RAC WORKING GROUP:
REVENUE REQUIREMENTS

PRESENTED BY:

CPS ENERGY

September 23, 2021

Informational Update

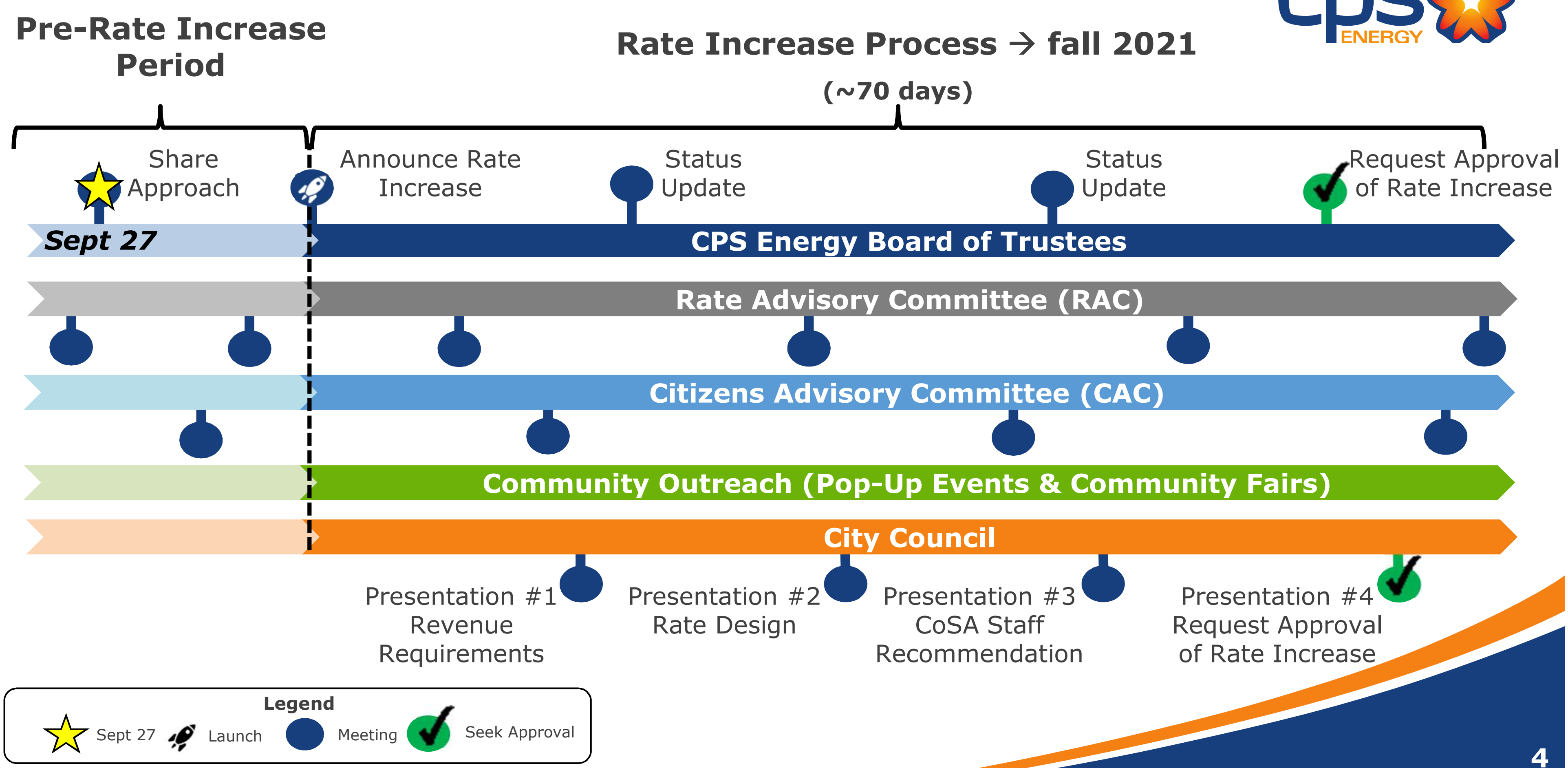
OBJECTIVES & TAKEAWAYS

- PROVIDE AN OVERVIEW OF THE ENGAGEMENT PROCESS
- RECAP THE BUDGET EVALUATION PROCESS
- SUMMARIZE DRIVERS OF OUR FINANCIAL POSITION
- PROVIDE DETAILS ON THESE DRIVERS

AGENDA

- RAC'S ROLE IN THE COMMUNITY ENGAGEMENT PROCESS
- BUDGETARY PROCESS RECAP
- DRIVERS OF NEEDED RATE INCREASE
- IMPACTS TO SOURCES OF REVENUE
- IMPACTS TO USES OF REVENUE
- PROJECTS IN THE CAPITAL PLAN

THE ENGAGEMENT PROCESS



ADVISORY COMMITTEE INPUT

Rate Advisory Committee (RAC)

- June – August → Intensive educational sessions
- Now focused entirely on the potential rate request
- Will continue to meet into the future to discuss rate design and generation

Citizens Advisory Committee (CAC)

- Tenured volunteers that continue to meet on a monthly basis
- Provided a rate request preview on September 8
- Will evaluate rate request details during next several meetings

The RAC & CAC will _both_ provide feedback before we ask the Board to approve new rates.

DO WE NEED A RATE INCREASE?

