August 25, 2021

Board of Trustees
Mrs. Paula Gold-Williams, President & CEO

Dear Board Members and Mrs. Gold-Williams:

Thank you for the opportunity to present and subsequently obtain your approval of the FY2022 Budget at the July 26, 2021, Board of Trustees (BoT) meeting. We will continue to measure our performance against the approved budget.

Please be advised that there will not be a YTD financial presentation at this month's Board meeting. Accordingly, we are providing this written report. We look forward to getting back to our practice of monthly financial update presentations at future board meetings, agenda permitting. The monthly financial update materials reflect six months of actual performance plus six months of forecast.

## Key Highlights

Our expected financial position has improved from the approved budget. In summary,

- **The primary assumption is that a rate case is ultimately approved this year, which will have an approximate current year benefit of $27 million gross, $23 million net of city payment.**
- We are forecasting to end the year with a Net Loss of $5.6 million, trending above our budgeted year-end Net Loss of $34.4 million,
- Repair and Replacement additions are forecasted to be slightly above budget and,
- Adjusted Debt Service Coverage and Debt Capitalization metrics are forecasted above budget. Days Cash on Hand is slightly below budget.

## Headwinds & Risks

Since there is tremendous uncertainty across the current economic and financial landscapes, the actual results for this fiscal year could be lower, comparable, or higher than what we are projecting at this time.

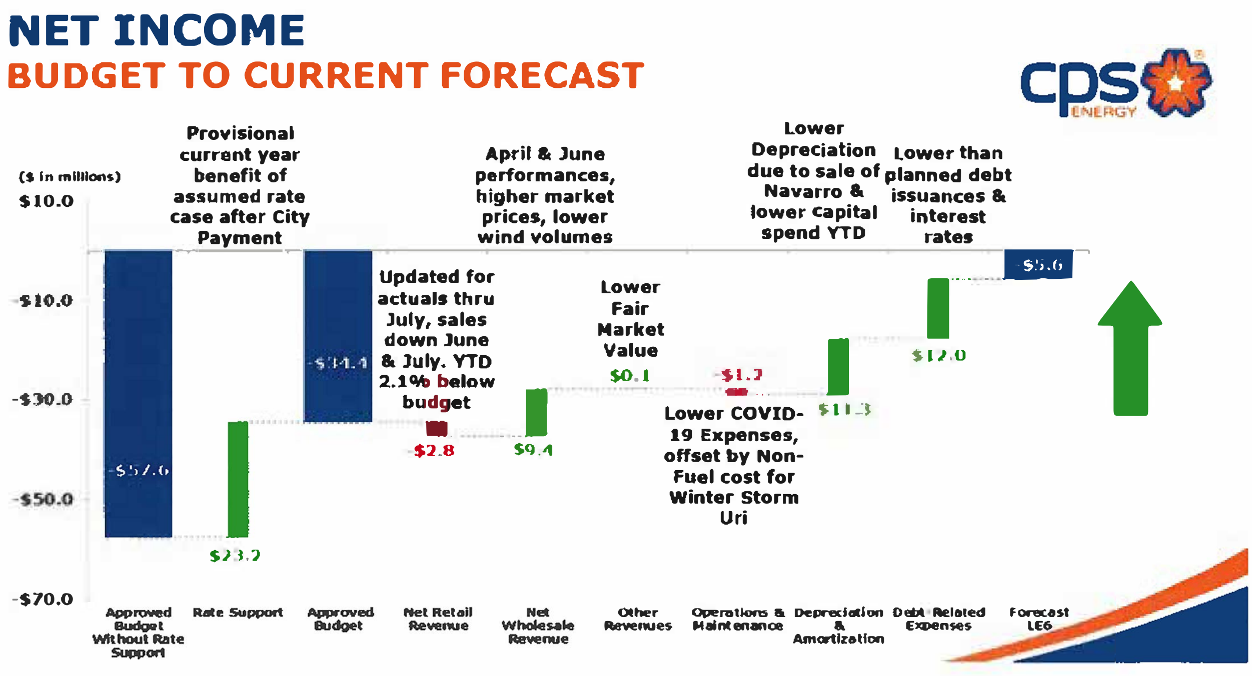
We also continue to monitor our Debt Capitalization Ratio. Although this ratio is currently forecasted to end the year below budget, it is trending higher than previous years largely due to our ongoing financial strategy regarding Winter Storm Uri. Specifically, our proposed plan is to finance the costs long-term (recommended 25 years) and request a corresponding regulatory asset to support the debt service expense over the same time duration. This strategy balances ***Customer Affordability*** and ***Financial Responsibility***. Regardless, the resolution, timing of debt transactions and execution of Winter Storm Uri costs and recovery will continue to impact this metric and our financial forecast going forward as that strategy is implemented.

