September 22, 2021

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

Dear Board Members and Mrs. Gold-Williams:

Thank you for the opportunity to provide our FY2022 Monthly Financial Update as of August 31, 2021.

Please be advised that there will not be a financial presentation at this month's Board of Trustees 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 seven months of actual performance plus five months of forecast.

Of note, last month we cited, as part of the Headwinds and Risks, that changes to the timing or amount assumptions of the potential rate increase could negatively impact our forecasted financial position and metrics. **Because the timing of the rate case remains fluid, for this month's forecast we have provided views of our financials and metrics with and without the current year benefit of the potential rate increase. The view without the potential rate increase is provided to quantify the risk we continue to monitor related to the timing of the rate case.** Our position for reporting purposes continues to be the forecast <u>with</u> the current year benefit of the potential rate increase. As timing materializes more specifically, we will update forecasts accordingly.

Key Highlights

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

- **The current assumption is that a rate increase is ultimately approved this year, which will have an approximate current year benefit of $27 million gross, $23 million net of city payment.**
- With this in mind, we are forecasting to end the year with a Net Loss of $23.8 million, trending above our budgeted year-end Net Loss of $34.4 million but below last months forecasted update,

- Repair and Replacement additions are forecasted to be below budget and,
- Adjusted Debt Service Coverage and Days Cash on Hand metrics are forecasted below budget, but above credit rating agency guidance thresholds. The Debt Capitalization metric is forecasted 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.

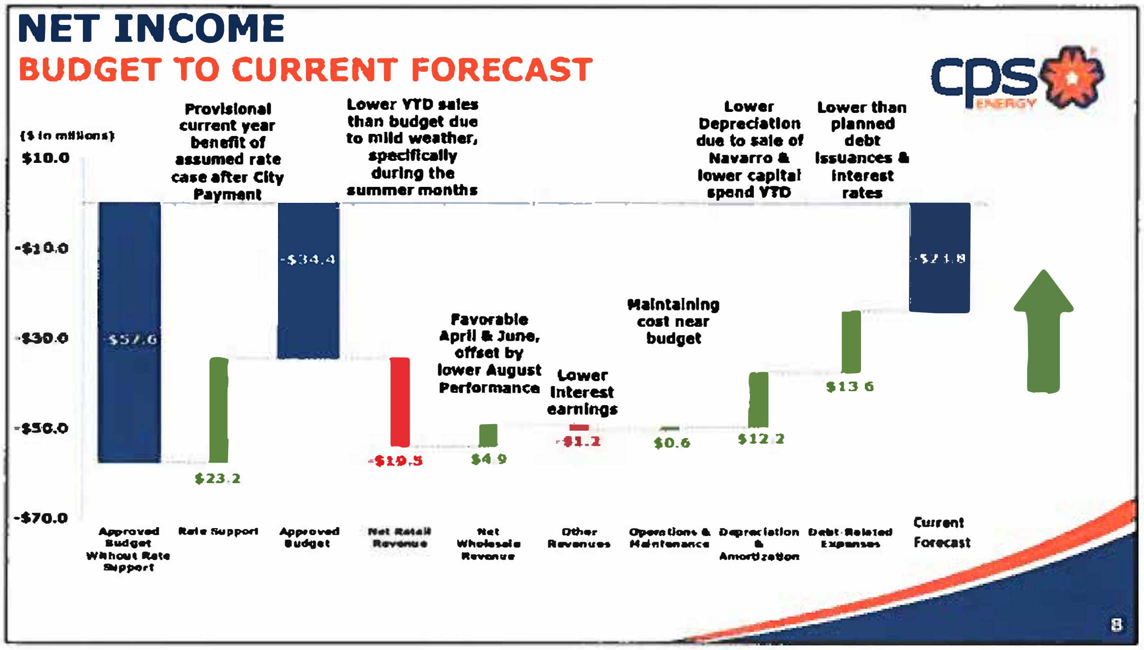
The timing or amount of the potential rate support assumption continues to be a risk to our financial position and metrics. The financial views provided without the current year benefit of the potential rate increase highlight that our financial position and metrics fall further below budget and near credit rating agency guidance minimum thresholds. Moving forward, a change in the potential rate support assumption may require a management plan to mitigate risks.

We continue to monitor accounts receivable and bad debt assumptions built into the forecast. Those estimates could change pending our disconnect strategy, community economic factors and potential funding relief from the City of San Antonio or other external sources.

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 below budget. Net wholesale revenue had lower performance than budget in August due to low market prices but is still forecasted to end the year $4.9 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 is forecasted net electric retail revenue which is $19.5 million below budget reflecting YTD total electric system sales 2.2% below budget, including three consecutive months (June thru August) with sales below budget driven by mild weather.

