

OFFICIAL STATEMENT

DATED: MARCH 31, 2021

RATINGS: Fitch
Moody's
S&P

"AA-"
"Aa2"
"A+"

See "RATINGS" herein

NEW ISSUE –BOOK ENTRY-ONLY SYSTEM

In the opinion of McCall, Parkhurst & Horton L.L.P. and Kassahn & Ortiz, P.C., Co-Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.



\$330,700,000
CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS
JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A

Dated: March 1, 2021 (Interest to accrue from the Closing Date)

Due: February 1, as shown herein

The \$330,700,000 City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2021A (the "Bonds") will be issued under and in conformity with the Constitution and general laws of the State of Texas, including Chapters 1207 and 1371, as amended, Texas Government Code (together, the "Act"), and pursuant to an ordinance ("Ordinance") adopted by the City Council ("City Council") of the City of San Antonio, Texas ("City") on September 10, 2020. As permitted by applicable provisions of the Act, the City Council has, in the Ordinance, delegated to certain City representatives the authority to execute an approval certificate (the "Approval Certificate") establishing final characteristics and terms of the sale of the Bonds. The Approval Certificate was executed on March 31, 2021 by an authorized City representative.

The Bonds are being issued to: (i) refund certain outstanding commercial paper notes (the "Refunded Obligations") identified in Appendix F hereto to convert short-term variable rate obligations into long-term obligations, and (ii) pay costs and expenses relating to the issuance of the Bonds.

The Bonds are issuable only as fully registered obligations in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the date of their initial delivery (the "Closing Date") to the initial purchasers thereof named below (collectively, the "Underwriters") (expected to occur on or about April 8, 2021) and will be payable on February 1 and August 1 of each year, commencing August 1, 2021. The Bonds will be issued in book-entry-only form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") acting as securities depository ("Securities Depository"). The City reserves the right to discontinue the use of the Securities Depository, but so long as DTC or its nominee is the registered owner of the Bonds, purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. The principal of, premium, if any, and interest on the Bonds will be payable by U.S. Bank National Association, Houston, Texas, as Paying Agent / Registrar, to the Securities Depository, which will in turn remit such principal, premium, if any, and interest to the Beneficial Owners. See "THE BONDS – Book-Entry-Only System" herein.

In the Bond Ordinances (defined herein), the City has authorized the City Public Service Board of San Antonio ("CPS", "Board" or "CPS Energy") to manage, operate, and maintain the City's Electric and Gas Systems (the "Systems"). The Bonds are special obligations of the City, payable from and equally and ratably secured, together with the currently outstanding Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued by the City, by a junior lien on and pledge of the Net Revenues of the Systems, subject and subordinate to the liens thereon and pledges thereof securing the outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued, but senior and superior to the liens thereon and pledges thereof securing the currently outstanding Commercial Paper Obligations and any Inferior Lien Obligations, respectively, as fully set forth in the Ordinance (capitalized but undefined terms in this sentence are defined herein). The City has reserved the right to grant equal and ratable liens on and pledges of Net Revenues to secure payment of Additional Junior Lien Obligations hereafter issued in accordance with the Ordinance. See "THE BONDS – Authority and Security for the Bonds" herein.

The Ordinance does not create a mortgage or other security interest on the property of the Systems. The Bonds are special obligations of the City payable only from the Net Revenues of the Systems, at the level of priority described above, and the taxing power of none of the City, any other political subdivision of the State of Texas, or the State of Texas is pledged for the payment thereof.

SEE INSIDE COVER PAGE FOR MATURITIES, INTEREST RATES AND PRICING SCHEDULE

The Bonds are offered for initial delivery when, as, and if issued and received by the Underwriters and subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P. and Kassahn & Ortiz, P.C., both of San Antonio, Texas, as Co-Bond Counsel. Certain legal matters will be passed upon for the City by the City Attorney, by Carolyn E. Shellman, Esq., General Counsel for the City Public Service Board, and for the Underwriters by their legal counsel, Locke Lord LLP of Austin, Texas. The Bonds are expected to be available for initial delivery to the Underwriters and credited through DTC on or about April 8, 2021.

BARCLAYS
FROST BANK
RAYMOND JAMES

GOLDMAN SACHS & CO. LLC
SIEBERT WILLIAMS SHANK & CO., LLC

UBS
RAMIREZ & CO., INC.
WELLS FARGO SECURITIES

MATURITIES, INTEREST RATES AND PRICING SCHEDULE

\$330,700,000
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS
JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A⁽¹⁾

Due February 1 in the years shown below

\$153,845,000 Serial Bonds

<u>Stated Maturity</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP No.⁽²⁾</u>
2031	10,830,000	5.000	1.340	79625GDJ9
2032	11,370,000	5.000	1.440 ⁽³⁾	79625GDK6
2033	11,940,000	5.000	1.500 ⁽³⁾	79625GDL4
2034	12,535,000	5.000	1.560 ⁽³⁾	79625GDM2
2035	13,165,000	5.000	1.610 ⁽³⁾	79625GDN0
2036	13,820,000	5.000	1.650 ⁽³⁾	79625GDP5
2037	14,510,000	5.000	1.730 ⁽³⁾	79625GDQ3
2038	15,235,000	5.000	1.780 ⁽³⁾	79625GDR1
2039	16,000,000	5.000	1.830 ⁽³⁾	79625GDS9
2040	16,800,000	5.000	1.880 ⁽³⁾	79625GDT7
2041	17,640,000	5.000	1.900 ⁽³⁾	79625GDU4

\$176,855,000 Term Bonds

\$102,335,000 5.000% Term Bond⁽¹⁾ due February 1, 2046; priced to yield 2.060⁽³⁾; CUSIP No. 79625GDV2⁽²⁾

\$74,520,000 5.000% Term Bond⁽¹⁾ due February 1, 2049; priced to yield 2.110⁽³⁾; CUSIP No. 79625GDW0⁽²⁾

(1) The Bonds are subject to redemption prior to stated maturity at the prices, in the amounts, and at the times described herein. The Term Bonds (defined herein) are also subject to mandatory sinking fund redemption. See "THE BONDS – Redemption of Bonds".

(2) CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. No assurance can be given that the CUSIP number for a particular maturity of the Bonds will remain the same after the date of delivery of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Board, the Co-Financial Advisors, or the Underwriters shall be responsible for the selection, changes to, errors, or correctness of the CUSIP numbers set forth herein.

(3) Yield calculated based on the assumption the Bonds denoted and sold at a premium will be redeemed on February 1, 2031, the first optional call date for the Bonds, at a redemption price of par, plus accrued interest to the redemption date.

CITY OF SAN ANTONIO, TEXAS

CITY COUNCIL

Ron Nirenberg, Mayor

Jada Andrews-Sullivan
Dr. Adriana Rocha Garcia
Ana Sandoval

Roberto Treviño
Shirley Gonzales
Manny Peláez
Clayton Perry

Rebecca Viagran
Melissa Cabello Havrda
John Courage

KEY MANAGEMENT & PERSONNEL

Erik Walsh – City Manager
Ben Gorzell, Jr. – Chief Financial Officer
Tina J. Flores – City Clerk
Andrew Segovia – City Attorney

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

Dr. Willis Mackey, Chair
Edward B. Kelley, Trustee

John T. Steen, Jr., Trustee

Janie Gonzalez, Vice Chair
Ron Nirenberg, Mayor

Paula Y. Gold-Williams – President & Chief Executive Officer ("CEO")
Gary Gold – Chief Financial Officer ("CFO") & Treasurer
Carolyn E. Shellman, Esq. – Secretary, Chief Legal & Administrative Officer

EXECUTIVE MANAGEMENT

Paula Y. Gold-Williams – President & Chief Executive Officer ("CEO")
Carolyn E. Shellman, Esq. – Secretary, Chief Legal Officer & General Counsel ("CLO&GC")
Fred Bonewell – Chief Security, Safety & Gas Solutions Officer ("CSSGSO")
Rudy Garza – Chief Customer Engagement Officer ("CCEO")
Vivian Bouet – Chief Information Officer ("CIO")
Frank Almaraz – Chief Power, Sustainability, & Business Development Officer ("CPSBDO")
Paul Barham – Chief Grid Optimization & Resiliency Officer ("CGORO")
Lisa Lewis – Chief Administrative Officer ("CAO")
Gary Gold – CFO & Treasurer

CONSULTANTS

McCall, Parkhurst & Horton L.L.P.
Kassahn & Ortiz, P.C.
Co-Bond Counsel

PFM Financial Advisors LLC
Estrada Hinojosa & Company, Inc.
Co-Financial Advisors

USE OF INFORMATION

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertaking of the City and the Board to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION FOR THE PURCHASE THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Co-Financial Advisors have provided the following sentence for inclusion in this Official Statement. The Co-Financial Advisors have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to the Board and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Co-Financial Advisors do not guarantee the accuracy or completeness of such information.