Other headwinds we continue to monitor are the accounts receivable and bad debt assumptions built into the forecast. Those estimates could change pending on our disconnect strategy, community economic factors and potential funding relief from COSA or other external sources. Also, our forecast still includes provisional rate support effective in the 4th quarter of this fiscal year. Changes to the timing or amount of that assumption could negatively impact our current forecasted financial position and metrics.

## Summary of Budget to Current Forecast Drivers

A summary of the drivers of change from the budget to the current financial forecast is included on slide 8 (titled "Net Income – Budget to Current Forecast") of this month's financial update. Total electric non-fuel revenue is forecasted above budget. Driving the favorability is forecasted net wholesale revenue which is $9.4 million above budget supported by strong April and June performances due to higher market prices driven by lower wind volumes and outages across ERCOT. However, offsetting that favorability slightly is forecasted net electric retail revenue which is $2.8 million below budget reflecting YTD total electric system sales 2.1% below budget driven by weather and some underperformance in our "Other" customer sector which includes other commercial sectors, food & wood product manufacturing, municipals & lighting.

On the expense side, the organization continues to hold Operations and Maintenance (O&M) costs near budget, diligently managing increased costs due to Winter Storm Uri and other storms by continuing to manage labor costs through our strategic hiring approach and salary freeze. In addition, our Finance team has structured favorability into our financing plan by leveraging lower debt issuances and securing lower rates than were budgeted, leading to lower debt-related expenses of $12 million compared to budget. Our depreciation, which is a non-cash item, is below budget by $11 million due to overall lower capital spend, as a result of fewer assets being put in service and depreciated compared to the budget.




## Path Forward

As expected, FY2022 is still shaping up to be a challenging year. We continue to focus on cashflow to ensure liquidity, manage costs diligently and scan for emerging risks. Additionally, we are thoughtfully pursuing a path forward on the previously discussed provisional rate increase to ensure current & future financial sustainability. We will continue providing you with timely updates of financial performance.

Thanks again for your leadership and support.

Sincerely,

**Cory Kuchinsky, CPA**
Chief Financial Officer (CFO) &
Treasurer

CPK
Attachments

| | |
|---|---|
| Copy CoSA: | Erik Walsh, City Manager<br>Ben Gorzell, CFO<br>Ivalis Gonzalez Meza<br>Michelle Lugalia-Hollon |
| Copy CPS Energy: | Paula Gold-Williams, CEO<br>Sr. Chiefs<br>Kathy Garcia, VP<br>Board Relations |

# FY2022 MONTHLY FINANCIAL UPDATE AS OF JULY 31, 2021

*PRESENTED BY:*

**Cory Kuchinsky**
Chief Financial Officer (CFO) & Treasurer

*Informational Update*

# DISCLAIMER

We continue to work through the unprecedented global, national, state, and local implications of COVID-19 and Winter Storm Uri. Our current financial projections were prepared in-light of COVID-19 and Winter Storm Uri for preliminary informational discussion purposes only. Due to the changing COVID-19 environment and Winter Storm Uri, these financial projections are preliminary and subject to change at any time in the future. Please be assured that we worked hard to thoroughly think through our financial analysis. This said, since there is tremendous uncertainty across the current economic and financial landscapes, the actual results for this fiscal year could be lower, comparable, or higher than what we are projecting at this time.

