02/01/2011	5.25
796253SY9	REV REF BDS 1998 A	11/01/1998	02/01/2011	5.25
796253TQ5	REV REF BDS 1998 A	11/01/1998	02/01/2011	5.25
796253HK1	REV REF BDS 1998 A	11/01/1998	02/01/2012	5.25
796253SZ6	REV REF BDS 1998 A	11/01/1998	02/01/2012	5.25
796253TR3	REV REF BDS 1998 A	11/01/1998	02/01/2012	5.25
796253HL9	REV REF BDS 1998 A	11/01/1998	02/01/2013	5.25
796253TA0	REV REF BDS 1998 A	11/01/1998	02/01/2013	5.25
796253TS1	REV REF BDS 1998 A	11/01/1998	02/01/2013	5.25
796253HM7	REV REF BDS 1998 A	11/01/1998	02/01/2014	5.25
796253TB8	REV REF BDS 1998 A	11/01/1998	02/01/2014	5.25
796253TT9	REV REF BDS 1998 A	11/01/1998	02/01/2014	5.25
796253HN5	REV REF BDS 1998 A	11/01/1998	02/01/2015	5.25
796253TC6	REV REF BDS 1998 A	11/01/1998	02/01/2015	5.25
796253TU6	REV REF BDS 1998 A	11/01/1998	02/01/2015	5.25
796253E57	REV REF BDS 1998 A	11/01/1998	02/01/2016	5.25
796253E81	REV REF BDS 1998 A	11/01/1998	02/01/2016	5.25
796253HP0	REV REF BDS 1998 A	11/01/1998	02/01/2016	5.25
796253E65	REV REF BDS 1998 A	11/01/1998	02/01/2017	5
796253E99	REV REF BDS 1998 A	11/01/1998	02/01/2017	5
796253HQ8	REV REF BDS 1998 A	11/01/1998	02/01/2017	5
796253E73	REV REF BDS 1998 A	11/01/1998	02/01/2018	5
796253F23	REV REF BDS 1998 A	11/01/1998	02/01/2018	5
796253HR6	REV REF BDS 1998 A	11/01/1998	02/01/2018	5
796253HS4	REV REF BDS 1998 A	11/01/1998	02/01/2021	4.5
796253RQ7	REV REF BDS 1998 A	11/01/1998	02/01/2021	4.5
796253HT2	REV REF BDS 1998 B	11/01/1998	02/01/1999	5.11
796253HU9	REV REF BDS 1998 B	11/01/1998	02/01/2000	5.23
796253HV7	REV REF BDS 1998 B	11/01/1998	02/01/2001	5.29
796253HW5	REV REF BDS 1998 B	11/01/1998	02/01/2002	5.48

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253HX3	REV REF BDS 1998 B	11/01/1998	02/01/2003	5.51
796253HY1	REV REF BDS 1998 B	11/01/1998	02/01/2004	5.53
796253HZ8	REV REF BDS 1998 B	11/01/1998	02/01/2005	5.72
796253JA1	REV REF BDS 1998 B	11/01/1998	02/01/2006	5.84
796253JB9	REV REF BDS 1998 B	11/01/1998	02/01/2007	5.89
796253JC7	REV REF BDS 1998 B	11/01/1998	02/01/2008	5.94
796253JD5	REV REF BDS 1998 B	11/01/1998	02/01/2009	5.99
796253JE3	REV REF BDS 1998 B	11/01/1998	02/01/2020	6.35
796253NH1	REV REF BDS 1998 B	11/01/1998	02/01/2020	6.35
796253F64	UNREFUNDED-2007-SER A	11/01/1998	02/01/2016	5.25
796253F72	UNREFUNDED-2007-SER A	11/01/1998	02/01/2017	5
796253F80	UNREFUNDED-2007-SER A	11/01/1998	02/01/2018	5
796253CQ3	ELEC & GAS REV BDS MUN SECS TR RCPTS SGA 48	06/01/1984	02/01/1999	10.9