The statements contained herein and in any other information provided to or accessed by the reader hereof, that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. See "FORWARD-LOOKING STATEMENTS" herein for further information.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. The dynamic, unique, scope, and breadth of the impacts of the hereinafter-defined 2021 Winter Weather Event have further complicated CPS Energy's ability to provide precise data or complete information regarding the circumstances, their short, medium, and long-term impact, and CPS Energy's current and future responses thereto. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of CPS Energy. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate.

None of the City, the Board, the Co-Financial Advisors, or the Underwriters makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.

The agreements of the City, the Board and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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TABLE OF CONTENTS

<p>INTRODUCTORY STATEMENT..... 1</p> <p> General..... 1</p> <p> Texas 2021 Winter Weather Event..... 1</p> <p> <i>General</i>..... 1</p> <p> <i>The ERCOT Market</i>..... 2</p> <p> <i>State Response to Winter Weather Event</i>..... 3</p> <p> <i>2021 Winter Weather Event's Direct Impact to the City and the System</i>..... 5</p> <p> <i>Local Inquiry and Legal Actions Related to the 2021 Winter Weather Event</i>..... 8</p> <p> <i>Summary</i>..... 8</p> <p> <i>Application of Disclosure to the Remainder of this Official Statement</i>..... 8</p> <p>COVID-19..... 8</p> <p> General Description of CPS Energy Revenue Debt and Priority of Liens..... 9</p> <p>THE BONDS..... 10</p> <p> Purpose..... 10</p> <p> The Refunded Obligations..... 10</p> <p> General..... 11</p> <p> Sources and Uses of Funds..... 11</p> <p> Authority and Security for the Bonds..... 11</p> <p> Perfection of Security for the Bonds..... 12</p> <p> Flow of Funds..... 12</p> <p> Redemption of Bonds..... 12</p> <p> Notice of Redemption for the Bonds..... 13</p> <p> Delivery of Notices to Bondholders through Depository Trust Company ("DTC")..... 14</p> <p> Rate Covenant..... 14</p> <p> Additional Bonds..... 14</p> <p> Refundable Tax Credit Bonds..... 15</p> <p> Amendments..... 15</p> <p> Defeasance..... 15</p> <p> Registered Owners' Remedies..... 16</p> <p> Paying Agent / Registrar..... 17</p> <p> Successor Paying Agent / Registrar..... 17</p> <p> Record Date..... 18</p> <p> Special Record Date for Interest Payment..... 18</p> <p> Future Registration..... 18</p> <p> Limitation on Transfer of Bonds..... 18</p> <p> Replacement Bonds..... 18</p> <p> Book-Entry-Only System..... 18</p> <p> Use of Certain Terms in Other Sections of this Official Statement..... 20</p> <p>DEBT SERVICE REQUIREMENTS..... 21</p> <p> Outstanding Senior Lien Obligations and Junior Lien Obligations..... 21</p> <p> Historical Net Revenues and Coverage..... 22</p> <p>JUNIOR LIEN OBLIGATIONS..... 23</p> <p>COMMERCIAL PAPER PROGRAM..... 23</p> <p>FLEXIBLE RATE REVOLVING NOTE PRIVATE PLACEMENT PROGRAM..... 24</p> <p>SAN ANTONIO ELECTRIC AND GAS SYSTEMS .. 25</p> <p> HISTORY AND MANAGEMENT..... 25</p> <p> Administration and Operating Personnel..... 25</p> <p> Political Action Committee Petition..... 28</p> <p>RETAIL AND WHOLESAL E ELECTRIC AND NATURAL GAS SALES..... 28</p> <p> Retail Service Area..... 28</p>	<p> Electric..... 28</p> <p> Gas..... 29</p> <p> Franchise Agreements..... 29</p> <p> Customer Base as of October 31, 2020..... 30</p> <p> Wholesale Power..... 30</p> <p>CUSTOMERS AND RATES..... 30</p> <p> Customer Rates..... 30</p> <p> Retail Service Rates..... 31</p> <p> New Tariff..... 32</p> <p> Fuel and Gas Cost Adjustment..... 32</p> <p> Governmentally Imposed Fees, Taxes or Payments..... 33</p> <p> Transmission Access and Rate Regulation..... 33</p> <p>OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO..... 37</p> <p>FINANCIAL MANAGEMENT OF THE SYSTEMS..... 37</p> <p> Management Discussion..... 37</p> <p> Accounting Policies..... 38</p> <p> Debt and Asset Management Program..... 38</p> <p> Financial Responsibility and Internal and External Reporting..... 38</p> <p> Capital Program..... 39</p> <p> Insurance Program..... 39</p> <p> Enterprise Risk Management and Solutions..... 39</p> <p> Investments..... 40</p> <p> Operating Funds..... 40</p> <p> Investment Policies..... 41</p> <p> Additional Provisions..... 42</p> <p> Trust Funds..... 42</p> <p> STP Decommissioning Funds..... 42</p> <p> STP Decommissioning Trust..... 43</p> <p> Master Trust (TCC Funded)..... 43</p> <p>EMPLOYEE BENEFITS..... 44</p> <p>PENSION AND OTHER POSTEMPLOYMENT BENEFITS..... 44</p> <p> Use of Assumptions and Estimates..... 45</p> <p> Pension Plan..... 45</p> <p> OPEB Plans..... 46</p> <p>STRATEGIC INITIATIVES..... 49</p> <p> <i>Flexible Path Strategy</i>..... 50</p> <p> <i>Flexible Path</i>..... 50</p> <p> <i>FlexPOWER BundleSM</i>..... 50</p> <p> Business and Economic Development..... 51</p> <p>DESCRIPTION OF FACILITIES..... 53</p> <p> Electric System..... 53</p> <p> Power Generation Sources..... 53</p> <p> Generating Capability..... 54</p> <p> Nuclear..... 55</p> <p> Coal Plants..... 56</p> <p> Gas / Fuel Oil Plants..... 56</p> <p> Renewable Resources..... 57</p> <p> Peak Demand and Native Load..... 58</p> <p> Replacement Power for Events..... 58</p> <p> Assets Supporting Generation..... 59</p> <p> Smart Grid Modernization Program..... 59</p> <p> Smart Streetlights..... 59</p> <p> New Products & Services..... 60</p> <p> Qualified Scheduling Entity..... 60</p> <p> Transmission System..... 60</p>
---	---

Distribution System.....	60	Collective Bargaining Negotiations.....	100
Interconnected System	61	Airport Concession	100
External Events Impacting Nuclear Power		Systems Litigation and Claims	100
Generation Industry and STP1 and STP2, and		No Litigation Certificate.....	102
CPS Energy's Response.....	62	Regulatory Compliance	102
Used Nuclear Fuel Management	63	CERTAIN FACTORS AFFECTING THE ELECTRIC	
Additional Generation Opportunities	65	UTILITY INDUSTRY	102
Nuclear	66	THE ELECTRIC UTILITY INDUSTRY GENERALLY. 102	
Generating Station Events	67	Federal Energy Policy.....	103
Braunig	67	Reform Generally	103
Deely	67	Cybersecurity.....	104
Rio Nogales	67	Tax Credits, Reporting, & Other Matters	105
Milton B. Lee	67	The Public Utility Commission of Texas (PUCT). 107	
Sommers.....	67	Texas Reliability Entity, Inc. (Texas RE).....	108
Spruce.....	68	ERCOT	108
STP1	68	ELECTRIC UTILITY RESTRUCTURING IN TEXAS .. 109	
STP2	69	Entities that have Opted-in to Competition	109
Fuel Supply.....	69	Additional Impacts of Senate Bill 7 Deregulation. 110	
Gas System.....	71	Texas Legislative Impact on the Electric Industry 111	
Transmission System.....	71	Current Legislative Session.....	111
Distribution System.....	71	Prior Legislative Sessions.....	111
Rule Relating to Replacement of Gas Distribution		Environmental Restrictions of Senate Bill 7 and	
Facilities	71	Other Related Regulations	113
RRCT Annual Audit Results	71	Wholesale Market Design Developments.....	114
RRCT Subsequent Audit Results	72	CONTINUING DISCLOSURE OF INFORMATION	
RRCT Damage Prevention.....	72	115
General Properties	72	Annual Reports	115
Operation Control System.....	72	Notice of Certain Events	115
Support Facilities.....	73	Availability of Information.....	116
General Offices and Customer Service Centers	73	Limitations and Amendments	116
Construction Centers and Service Centers	73	Compliance with Prior Undertakings	117
Villita Assembly Building.....	74	LEGAL MATTERS	117
Vehicles and Work Equipment.....	74	UNDERWRITING	117
Real Estate Holdings	74	TAX MATTERS	118
COMPLIANCE AND REGULATION.....	74	OPINION.....	118
General Regulatory Climate	74	FEDERAL INCOME TAX ACCOUNTING TREATMENT	
Environmental Matters	74	OF ORIGINAL ISSUE DISCOUNT	119
Federal Clean Air Act.....	75	COLLATERAL FEDERAL INCOME TAX	
Federal Clean Water Act	88	CONSEQUENCES	119
Proper Venue for Clean Water Act Challenges.....	91	STATE, LOCAL AND FOREIGN TAXES.....	120
Water Resources Planning.....	91	INFORMATION REPORTING AND BACKUP	
Water Conservation	92	WITHHOLDING.....	120
Other Environmental Issues	92	FUTURE AND PROPOSED LEGISLATION.....	120
Energy Conservation and Public Safety Programs .. 95		LEGAL INVESTMENTS IN TEXAS	120
Energy Conservation	95	SECURITIES LAWS	120
Public Safety Programs	97	RATINGS	121
Litigation and Regulatory Compliance.....	97	CO-FINANCIAL ADVISORS	121
The City of San Antonio	97	INDEPENDENT AUDITORS	121
Paid Sick Leave Ordinance and Litigation.....	99	USE OF INFORMATION IN OFFICIAL STATEMENT	
San Antonio Park Police Officers Association		121
Lawsuit	100	FORWARD-LOOKING STATEMENTS.....	122
		MISCELLANEOUS	122