EVALUATION PROCESS

- A full budgeting process is conducted every single year

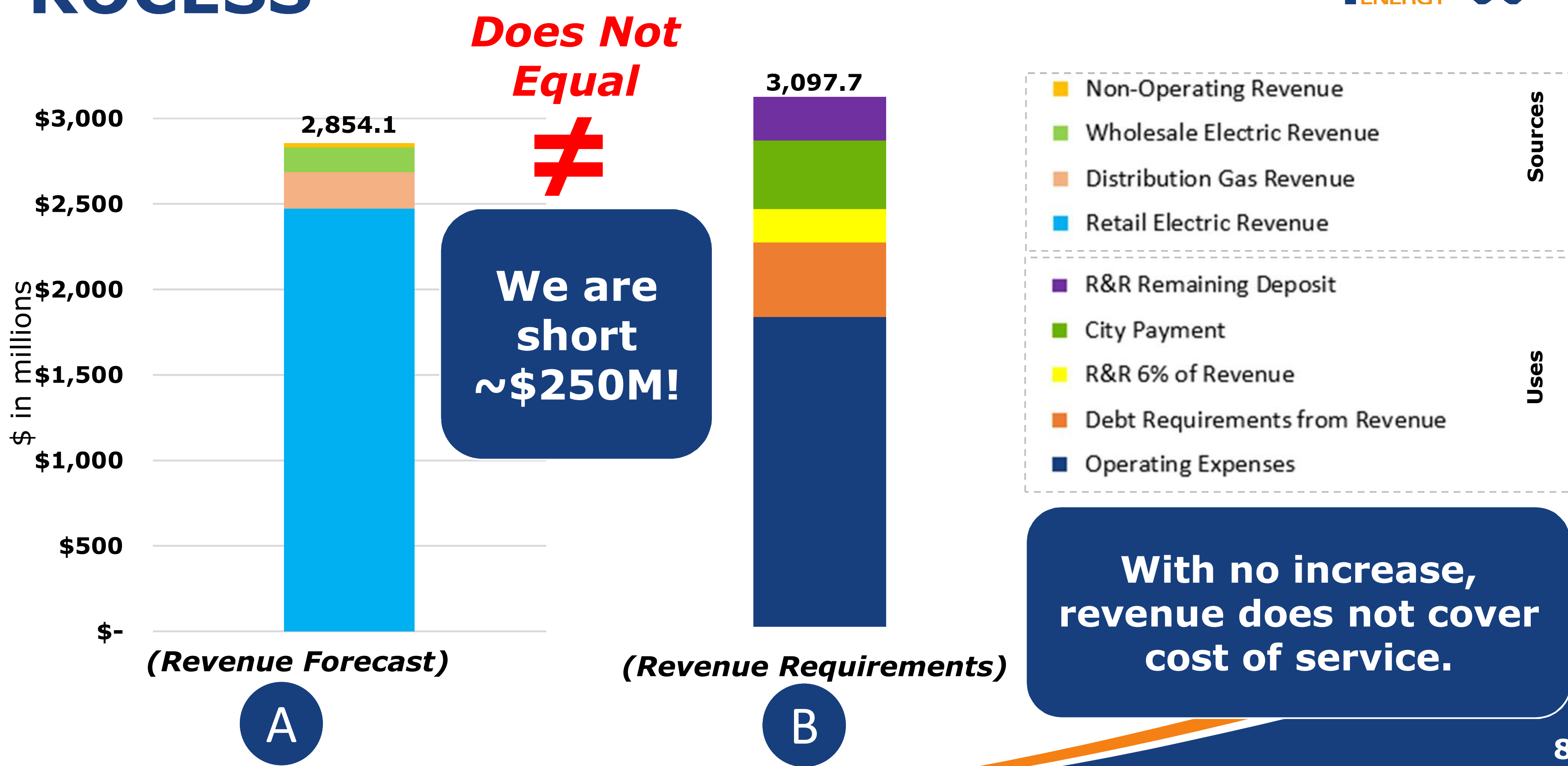
- First, we develop a ***revenue forecast*** (A) (estimated units to be sold x price)

- Second, we develop a comprehensive view of our ***revenue requirements*** (B)
  - The budget is the sum of all the costs we expect to incur in the future
  - The budget represents the level of funding we need to receive as revenue

If A **<** B

Look for ways to cut cost (i.e., decrease budget) ***- OR -*** *Increase revenue by raising rates*

RESULTS OF EVALUATION PROCESS



With no increase, revenue does not cover cost of service.

DRIVERS OF NEEDED RATE INCREASE

Financial Impact

	Revenue Forecast (Sources of Revenue)	Revenue Requirements (Uses of Revenue)	
1. Slower organic revenue growth	↓		• Customer growth mostly offset by lower average consumption
2. Reduced wholesale revenue opportunities	↓		• Greater generation capacity in the market driving lower market prices
3. Receivables pressured by pandemic	↓		• Customers' ability to pay is reduced by pandemic-related financial pressure
4. Higher operating expenses		↑	• Higher materials & equipment cost; higher employee-related cost
5. Increasing need for capital investment		↑	• Resiliency & reliability; growth of the community
6. Winter Storm Uri fuel costs		↑	• Paid reasonable costs; still fighting unconscionable costs
7. Lower liquidity/cash		↑	• Impacts cost of borrowing

INFORMATION PROCESS

Just the facts ma'am!

All of the information in this presentation includes the potential rate increase. It is also included in the data sheets sent out separately.

A

IMPACTS TO ***SOURCES*** OF REVENUE

LOAD FORECAST

Driver

1. Slower organic revenue growth

SALES						
Fiscal Year	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Retail Electric (MWh)						
Residential	9,913,513	10,038,081	10,394,484	10,336,282	10,528,072	10,608,480
Commercial and industrial	9,584,259	9,714,043	9,228,300	10,009,488	10,473,579	10,809,404
Public authorities	2,792,584	2,781,803	2,571,431	2,502,372	2,618,395	2,702,351
Sales for resale	441,601	370,396	341,753	0	0	0
Street lighting and ANSL	90,460	87,470	84,615	87,623	86,890	86,753
Unbilled	(37,910)	(75,000)	87,911	0	0	0
Total Retail Electric	**22,784,507**	**22,916,793**	**22,708,494**	**22,935,764**	**23,706,936**	**24,206,989**
Gas (thousands of MCF)						
Residential	10,488	10,533	10,038	10,542	10,727	10,773
Commercial and industrial	12,218	13,033	12,385	12,748	13,160	13,375
Public authorities	2,885	3,306	2,943	3,187	3,290	3,344
Unbilled	145	(421)	280	0	0	0
Total Gas	**25,736**	**26,451**	**25,646**	**26,477**	**27,177**	**27,492**
Wholesale Electric (MWh)	**8,556,100.0**	**5,688,461.0**	**4,817,862.0**	**4,051,000.0**	**4,714,000.0**	**5,697,000.0**

NUMBER OF CUSTOMERS (at year-end, not avg)						
Fiscal Year	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Electric	840,750	860,934	884,811	898,087	928,979	949,749
Gas	352,585	358,495	366,709	371,857	383,691	391,430

Our sales volume is mostly flat despite significant customer growth.

The complete data set is included in the attachment. – Tab MWh

REVENUE FORECAST

Driver

1. Slower organic revenue growth

Sources of Revenue					0% Base Support		
Fiscal Year	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**
Retail Electric							
Residential	$1,058.2	$1,096.9	$1,068.7	$1,105.4	$1,211.8	$1,294.0	$1,342.3
Commercial and industrial	867.0	884.0	854.6	834.7	821.2	874.3	905.5
Public authorities	229.6	229.5	219.3	209.0	205.3	218.6	226.4
Sales for resale	28.0	27.2	21.5	20.6	0.0	0.0	0.0
Street lighting and ANSL	21.9	22.2	22.1	22.5	23.7	23.8	23.8
Other	16.8	17.2	22.3	23.8	24.3	58.1	82.2
Total Retail Electric	**$2,221.6**	**$2,276.9**	**$2,208.6**	**$2,216.0**	**$2,286.3**	**$2,468.8**	**$2,580.2**
Distribution Gas							
Residential	$92.9	$93.4	$82.6	$82.9	$86.5	$85.1	$82.9
Commercial and industrial	63.5	61.3	47.4	55.7	$104.6	$104.4	$103.0
Public authorities	16.7	14.5	10.5	12.1	$26.1	$26.1	$25.7
Other	6.7	1.5	2.4	2.9	2.7	2.7	3.1
Distribution Gas	**$179.8**	**$170.7**	**$142.9**	**$153.6**	**$219.9**	**$218.2**	**$214.7**
Wholesale Electric	**$198.9**	**$325.7**	**$216.3**	**$132.9**	**$168.8**	**$155.9**	**$158.8**
Non-Operating	24.1	34.9	34.4	8.7	9.3	10.4	13.0
Total Sources	**$2,624.4**	**$2,808.3**	**$2,602.2**	**$2,511.2**	**$2,684.4**	**$2,853.2**	**$2,966.7**

Our total revenue is only increasing because of increased fuel costs.