796253AS1	ELEC & GAS REV BDS MUN SECS TR RCPTS SGA 48	06/01/1984	02/01/2002	5
796253JH6	ELEC & GAS REV BDS MUN SECS TR RCPTS SGA 48	06/01/1984	02/01/2010	
796253JJ2	ELEC & GAS REV BDS MUN SECS TR RCPTS SGA 48	06/01/1984	02/01/2010	
796253CT7	ELEC & GAS REV BDS MUN SECS TR RCPTS SGA 48	06/01/1984	02/01/2014	6
796253GB2	ELEC & GAS REV BDS MUN SECS TR RCPTS SGA 48	06/01/1984	02/01/2020	
796253GD8	ELEC & GAS REV BDS MUN SECS TR RCPTS SGA 48	06/01/1984	02/01/2020	
796253GE6	ELEC & GAS REV BDS SGA 48R	07/03/1997	02/01/2020	
796253GC0	ELEC & GAS REV BDS SG-107	06/26/1997	02/01/2020	
796253EU2	ELEC & GAS REV BDS SG 104	05/29/1997	02/01/2019	
796253EW8	ELEC & GAS REV BDS SG 105	05/29/1997	02/01/2019	
796253DV1	REV REF BDS 1997	05/01/1997	02/01/1998	5
796253DW9	REV REF BDS 1997	05/01/1997	02/01/1999	5
796253KQ4	REV REF BDS 1997	05/01/1997	02/01/1999	5
796253ML3	REV REF BDS 1997	05/01/1997	02/01/1999	5
796253DX7	REV REF BDS 1997	05/01/1997	02/01/2000	5.25
796253KR2	REV REF BDS 1997	05/01/1997	02/01/2000	5.25
796253MM1	REV REF BDS 1997	05/01/1997	02/01/2000	5.25
796253DY5	REV REF BDS 1997	05/01/1997	02/01/2001	5.25
796253KS0	REV REF BDS 1997	05/01/1997	02/01/2001	5.25
796253MN9	REV REF BDS 1997	05/01/1997	02/01/2001	5.25

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253DZ2	REV REF BDS 1997	05/01/1997	02/01/2002	4.75
796253KT8	REV REF BDS 1997	05/01/1997	02/01/2002	4.75
796253MP4	REV REF BDS 1997	05/01/1997	02/01/2002	4.75
796253EA6	REV REF BDS 1997	05/01/1997	02/01/2003	4.8
796253KU5	REV REF BDS 1997	05/01/1997	02/01/2003	4.8
796253MQ2	REV REF BDS 1997	05/01/1997	02/01/2003	4.8
796253EB4	REV REF BDS 1997	05/01/1997	02/01/2004	6
796253KV3	REV REF BDS 1997	05/01/1997	02/01/2004	6
796253MR0	REV REF BDS 1997	05/01/1997	02/01/2004	6
796253EC2	REV REF BDS 1997	05/01/1997	02/01/2005	5
796253KW1	REV REF BDS 1997	05/01/1997	02/01/2005	5
796253MS8	REV REF BDS 1997	05/01/1997	02/01/2005	5
796253ED0	REV REF BDS 1997	05/01/1997	02/01/2006	5
796253KX9	REV REF BDS 1997	05/01/1997	02/01/2006	5
796253MT6	REV REF BDS 1997	05/01/1997	02/01/2006	5
796253EE8	REV REF BDS 1997	05/01/1997	02/01/2007	5
796253KY7	REV REF BDS 1997	05/01/1997	02/01/2007	5
796253MU3	REV REF BDS 1997	05/01/1997	02/01/2007	5
796253EF5	REV REF BDS 1997	05/01/1997	02/01/2008	5.1
796253KZ4	REV REF BDS 1997	05/01/1997	02/01/2008	5.1
796253MV1	REV REF BDS 1997	05/01/1997	02/01/2008	5.1
796253EG3	REV REF BDS 1997	05/01/1997	02/01/2009	5.25