Appendix A – City of San Antonio, Texas -	
General Demographic and Economic Information	A-1
Appendix B – City Public Service - Basic Financial Statements	
for the Fiscal Years Ended January 31, 2020 and 2019	
and Independent Auditors' Report	B-1
Appendix C – City Public Service – Unaudited Financial Statements	
for the period ending October 31, 2020	C-1
Appendix D – Certain Provisions of the Ordinance	D-1
Appendix E – Form of Opinion of Co-Bond Counsel	E-1
Appendix F – Table of Refunded Obligations.....	F-1

OFFICIAL STATEMENT

Relating To

\$330,700,000

**CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS
JUNIOR LIEN REVENUE REFUNDING BONDS, SERIES 2021A**

INTRODUCTORY STATEMENT

GENERAL

This Official Statement, including the cover page and the Appendices hereto, of the City of San Antonio, Texas ("City") is provided to furnish information with respect to the \$330,700,000 City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2021A (the "Bonds"). Certain terms not defined herein will have the meanings ascribed thereto in the Ordinance (hereinafter defined).

There follows in this Official Statement a description of the City, the City Public Service Board of San Antonio, Texas ("Board", "CPS", or "CPS Energy"), and the City's Electric and Gas Systems (the "Systems"); certain information relating to the City and the State of Texas ("State" or "Texas"); certain information relating to the sources of payment for the Bonds, together with summaries of certain provisions of the Ordinance and the Bonds; and a discussion of factors affecting the electric and gas industries generally. All references herein to agreements and documents are qualified in their entirety by reference to the definitive forms thereof, and all references to the Bonds are further qualified by reference to the information with respect thereto contained in the Ordinance. A copy of such document may be obtained from the City or the Co-Financial Advisors upon request by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date and the information contained herein is subject to change. A copy of this Official Statement relating to the Bonds will be available from the Municipal Securities Rulemaking Board ("MSRB"), through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the City's and the Board's undertaking to provide certain information on a continuing basis.

TEXAS 2021 WINTER WEATHER EVENT

General.

From February 14, 2021 through February 19, 2021, the continental United States experienced a severe winter storm resulting from the southern migration of a polar vortex that meteorologists characterize as the most significant in terms of scope and duration since monitoring of these weather phenomena began in the 1950s (such winter storm, the "2021 Winter Weather Event"). As a result of the 2021 Winter Weather Event, record breaking cold weather invaded the entire State of Texas, during which time the City experienced three consecutive days of record low temperatures, over 100 consecutive hours below freezing, and wind chills of -6 degrees Fahrenheit.

In anticipation of the winter storm, the Texas Governor, on February 12, 2021, declared a state of disaster for all 254 counties within the State, certifying in that declaration that severe winter weather posed an imminent threat of widespread and severe property damage, injury, and loss of life due to the prolonged freezing temperatures, heavy snow, and freezing rain statewide. In response to that declaration, and on the same date, the Texas Railroad Commission issued an Emergency Order approving a utilities curtailment program relating to and specifying an essential prioritization of the transportation, delivery and / or sale of natural gas in the State. On February 19, 2021, the President of the United States also declared that a major disaster existed in the State of Texas.

As the 2021 Winter Weather Event covered the State, the Electric Reliability Council of Texas ("ERCOT") implemented what were initially expected to be rolling blackouts to conserve electricity and address energy needs across the entirety of the State; however, due to the severity of the 2021 Winter Weather Event and the corresponding increase in demand on the Texas electric grid, combined with limited availability of generation, widespread and prolonged power outages began at 1:00 a.m., Central Time, on Monday, February 15, 2021, and continued throughout the week. Ultimately, approximately 4,000,000 Texas residents were without power for significant stretches of the week.

By the middle of the 2021 Winter Weather Event, ERCOT announced that it had lost 46,000 megawatts ("MW") of generation, comprised of 28,000 MW of natural gas and coal generation and 18,000 MW of wind and solar. ERCOT stated that, in sum,

approximately 185 generating units had tripped offline for one reason or another related to the 2021 Winter Weather Event. Additionally, during the time of year in which the 2021 Winter Weather Event occurred, various generating plants may be offline for scheduled maintenance, in anticipation of energy loads needed during spring and summer months. The extreme cold weather also began to impact natural gas delivery to some gas-fired power plants, resulting in them operating at reduced capacities due to limited gas supply, further reducing the level of available generation below what was needed to meet demand. As a result, ERCOT issued an Energy Emergency Alert 3 and ordered electric providers to begin "load shedding" to protect the ERCOT grid (an order with which CPS Energy must comply, based on its share of ERCOT load). By February 18, 2021, the cold weather began to moderate and on February 19, 2021, ERCOT announced the existence of sufficient electric system generation to allow a return to normal operating conditions (with remaining power outages being primarily attributable to localized damage requiring repair).

In advance of and throughout the 2021 Winter Weather Event, the Texas utilities market on both a statewide and local basis realized significant operational and financial disruption. Beginning February 12, 2021, and continuing over the next several days, the natural gas wholesale power markets experienced extreme price volatility. With multiple natural gas pipelines restricting gas flows, frozen wellheads experienced across the State, and weather-related gas processing plant outages, coupled with a significant increase in power demand, next day delivery natural gas spot prices at various delivery hubs skyrocketed from an average of less than \$3 per million British thermal unit ("MMBtu") to as high as \$1,250 per MMBtu (recorded at the Oneok Gas Transportation hub in Oklahoma) at their peak. The price per megawatt hour ("MWh") of electricity in the ERCOT market reached the market cap of \$9,000 on February 14, 2021, again on February 15, 2021, and then again on February 16, 2021 (where it was held by ERCOT until 9:00 a.m. Central Time, February 19, 2021), when it had settled at \$30/MWh on February 10, 2021. During this time, ancillary service charges (which are incremental to the \$9,000 per MWh market cap) pushed the actual per MWh price to a high of \$25,000.

The financial impacts of the 2021 Winter Weather Event have placed the Texas electric utilities market in peril. Since the occurrence of the event, media reports have continuously indicated a wave of public power agencies and municipal utilities may be unable or unwilling to pay for the electricity purchased throughout the five days of ERCOT's winter grid emergency. On March 1, 2021, Brazos Electric Power Cooperative, Inc. ("Brazos Electric") filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code. Brazos Electric reported that it had received excessively high invoices from ERCOT resulting from the 2021 Winter Weather Event. Similarly, on March 9, 2021, Just Energy Group Inc. requested court protection through the Companies' Creditors Arrangement Act in Canada, which will allow the company to continue operating, and sought similar protection under Chapter 15 of the U.S. Bankruptcy Code. *The Wall Street Journal* on March 14, 2021 reported on Griddy Energy LLC ("Griddy"), participant that was expelled by ERCOT from electricity market for nonpayment of bills (as further described below), winding up its business through a bankruptcy filing. Market analysts have predicted that as many as 22 market participants could fail.

