FY 2021 BUDGET

PRESENTED BY:
Delores Lenzy-Jones
Chief Financial Officer (CFO) & Treasurer

Gary Gold
VP, Corporate Services

January 27, 2020

Approval Requested
OBJECTIVES & TAKEAWAYS

• PROVIDE FINANCIAL PROJECTIONS FOR FY 2021 & FY 2022

• OBTAIN BOARD APPROVAL OF FY 2021 BUDGET
AGENDA

• COMPANY HIGHLIGHTS
• FINANCIAL PLANNING PROCESS
• FY 2021 BUDGET PROPOSAL
  o CUSTOMER GROWTH
  o SOURCES & USES OF REVENUE
  o OPERATING & MAINTENANCE EXPENSE (O&M)
  o CAPITAL & FINANCING PLAN
  o NET INCOME TRENDS & DRIVERS
  o KEY FINANCIAL METRICS
• REQUEST FOR FY 2021 BUDGET APPROVAL
San Antonio born, raised and owned.
With a *PEOPLE FIRST* philosophy running deep through our core,
We acknowledge our community and our customers’ needs
Largest Municipally Owned Electric and Gas Utility in the U.S.
Largest Solar Power Production in Texas; Seventh in the Nation
Second Largest Wind Power Production in Texas

BY THE NUMBERS

Premier Credit Rating

854K Electric¹

356K Gas¹

Our Customers

159

Years of Serving San Antonio

Most Trusted Brand in the South Region by Escalent

FYE 2019

$11B - Assets

$2.8B - Annual Revenue

¹ as of 10/31/19
OUR GUIDING PILLARS & FOUNDATION

- Reliability
- Customer Affordability
- Security
- Safety
- Environmental Responsibility
- Resiliency

FINANCIALLY RESPONSIBLE

All business decisions are based on our commitment to being one of the best-managed & most financially responsible utilities in the nation!
FINANCIAL PLANNING PROCESS

Generation Resource = Load (Demand) + Reserve Margin

FORECAST INPUTS
- Customer Growth (Electric & Gas Sales)
- Regulatory Costs (TCOS, ERCOT)
- Fuel Cost (gas, coal, nuclear, renewables)
- Generation Resource Plan
- Market Power Prices
- Wholesale price, revenue & margin
- Interest Rates

WE DEPLOY AN ANNUAL UPDATE PROCESS

5-year detailed planning by business unit

Historical & current year performance

25-Year Long Range Plan

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2 – 5</th>
<th>6 – 25</th>
</tr>
</thead>
</table>

Year 1 will be presented to Board for approval (outer years are refreshed in subsequent planning cycles, so they are considered preliminary & subject to change)

A robust long range planning process is essential for long-term resource planning & yields budget targets, financial metric performance, & revenue support requirements.
HOW MUCH GROWTH CAN WE EXPECT?

- San Antonio currently ranks 2nd largest in Texas and 7th in the nation in population
- 1.1 million more people expected by the year 2040

Population growth will impact our community in many ways.

EDUCATION  TRANSPORTATION  HEALTHCARE  ENERGY SUPPLY

¹SATomorrow in Bexar County
ACCOMMODATING GROWTH, PROMOTING EFFICIENCY & CUTTING COSTS

This is how we save our customers money & add value.
A DECADE OF COST SAVINGS TOTALING OVER $345M

OPERATIONAL IMPROVEMENTS @ THE SOUTH TEXAS PROJECT $138M

REFINANCING OF DEBT $104M

FUEL CONTRACT SAVINGS $69M

HEALTH CARE PLAN DESIGN CHANGES

HEALTH CARE CONTRACTS SAVINGS $19M

GRID MODERNIZATION $8M

$7M

TOTAL SAVINGS OF $345M
**FY 2021 BUDGET PROPOSAL**

FY 2021 CPS Energy’s total Annual Funding Requirements = $2,758.2M

- **Capital**
  - $365.3
  - $684.1

- **Non-Fuel O&M**
  - $662.0
  - $712.8

- **Estimate**
  - $712.8

- **Budget**
  - $92.0
  - $165.5
  - $425.9
  - $996.7

*Latest Estimate includes 9 Months Actual & 3 Months Estimate. In addition, it includes financing plan to pay down debt. **Excludes AFUDC – Capitalized Interest & gross of customer contributions.*

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**The order of uses of revenue is determined by Bond Ordinance in order to:**

- **Non Fuel Operating Expenses** - Provides reliability to our customers.
- **Fuel & Other Operating Expenses** - Pass thurs for fuel & regulatory.
- **Debt Requirements** - Repayment of debt used to finance initiatives & infrastructure improvements.
- **Repair & Replacement 6%** - Cash for future system, customer growth & new strategic initiatives.
- **City Payment** - Transfer funds to the City of San Antonio’s General Fund that benefit our community.
- **Repair & Replacement** - Remaining cash for future system, customer growth & new strategic initiatives.
### GOVERNANCE & BUDGET APPROVAL