The complete data set is included in the attachment. – Tab Sales

WHOLESALE REVENUE FORECAST

Driver

2. Reduced wholesale revenue opportunities

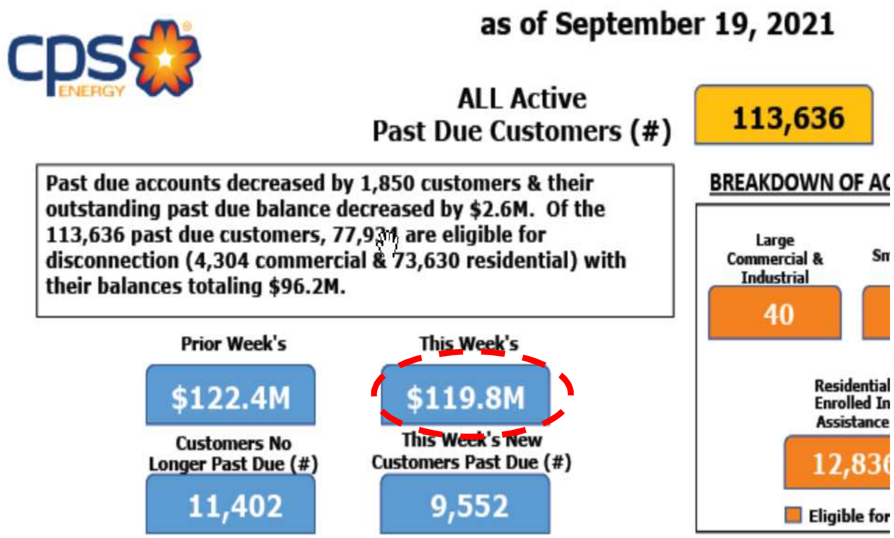
Fiscal Year	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Retail Electric										
Residential	$970.4	$1,012.4	$1,015.0	$1,058.2	$1,096.9	$1,068.7	$1,105.4	$1,211.8	$1,294.0	$1,342.3
Commercial and industrial	765.0	805.6	831.7	867.0	884.0	854.6	834.7	821.2	874.3	905.5
Public authorities	204.2	213.0	220.9	229.6	229.5	219.3	209.0	205.3	218.6	226.4
Sales for resale	31.8	32.6	32.4	28.0	27.2	21.5	20.6	0.0	0.0	0.0
Street lighting and ANSL	20.3	20.8	21.1	21.9	22.2	22.1	22.5	23.7	23.8	23.8
Other	11.7	13.7	17.8	16.8	17.2	22.3	23.8	24.3	58.1	82.2
Total Retail Electric	**$2,003.5**	**$2,098.1**	**$2,138.8**	**$2,221.6**	**$2,276.9**	**$2,208.6**	**$2,216.0**	**$2,286.3**	**$2,468.8**	**$2,580.2**
Distribution Gas										
Residential	$125.8	$96.0	$87.9	$92.9	$93.4	$82.6	$82.9	$86.5	$85.1	$82.9
Commercial and industrial	87.3	68.7	65.8	63.5	61.3	47.4	55.7	$104.6	$104.4	$103.0
Public authorities	19.8	13.3	13.0	16.7	14.5	10.5	12.1	$26.1	$26.1	$25.7
Other	1.6	-3.5	1.8	6.7	1.5	2.4	2.9	2.7	2.7	3.1
Distribution Gas	**$234.5**	**$174.4**	**$168.5**	**$179.8**	**$170.7**	**$142.9**	**$153.6**	**$219.9**	**$218.2**	**$214.7**
Wholesale Electric	**$410.0**	**$223.4**	**$166.9**	**$198.9**	**$325.7**	**$216.3**	**$132.9**	**$168.8**	**$155.9**	**$158.8**
Non-Operating	18.4	18.7	19.9	24.1	34.9	34.4	8.7	9.3	10.4	13.0
Total Sources	**$2,666.4**	**$2,514.7**	**$2,494.1**	**$2,624.4**	**$2,808.3**	**$2,602.2**	**$2,511.2**	**$2,684.4**	**$2,853.2**	**$2,966.7**

Our wholesale sales have dropped significantly over the last several years and with the changes in the ERCOT market will continue to be low.

The complete data set is included in the attachment. – Tab Sales

PANDEMIC RECEIVABLES

Driver
3. Receivables pressured by pandemic



There is currently ~$120M in past due balances.

We are continually contacting our customers to create payment flexibility.

However, if not paid, these receivables will eventually be written off as bad debt.

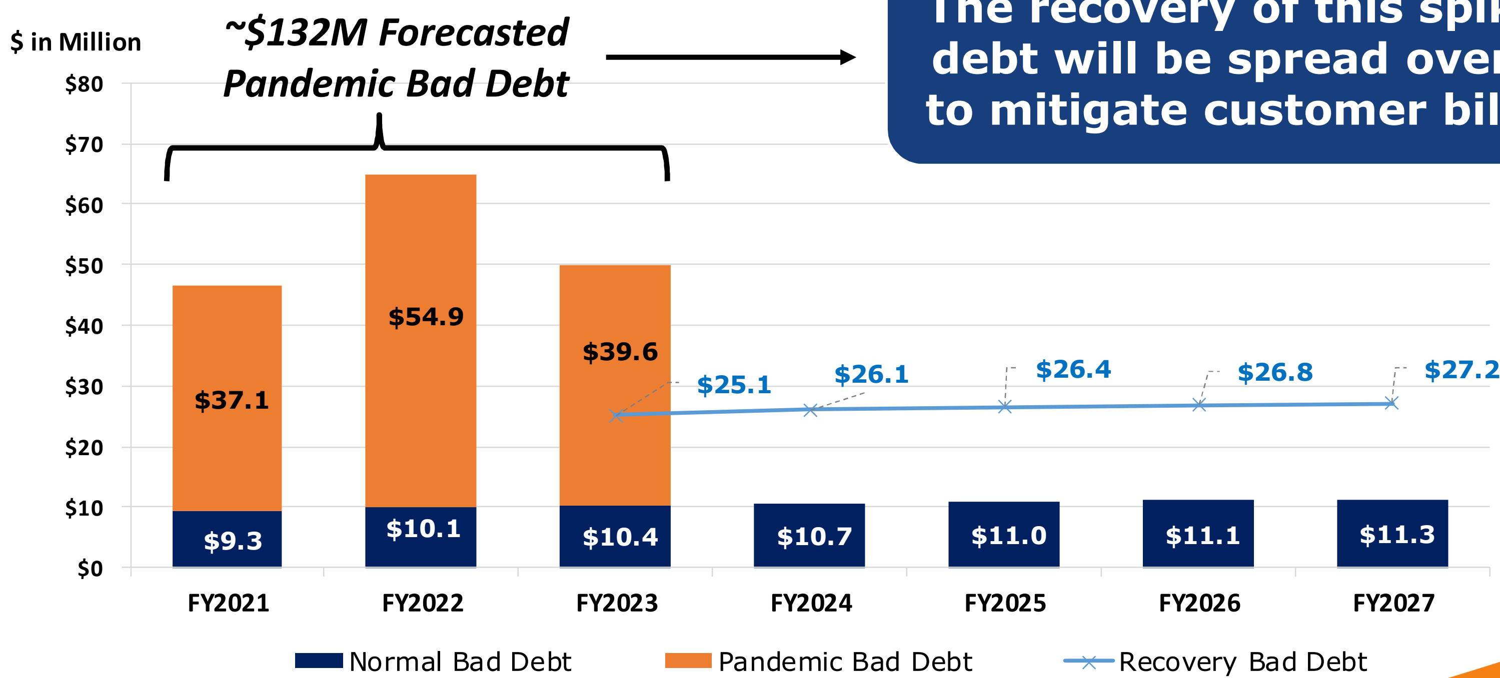
The cost of bad debt must be recovered from other customers.