The ERCOT Market.

Settlements and Market Participant Short Payments. ERCOT settlements occur daily. ERCOT payment protocols require it collect payments due (demand) from the load market participants the day before payments are due to generation market participants. As a result of the 2021 Winter Weather Event, ERCOT suspended settlements for a day before lifting that suspension. On February 22, 2021, ERCOT announced a temporary deviation from the protocol deadlines and timing related to settlements, collateral obligations, and invoice payments. On February 23, 2021, ERCOT ended its temporary deviation from the protocol deadlines. As a result of the temporary deviation from protocols, ERCOT aggregated activity for multiple days and invoiced market participants for that aggregate activity, which (because of extremely elevated prices) produced extraordinarily large invoices to market participants.

As a result of the extended period of prices at the levels described above, ERCOT has experienced short payments from some of its market participants. Short payments occur when a market participant fails to make a complete payment for settlement invoices. As of the date hereof, the estimated cumulative aggregate short pay amount is \$2.9 billion (which is a gross amount that does not factor ERCOT's stated application of \$800 million in congestion revenue rights auction revenue funds to mitigate the short-pay impacts of some market participants' non-payment in the immediate aftermaths of the 2021 Winter Weather Event). This amount reflects payments received for previously short-paid invoices and the application of financial security to short-paid balances, where available. This information is provided through short payment notices issued to market participants.

When market participants do not pay the amount owed, ERCOT in turn pays amounts to market participants that are less than what their settlement statements from ERCOT reflect (i.e., they are "short paid"). ERCOT has reported short payments from some market participants from February 19, 2021, through March 22, 2021. To date, as a result of other market participants' nonpayment (and as further described below under the subcaption "2021 Winter Weather Event's Direct Impact to the City and the System – Financial Implications", CPS Energy has been short paid a cumulative amount of approximately \$18 million. CPS Energy does not have insight into additional market participants that may cease to operate or that may make short payments to ERCOT and cannot determine if future short payments will occur.

In the 2020 calendar year, CPS Energy resources represented approximately 7.5% of total ERCOT generation (MWh) and peak native load (MW) represented approximately 6.8% of ERCOT peak load (MW). CPS Energy, however, cannot determine the scope

or magnitude of its potential, purported Uplift liability (as hereafter described), which depends on performance of other market participants, whose ability to do so is not known, nor is it ascertainable by CPS Energy.

ERCOT Market Participant Uplift. All ERCOT market participants, including CPS Energy, could be exposed to the liability of non-paying or bankrupt ERCOT market participants. ERCOT is a membership-based nonprofit corporation, and thus revenue neutral (meaning that it has no independent revenue source and is a clearinghouse that passes on losses to other participants). If sufficient funds continue to be unavailable from short-paying entities, ERCOT also "uplifts" shortages to market participants on a pro-rata share through the ERCOT market, State-legislated protocols (this process is referred to as "Uplift"). Typical timelines of Uplift invoices are no earlier than 90 days and no more than \$2.5 million per month until ERCOT uplifts the total short-paid amount. Such invoices must be at least 30 days apart. A recent PUCT Order provided ERCOT with discretion to deviate from ERCOT protocols, including the \$2.5 million monthly limit; however, this continues to be discussed at ERCOT, and there has been no final commitment or communication from ERCOT on this point as to the rate or amount of Uplift charges to be imposed on market participants.

Developments Concerning ERCOT Market Participants with Regard to Settlement. Griddy, a retail electric provider that charged its customers on the basis of a variable rate structure, was banned from the Texas power market and was sued by Texas Attorney General Ken Paxton, seeking injunctive relief from the company and refunds for its customers. Griddy has been largely criticized for charging customers exorbitantly high bills tied to wholesale prices during the 2021 Winter Weather Event and engaging in "false, misleading, and deceptive acts and practices" in violation of the Texas Deceptive Trade Practices-Consumer Protection Act, according to the petition. On February 26, 2021, Griddy was barred from participating in the State's electric market for failing to make payments. On March 16, 2021, Griddy filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. The Texas Attorney General stated the following steps are being taken: through the bankruptcy plan, Griddy will release all outstanding payment obligations from consumers who were unable to pay, the State will abate the State court lawsuit and civil investigative demand, and the State and Griddy will work to address relief to those customers who have paid. On March 17, 2021, the Texas Attorney General announced that he will enact a \$29 million electric bill forgiveness plan for Texans who were gouged by surging energy prices during the 2021 Winter Weather Event.

On February 25, 2021, the City of Denton, Texas ("Denton") filed a lawsuit against ERCOT to prevent "an illegal and unconstitutional" raid on cities that run their own utility companies. Denton owns and operates its own energy provider, known as Denton Municipal Electric, and stated it sued to prevent ERCOT from shifting the cost of electricity not paid by some market participants to others, including cities. The lawsuit states Denton is prepared to pay its bills, but not those of others, and these cities cannot make those payments under the Texas Constitution. A temporary restraining order is currently in effect preventing ERCOT from utilizing the uplift mechanism for Denton until a scheduled hearing on April 30, 2021.

On March 3, 2021, Entrust Energy Inc. ("Entrust") became the second electricity seller to be barred from the grid for failing to make payments. ERCOT stated it was revoking Entrust's right to participate in the market and was moving its customers to other retailers after Entrust was short more than \$234 million in payments to generators and others. On March 30, 2021, Entrust filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code.

On March 4, 2021, Rayburn Country Electric Cooperative, Inc., announced it filed a petition with the Public Utility Commission of Texas (the "PUCT") to order ERCOT to protect consumers by suspending invoicing, billing and collection of charges related to the 2021 Winter Weather Event.

State Response to Winter Weather Event.

Many Texas officials, including the Texas Governor, Lieutenant Governor, and Texas Attorney General, respectively, and the Texas Legislature have taken actions in response to the 2021 Winter Weather Event. The Texas Governor (i) on February 12, 2021, declared State-wide disaster in advance of the 2021 Winter Weather Event, (ii) on February 16, 2021, declared reform of ERCOT as an emergency item for the currently in-session 87th Texas Legislature and called for the resignation of ERCOT's leadership, and (iii) on February 18, 2021, declared an additional emergency item for 87th Texas Legislature requesting the mandate of winterization of Texas' power system and to ensure the necessary funding for winterization. The Texas Attorney General on February 19, 2021 issued Civil Investigative Demands to ERCOT and 11 investor-owned utilities participating in the ERCOT market concerning their respective response to the 2021 Winter Weather Event.

In the days after the 2021 Winter Weather Event, numerous changes have occurred at both the PUCT and ERCOT, which are summarized below:

- February 21, 2021, four out-of-state board members from ERCOT submitted a letter of resignation from the ERCOT board; shortly thereafter, three other ERCOT board members resigned.
- March 1, 2021, PUCT chair DeAnn Walker resigned.
- March 3, 2021, the Texas Governor named Arthur D'Andrea as chair of the PUCT.

- March 3, 2021, the ERCOT board voted to terminate its CEO, Bill Magness, after which it released a statement indicating that during a 60-day transition period, Mr. Magness would continue to serve as President and CEO and work with state leaders and regulators on potential reforms to ERCOT.
- On March 4, 2021, the PUCT announced the new director of ERCOT, Inc. Accountability, Adrienne Brandt, and tasked her with enhancing the PUCT's oversight of the grid operator and market manager.
- On March 8, 2021, PUCT Commissioner Shelly Botkin resigned, leaving Chair Arthur D'Andrea as the sole PUCT commissioner. The PUCT has publicly communicated a legal position that the PUCT can act under the sole authority of the PUCT Chair.
- On March 16, 2021, the Texas Governor asked for, received, and accepted the resignation of Arthur D'Andrea, the last and only PUCT commissioner, after a March 9, 2021 recording of Chair D'Andrea surfaced in which he spoke to an investor group about "putting the weight of" the PUCT behind protecting windfall profits received by investors during the 2021 Winter Storm Event. The Texas Governor pledged to name a replacement within a few days.
- On April 1, 2021, the Texas Governor nominated Will McAdams, president of the Associated Builders and Contractors of Texas and a former aide at the Texas Capital, to the board of the PUCT. Confirmation by the Texas Senate of this nomination is required.

On March 4, 2021, Potomac Economics ("Potomac"), the independent market monitor hired by the State to assess ERCOT's performance, identified \$16 billion in overcharges incurred over a 30+ hour-period toward the end of the 2021 Winter Weather Event (the "Pricing Errors"). According to Potomac, the Pricing Errors resulted from ERCOT holding the price of power at the \$9,000 / MWh maximum. While holding prices at this level is a standard practice in a grid emergency, ERCOT kept market prices at \$9,000 / MWh past the weather-driven emergency. Potomac advised the PUCT to correct the real-time price of electricity from 12:00 a.m., Central Time, February 18, 2021 to 9:00 a.m., Central Time, February 19, 2021.