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 approximately $14 million compared to budget. Depreciation, which is a non-cash item, is below budget by just over $12 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 noted last month, we continue to thoughtfully pursue a path forward in this challenging year to ensure current and future financial sustainability. We look forward to 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
Ben Gorzell, CFO
Ivalis Gonzalez Meza
Michelle Lugalia-Hollon
Russell Huff

Copy CPS Energy: Paula Gold-Williams, CEO
Sr. Chiefs
Kathy Garcia, VP
Board Relations

FY2022 MONTHLY FINANCIAL UPDATE AS OF AUGUST 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
AUGUST 2021 YTD ACTUAL PERFORMANCE

($ in millions) Description	FY2022 Budget	FY2022 Actuals	FY2022 Variance: Favorable (Unfavorable)
Revenue available for nonfuel expenses			
Electric	$ 1,541.2	$ 1,528.3	$ (12.9)
Gas	92.7	101.8	9.1
Total operating revenue	1,633.9	1,630.1	(3.8)
Less:			
Electric fuel, distribution gas & regulatory	624.8	626.7	(1.9)
Payments to the City of San Antonio	211.4	205.1	6.3
Net operating revenue	797.7	798.3	0.6
Nonoperating revenue	23.3	20.2	(3.1)
Total revenue available for nonfuel expenses	821.0	818.5	(2.5)
Nonfuel expenses			
Operation & maintenance	376.6	379.6	(3.0)
Depreciation, amortization & decommissioning	278.7	267.7	11.0
Interest & debt-related	132.4	120.1	12.3
Total nonfuel expenses	787.7	767.4	20.3
Net Income (Loss)	$ 33.3	$ 51.1	$ 17.8

Highlights:

- **Operating Revenue**
  - Retail Electric Billed Sales are 2.2% lower.
  - Retail Gas Billed Sales are 2.8% higher.
  - August wholesale results were $10M below budget primarily due to low market prices. Year-to-date results remain $3.8M above budget primarily due to record high ERCOT load coupled with unplanned ERCOT power plant outages for the months of April and June.
- **Non-Operating Revenue**
  - Primarily driven by lower than planned interest income and change in fair market value.
- **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	-2.3%	45.4%	-1.0%
Churches & Services	-0.5%	7.5%	0.0%
Manufacturing	-1.4%	4.6%	-0.1%
Retail	0.0%	5.1%	0.0%
Educational Services	-0.8%	4.6%	0.0%
Hotel & Food Services	-1.4%	4.6%	-0.1%
Other**	-3.5%	28.2%	-1.0%
Total System		**100.0%**	**-2.2%**

*Billed August actual YTD performance to budget.

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

NET INCOME

LATEST ESTIMATE VS. BUDGET

(7 months actuals/5 forecast)

($ in millions)	FY2022		
Description	Budget	Forecast with Potential Rate Increase	Forecast without Potential Rate Increase
<u>Revenue available for nonfuel expenses</u>			
Electric	$ 2,493.2	$ 2,474.5	$ 2,451.4
Gas	206.3	225.5	221.8
Total operating revenue	2,699.5	2,700.0	2,673.2
<u>Less:</u>			
Electric fuel, distribution gas & regulatory	1,023.5	1,043.8	1,043.8
Payments to the City of San Antonio	360.3	355.1	351.5
Net operating revenue	1,315.7	1,301.1	1,277.9
Nonoperating revenue	35.9	34.7	34.7
Total net revenue available for nonfuel expenses	1,351.6	1,335.8	1,312.6
<u>Nonfuel expenses</u>			
Operation & maintenance	687.5	686.9	686.9
Depreciation, amortization & decommissioning	476.0	463.8	463.8
Interest & debt-related	222.5	208.9	208.9
Total nonfuel expenses	1,386.0	1,359.6	1,359.6
Net Income (Loss)	$ (34.4)	$ (23.8)	$ (47.0)