The complete data set is included in the attachment – Customer Delinquency Update

PANDEMIC BAD DEBT

Driver
3. Receivables pressured by pandemic

The recovery of this spike in bad debt will be spread over 5 years to mitigate customer bill impact.

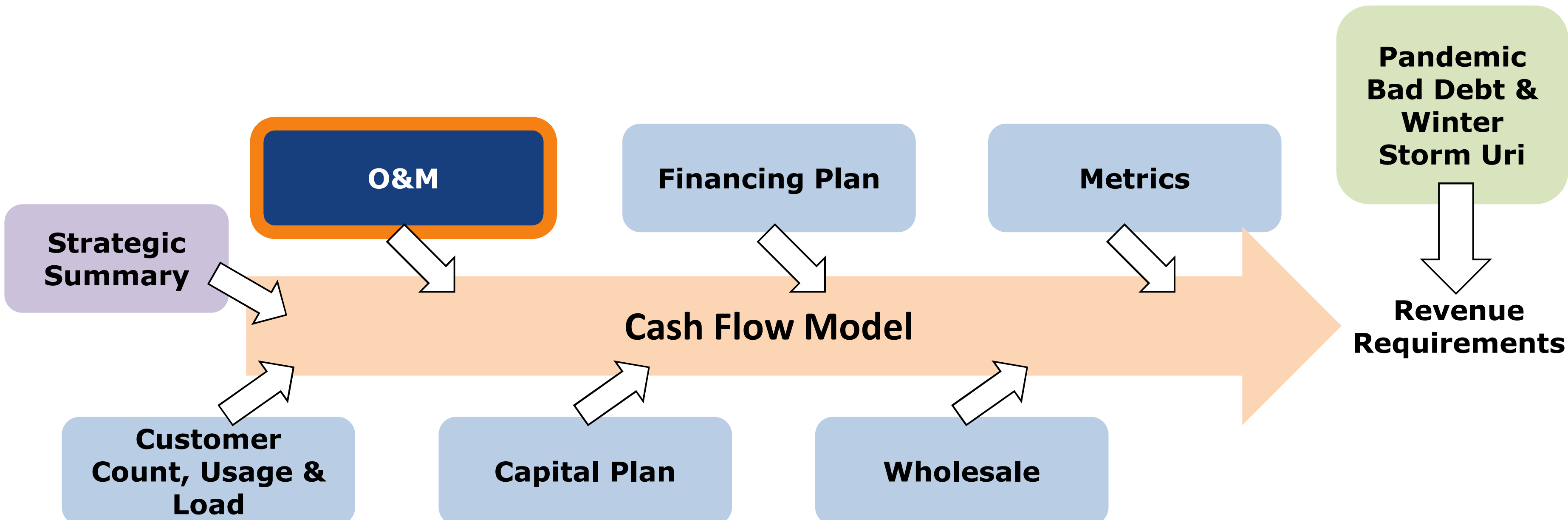


B

IMPACTS TO *USES* OF REVENUE

REVENUE REQUIREMENTS

Driver
4. Higher operating expenses



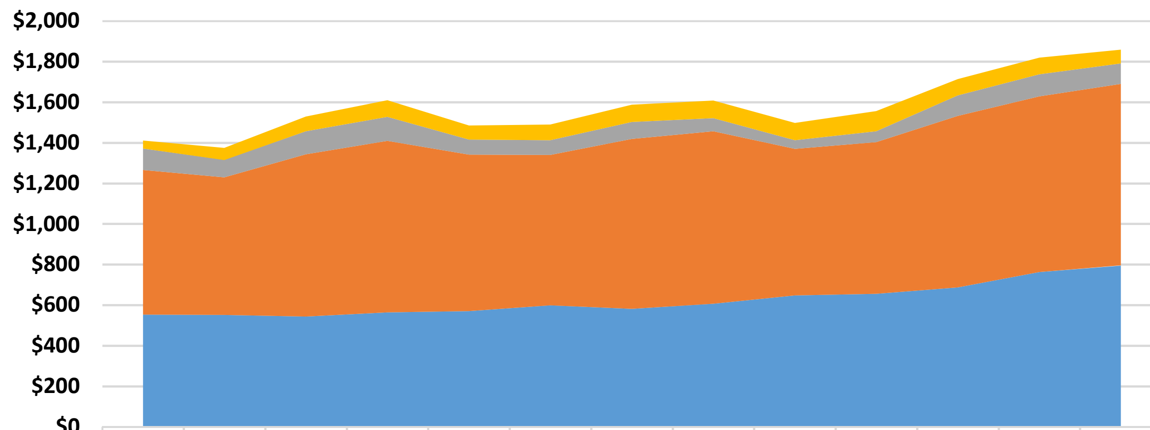
USES OF REVENUE
NON-FUEL O&M

Driver
4. Higher operating expenses

CPS ENERGY

Our focus will be on Non-Fuel O&M. The other 3 categories are pass-thrus to our customers through the fuel & regulatory adjustments.

$ in millions



	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Regulatory / Other	39.9	59.0	72.3	81.1	68.5	76.9	86.3	87.7	84.4	99.0	79.1	81.4	67.6
Distribution Gas	105.9	86.1	113.2	118.9	75.5	72.8	83.0	63.8	43.7	54.1	102.0	109.8	100.6
Electric Fuel Expense	712.0	678.6	799.0	844.8	770.0	741.3	837.6	850.0	722.0	747.5	844.2	865.6	894.7
Non-Fuel O&M	$553.6	$551.2	$543.8	$564.1	$570.7	$598.7	$581.0	$606.9	$647.1	$654.9	$687.5	$762.0	$795.7

Non-Fuel O&M · Electric Fuel Expense · Distribution Gas · Regulatory / Other

FY2023 & FY2024 include the provisional rate increase.