796253LA8	REV REF BDS 1997	05/01/1997	02/01/2009	5.25
796253MW9	REV REF BDS 1997	05/01/1997	02/01/2009	5.25
796253TG7	REV REF BDS 1997	05/01/1997	02/01/2009	5.25
796253TY8	REV REF BDS 1997	05/01/1997	02/01/2009	5.25
796253EH1	REV REF BDS 1997	05/01/1997	02/01/2010	5.25
796253LB6	REV REF BDS 1997	05/01/1997	02/01/2010	5.25
796253MX7	REV REF BDS 1997	05/01/1997	02/01/2010	5.25
796253TH5	REV REF BDS 1997	05/01/1997	02/01/2010	5.25
796253TZ5	REV REF BDS 1997	05/01/1997	02/01/2010	5.25
796253EJ7	REV REF BDS 1997	05/01/1997	02/01/2011	5.3
796253LC4	REV REF BDS 1997	05/01/1997	02/01/2011	5.3

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253MY5	REV REF BDS 1997	05/01/1997	02/01/2011	5.3
796253TJ1	REV REF BDS 1997	05/01/1997	02/01/2011	5.3
796253UA8	REV REF BDS 1997	05/01/1997	02/01/2011	5.3
796253EK4	REV REF BDS 1997	05/01/1997	02/01/2012	5.5
796253LD2	REV REF BDS 1997	05/01/1997	02/01/2012	5.5
796253MZ2	REV REF BDS 1997	05/01/1997	02/01/2012	5.5
796253TK8	REV REF BDS 1997	05/01/1997	02/01/2012	5.5
796253UB6	REV REF BDS 1997	05/01/1997	02/01/2012	5.5
796253EL2	REV REF BDS 1997	05/01/1997	02/01/2013	5.5
796253LE0	REV REF BDS 1997	05/01/1997	02/01/2013	5.5
796253NA6	REV REF BDS 1997	05/01/1997	02/01/2013	5.5
796253TL6	REV REF BDS 1997	05/01/1997	02/01/2013	5.5
796253UC4	REV REF BDS 1997	05/01/1997	02/01/2013	5.5
796253EM0	REV REF BDS 1997	05/01/1997	02/01/2014	5.6
796253LF7	REV REF BDS 1997	05/01/1997	02/01/2014	5.6
796253NB4	REV REF BDS 1997	05/01/1997	02/01/2014	5.6
796253TM4	REV REF BDS 1997	05/01/1997	02/01/2014	5.6
796253UD2	REV REF BDS 1997	05/01/1997	02/01/2014	5.6
796253EN8	REV REF BDS 1997	05/01/1997	02/01/2015	5.5
796253LG5	REV REF BDS 1997	05/01/1997	02/01/2015	5.5
796253NC2	REV REF BDS 1997	05/01/1997	02/01/2015	5.5
796253RT1	REV REF BDS 1997	05/01/1997	02/01/2015	5.5
796253RW4	REV REF BDS 1997	05/01/1997	02/01/2015	5.5
796253TN2	REV REF BDS 1997	05/01/1997	02/01/2015	5.5
796253UE0	REV REF BDS 1997	05/01/1997	02/01/2015	5.5
796253EP3	REV REF BDS 1997	05/01/1997	02/01/2019	5.65
796253LH3	REV REF BDS 1997	05/01/1997	02/01/2019	5.65
796253RU8	REV REF BDS 1997	05/01/1997	02/01/2019	5.65
796253RX2	REV REF BDS 1997	05/01/1997	02/01/2019	5.65
796253EQ1	REV REF BDS 1997	05/01/1997	02/01/2020	5.5
796253LJ9	REV REF BDS 1997	05/01/1997	02/01/2020	5.5
796253NE8	REV REF BDS 1997	05/01/1997	02/01/2020	5.5
796253NJ7	REV REF BDS 1997	05/01/1997	02/01/2020	5.5