<table>
<thead>
<tr>
<th>BUDGET COMPONENT</th>
<th>GOVERNANCE</th>
<th>APPROVAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>FUEL PURCHASES</td>
<td>Governed by Procurement policy with material fuel purchases approved by the Board</td>
<td>✓</td>
</tr>
<tr>
<td>DEBT ISSUANCE</td>
<td>Bond Issuances approved by Board &amp; Council</td>
<td>✓</td>
</tr>
<tr>
<td>R&amp;R ADDITIONS</td>
<td>Governed by Bond Ordinance</td>
<td>✓</td>
</tr>
<tr>
<td>CITY PAYMENT</td>
<td>Approved Monthly by the Board</td>
<td>✓</td>
</tr>
<tr>
<td>NON-FUEL O&amp;M</td>
<td>Approved Annually by the Board</td>
<td></td>
</tr>
<tr>
<td>CAPITAL</td>
<td>Approved Annually by the Board</td>
<td>1/27/2020</td>
</tr>
</tbody>
</table>

The Board of Trustees has oversight of the components of the planned Uses of Revenue through policy & various other approvals.
ANNUAL ELECTRIC CUSTOMER GROWTH RATES

<table>
<thead>
<tr>
<th>Historical</th>
<th>Current*</th>
<th>Proposed</th>
<th>Projected**</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.4</td>
<td>13.5</td>
<td>13.5</td>
<td>12.8</td>
</tr>
<tr>
<td><strong>% Growth</strong></td>
<td><strong>0.0%</strong></td>
<td><strong>1.0%</strong></td>
<td><strong>2.0%</strong></td>
</tr>
</tbody>
</table>

*   Latest Estimate includes 9 Months Actual & 3 Months Estimate.
** To be refreshed in subsequent planning cycles.

Strong customer growth, partially offset by continued growth of energy efficiency through STEP programs, results in moderate sales volume growth.

* MWh – Megawatt hour.
ANNUAL GAS CUSTOMER GROWTH RATES

Customer growth provides for additional sales; however, weather also significantly impacts gas sales year-to-year.

* Latest Estimate includes 9 Months Actual & 3 Months Estimate.
** To be refreshed in subsequent planning cycles.
1 MCF - Thousand Cubic Feet.
PROJECTED FY 2021 REVENUE REQUIREMENTS

Per Flow of Funds, Uses of Revenue must equal Sources of Revenue.
## SOURCES OF REVENUE

### Historical vs. Proposed vs. Projected

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2018</th>
<th>2019</th>
<th>2020 *</th>
<th>2021</th>
<th>2022 **</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Electric</td>
<td>$2,221.6</td>
<td>$2,276.9</td>
<td>$2,237.2</td>
<td>$2,328.4</td>
<td>$2,361.5</td>
</tr>
<tr>
<td>Distribution Gas</td>
<td>179.8</td>
<td>170.7</td>
<td>140.9</td>
<td>183.0</td>
<td>196.3</td>
</tr>
<tr>
<td>Wholesale Electric</td>
<td>198.9</td>
<td>325.7</td>
<td>209.8</td>
<td>193.7</td>
<td>181.7</td>
</tr>
<tr>
<td>Non-Operating</td>
<td>24.1</td>
<td>35.0</td>
<td>31.4</td>
<td>53.1</td>
<td>25.1</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$2,624.4</strong></td>
<td><strong>$2,808.3</strong></td>
<td><strong>$2,619.3</strong></td>
<td><strong>$2,758.2</strong></td>
<td><strong>$2,764.6</strong></td>
</tr>
</tbody>
</table>

*Latest Estimate includes 9 Months Actual & 3 Months Estimate.

**To be refreshed in subsequent planning cycles.
# USES OF REVENUE

## Historical | Current* | Proposed | Projected**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td>$1,587.9</td>
<td>$1,608.4</td>
<td>$1,526.7</td>
<td>$1,709.5</td>
<td>$1,752.2</td>
</tr>
<tr>
<td>Debt Requirements</td>
<td>397.7</td>
<td>419.7</td>
<td>396.0</td>
<td>425.9</td>
<td>438.6</td>
</tr>
<tr>
<td>R&amp;R 6% of Revenue</td>
<td>157.5</td>
<td>168.5</td>
<td>157.2</td>
<td>165.5</td>
<td>165.9</td>
</tr>
<tr>
<td>City Payment</td>
<td>338.5</td>
<td>361.4</td>
<td>346.4</td>
<td>365.3</td>
<td>367.5</td>
</tr>
<tr>
<td>R&amp;R Remaining</td>
<td>142.8</td>
<td>250.3</td>
<td>193.0</td>
<td>92.0</td>
<td>40.4</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$2,624.4</strong></td>
<td><strong>$2,808.3</strong></td>
<td><strong>$2,619.3</strong></td>
<td><strong>$2,758.2</strong></td>
<td><strong>$2,764.6</strong></td>
</tr>
</tbody>
</table>

* Latest Estimate includes 9 Months Actual & 3 Months Estimate.
** To be refreshed in subsequent planning cycles.
Management remains keenly focused on operating cost reductions & efficiencies as our system continues to grow.