# OBJECTIVES & TAKEAWAYS

- FINANCIAL RESULTS FORECAST
- HIGHLIGHT FINANCIAL PERFORMANCE & METRICS

# AGENDA

- NET INCOME YTD
- ELECTRIC SALES
- NET INCOME FORECAST
- FLOW OF FUNDS
- KEY FINANCIAL METRICS
- ACTIONS & NEXT STEPS

# NET INCOME

## JULY 2021 YTD ACTUAL PERFORMANCE

| ($ in millions)<br>Description | FY2022 Budget | FY2022 Actuals | FY2022 Variance: Favorable (Unfavorable) |
|---|---|---|---|
| **Revenue available for nonfuel expenses** | | | |
| Electric | $ 1,250.8 | $ 1,236.9 | $ (13.9) |
| Gas | 81.2 | 89.1 | 7.9 |
| Total operating revenue | 1,332.0 | 1,326.0 | (6.0) |
| **Less:** | | | |
| Electric fuel, distribution gas & regulatory | 520.4 | 496.5 | 23.9 |
| Payments to the City of San Antonio | 172.7 | 170.5 | 2.2 |
| Net operating revenue | 638.9 | 659.0 | 20.1 |
| Nonoperating revenue | 20.4 | 18.5 | (1.9) |
| Total revenue available for nonfuel expenses | 659.3 | 677.5 | 18.2 |
| **Nonfuel expenses** | | | |
| Operation & maintenance | 325.6 | 328.9 | (3.3) |
| Depreciation, amortization & decommissioning | 238.9 | 228.7 | 10.2 |
| Interest & debt-related | 113.3 | 102.5 | 10.8 |
| Total nonfuel expenses | 677.8 | 660.1 | 17.7 |
| Net Income (Loss) | $ (18.5) | $ 17.4 | $ 35.9 |

## Highlights:

- **Operating Revenue**
  - Retail Electric Billed Sales are 2.1% lower.
  - Retail Gas Billed Sales are 3.8% higher.
  - Wholesale Revenue Net Fuel is $13.8M higher as a result of record high ERCOT load coupled with unplanned ERCOT power plant outages for the month of June, low wind, & increased gas prices. Most of the gain is due to April & June performance.
- **Non Operating Revenue**
  - Primarily driven by lower than planned interest income.
- **City Payment**
  - Shortfall is completely made up as of July.
- **Depreciation**
  - Due to lower capital spend.
- **Interest & debt-related**
  - Reflects lower than planned commercial paper issuances & interest rates.

# ELECTRIC SALES
## BY CUSTOMER SEGMENT - YTD FY2022*

| Customer Sector | Usage | % of Total Load | % Impact on Total Usage |
|---|---|---|---|
| Residential | -1.1% | 44.3% | -0.5% |
| Churches & Services | -1.2% | 7.7% | -0.1% |
| Manufacturing | -2.0% | 4.7% | -0.1% |
| Retail | -0.7% | 5.2% | 0.0% |
| Educational Services | -1.6% | 4.7% | -0.1% |
| Hotel & Food Services | -2.4% | 4.6% | -0.1% |
| Other** | -3.8% | 28.8% | -1.2% |
| **Total System** | | **100.0%** | **-2.1%** |

*Billed July actual YTD performance to budget.

**Other sector includes other commercial sectors, food & wood product manufacturing, municipals, lighting, etc.

# NET INCOME
## LATEST ESTIMATE VS. BUDGET
## (6 months actuals/6 forecast)

| ($ in millions) | FY2022 | | |
|---|---|---|---|
| Description | Budget | Forecast | Variance: Favorable (Unfavorable) |
| **Revenue available for nonfuel expenses** | | | |
| Electric | $ 2,493.2 | $ 2,493.9 | $ 0.7 |
| Gas | 206.3 | 218.1 | 11.8 |
| Total operating revenue | 2,699.5 | 2,712.0 | 12.5 |
| **Less:** | | | |
| Electric fuel, distribution gas & regulatory | 1,023.5 | 1,031.3 | (7.8) |
| Payments to the City of San Antonio | 360.3 | 358.5 | 1.8 |
| Net operating revenue | 1,315.7 | 1,322.2 | 6.5 |
| Nonoperating revenue | 35.9 | 36.0 | 0.1 |
| Total net revenue available for nonfuel expenses | 1,351.6 | 1,358.2 | 6.6 |
| **Nonfuel expenses** | | | |
| Operation & maintenance | 687.5 | 688.7 | (1.2) |
| Depreciation, amortization & decommissioning | 476.0 | 464.7 | 11.3 |
| Interest & debt-related | 222.5 | 210.4 | 12.1 |
| Total nonfuel expenses | 1,386.0 | 1,363.8 | 22.2 |
| Net Income (Loss) | $ (34.4) | $ (5.6) | $ 28.8 |