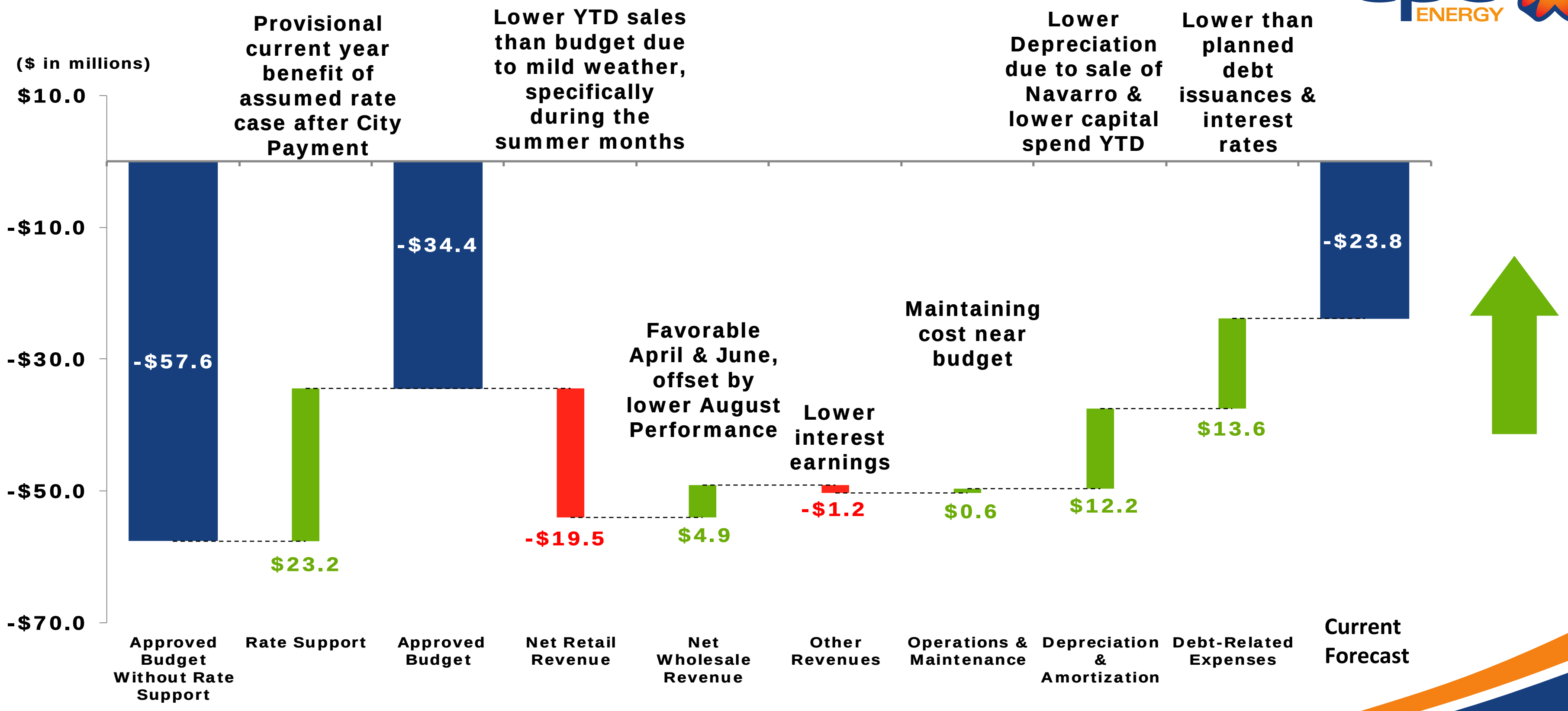
Potential Rate Increase:

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 1.3% lower than budget.
  - Gas Sales estimated to be 1.5% higher than budget.
  - August wholesale results were $10M below budget primarily due to low market prices. Forecast end of year results remain $4.9M above budget primarily due to record high ERCOT load coupled with unplanned ERCOT power plant outages for the months of April and June.
- **Interest & debt-related**
  - Lower than planned debt issuances and interest rates.
- **O&M**
  - Lower COVID-19 expenses than forecasted.
  - Reflects additional costs due to Storm Uri.
- **Depreciation**
  - Lower Capital spend.

NET INCOME
BUDGET TO CURRENT FORECAST



FLOW OF FUNDS

LATEST ESTIMATE VS BUDGET

(7 months actuals/5 forecast)

($ in millions)	FY2022		
Description	Budget	Forecast with Potential Rate Increase	Forecast without Potential Rate Increase
Revenues, net of unbilled	$ 2,715.7	$ 2,711.2	$ 2,684.4
Less: city payment (CP) per flow of funds	360.3	355.1	351.5
Revenues, net of unbilled & CP	2,355.4	2,356.1	2,332.9
Less: fuel & regulatory expense	1,023.5	1,043.8	1,043.8
Revenues, net fuel & regulatory	1,331.9	1,312.3	1,289.1
Operation & maintenance	689.3	687.8	687.8
Debt service	410.3	399.8	399.8
Total expenses	1,099.6	1,087.6	1,087.6
6% Gross Revenue to R&R	162.9	162.7	161.1
Remaining to R&R	69.4	62.0	40.4
Total R&R fund additions	$ 232.3	$ 224.7	$ 201.5
Total capital expenditures	$ 638.9	$ 621.2	$ 621.2

Potential Rate Increase:

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Assumptions:

- **Operating Revenue**
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- **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 & Capital**
  - Lower due to deferral of projects.

KEY FINANCIAL METRICS
LATEST ESTIMATES VS BUDGET

Metric	FY2021 Actuals	FY2022 Budget	Accountability Plans Threshold	Forecast with Potential Rate Increase	Forecast without Potential Rate Increase
Adjusted Debt Service Coverage (ADSC)	1.59	1.57	1.50[1]	1.56	1.51
Days Cash on Hand (DCOH)	209	181	150[1]	164	159
Debt Capitalization (DC)	60.5%	65.1%	65.1%[2]	62.4%	62.6%

Legend

Outside of Credit Ratings Agency Guidance

Above Credit Ratings Agency Guidance, but nearing thresholds

[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
  - Manage our metrics for alignment to credit ratings agency guidance
- Focus on cash flow to ensure liquidity
- Continue to provide monthly updates

Thank You

Appendix

NET INCOME
PRIOR FORECAST TO CURRENT FORECAST