On March 5, 2021, the PUCT met to discuss the Potomac report. PUCT commissioners discussed the recommendations to reprice the energy and ancillary services prices from the 2021 Winter Weather Event yet decided to keep the energy prices unchanged for the event, including the prices after ERCOT cancelled orders to shed firm load. PUCT commissioners expressed concerns with changing prices after the fact and the financial impacts that could have on businesses. They noted that repricing would hurt all parties on all sides and that it is not as simple as taking money from generators and returning it back to consumers. The Commissioners agreed to take more time to consider repricing ancillary services and plan to discuss at future open meetings.

On March 8, 2021, the Texas Attorney General expanded its inquiry into 2021 Winter Weather Event energy market participants by issuing a new Civil Investigative Demand to Intercontinental Gas Exchange, a natural gas exchange that saw massive price increases during the event.

Also, on March 8, the Texas Lieutenant Governor called on the PUCT and ERCOT to reverse the \$16 billion Pricing Errors. On March 9, 2021, the Texas Governor declared the correction of any billing errors by ERCOT, including any inaccurate excessive charges and any issues regarding ancillary service prices, as an emergency item for the 87th Texas Legislature.

On March 11, 2021, the Senate Jurisprudence Committee held a hearing to discuss the Pricing Errors. The committee received testimony from ERCOT independent market monitor Director Carrie Bivens, then-ERCOT CEO Bill Magness and then-PUCT Chair Arthur D'Andrea. During this hearing, a new estimated impact of \$5.1 billion was discussed as an accurate representation of the settlement impact of repricing. No actions resulted from this hearing related to the repricing discussion.

On March 15, 2021, the Texas Legislature advanced a bill ("SB 2142") providing the PUCT "has all necessary authority" to order ERCOT to reprice billions in charges after the State's power grid operator imposed a cap on electricity prices during the 2021 Winter Weather Event. The measure says the PUCT "shall" order ERCOT to correct the pricing and gave the PUCT a deadline of March 20, 2021 to act. On March 16, 2021, Speaker Dade Phelan announced the House of Representatives would not consider SB 2142 after the receipt of testimony about the failure of the electric grid.

On March 17, 2021, at the request of Lieutenant Governor Dan Patrick, the Texas Attorney General's Office issued an opinion stating that the Texas Utilities Code gives the PUCT the complete authority to act to ensure ERCOT has accurately accounted for electricity production and delivery among market participants. Such authority could be interpreted to allow the PUCT to order ERCOT to correct prices for wholesale electricity and ancillary services during a specific timeframe.

On March 29, 2021, the Texas Senate passed SB 3, which would require electric and other energy companies to implement a number of reforms, including engaging in winterization measures and implementing communication alerts. Any legislation, including SB 3, requires approval by both the Texas Senate and Texas House of Representatives, as well as execution by the Texas Governor, before its effectiveness.

2021 Winter Weather Event's Direct Impact to the City and the System.

General. As a result of the 2021 Winter Weather Event, demand for electricity and natural gas by CPS Energy customers was significantly above historical norms for February 2021. For its service area's combined gas distribution and gas-fired electric generation needs, CPS Energy saw (i) an increase in natural gas volumes of approximately 30% over the prior historical record, (ii) an all-time winter peak electric demand of 4,935 MW on February 14, 2021 (an approximate 14% increase over the prior historical winter record), and (iii) an all-time 24-hour usage record of 104,149 MWh on February 14, 2021 (an approximate 8% increase over the prior historical summer record).

Financial Implications. With the increasing demand for electricity and natural gas, prices also increased (with gas prices reaching unprecedented levels, as hereinbefore described). From its available sources, CPS Energy saw gas purchases, that normally trade between \$2-\$4 / MMBtu, trade throughout the 2021 Winter Weather Event above \$100 / MMBtu and, in some cases, up to \$500 / MMBtu. In addition to natural gas purchases during the 2021 Winter Weather Event, CPS Energy incurred significant costs for the purchase of power from the ERCOT market. While there were periods of time CPS Energy was a net seller of power in the ERCOT market during this event, there were also periods of time when CPS Energy's generation plants were not producing power equivalent to CPS Energy's obligations. In those cases, CPS Energy incurred large, purchased power costs.

Purported charges for natural gas from a number of natural gas suppliers are currently estimated at approximately \$670 million, of which amount approximately \$309 million is claimed to be owed by CPS Energy to two Energy Transfer subsidiaries (Houston Pipeline Company, LP ("HPL") and Oasis Pipeline, LP ("Oasis")). Purchased power costs are currently estimated at approximately \$365 million (which includes the 30+ hours that appear to be overpriced). As of the date of this Official Statement, approximately \$272 million of the approximately \$365 million in purported purchased power costs has been paid; also, of the approximately \$670 million in purported natural gas costs, approximately \$143 million has been conceded as owed under the hereinafter-defined and described Disputed Payment Provision (with approximately \$95 million having been paid to date and approximately \$48 million to be paid by the applicable due date therefor).

The fuel and purchased power costs associated with the 2021 Winter Weather Event are greater than the equivalent of what CPS Energy incurs for such expenditures on an annual basis. For comparison, the total costs incurred in Fiscal Year 2019 and Fiscal Year 2020, were \$825 million and \$693 million, respectively.

Reconciliations and analysis of gas volumes delivered, and power transacted with ERCOT and other providers, are ongoing. CPS Energy continues to closely monitor communications concerning short payments from ERCOT. To date, CPS Energy has been short paid a cumulative amount of approximately \$18 million. Additionally, CPS Energy is closely monitoring the repricing discussions occurring throughout the industry. Dependent on how it is structured, CPS Energy believes a repricing of the events that produced the Pricing Errors, as recommended in the Potomac report and as described above, would provide for a reduction in the purchased power costs described above.

Since establishing its initial estimates of potential maximum liability for natural gas and power purchases, CPS Energy has received from HPL an additional natural gas transportation invoice in the approximate amount of \$33 million. This amount was tied to the index pricing and greatly in excess of the estimated transport amount of approximately \$700,000.

Realized potential liability for power purchases to date, however, are approximately \$79 million less than the projected maximum liability identified above. These developments do not impact CPS Energy's global strategies herein described nor do they have the potential to compromise the adequacy of CPS Energy's operational liquidity position.

Winterization of Generation Facilities. CPS Energy generation plants are weatherized during construction. Following an extended freeze event in February 2011, CPS Energy initiated a weatherization upgrade program. Since that time over \$17 million has been invested in weatherization upgrades. An annual winter weather preparation program was also implemented and has been evaluated multiple times by ERCOT. CPS Energy is moving forward to review information gathered during this event to support a re-evaluation of the freeze protection program, understanding that regulatory and legislative discussions are underway to possibly set new weatherization standards. Estimates to address conclusions of the re-evaluation effort, as well as any new regulatory mandates, will be developed as information becomes available. CPS Energy makes note that, because of the predominance of summer heat in comparison to winter cold that impacts its generation portfolio, its weatherization strategies generally focus on removal of heat from generating plants to avoid and prevent operational failures that are more prevalent throughout the summer.

Performance of CPS Energy Generation Assets. CPS Energy's deployed generation units were available over 85% of the time during the 2021 Winter Weather Event. One gas unit was on an ERCOT-approved, planned annual maintenance outage and, therefore, was not available for deployment. All other CPS Energy-operated units were deployed during this event. The estimated 15% of unit unavailability was attributed to mechanical breakdown, natural gas pressure degradation, freezing weather, electrical and control

failures, and low water pressure. Most of the problems were mechanical in nature, followed by low fuel pressure, then weather related frozen pipes.

As further described herein, CPS Energy owns 40% of the South Texas Nuclear Project ("STP"). Those units are maintained by a separate operating company. On February 15, 2021, an automatic reactor trip occurred in the hereinafter-defined STP1. The trip resulted from a loss of feedwater attributed to extreme cold weather-related failure of a pressure sensing line to the feedwater pumps. STP staff confirmed the issue did not exist in the hereinafter-defined STP2. STP1 was repaired, and the unit carefully came online on February 17, 2021, in accordance with standard established protocols. STP1 reached 100% power on February 18, 2021.

