PREPARING FOR DEELY CLOSURE

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Informational Update
AGENDA

• DECISION IN 2011
• ALIGNMENT WITH FLEX PATH
• PREPARING FOR CLOSURE
• RESERVE MARGIN
• YEAR-END ACCOUNTING ENTRY
OUR DECISION IN 2011

After years of intensive strategic & financial analysis, management decided to retire 2 older coal units. The PRIMARY REASONS:

• $600M required SO$_2$ scrubber upgrade
• Future regulatory uncertainty & cost
• Competition from low-cost, gas generation, driven by the shale gas revolution

Data as of November 2018
OUR JOURNEY

SIGNIFICANT MILESTONES

2011
- Decision to Close Deely Units
- Purchased Rio Nogales Power Plant (3 X 1 Combined Cycle Natural Gas)

2012
- Notice to ERCOT of Intent to Mothball Deely Units

2013
- Decommissioning Planning Begins

2015
- Engaging Employees - Monthly Meetings - Work Groups

2018
- Dec. 31 Cease Generating Power
- Plant Preservation Planning

2019
- June 2019 Unit Layup Complete
- Begin Plant Layup Employee Transitions
PREPARING FOR CLOSURE

Decommissioning planning begins

2015

2018

Engaging Employees
- Monthly meetings
- Work groups

Dec. 31
Cease Generating Power

Temporary contractors, who have been used for several years, will be reduced so that the Deely employees can move to other permanent jobs across our organization.
LOOKING AHEAD TO THE FUTURE

CPS Energy is also analyzing potential future use of the Deely footprint & the Calaveras site in general.
REPLACEMENT CAPACITY
STEP + GAS + RENEWABLES

STEP & Distributed Generation
Rio Nogales Plant – 800 MW
Solar – 450 MW

We will continue to pursue diverse solutions going forward.
DIVERSE PORTFOLIO

FLEX PATH

• Flexibility
• Diversity
• Dynamic
• Integrated
• Optimized
Although lower, we will continue to have solid reserves to meet obligations through 2024.
ERCOT factored in the Deely deactivation years ago. Excluding any issues that may develop with transmission, ERCOT remains focused on allowing the market to function without regulatory intervention, as was the case in 2018.

Tighter reserve margin in ERCOT could result in higher wholesale prices this summer.

ERCOT Reserve Forecasts

* The May 2018 CDR forecast of 11.0% was decreased to 8.1% in the updated Dec 2018 CDR forecast.
FINANCIAL IMPACT OF DEELY WRITE-OFF

- Given the decision to close the Deely units, it is appropriate for CPS Energy to write-off the projected $186 million book value as of 1/31/19 related to Deely.

- The write-off would be treated as a Special or Impairment Item & would be written off below net income.

- Additionally, the write-off would be a non-cash item.

- Financial impact would be to increase the projected Debt Percent from 61.2% to 62.4% as of 1/31/19. No impact to Debt Service Coverage or Days Cash on Hand.

**PROJECTION:** We will be slightly above the plan after the write-off, 0.2%, or 20bps.

1. Excl. impact of $186M write-off
2. Incl. impact of $186M write-off

The write-off will help to improve our financial performance in future years, as depreciation will be lower.
SUMMARY

- We are on track to cease commercial operation of our Deely Units on **12/31/18**, as was originally planned in 2011

- Deely’s capacity has been replaced by that of our Rio Nogales, gas-fired units, strategically purchased in 2012

- On average, Rio Nogales has been & is projected to be very economical, especially since gas prices have been lower & less volatile for years

- We also control our community’s energy needs through our successful energy efficiency & conservation program (called STEP)