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253NN8	REV REF BDS 1997	05/01/1997	02/01/2020	5.5
796253RV6	REV REF BDS 1997	05/01/1997	02/01/2020	5.5
796253RY0	REV REF BDS 1997	05/01/1997	02/01/2020	5.5
796253UV2	REV REF BDS 1997	05/01/1997	02/01/2020	5.5
796253UW0	REV REF BDS 1997	05/01/1997	02/01/2020	5.5
796253ND0	REV REF BDS 1997	05/01/1997	02/01/2019	5.65
796253DU3	ELEC GAS SYS REV BDS SG-79	08/08/1996	02/01/2018	
796253CU4	SER 95	10/15/1995	02/01/1997	6.375
796253CV2	SER 95	10/15/1995	02/01/1998	6.375
796253CW0	SER 95	10/15/1995	02/01/1999	6.375
796253CX8	SER 95	10/15/1995	02/01/2000	6.375
796253CY6	SER 95	10/15/1995	02/01/2001	6.375
796253CZ3	SER 95	10/15/1995	02/01/2002	6.375
796253DA7	SER 95	10/15/1995	02/01/2003	6.375
796253DB5	SER 95	10/15/1995	02/01/2004	6.375
796253DC3	SER 95	10/15/1995	02/01/2005	6.375
796253DD1	SER 95	10/15/1995	02/01/2006	6.375
796253DE9	SER 95	10/15/1995	02/01/2007	5.375
796253DF6	SER 95	10/15/1995	02/01/2008	5.375
796253DG4	SER 95	10/15/1995	02/01/2009	5.375
796253DH2	SER 95	10/15/1995	02/01/2010	5.375
796253DJ8	SER 95	10/15/1995	02/01/2011	5.375
796253DK5	SER 95	10/15/1995	02/01/2012	5.375
796253DL3	SER 95	10/15/1995	02/01/2013	5.375
796253DM1	SER 95	10/15/1995	02/01/2014	5.375
796253DN9	SER 95	10/15/1995	02/01/2015	5.375
796253DP4	SER 95	10/15/1995	02/01/2016	5.375
796253DQ2	SER 95	10/15/1995	02/01/2017	5.375
796253DR0	SER 95	10/15/1995	02/01/2018	5.375
796253BQ4	INFLOS	02/23/1994	02/01/2006	1
796253KN1	INFLOS	02/23/1994	02/01/2006	6.37
796253MJ8	INFLOS	02/23/1994	02/01/2006	6.37
796253CE0	LIBOR-RESERVE-5	02/23/1994	02/01/2001	

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253BR2	LINKED PARS & INFLOS	02/23/1994	02/01/2006	4.7
796253BZ4	LINKED PARS & INFLOS	02/23/1994	02/01/2006	4.7
796253NF5	LINKED PARS & INFLOS	02/23/1994	02/01/2006	4.7
796253NG3	LINKED PARS & INFLOS	02/23/1994	02/01/2006	4.7
796253BW1	M-BEDDOES SEC	02/23/1994	02/01/2001	2.31
796253BS0	REG PARS	02/23/1994	02/01/2006	
796253KP6	REG PARS	02/23/1994	02/01/2006	2.75
796253MK5	REG PARS	02/23/1994	02/01/2006	2.2
796253KL5	RFDG	02/23/1994	02/01/2001	5.05
796253KM3	RFDG	02/23/1994	02/01/2001	5.45
796253BT8	SPL PARS	02/23/1994	02/01/2006	
796253BU5	UNREFUNDED BALANCE-LIBOR	02/23/1994	02/01/2001	5.05
796253BV3	UNREFUNDED BALANCE-LIBOR	02/23/1994	02/01/2001	5.2
796253BX9	UNREFUNDED BALANCE-LIBOR	02/23/1994	02/01/2001	5.45
796253BY7	UNREFUNDED BALANCE-LIBOR	02/23/1994	02/01/2001	