Liquidity and Short-Term Financing Plan. As of March 22, 2021, CPS Energy's cash and cash equivalents balances in its General Fund and Repair & Replacement Fund was \$758 million. Additionally, \$180 million of the \$700 million capacity of the hereinafter-defined Commercial Paper Program is currently available and, upon issuance of the Bonds and the related refunding of the hereinafter-defined Refunded Obligations \$600 million authorization will be available for payment of various Systems costs, including the costs of fuel and power purchases. To date, CPS Energy has drawn the proceeds of the entirety of the \$100 million capacity of the Flexible Rate Revolving Note Program ("FRRN") and \$100 million in taxable Commercial Paper Notes, respectively, and used these funds to pay purchased power costs and conceded natural gas costs.

CPS Energy and the City have been collaboratively working together to allow CPS Energy to temporarily delay the payments to the City while working through final resolution of the costs for the event. Amounts due in February 2021 have been accrued and will be paid to the City. There is no contemplated change to future City payment calculations. Payments are expected to resume sometime in April 2021 after implementation of CPS Energy's short-term financing plan. Payments are owed to its owner, the City of San Antonio, at the City's discretion, in an amount not to exceed 14% of the per annum gross revenues of CPS Energy. See "THE BONDS – Flow of Funds" herein.

CPS Energy anticipates sufficient liquidity to accommodate worst-case financial projections (notwithstanding its commitment to determine and pay the portion of those costs that are justified and legitimate, as hereinafter described) resulting from the 2021 Winter Weather Event and to address its operational and capital needs for the remainder of its current fiscal year. However, and to provide assurance of sufficient liquidity in addition to the sources identified above, the Board passed a resolution on March 1, 2021, and City Council approved an ordinance on March 18, 2021, authorizing the establishment of a new revolving note program on parity with the FRRN, with \$500 million in additional capacity. CPS Energy anticipates to close this transaction and for liquidity to be available under this program on April 27, 2021 but does not expect to access its available credit unless other available sources have been otherwise committed or exhausted.

Long-Term Financing Plan. After utilizing all options to the costs associated with the 2021 Winter Weather Event as described below, CPS Energy anticipates addressing any final amount for the costs of purchased natural gas and power through long-term financing options. In that case, CPS Energy would also pursue the establishment of a rate-supported regulatory asset. The costs recorded in this regulatory asset are expected to be amortized over a period of 10 or more years through fuel costs. A regulatory asset must be approved by the Board and by City Council. The proceeds from this recovery are expected to be available for payment of the debt service on the long-term debt that will be issued to refinance obligations initially issued as short-term or interim financing. Customer affordability remains a key focus area in any cost recovery or long-term financing plan.

CPS Energy Actions to Address Proposed Charges. CPS Energy is considering all potential opportunities to reduce or eliminate the high costs associated with the 2021 Winter Weather Event and continues to work to protect customers from costs that are excessive, illegitimate, unjustified, or illegal. On March 5, 2021, CPS Energy announced that the costs associated with the 2021 Winter Weather Event were not included in February 2021 bills, as it determines which costs are legitimate and the most efficient manner for their payment. CPS Energy is closely monitoring federal and State actions and intends to pursue all opportunities to mitigate some or all of these costs. Also, CPS Energy has provided to the City an estimated cost for repairs to the System's infrastructure of \$11 million for submission for Federal Emergency Management Agency reimbursement as a result of the 2021 Winter Weather Event.

On March 12, 2021, CPS Energy filed suit against ERCOT in the Bexar County District Court seeking, among other things, a declaratory judgment to prevent ERCOT from wrongfully declaring a default by CPS Energy based on a force majeure event and due to ERCOT's prior material breach for the \$18 million in short payments to CPS Energy heretofore described. The requested judgment also seeks to prevent ERCOT from requiring CPS Energy to pay for other market participants' default (i.e., Uplift) and to prevent ERCOT from charging CPS Energy for any amounts associated with the Pricing Errors identified in the Potomac report. This matter is currently pending.

CPS Energy purchases natural gas from its suppliers pursuant to market standard contracts promulgated by the North American Energy Standards Boards. Pursuant to these market standard contracts, CPS Energy, in the event of a dispute concerning the payment, is permitted to pay a conceded amount owed for natural gas delivered and withhold the balance pending resolution of the payment dispute (the "Disputed Payment Provision"). As stated above, CPS Energy was charged exorbitant amounts for natural gas

deliveries throughout the gubernatorially-declared disaster that was the 2021 Winter Weather Event, with some suppliers charging in excess of \$500 / MMBtu. CPS Energy believes that these charges, reflective in some cases of 15,000% price increases in comparison to the pre-disaster price of the same commodity, violate various Texas law that prohibit predatory pricing for items essential to its customers during and after declared disasters. CPS Energy has challenged these prices under the Disputed Payment Provision and anticipates continuing to use this contractual procedure when appropriate for each of its natural gas supply contracts prior to acceding that the entirety of all proffered natural gas charges are lawful, legitimate, and justified.

To determine the lawful price of natural gas during the 2021 Winter Weather Event for purposes of price concession as required by the Disputed Payment Provision as described above, CPS Energy has conducted a comprehensive analysis, including a review of (i) the increase in pricing of natural gas during prior natural disasters in Texas, (ii) the increases in prices for other essential products during prior natural disasters, and (iii) price gouging statutes in Texas and other states. On the basis of the results of this analysis, CPS Energy has determined that \$38.83 / MMBtu for natural gas purchased during the 2021 Winter Weather Event (February 13, 2021 to February 19, 2021), which itself represents an approximate 1,095% increase in comparison to the commodity's price two days before the Texas Governor's disaster declaration and 911% more than the price the day after the storm ended (but which increase CPS Energy concedes is justified because of scarcity and demand during the event), represents a lawful, conceded price that CPS Energy has and will continue to timely pay to its natural gas suppliers, once properly invoiced, in accordance with the Disputed Payment Provision and other applicable provisions of the natural gas supply contracts.

In response to receipt of invoices and prepayment demands from Energy Transfer, the parent company of HPL and Oasis, CPS Energy on March 19, 2021 filed suit against HPL and Oasis in Bexar County District Court seeking, among other relief, a temporary restraining order that prohibits both HPL and Oasis from declaring default under their natural gas supply contracts with CPS Energy as a result CPS Energy's invoking the Disputed Payment Provision thereunder. In this filing, CPS Energy conceded as lawful a total of \$51,950,244 of a combined \$308,872,569 in natural gas charges claimed as owed by HPL and Oasis. Before the Court, CPS Energy represented that it would make these conceded payments to HPL and Oasis by their respective due dates. The Court granted CPS Energy's request for temporary restraining order against HPL and Oasis and set a March 31, 2021 trial date for a temporary injunction regarding the same.

CPS Energy has also filed suit against sixteen other gas suppliers in Bexar County District Court, after paying the amounts it concedes are due and owing pursuant to the Disputed Payment Provision, to seek a declaration that CPS Energy only be required to pay prices for natural gas that are conscionable and lawful; CPS Energy has been sued by another gas supplier in Harris County District Court for nonpayment of the full, invoiced amount. In addition, and similar to its response to actions of Oasis and HPL in advance of contractually-specified payment due dates, CPS Energy filed temporary restraining order requests in Bexar County District Court against several gas supplier who improperly demanded adequate assurance before CPS Energy's invoice were due, to prevent these entities from declaring that CPS Energy was in default under its respective contracts therewith while CPS Energy is disputing the lawfulness of certain charges under the Disputed Payment Provision. Each of these temporary restraining order requests were granted.

Since initiation of its gas payment strategy, CPS Energy has actively worked toward commercial solutions with certain of its natural gas suppliers and taken various actions to mitigate the potential negative consequences to its operations resultant from a unilateral default declaration by any natural gas counterparty. As a result of these efforts, CPS Energy has entered into standstill agreements with eight natural gas suppliers to pause litigation while negotiations proceed and has (or will) allow its temporary restraining orders to expire (permitting those cases to proceed without protection of injunctive relief). CPS Energy will continue to execute its natural gas payment strategy, vigorously defending or prosecuting its interests in these suits and seeking commercial results that are responsible to both its contracting counterparties and its customers and that are defensible under applicable law. As these are factual matters, subject to judicial interpretation, though, CPS Energy makes no guarantees or predictions regarding the success or failure of its efforts to dispute purported natural gas charges under the Disputed Payment Provision or the future reactions of its natural gas suppliers in response to CPS Energy's execution of its natural gas payment strategy.

