COST SAVINGS: PFC SAVINGS SINCE INCEPTION

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Informational Update
OBJECTIVES & TAKEAWAYS

• PROVIDE A BACKGROUND OF THE SA ENERGY ACQUISITION PUBLIC FACILITY CORPORATION (PFC)
• REVIEW THE PFC STRUCTURE
• RELAY THE INCEPTION-TO-DATE SAVINGS
Purpose: A non-profit corporation created with a sole purpose of acquiring natural gas or other forms of energy

Authorizations:
- Texas Public Facility Corporation Act, Chapter 303, Texas Local Government Code – Authorized City Council to create the PFC, a special purpose entity

Governance:
- 7-Member Board of Directors, made up of CPS Energy’s:
  - 5-Member Board of Trustees
  - President & Chief Executive Officer (CEO)
  - Chief Financial Officer (CFO) & Treasurer

In 2007, we worked with the City of San Antonio to create the PFC specifically to enter into a prepaid natural gas transaction.
The PFC is a separate legal entity, with a non-recourse\(^1\) credit structure (meaning we only pay for gas that is delivered).

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\(^1\) See definition provided within the Glossary / Definitions slide
What created the savings in 2007?

- **High Natural Gas Prices**: Savings are a function of the size of gas purchased (volume x price x 20 years)

- **Spread Between Taxable & Tax-Exempt Interest Rates**:
  - Taxable Interest Rates determined the discount rate of the gas supplied (20-years of prepaid natural gas supply discounted back to 2007)
  - Tax-Exempt Interest Rates determined the PFC’s borrowing cost

In 2007, market conditions came together to make this transaction worthwhile, resulting in meaningful cost savings!
COST SAVINGS
SINCE INCEPTION (2007)

- Provides ~30% of our distribution natural gas requirements
- Locked-in a significant discount off the market price of natural gas
- Savings flow directly to our natural gas customers

Prepaid Gas Cost Savings*
($ in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Savings</th>
</tr>
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<tbody>
<tr>
<td>2007 - 2018</td>
<td>$72.4</td>
</tr>
<tr>
<td>2019</td>
<td>$5.5</td>
</tr>
<tr>
<td>2020 - 2027</td>
<td>$26.1</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$104.0</strong></td>
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*cited in calendar year
Thank You
Appendix
<table>
<thead>
<tr>
<th>Acronym or Word</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Non-Recourse¹</td>
<td>Loan agreement by where the lender cannot hold the borrower personally liable in the event of a default.</td>
</tr>
<tr>
<td>PFC</td>
<td>Public Facility Corporation</td>
</tr>
<tr>
<td>SA Energy Acquisition Public Facility Corporation</td>
<td>The non-profit corporation created by the City of San Antonio in 2007 to secure a 20-year supply of natural gas.</td>
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</tbody>
</table>

¹ - Definition taken from www.businessdictionary.com
INTEREST RATE SPREADS
TAXABLE VS. TAX-EXEMPT

10-Year LIBOR (Taxable) vs. 10-Year MMD (Tax-Exempt)
2007 - Present

PFC Sold Bonds on 6/21/2007

Source: PFM Financial Advisors LLC