NON-FUEL O&M

Driver
4. Higher operating expenses

CPS Energy
Historical & Plan O&M by Major Category - Total Company
FY2015 - FY2027

$/Thousands

Line Item #	Cost Element Description	ACTUAL FY2019	ACTUAL FY2020	ACTUAL FY2021	PLAN Budget FY2022	PLAN Budget FY2023	PLAN Budget FY2024	PLAN Budget FY2025	PLAN Budget FY2026	PLAN Budget FY2027
	Labor Expenses									
1	Base Labor	77,219	80,374	83,629	86,573	105,197	108,961	112,388	114,707	117,889
2	Budget Labor Adjustment	0	0	0	0	0	0	0	0	0
3	Labor Overtime	678	761	640	744	762	788	813	837	863
4	Employee Expenses	1,396	1,482	1,402	1,051	1,039	1,059	1,086	1,114	1,114
5	Labor Incentives	5,889	7,278	9,287	0	0	0	0	0	0
6	Labor Overheads	15,046	32,484	23,073	22,508	27,717	28,063	30,197	32,385	32,642
7	Employee Benefits	-2	17	0	0	10,000	10,000	10,000	10,000	10,000
8	Additional Benefits Cost	459	3,962	3,788	0	5,071	11,739	3,375	3,372	3,373
9	Labor Settlements & Allocations	71,021	77,299	75,500	66,956	72,837	74,247	76,611	79,342	81,021
10	Assessments	107,384	115,341	118,115	108,898	132,041	150,992	137,701	142,117	145,121
11	**Total Labor Expenses**	**279,091**	**318,998**	**315,436**	**286,729**	**354,664**	**385,850**	**372,169**	**383,875**	**392,023**
	Percentage Change Year to Year	**6%**	**14%**	**-1%**	**-9%**	**24%**	**9%**	**-4%**	**3%**	**2%**
12	**Motor Vehicles & Construction Equipment**									
13	Motor Vehicles - Directs	54	-6	-26	0	0	0	0	0	0
14	Motor Vehicles - Assessment	9	2	4	0	0	0	0	0	0
15	Motor Vehicle - Actv Alloc & Settlement	-2,941	-2,995	-2,587	-3,330	-3,291	-3,338	-3,404	-3,450	-3,491
16	Construction Equipment - Directs	-88	409	-347	0	0	0	0	0	0

Our O&M expense by cost element shows an increase of 17% primarily due to labor increases.

The complete data set is included in the attachment – Historical O&M

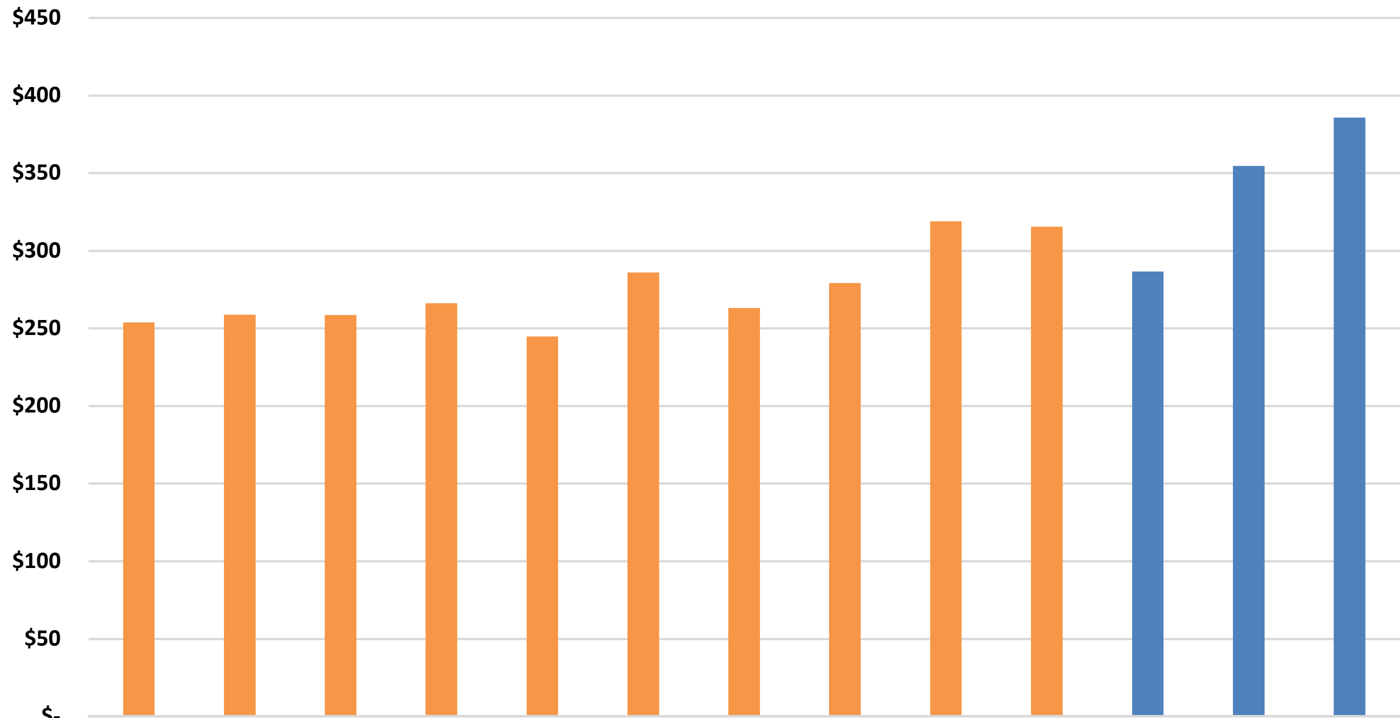
NON-FUEL O&M

LABOR

Driver

4. Higher operating expenses

($ in millions)



	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Labor	$253.82	$258.69	$258.58	$266.03	$244.72	$285.93	$262.96	$279.09	$319.00	$315.44	$286.73	$354.66	$385.85

***Authorized HC held at 3370 since FY20*.**

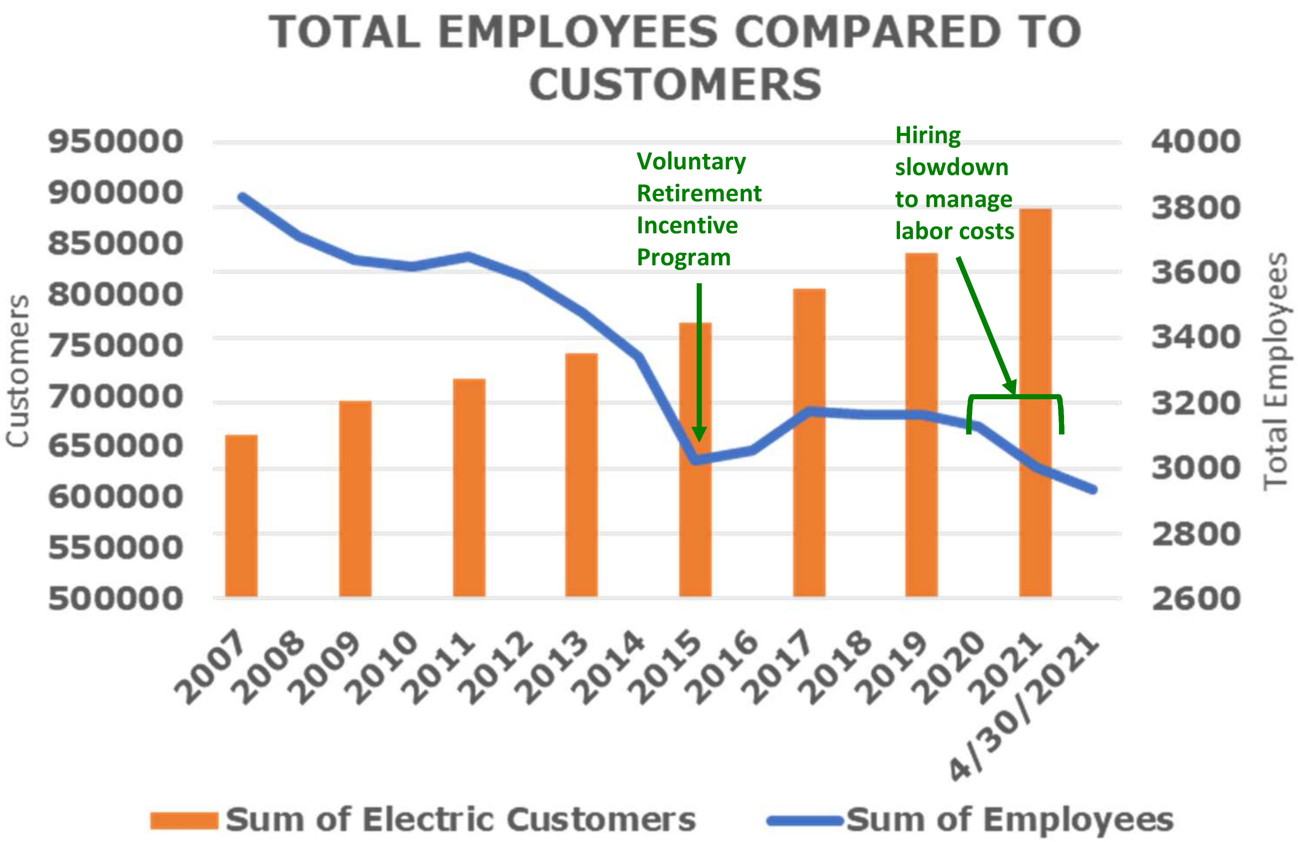
Over *last 5 years we have saved $100M in benefit costs*.