Investor and Community Communication and Outreach. On February 25, 2021 and March 13, 2021, CPS Energy filed voluntary event notices with the MSRB through EMMA concerning matters associated with the 2021 Winter Weather Event and its operational and financing impact on CPS Energy, an incurrence of a material financial obligation on February 26, 2021 as it relates to the FRRN, and material event notices on March 4, 2021 and March 12, 2021 concerning resultant rating actions on CPS Energy by Fitch and S&P, respectively. In addition, CPS Energy has issued multiple press releases throughout March 2021 regarding its position and resultant actions in response to the 2021 Winter Weather Events. These press releases are available at www.cpsenergy.com.

Though the substance of the aforementioned event notices is included in this Official Statement in summarized form, investors are directed to those notices for additional information regarding the covered events. The substance of these event notices, however, is not incorporated herein by reference. On the date of posting of the final Official Statement, CPS Energy will file another voluntary event notice, excerpting this final 2021 Winter Weather Event, so that the entirety of the market has access to and is aware of this updated disclosure.

Local Inquiry and Legal Actions Related to the 2021 Winter Weather Event.

Due to the severity of the human impact of the 2021 Winter Weather Event, various local inquiries concerning the readiness and preparedness of CPS Energy have been initiated. On February 22, 2021, San Antonio Mayor Ron Nirenberg announced the formation of the Select Committee on the 2021 Winter Storm Preparedness and Response. The committee, comprised of City Councilmembers and community stakeholders, is charged with studying the preparedness and response of the public utilities (CPS Energy and San Antonio Water System) and make recommendations on future preparedness efforts. On February 23, 2021, the Bexar County Sheriff's Office announced it is launching a new investigative unit focused on investigating the deaths occurring during or in close proximity to the 2021 Winter Weather Event. The related investigative unit stated it is actively seeking grand jury subpoenas to issue to CPS Energy. On March 2, 2021, the Board voted to approve an independent investigation of CPS Energy's handling of the 2021 Winter Weather Event. The review will be separate from the City's Select Committee on the 2021 Winter Storm Preparedness and Response described above. CPS Energy anticipates fully cooperating with these inquiries and investigations.

After the 2021 Winter Weather Event, the City, acting by and through CPS Energy, was named as a defendant in various lawsuits alleging wrongful death and property damage as a result of the storm. CPS Energy is currently analyzing its potential exposure, as well as its defensibility in these matters.

Summary.

With the exception of the ERCOT short pay and Uplift invoicing process, the results of which CPS Energy cannot predict, CPS Energy is confident that it has identified the upward limits of its exposure to financial and operational impacts of the 2021 Winter Weather Event. As described above, CPS Energy has identified adequate sources of liquidity to accommodate its operational and capital needs for the remainder of its current fiscal year, taking into account the possibility that this worst-case financial consequence is realized. Prior to conceding to this worst-case financial scenario, CPS Energy is committed to exploring all options and taking advantage of applicable Texas law and provisions of its contractual arrangements to assure its customers and other stakeholders that it pays for only those charges that are legal, legitimate, and justified. CPS Energy cannot predict the timing for resolution of these matters or the response of its counterparties, but can state that it has taken appropriate action to preserve and assure that its operations are not interrupted or otherwise compromised as a result of these efforts.

Based on historical performance, CPS Energy believes that its efforts to respond to, mitigate the impacts of, and ultimately accommodate the final financial and operating results of the 2021 Winter Weather Event will prove successful, but success has multiple measures and, in some instances, is dependent on circumstances over which CPS Energy has no control. Accordingly, CPS Energy makes no predictions concerning its future operating results or its ability to accommodate any additional (but currently unknown) consequences of the 2021 Winter Weather Event.

Application of Disclosure to the Remainder of this Official Statement.

Much of the information included in this Official Statement is based on historical data that does not include the impact of, but is prospective and will prospectively be impacted by, the result of the 2021 Winter Weather Event and the various responses thereto. Readers are directed to revert to the disclosure written in this section, as all information included herein is qualified by the application of these impacts, the scope and breath still remain fully unknown.

COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, spread very quickly across the globe. On March 11, 2020, the World Health Organization declared a global pandemic. After several prior actions, including a March 2, 2020 declaration of a local state of disaster and public health emergency and a March 16, 2020 declaration prohibiting mass gatherings, the Mayor of the City and the Bexar County Judge issued declarations on March 23, 2020 ordering non-essential businesses to close and residents to remain at home except for limited purposes for a period beginning March 25, 2020. The State began incrementally reopening businesses in mid-May 2020, and the City and Bexar County (the "County") incorporated that same strategy and approach in their local declarations and orders. City and County officials now primarily rely on the Texas Governor's Executive Orders for reopening and limiting capacity of businesses, though decisions made within the authority of local control (which has ebbed and flowed throughout the duration of the pandemic) take into account local conditions and impact. On March 2, 2021, the Texas Governor issued Executive Order GA-34, which, among other things, removed any COVID-19-related operating limits for any business or other establishment and ended the State-wide mask mandate, effective March 10, 2021.

The outbreak of the disease has affected, and will continue to affect, travel, commerce, and financial markets at local, State, national, and global levels. While the short and long-term economic and financial effects on CPS Energy cannot be predicted at this time, management will continue to monitor and assess the short- and long-term economic and financial effects, and whether there will be

a material financial impact to the City, its operations (including the operations of CPS Energy), and the surrounding area's economy. These conditions will impact areas differently.

As of the date hereof, major national and local event cancellations and travel limitations have occurred and are ongoing; domestic and international financial markets continue to experience unprecedented volatility attributed to COVID-19 concerns; and the federal government has taken and continues to consider additional action without precedent in effort to counteract or mitigate the pandemic's economic impact. There is no way to predict the short or long-term impacts of these circumstances on the local, national, or global economies. Accordingly, CPS Energy cannot currently predict, and at this time makes no representations regarding, how long such modifications and restrictions in its operations and business within San Antonio and CPS Energy's surrounding service area will remain in effect or whether additional measures may be instituted to address the COVID-19 situation, COVID-19's impact on its operations and finances, or the advisability of an investment decision regarding the Bonds.

Notwithstanding the foregoing, CPS Energy has conducted preliminary analyses of impacts to certain of its operations and taken actions in response thereto. A summary of these operational impacts and CPS Energy responses are included herein under the caption "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO" herein.

GENERAL DESCRIPTION OF CPS ENERGY REVENUE DEBT AND PRIORITY OF LIENS

Pursuant to City ordinances from time to time adopted by its City Council (the "City Council"), the City authorizes the issuance of obligations payable from and secured by liens on and pledges of the Net Revenues (defined herein) of the Systems at varying levels of lien priority. These City obligations, and the related priority of lien on and pledge of Net Revenues securing their payment, are briefly and generally hereafter described.

Senior Lien Obligations. Under certain City ordinances (such ordinances, the "Bond Ordinances"), the City has issued and there are now outstanding long-term, fixed-rate City obligations that are secured by and payable from a first and prior lien on and pledge of the Net Revenues of the Systems (such obligations, the "Previously Issued Senior Lien Obligations"). Under the Bond Ordinances, and subject to satisfaction of certain conditions precedent prescribed therein, the City is authorized to issue additional obligations secured by a lien on and pledge of Net Revenues of the Systems that is on parity with the lien thereon and pledge thereof securing the payment of the Previously Issued Senior Lien Obligations (such additional obligations, the "Additional Senior Lien Obligations" and, together with the Previously Issued Senior Lien Obligations, the "Senior Lien Obligations") (*see* "THE BONDS – Additional Bonds" herein). The Bond Ordinances provide that no obligations of the City shall be issued that are payable from a lien on and pledge of the Net Revenues of the Systems that is senior and superior to the lien thereon and pledge thereof securing the payment of the Senior Lien Obligations.

The outstanding principal amount of Senior Lien Obligations is \$3,866,570,000 as of the date of this Official Statement.

Junior Lien Obligations and the Bonds. In addition to the Senior Lien Obligations, the City has, under certain City ordinances (such ordinances, together with the hereafter-defined Ordinance, the "Junior Lien Ordinances"), issued and currently outstanding long-term, fixed and variable rate bonds ("Previously Issued Junior Lien Obligations") that are secured by a lien on and pledge of the Net Revenues of the Systems that is junior and inferior to the lien thereon and pledge thereof securing the payment of the Senior Lien Obligations. Under the Junior Lien Ordinances, and subject to satisfaction of certain conditions precedent prescribed therein, the City is authorized to issue additional obligations secured by a lien on and pledge of Net Revenues of the Systems that is on parity with the lien thereon and pledge thereof securing the payment of the Junior Lien Obligations, but junior and inferior to the lien on and pledge of Net Revenues that secures the payment of the Senior Lien Obligations (such additional obligations, the "Additional Junior Lien Obligations" and, collectively with the Bonds and the Previously Issued Junior Lien Obligations, the "Junior Lien Obligations") (*see* "THE BONDS – Additional Bonds" herein). The Junior Lien Ordinances provide that, other than the Senior Lien Obligations, no obligations of the City shall be issued that are payable from a lien on and pledge of the Net Revenues of the Systems that is senior and superior to the lien thereon and pledge thereof securing the payment of the Junior Lien Obligations.