- We will continue to have notable excess energy capacity for 2019

As part of our Flexible Path, we are currently assessing future generation / energy supply options.
Questions?
## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Acronym (if applicable)</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis Point Spread</td>
<td>bps</td>
<td>Basis point spread (BPS) refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001, and is used to denote the percentage change in the financial arena. The relationship between percentage changes and basis points can be summarized as follows: 1% change = 100 basis points, and 0.01% = 1 basis point.</td>
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<tr>
<td>Capacity, Demand &amp; Reserves</td>
<td>CDR</td>
<td>Periodically, ERCOT issues a public report that projects these market metrics for future months.</td>
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<tr>
<td>Decommissioning</td>
<td>-</td>
<td>Planned shut-down and permanent removal from service of equipment, plant, etc.</td>
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<tr>
<td>Electric Reliability Council of Texas</td>
<td>ERCOT</td>
<td>Entity that manages the flow of electric power on the Texas Interconnection that supplies power to Texas customers - representing 85% of the state's electric load.</td>
</tr>
<tr>
<td>Layup / Mothball</td>
<td>-</td>
<td>The deactivation and preservation of equipment / production facility to prevent corrosion damage and allow for future return to service.</td>
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<td>Peak Load</td>
<td>-</td>
<td>The maximum periodic load demand imposed on a power supply system.</td>
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<tr>
<td>Save for Tomorrow Energy Plan</td>
<td>STEP</td>
<td>CPS Energy’s energy efficiency and conservation program. It includes a highly effective demand response component that is successfully supported by a high level of customer participation.</td>
</tr>
</tbody>
</table>
### Sulphur Dioxide

**Term**: Sulphur Dioxide  
**Acronym** (if applicable): SO₂  
**Definition**: A colorless gas or liquid with a strong odor. Sulfur Dioxide is produced by burning fuels that contain sulfur such as coal and oil. Power plants, steel mills, refineries, smelters, and paper mills are the largest producers. Sulfur Dioxide is a primary contributor to acid rain, contributes to regional visibility impairment, and in high concentrations may aggravate existing respiratory and cardiovascular disease. (CPS Energy uses low sulfur and ultra low sulfur Powder River Basin sulfur coals).

### Resources

**Definition**: Electrical Generation facilities available to meet Customer demand on an as-needed basis.
TIMELINE FOR ENVIRONMENTAL/REGULATORY REQUIREMENTS FOR THE UTILITY INDUSTRY

**Ozone**
- SO2/NO2/BART
  - SO2 Primary NAAQS
  - NO2 Primary NAAQS
  - Final CSAPR Rule
- Revised Ozone NAAQS cancelled

**SO2/NO2/BART**
- PM-2.5 NAAQS Revision
- PM-2.5 NAAQS
- CSAPR Final
- CAIR still effective
- CSAPR Remanded

**PM**
- 316(b) Compliance - Depends on Permitting Authority discretion
- 316(b) final rule issued
- Effluent Guidelines Final Rule
- Revised CSAPR Ozone Season Final

**CAIR/CSAPR**
- CSAPR Start
- Effluent Guidelines Proposed
- Revised CSAPR Ozone Season Program Starts

**Water**
- Effluent Guidelines
- Revised CSAPR Ozone Season
- Final Rule to amend CCR Rule

**Hg/HAPS**
- Effluent Guidelines
- Effluent Guidelines
- Final Rule to amend CCR Rule

**CO2/GHGs**
- Ozone Nonattainment Designation
- BART/Regional Haze SO2 Trading
- Ozone Nonattainment SIPS/Compliance for Marginal areas

**Ash**
- Proposed Rule for CCRs Management
- Final Rule for CCRs Mgmt
- Final Rule to amend CCR Rule
- Earlies compliance date for Effluent Guidelines Limitations Rule

**Significant additional investment on the horizon.**

**Clean Power Plan**
- Final CSAPR Rule
- Revised CSAPR Rule
- Proposed Affordable Clean Energy Rule
- Proposed rule to repeal Clean Power Plan
- Texas removed from CSAPR
- Proposed rule to amend CCR Rule

**Ozone NAAQS**
- Ozone NAAQS
- Revised CSAPR Ozone Season
- Revised CSAPR Ozone Season Program Starts

**CAIR**
- Proposed CAIR Replacement Rule (CSAPR)
- 316(b) proposed rule
- NSPS GHGs for New Units proposed
- Ozone NAAQS Revision
- Final Rule for CCRs

**MATS**
- MATS Rule Final
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- Final CSAPR Rule
- Proposed CAIR Replacement Rule (CSAPR)
- Proposed Rule for CCRs Management

**Proposed CAIR Replacement Rule (CSAPR)**
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