Restored Merit in FY23 & FY24.

FY2023 & FY2024 include the provisional rate increase.

STAFFING LEVELS

Driver
4. Higher operating expenses



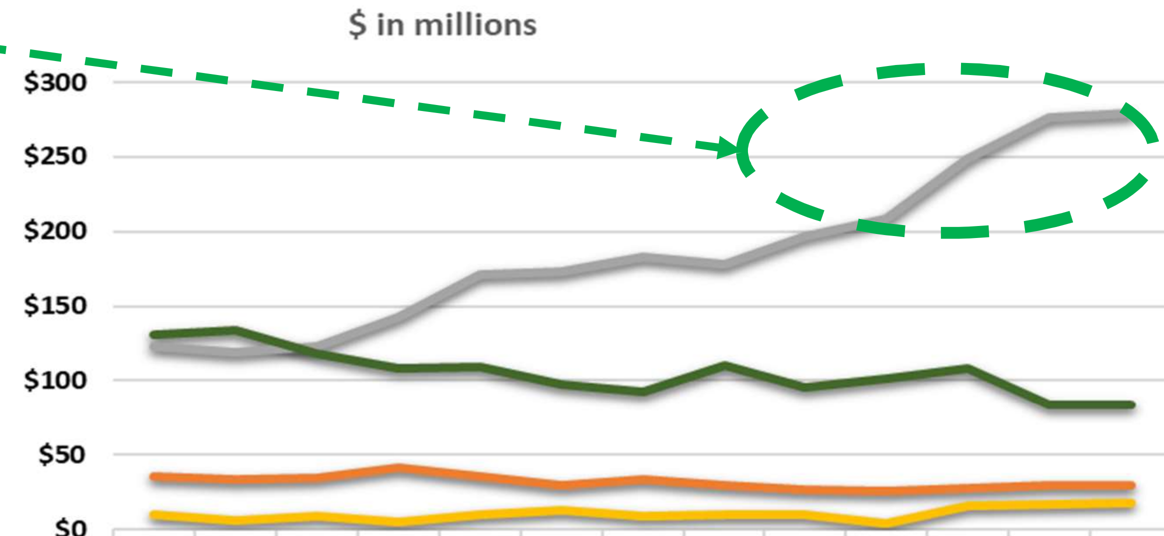
Serving ***33% more customers*** since 2007, while ***employee headcount has decreased almost 25%*** in the same time period.

NON-FUEL O&M
OTHER

Driver
4. Higher operating expenses

Trend driven by increases in Plant Overhauls & Technology spend.

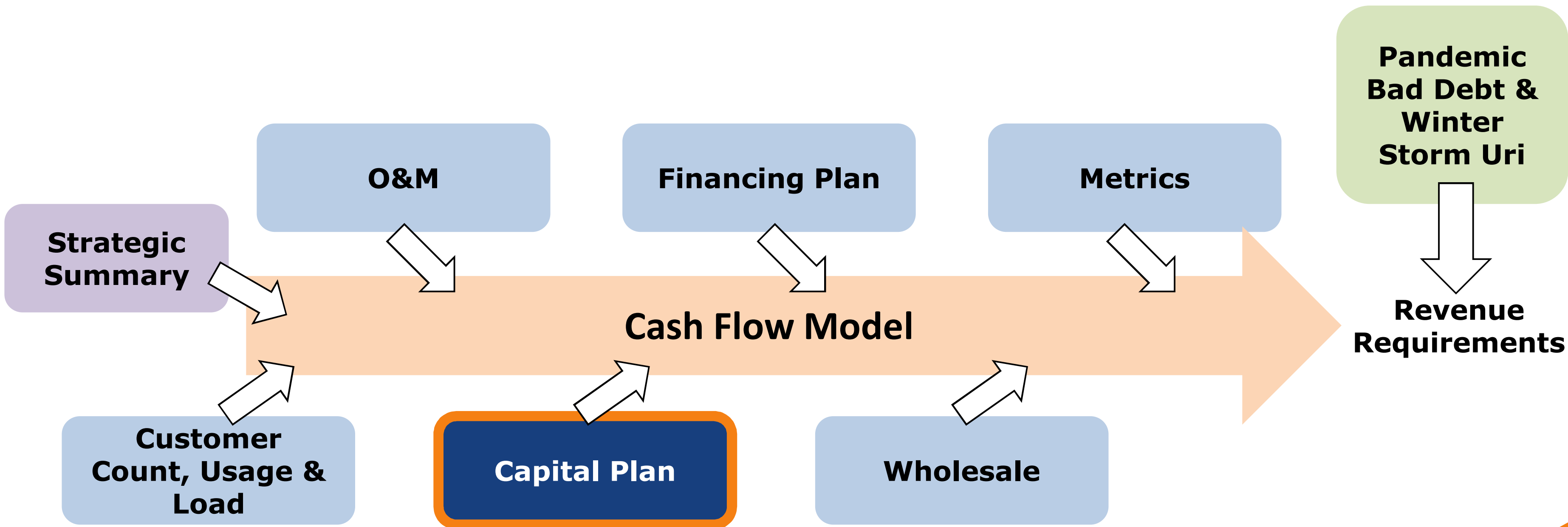
$ in millions



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Materials	35.60	33.53	34.80	41.85	35.87	29.71	33.61	29.36	26.58	25.75	27.65	29.89	29.24
Contracts and Services	123.3	119.0	123.3	143.1	170.9	172.9	182.8	178.1	196.3	208.4	248.5	276.9	279.2
Insurance	9.98	5.85	8.65	5.23	9.43	12.84	8.74	9.75	9.54	4.34	16.27	17.24	17.72
Other	130.8	134.0	118.3	107.8	109.7	97.30	92.78	110.5	95.61	100.9	108.3	83.26	83.56

REVENUE REQUIREMENTS

Driver
5. Increasing need for capital investment



CAPITAL PLAN

Driver
5. Increasing need for capital investment

CPS Energy has over 75% of our total assets in Capital Assets including land, electric, gas and general plants, intangibles and nuclear fuel.