796253KK7	UNREFUNDED BALANCE-LIBOR	02/23/1994	02/01/2001	5.2
796253MF6	UNREFUNDED BALANCE-LIBOR	02/23/1994	02/01/2001	5.2
796253WB4	-2003	02/01/1994	02/01/2005	4.7
796253WF5	-2003	02/01/1994	02/01/2005	4.7
796253WC2	-2003	02/01/1994	02/01/2007	4.875
796253WG3	-2003	02/01/1994	02/01/2007	4.875
796253WD0	-2003	02/01/1994	02/01/2011	5
796253WH1	-2003	02/01/1994	02/01/2011	5
796253WE8	-2003	02/01/1994	02/01/2014	5
796253WJ7	-2003	02/01/1994	02/01/2014	5
796253WV0	-2003-MBIA IBC	02/01/1994	02/01/2011	5
796253WW8	-2003-MBIA IBC	02/01/1994	02/01/2011	5
796253VF6	FSA-CR	02/01/1994	02/01/2012	5
796253BM3	REF	02/01/1994	02/01/1997	3.5
796253BA9	REF	02/01/1994	02/01/2001	
796253BF8	REF	02/01/1994	02/01/2006	
796253AX0	RFDG	02/01/1994	02/01/1998	3.6
796253AY8	RFDG	02/01/1994	02/01/1999	3.8

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253JV5	RFDG	02/01/1994	02/01/1999	3.8
796253AZ5	RFDG	02/01/1994	02/01/2000	4
796253JW3	RFDG	02/01/1994	02/01/2000	4
796253BB7	RFDG	02/01/1994	02/01/2002	4.4
796253JX1	RFDG	02/01/1994	02/01/2002	4.4
796253BC5	RFDG	02/01/1994	02/01/2003	4.5
796253JY9	RFDG	02/01/1994	02/01/2003	4.5
796253BD3	RFDG	02/01/1994	02/01/2004	4.6
796253JZ6	RFDG	02/01/1994	02/01/2004	4.6
796253BE1	RFDG	02/01/1994	02/01/2005	4.7
796253KA9	RFDG	02/01/1994	02/01/2005	4.7
796253BG6	RFDG	02/01/1994	02/01/2007	4.875
796253KC5	RFDG	02/01/1994	02/01/2007	4.875
796253BH4	RFDG	02/01/1994	02/01/2008	4.9
796253KD3	RFDG	02/01/1994	02/01/2008	4.9
796253BJ0	RFDG	02/01/1994	02/01/2009	5
796253KE1	RFDG	02/01/1994	02/01/2009	5
796253BK7	RFDG	02/01/1994	02/01/2010	5
796253KF8	RFDG	02/01/1994	02/01/2010	5
796253BN1	RFDG	02/01/1994	02/01/2011	5
796253KG6	RFDG	02/01/1994	02/01/2011	5
796253BP6	RFDG	02/01/1994	02/01/2012	5
796253KH4	RFDG	02/01/1994	02/01/2012	5
796253BL5	RFDG	02/01/1994	02/01/2014	5
796253KJ0	RFDG	02/01/1994	02/01/2014	5
796253LR1	RFDG	02/01/1994	02/01/1999	3.8
796253LS9	RFDG	02/01/1994	02/01/2000	4
796253LT7	RFDG	02/01/1994	02/01/2002	4.4
796253LU4	RFDG	02/01/1994	02/01/2003	4.5
796253LV2	RFDG	02/01/1994	02/01/2004	4.6
796253LW0	RFDG	02/01/1994	02/01/2005	4.7
796253LY6	RFDG	02/01/1994	02/01/2007	4.875
796253LZ3	RFDG	02/01/1994	02/01/2008	4.9

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253MA7	RFDG	02/01/1994	02/01/2009	5
796253MB5	RFDG	02/01/1994	02/01/2010	5
796253MC3	RFDG	02/01/1994	02/01/2011	5
796253MD1	RFDG	02/01/1994	02/01/2012	5