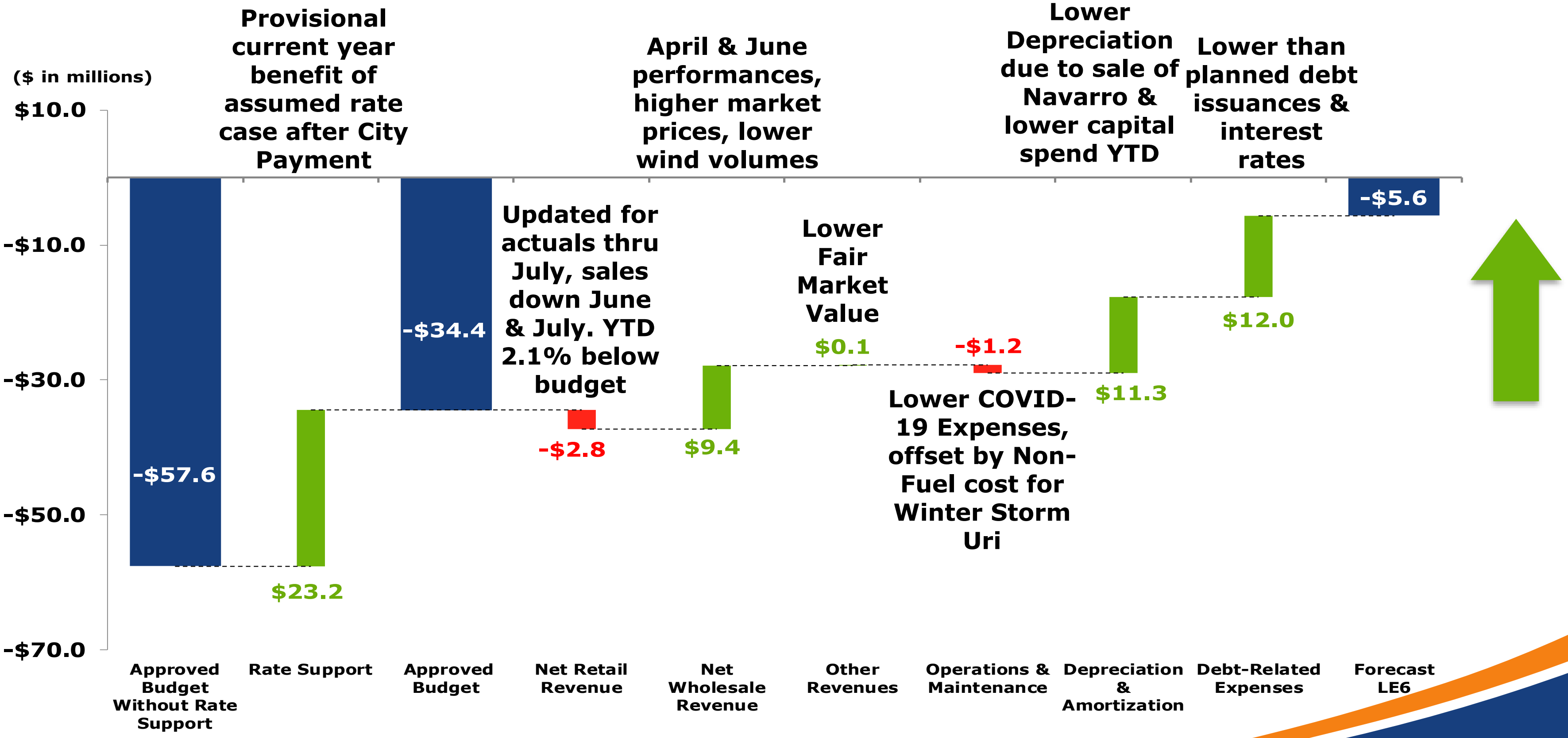
### Provisional Rate Increase:

- Assumes a rate increase is approved this year which will have an approximate current year benefit of $26.8M, including City Payment. Any delay or reduction in the request will negatively impact the future forecast.