* Latest Estimate includes 9 Months Actual & 3 Months Estimate.
** To be refreshed in subsequent planning cycles.
# CAPITAL PLAN
(Excludes AFUDC)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Historical</th>
<th>Current</th>
<th>Proposed</th>
<th>Projected**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$558.4</td>
<td>$592.8</td>
<td>$760.1</td>
<td>$684.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations Office</td>
<td>12.7</td>
<td>13.7</td>
<td>103.9</td>
<td>25.6</td>
<td>21.5</td>
</tr>
<tr>
<td>Operations Office</td>
<td>366.4</td>
<td>386.3</td>
<td>429.5</td>
<td>458.6</td>
<td>483.3</td>
</tr>
<tr>
<td>Distribution &amp; Transmission</td>
<td>284.4</td>
<td>309.9</td>
<td>325.8</td>
<td>320.6</td>
<td>345.3</td>
</tr>
<tr>
<td>Power Generation &amp; ESMO &amp; STP</td>
<td>82.0</td>
<td>76.4</td>
<td>103.7</td>
<td>138.0</td>
<td>138.0</td>
</tr>
<tr>
<td>‡ Administration &amp; Business Development</td>
<td>66.0</td>
<td>98.3</td>
<td>95.5</td>
<td>47.8</td>
<td>30.3</td>
</tr>
<tr>
<td>EIT Office</td>
<td>35.3</td>
<td>16.9</td>
<td>48.7</td>
<td>59.4</td>
<td>49.7</td>
</tr>
<tr>
<td>Security, Safety &amp; Gas Operations Office</td>
<td>78.0</td>
<td>77.7</td>
<td>82.5</td>
<td>92.7</td>
<td>97.6</td>
</tr>
<tr>
<td><strong>CPS Energy Total</strong></td>
<td><strong>$558.4</strong></td>
<td><strong>$592.8</strong></td>
<td><strong>$760.1</strong></td>
<td><strong>$684.1</strong></td>
<td><strong>$682.4</strong></td>
</tr>
</tbody>
</table>

* Latest Estimate includes 9 Months Actual & 3 Months Estimate. ** To be refreshed in subsequent planning cycles. ‡ Includes Legal, Financial, and Other. ¹ AFUDC – Capitalized Interest.
To further focus on lowering debt levels over time, we are planning to increasingly fund capital with cash.
The improvement of actual results over the initial plan was driven by favorable revenue performance augmented by management execution of cost savings & financing plan optimization.

Results that are not guaranteed. Based upon aging units & weather.

* Latest Estimate includes 9 Months Actual & 3 Months Estimate.
PREVIOUS VERSUS UPDATED FY 2021 PLAN

Our FY 2021 plan has been updated to carry over some of the FY 2020 drivers, plus other key assumption changes.

Again dependent on aging units & weather.
FY 2021 BUDGET TO FY 2022 PLAN NET INCOME

We are looking closely at additional ways to address this increasing pressure.

* To be refreshed in subsequent planning cycles.
## Key Financial Metrics

**Fiscal Year Ending Jan. 31**

<table>
<thead>
<tr>
<th></th>
<th>Historical</th>
<th>Current*</th>
<th>Proposed</th>
<th>Projected**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adjusted Debt Service Coverage</strong></td>
<td>1.76x</td>
<td>2.00x</td>
<td>1.89x</td>
<td>1.60x</td>
</tr>
<tr>
<td><strong>Days Cash on Hand</strong></td>
<td>211</td>
<td>246</td>
<td>205</td>
<td>161</td>
</tr>
<tr>
<td><strong>Debt / Equity</strong></td>
<td>61.8%</td>
<td>61.8%</td>
<td>61.0%</td>
<td>61.7%</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$88.2M</td>
<td>$168.2M</td>
<td>$144.6M</td>
<td>$3.9M</td>
</tr>
</tbody>
</table>

While FY 2021 appears manageable, the following year will need even more focus.

* Latest Estimate includes 9 Months Actual & 3 Months Estimate.
** To be refreshed in subsequent planning cycles.
REQUEST FOR APPROVAL

Requesting Board Approval of Capital & Non-Fuel O&M Budget for FY 2021

The FY 2021 proposed budget will support our People First focus that will benefit our community & meet our commitments, including:

- Funding and plan expense for Employee Benefit Obligations
- Spending for the FY 2021 Bridge STEP program
- Continuing Top tier safety, reliability, & environmental performance
- Investing in customer facing functions & security
- Meeting customer growth while continuing Infrastructure Modernization Projects
- Maintaining & strengthening key financial metrics

Total Uses of Revenue:

<table>
<thead>
<tr>
<th></th>
<th>FY 2020*</th>
<th>FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital¹</td>
<td>$760.1M</td>
<td>$684.1M</td>
</tr>
<tr>
<td>Non-Fuel O&amp;M</td>
<td>$662.0M</td>
<td>$712.8M</td>
</tr>
<tr>
<td>Total</td>
<td>$2,619.3M</td>
<td>$2,758.2M</td>
</tr>
</tbody>
</table>

* Latest Estimate includes 9 Months Actual & 3 Months Estimate. ¹ Excludes AFUDC – Capitalized Interest.
Thank You