796253ME9	RFDG	02/01/1994	02/01/2014	5
796253MG4	RFDG	02/01/1994	02/01/2001	5.05
796253MH2	RFDG	02/01/1994	02/01/2001	5.45
796253TD4	RFDG-2002	02/01/1994	02/01/2008	4.9
796253TV4	RFDG-2002	02/01/1994	02/01/2008	4.9
796253TE2	RFDG-2002	02/01/1994	02/01/2009	5
796253TW2	RFDG-2002	02/01/1994	02/01/2009	5
796253TF9	RFDG-2002	02/01/1994	02/01/2010	5
796253TX0	RFDG-2002	02/01/1994	02/01/2010	5
796253V33	RFDG-2010	02/01/1994	02/01/2012	5
796253V41	RFDG-2010	02/01/1994	02/01/2012	5
796253NM0	RFDG-MBIA IBC	02/01/1994	02/01/2011	5
796253AQ5	RFDG-MBIA IBC	08/01/1992	02/01/1993	2.75
796253AA0	RFDG-MBIA IBC	08/01/1992	02/01/1994	3.5
796253AB8	RFDG-MBIA IBC	08/01/1992	02/01/1995	4
796253AC6	RFDG-MBIA IBC	08/01/1992	02/01/1996	4.3
796253AD4	RFDG-MBIA IBC	08/01/1992	02/01/1997	4.5
796253AE2	RFDG-MBIA IBC	08/01/1992	02/01/1998	4.8
796253AF9	RFDG-MBIA IBC	08/01/1992	02/01/1999	5
796253JP8	RFDG-MBIA IBC	08/01/1992	02/01/1999	5
796253LK6	RFDG-MBIA IBC	08/01/1992	02/01/1999	5
796253AG7	RFDG-MBIA IBC	08/01/1992	02/01/2000	5.1
796253JQ6	RFDG-MBIA IBC	08/01/1992	02/01/2000	5.1
796253LL4	RFDG-MBIA IBC	08/01/1992	02/01/2000	5.1
796253AH5	RFDG-MBIA IBC	08/01/1992	02/01/2001	5.2
796253JR4	RFDG-MBIA IBC	08/01/1992	02/01/2001	5.2
796253LM2	RFDG-MBIA IBC	08/01/1992	02/01/2001	5.2
796253AJ1	RFDG-MBIA IBC	08/01/1992	02/01/2002	5.3
796253JS2	RFDG-MBIA IBC	08/01/1992	02/01/2002	5.3

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253LN0	RFDG-MBIA IBC	08/01/1992	02/01/2002	5.3
796253AK8	RFDG-MBIA IBC	08/01/1992	02/01/2003	5.4
796253FJ6	RFDG-MBIA IBC	08/01/1992	02/01/2003	5.4
796253FY3	RFDG-MBIA IBC	08/01/1992	02/01/2003	5.4
796253AL6	RFDG-MBIA IBC	08/01/1992	02/01/2004	5.5
796253CR1	RFDG-MBIA IBC	08/01/1992	02/01/2004	5.5
796253FK3	RFDG-MBIA IBC	08/01/1992	02/01/2004	5.5
796253FZ0	RFDG-MBIA IBC	08/01/1992	02/01/2004	5.5
796253NK4	RFDG-MBIA IBC	08/01/1992	02/01/2004	5.5
796253NL2	RFDG-MBIA IBC	08/01/1992	02/01/2004	5.5
796253NP3	RFDG-MBIA IBC	08/01/1992	02/01/2004	5.5
796253NU2	RFDG-MBIA IBC	08/01/1992	02/01/2004	5.5
796253AM4	RFDG-MBIA IBC	08/01/1992	02/01/2006	5.8
796253JT0	RFDG-MBIA IBC	08/01/1992	02/01/2006	5.8
796253LP5	RFDG-MBIA IBC	08/01/1992	02/01/2006	5.8
796253NQ1	RFDG-MBIA IBC	08/01/1992	02/01/2006	5.8
796253NV0	RFDG-MBIA IBC	08/01/1992	02/01/2006	5.8
796253AN2	RFDG-MBIA IBC	08/01/1992	02/01/2008	6
796253CC4	RFDG-MBIA IBC	08/01/1992	02/01/2008	6
796253CD2	RFDG-MBIA IBC	08/01/1992	02/01/2008	6