Audited Financial Reports	FY2021	Percentage
Current Assets	1,089,283	9.4%
Restricted Assets	1,281,873	11.1%
Other Noncurrent Assets	519,799	4.5%
Capital Assets, Net	8,638,055	75.0%
Total Assets	11,529,010	100.0%

$ in Thousands

Capital expenditures are a significant part of our financial story.

CAPITAL PLAN

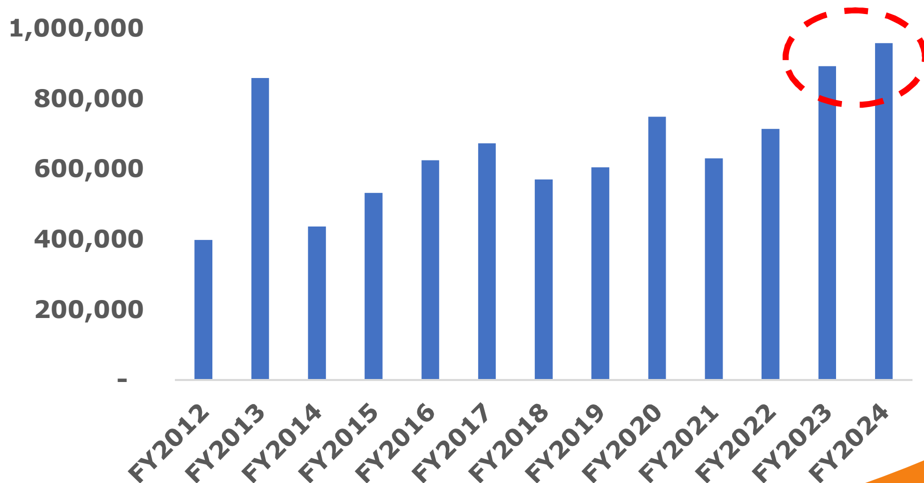
Driver
5. Increasing need for capital investment

- ***Since our last rate increase, our capital plan has averaged ~$650M/year.***
- ***However, FY 2023 & FY2024 projected to be $893M & $959M, respectively.***

Increases driven by:

- Generation Enhancements (**including weatherization**)
- Digital & ERP System
- Customer Growth
- Gas Infrastructure
- Electric Infrastructure

Capital Summary



WHY DOES CAPITAL MATTER?

Driver
5. Increasing need for capital investment

CPS ENERGY

The capital plan matters because of how it is funded:

DEBT FUNDED:

~50% bond revenue → **CPS Energy issues debt (i.e., bonds)** → ***Principal & interest repaid over time using our revenue.***

CASH FUNDED:

~50% cash → **The *Repair & Replacement* account is used for capital investments** → ***R&R cash comes from our revenue.***

Ultimately, the capital plan is funded by revenue (i.e., rates). When the capital plan increases (e.g., weatherizing our plants), revenue often needs to increase.

CAPITAL FINANCING

Driver
5. Increasing need for capital investment

Fiscal Year	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
DEBT									
Bonds	269,422	322,815	350,781	29,137	-	-	24,558	476,648	407,877
Taxable Bond Proceeds	5,327	5,299		-	-	-			
TECP Funds	-	-	8	310,621	317,247	311,082	439,343		
Total funded with Debt	**274,749**	**328,114**	**350,789**	**339,758**	**317,247**	**311,082**	**463,901**	**476,648**	**407,877**
OTHER									
Repair & Replacement Account	308,497	291,577	178,856	215,978	376,139	253,386	174,980	346,061	485,800
CIED Fund	(72)	10	67	68	-	-			
Contributed capital (3)	42,630	53,602	41,308	49,786	55,472	66,316	75,420	70,760	65,205
Total funded with Other	**351,055**	**345,189**	**220,231**	**265,832**	**431,611**	**319,702**	**250,400**	**416,821**	**551,005**
Total funding ***	**625,804**	**673,303**	**571,020**	**605,590**	**748,858**	**630,784**	**714,301**	**893,469**	**958,882**

This increase in capital expenditures creates a need to increase revenue (i.e., rates).

Our capital expenditures are scrutinized & planned very carefully.

WINTER STORM URI FUEL COSTS

Driver
6. Winter Storm Uri fuel costs

Legitimate Uri Fuel Costs:	**~$450M**
Disputed Uri Fuel Costs:	**~$585M**
Total Invoiced Fuel Costs:	**$1.035B**

Electric: ~$270M *Paid!*

Gas: ~$180M *Paid!*

~$450M in paid fuel costs will be recovered in fuel adjustment over 25 years.

LOWER LIQUIDITY/CASH

Driver
7. Lower liquidity/cash

	Without Rate Support	Ratings Agency Target
Debt Capitalization Ratio:	~66%	60%

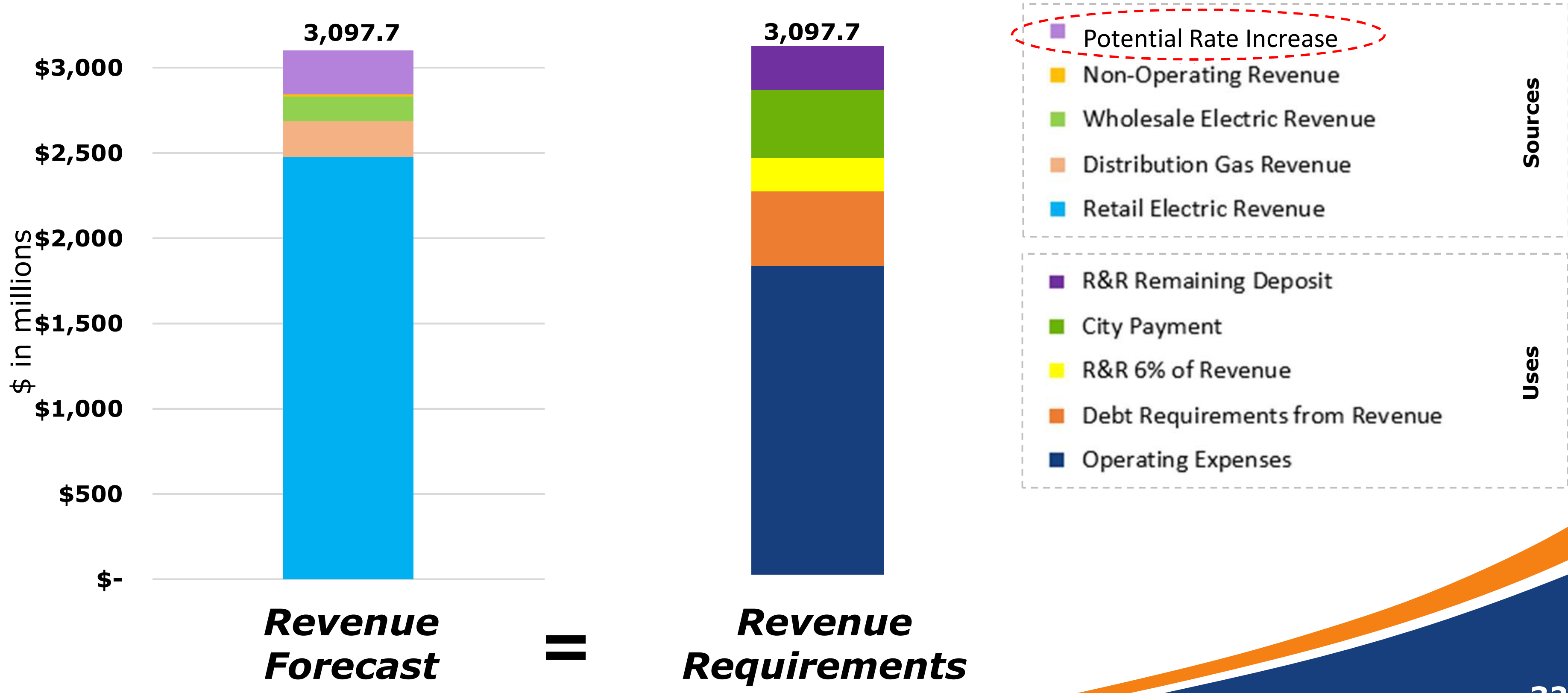
The potential rate increase would provide funding dedicated to improving our debt capitalization ratio, ensuring continue low borrowing cost.