### Assumptions:

- **Operating Revenue**
  - Retail Electric Sales estimated to be 0.8% lower than budget.
  - Gas Sales estimated to be 1.9% higher than budget.
  - Assumes $65M of Bad Debt.
  - Wholesale Revenue Net Fuel is approximately $9.4M favorable to budget for the current forecast. Record high ERCOT load coupled with unplanned ERCOT power plant outages for the month of June, low wind, & increased gas prices. Most of the gain is due to April & June performance.
- **Interest & debt-related**
  - Lower than planned debt issuances and interest rates.
- **O&M**
  - Lower COVID-19 expenses than forecasted.
  - Reflects additional costs due to Winter Storm Uri.
- **Depreciation**
  - Lower Capital spend.

# NET INCOME
## BUDGET TO CURRENT FORECAST



# FLOW OF FUNDS

## LATEST ESTIMATE VS BUDGET

## (6 months actuals/6 forecast)

| ($ in millions) | FY2022 | | |
|---|---|---|---|
| Description | Budget | Forecast | Variance: Favorable (Unfavorable) |
| Revenues, net of unbilled | $ 2,715.7 | $ 2,721.2 | $ 5.5 |
| Less: city payment (CP) per flow of funds | 360.3 | 358.5 | 1.8 |
| Revenues, net of unbilled & CP | 2,355.4 | 2,362.7 | 7.3 |
| Less: fuel & regulatory expense | 1,023.5 | 1,031.3 | (7.8) |
| Revenues, net fuel & regulatory | 1,331.9 | 1,331.4 | (0.5) |
| Operation & maintenance | 689.3 | 689.7 | (0.4) |
| Debt service | 410.3 | 402.2 | 8.1 |
| Total expenses | 1,099.6 | 1,091.9 | 7.7 |
| 6% Gross Revenue to R&R | 162.9 | 163.3 | 0.4 |
| Remaining to R&R | 69.4 | 76.2 | 6.8 |
| Total R&R fund additions | $ 232.3 | $ 239.5 | 7.2 |
| Total capital expenditures | $ 638.9 | $ 605.2 | $ 33.7 |

## Provisional Rate Increase:

- Assumes a rate increase is approved this year which will have an approximate current year benefit of $26.8M including City Payment. Any delay or reduction in the request will negatively impact the future forecast.

## Assumptions:

- **Operating Revenue**
  - Retail Electric Sales estimated to be 0.8% lower than budget.
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- **Interest & debt-related**
  - Lower than planned debt issuances and interest rates
- **O&M**
  - Lower COVID expenses than forecasted
  - Reflects additional costs due to Winter Storm Uri
- **Depreciation & Capital**
  - Lower due to deferral of projects

# KEY FINANCIAL METRICS
## LATEST ESTIMATES VS BUDGET

| Metric | FY2021 Actuals | FY2022 Budget | Accountability Plans Threshold | Forecast |
|---|---|---|---|---|
| Adjusted Debt Service Coverage (ADSC) | 1.59 | 1.57 | 1.50[1] | 1.60 |
| Days Cash on Hand (DCOH) | 209 | 181 | 150[1] | 176 |
| Debt Capitalization (DC) | 60.5% | 65.1% | 65.1%[2] | 62.4% |

**Legend**

Outside of Credit Ratings Agency Guidance

On Target with Credit Ratings Agency Guidance

[1] *Aligned to Credit Ratings Agency Guidance*
[2] *Aligned to the Debt Capitalization approved by the Board of Trustees*

# ONGOING ACTIONS

- Continue our efforts to:
  - Analyze actual sales results to better understand demand patterns.
  - Monitor accounts receivable & bad debt, providing customers with information on assistance programs.
- Focus on cash flow to ensure liquidity.
- Continue to provide monthly updates.

**Thank You**