796253NR9	RFDG-MBIA IBC	08/01/1992	02/01/2008	6
796253NW8	RFDG-MBIA IBC	08/01/1992	02/01/2008	6
796253AP7	RFDG-MBIA IBC	08/01/1992	02/01/2011	5.75
796253FL1	RFDG-MBIA IBC	08/01/1992	02/01/2011	5.75
796253GA4	RFDG-MBIA IBC	08/01/1992	02/01/2011	5.75
796253NS7	RFDG-MBIA IBC	08/01/1992	02/01/2011	5.75
796253NX6	RFDG-MBIA IBC	08/01/1992	02/01/2011	5.75
796253AR3	RFDG-MBIA IBC	08/01/1992	02/01/2017	5
796253JU7	RFDG-MBIA IBC	08/01/1992	02/01/2017	5
796253LQ3	RFDG-MBIA IBC	08/01/1992	02/01/2017	5
796253NT5	RFDG-MBIA IBC	08/01/1992	02/01/2017	5
796253NY4	RFDG-MBIA IBC	08/01/1992	02/01/2017	5
796253QH8	RFDG-MBIA IBC	08/01/1992	02/01/2017	5

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253FH0	NEW SER B	05/02/1991	02/01/2014	6
796253FX5	NEW SER B	05/02/1991	02/01/2014	6
796253GL0	A-MBIA-IBC	08/01/1989	02/01/2014	6
796253GH9	-MBIA-IBC	08/01/1989	02/01/2014	6
796253GJ5	-MBIA-IBC	08/01/1989	02/01/2014	6
796253EY4	RFDG	08/01/1989	02/01/2001	7
796253FN7	RFDG	08/01/1989	02/01/2001	7
796253CA8	RFDG	08/01/1989	02/01/2009	7
796253CB6	RFDG	08/01/1989	02/01/2009	7
796253EZ1	RFDG	08/01/1989	02/01/2012	6.5
796253FP2	RFDG	08/01/1989	02/01/2012	6.5
796253FA5	RFDG	08/01/1989	02/01/2014	6
796253FQ0	RFDG	08/01/1989	02/01/2014	6
796253CF7	RFDG-MBIA-IBC	08/01/1989	02/01/2009	7
796253CG5	RFDG-MBIA-IBC	08/01/1989	02/01/2009	7
796253FC1	RFDG-SER A	08/01/1989	02/01/2001	7
796253FS6	RFDG-SER A	08/01/1989	02/01/2001	7
796253CP5	RFDG-SER B-FGIC-LTD RCPT	08/01/1989	02/01/2016	4.942
796253CS9	RFDG-SER B-FSA-CRS	08/01/1989	02/01/2009	7
796253DS8	RFDG-SER B-MBIA-IBC	08/01/1989	02/01/2016	5
796253FB3	-SER A	08/01/1989	02/01/2000	7
796253FR8	-SER A	08/01/1989	02/01/2000	7
796253FD9	-SER A	08/01/1989	02/01/2012	6.5
796253FT4	-SER A	08/01/1989	02/01/2012	6.5
796253FE7	-SER A	08/01/1989	02/01/2014	6
796253FU1	-SER A	08/01/1989	02/01/2014	6
796253GK2	SER A-MBIA-IBC	08/01/1989	02/01/2014	6
796253FF4	-SER B	08/01/1989	02/01/2012	6.5
796253FV9	-SER B	08/01/1989	02/01/2012	6.5
796253FG2	-SER B	08/01/1989	02/01/2014	6
796253FW7	-SER B	08/01/1989	02/01/2014	6
796253GF3	SER B-FSA-CR	08/01/1989	02/01/2014	6
796253GG1	SER B-FSA-CR	08/01/1989	02/01/2014	6

CUSIP-9	Issue Description	Dated Date	Maturity Date	Coupon (%)
796253EX6	UNREFUNDED BALANCE	08/01/1989	02/01/2000	7
796253FM9	UNREFUNDED BALANCE	08/01/1989	02/01/2000	7
796253AW2	VAR-CTFS-BTP-38-CL B	06/01/1986	02/01/2014	

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