DRIVERS OF NEEDED RATE INCREASE

1. **Slower organic revenue growth**
2. **Reduced wholesale revenue opportunities**
3. **Receivables pressured by pandemic**
4. **Higher operating expenses**
5. **Increasing need for capital investment**
6. **Winter Storm Uri fuel costs**
7. **Lower liquidity/cash**

Collectively, these drivers create the need for a ~10% bill increase.

RATE INCREASE CREATES EQUIVALENCE



BILL IMPACT SCENARIOS

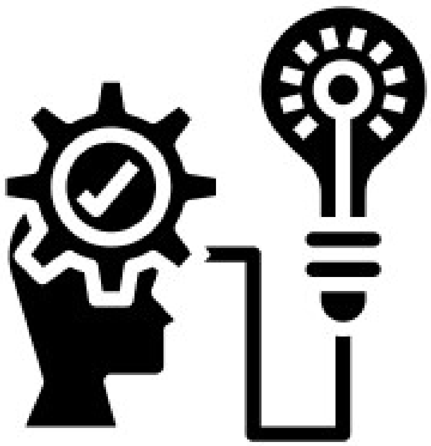
Description	General Scenarios	
General Estimate of an Average Monthly Bill	$100.00	$150.00
Estimated Percentage of Rate to be Fine Tuned	10%	10%
Estimated Dollar Increase	$10.00	$15.00

PROJECTS INCLUDED IN THE CAPITAL PLAN

STRATEGIC CATEGORIES

All capital projects are categorized into six groups based on the primary driver for the project:

- Customer Growth
- System Growth
- Environmental/Legislative/ Regulatory Mandated
- Infrastructure Modernization
- Civic Improvement
- Special Projects



CUSTOMER GROWTH

Projects associated with:

- Adding individual gas & electric customers
- New subdivisions
- New Commercial & Industrial installation
- Replacing existing gas & electric meters

Customer growth accounts for over 27% of our FY2023 total capital budget.

SYSTEM GROWTH

Projects associated with:

- Growing the infrastructure to accommodate load
- New substations
- Purchases of switchgears & capacitor banks
- Gas supply pressure mains

System growth accounts for over 18% of our FY 2023 total capital budget and includes transformers, switchgears & new substation equipment for Tezel Road & other areas of growth.

ENVIRONMENTAL, LEGISLATIVE, OR REGULATORY MANDATED

Projects required by prescribed time frames:

- Federal such as NERC
- State (includes 25 state mandates)
- ERCOT mandates
- Local ordinances

Environmental, legislative & regulatory include technology required for security of NERC systems as well as piping modifications to existing Gas Transmission facilities.

INFRASTRUCTURE MODERNIZATION

Projects associated with repair, refurbishment or replacement of infrastructure during its useful life:

- Poles
- Transformers
- Gas lines
- Computer Systems

Infrastructure modernization accounts for >38% of our capital plan & includes all of our overhead & underground emergency replacements as well as the replacement of gas steel lines.

CIVIC IMPROVEMENTS

Projects associated with City, county or TxDOT road improvements, such as:

- Underground Conversions
- Transmission line relocations
- Relocation of Electric & Gas facilities

Civic Improvement projects include supporting the city, county & state on all construction projects.

SPECIAL PROJECTS

Projects associated with initiatives of a non-recurring multi-year nature with a definite start and end date such as:

- New power plants
- New Technology
- New product commercialization
- Real Estate related items
- Communication Licenses

All other projects are categorized as Special or Discretionary projects. These projects account for 6% of our total capital plan in FY23.

CAPITAL PLAN

Capital Summary by Strategic Category (Gross of CIAC)
FY 2012-2024

Strategic Catgory	Actual FY2016	Actual FY2017	Actual FY2018	Actual FY2019	Actual FY2020	Actual FY2021	Budget FY2022	Budget FY2023	Budget FY2024
Civic Improvements	27,470,199	28,137,420	26,130,711	22,768,398	21,703,842	29,560,036	43,001,065	37,887,636	32,770,310
Customer Growth	113,060,791	143,988,424	135,563,323	158,470,247	174,438,862	191,129,958	194,336,375	242,898,667	240,771,259
Environmental/Legislative/Regulatory	13,135,981	14,586,294	12,413,478	9,734,826	17,633,398	18,281,410	31,955,902	49,778,891	42,613,498
Infrastructure Modernization	385,884,743	334,083,548	291,867,669	249,332,543	246,844,593	270,001,097	314,654,047	344,636,062	395,791,417
Special Projects	18,267,072	48,392,508	25,725,664	82,689,485	195,808,064	49,750,448	69,234,717	55,169,624	67,896,338
System Growth	56,484,739	89,251,936	68,450,073	67,822,601	80,352,831	61,362,216	61,119,875	163,098,305	179,039,428
Subtotal	614,303,524	658,440,131	560,150,919	590,818,100	736,781,589	620,085,164	714,301,982	893,469,184	958,882,250
AFUDC*	9,928,038	11,677,737	12,616,060	12,771,860	14,873,392	9,076,102	0	0	0
FY Non-GAAP Accrual/Other	1,572,118	3,185,380	(1,747,159)	2,000,130	(2,796,701)	1,622,864	0	0	0
Grand Total	**625,803,680**	**673,303,247**	**571,019,820**	**605,590,090**	**748,858,280**	**630,784,130**	**714,301,982**	**893,469,184**	**958,882,250**

* AFUDC - Allowance for Funds Used During Construction - Due to a change in Accounting Policies this is no longer capitalized starting in FY22

A recap of our capital plan by strategic category, by business unit and the project justification recap for each project was sent separately.

Thank You