The Bonds are issued as Additional Junior Lien Obligations pursuant to an ordinance (the "Ordinance") adopted by the City Council on September 10, 2020. At the time of such issuance, the City shall have demonstrated its compliance with the conditions precedent to the issuance of Additional Junior Lien Obligations prescribed in the Junior Lien Ordinances (*see* "THE BONDS – Additional Bonds"). After giving effect to the issuance of the Bonds, the City will have outstanding \$1,792,650,000 of Junior Lien Obligations.

See "JUNIOR LIEN OBLIGATIONS" herein.

Subordinate Lien Obligations (Commercial Paper Notes). The Bond Ordinances and the Junior Lien Ordinances also permit the City to issue obligations payable from a lien on and pledge of the Net Revenues of the Systems that is subordinate and inferior to the respective liens thereon and pledges thereof securing the payment of the Senior Lien Obligations and the Junior Lien Obligations.

Pursuant to this authority, the City has adopted an ordinance (the "Commercial Paper Ordinance") establishing a taxable or tax-exempt commercial paper program ("Commercial Paper Program") under which the City is authorized to issue, from time to time, commercial paper notes in an aggregate principal amount at any one time outstanding not to exceed \$700,000,000 (obligations issued or incurred under the Commercial Paper Program are referred to herein as "Notes" or "Commercial Paper Obligations"). In connection therewith, the City has obtained liquidity support for such Notes in the aggregate amount of \$700,000,000 (equaling programmatic capacity) in the form of three revolving credit agreements (each, a "Credit Agreement") from three separate liquidity banks. The Notes and City obligations arising under any of the Credit Agreements are secured by and payable from a lien on and pledge of the Net Revenues of the Systems that is subordinate to the respective liens thereon and pledges thereof securing the payment of the Senior Lien Obligations and the Junior Lien Obligations. Though it is permitted to do so under the Commercial Paper Ordinance, the City has, in each Credit Agreement, covenanted to not issue obligations, other than Additional Senior Lien Obligations and Additional Junior Lien Obligations, whose payment is secured by a lien on and pledge of the Net Revenues of the Systems that is senior and superior to the lien thereon and pledge thereof securing the payment of the Notes and the obligations of the City arising under any Credit Agreement (such obligations, collectively, the "Commercial Paper Obligations"). As of the date hereof, the City has an aggregate principal amount of \$420,000,000 of Notes outstanding under the Commercial Paper Program that are tax-exempt and \$100,000,000 of Notes outstanding under the Commercial Paper Program that are taxable. The Bonds are being issued to effect the refunding of the entire outstanding principal amount of the tax-exempt Notes. (See "THE BONDS – Purpose").

See "COMMERCIAL PAPER PROGRAM" herein.

Inferior Lien Obligations. As authorized by the Bond Ordinances, the Junior Lien Ordinances, and the Commercial Paper Ordinance, the City may issue obligations payable from and secured by a lien on and pledge of Net Revenues of the Systems that is subordinate and inferior to the respective liens thereon and pledges thereof securing the payment of the Senior Lien Obligations, the Junior Lien Obligations, and the Commercial Paper Obligations (any such obligations referred to as "Inferior Lien Obligations").

The City maintains its FRRN, under which it is authorized to issue up, on a revolving basis, program notes in an aggregate principal amount not to exceed \$100,000,000 at any one time outstanding until the program's November 1, 2028 expiration date. Such program notes are Inferior Lien Obligations. The City has entered into a Note Purchase Agreement with JPMorgan Chase Bank, National Association, with a term that expires on February 25, 2022, and pursuant to which such bank is obligated to purchase FRRN program notes in a principal amount up to the programmatic capacity. As of the date hereof, \$100,000,000 in FRRN program notes are outstanding. The City has received Board approval to incur another \$500 million in Inferior Lien Obligations (subject to City Council approval, which was received on March 18, 2021.) The City expects to have access to this additional liquidity sometime on April 27, 2021.

See "FLEXIBLE RATE REVOLVING NOTE PRIVATE PLACEMENT PROGRAM" herein.

THE BONDS

PURPOSE

The Bonds are being issued to (i) refund those Notes currently outstanding under the Commercial Paper Program identified in Appendix F hereto (the "Refunded Obligations"), converting short-term variable rate obligations into long-term obligations (and not to produce debt service savings for the Systems), and (ii) pay costs and expenses relating to the issuance of the Bonds. The refunding of the Refunded Obligations will restore issuance capacity under the Commercial Paper Program in an amount equal to the principal amount of the Refunded Obligations.

THE REFUNDED OBLIGATIONS

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled maturity date or dates thereof from funds to be deposited with U.S. Bank National Association, Houston, Texas (the "Escrow Agent") pursuant to an Escrow Deposit Letter dated as of the date of the approval of the Ordinance (the "Escrow Agreement"), between the City and the Escrow Agent.

The Ordinance provides that the City will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the City with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their scheduled date of maturity. Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. Such escrowed funds will not be available to pay the debt service requirements on the Bonds.

PFM Financial Advisors LLC, in its capacity as Co-Financial Advisor to the City, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Obligations when due (the "Certificate of Sufficiency"). Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in certain direct, noncallable obligations of the United

States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the date the Ordinance was adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA". Cash and investments (if any) held in the Escrow Fund shall not be available to pay debt service requirements on the Bonds.

By the deposit of the proceeds of the Bonds and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the legal defeasance of all of the Refunded Obligations in accordance with applicable law. It is the opinion of Co-Bond Counsel in reliance upon the Certificate of Sufficiency provided by PFM Financial Advisors LLC, that, as a result of such defeasance, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from revenues of the Systems for the purpose of applying any limitation on the issuance of debt. See "APPENDIX E – Form of Opinion of Co-Bond Counsel" herein.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

GENERAL

The Bonds will bear interest at the rates and are scheduled to mature on the dates and in the amounts set forth on page ii of this Official Statement. Interest on the Bonds will accrue from the Closing Date (expected to occur on or about April 8, 2021) and will be payable on February 1 and August 1 of each year, commencing August 1, 2021. Interest will be calculated on the basis of a 360 – day year consisting of twelve 30 – day months. Registered owners of the Bonds are those shown on the registration books kept by the Paying Agent / Registrar (identified below) at the close of business on the fifteenth day of the month next preceding each interest payment date ("Record Date"). The Bonds are issuable in fully registered form only, without coupons, in denominations of \$5,000 and integral multiples thereof. The Bonds are initially issuable only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. For such time as the Book-Entry-Only System is utilized, no physical delivery of the Bonds will be made to the purchasers thereof and the principal of and interest on the Bonds will be payable by the Paying Agent / Registrar to Cede & Co., which will make distribution of the amounts so paid to the Beneficial Owners of the Bonds. For such time as the Bonds are issuable in Book-Entry-Only form, references herein and in the Bonds and the Ordinance to "registered owners" will include only Cede & Co., as the nominee of DTC, the sole registered owner of the Bonds. See "THE BONDS – Book-Entry-Only System" herein. The City reserves the right to discontinue the Book-Entry-Only System, whereupon interest on the Bonds will be payable (i) by check mailed by the Paying Agent / Registrar, initially U.S. Bank National Association, Houston, Texas, on the interest payment date to the registered owners thereof as shown on the records of the Paying Agent / Registrar, at the close of business on the Record Date, or (ii) by such other method, acceptable to the Paying Agent / Registrar, at the written request of and at the risk and expense of the registered owner.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds, along with CPS Energy's cash contribution, will be applied approximately as follows:

Sources of Funds	
Principal Amount of the Bonds.....	\$330,700,000.00
Plus Reoffering Premium.....	91,605,773.45
CPS Energy's Cash Contribution.....	<u>19,419.17</u>
Total Sources of Funds.....	<u>\$422,325,192.62</u>
Uses of Funds	
Escrow Fund Deposit.....	\$420,019,420.17
Underwriters' Discount.....	1,333,734.32
Costs of Issuance	<u>972,038.13</u>
Total Uses of Funds.....	<u>\$422,325,192.62</u>

AUTHORITY AND SECURITY FOR THE BONDS

The Bonds are being issued under the provisions of the Constitution and general laws of the State, including Chapters 1207 and 1371, as amended, Texas Government Code (together, the "Act"), and the Ordinance. As permitted by the applicable provisions of the Act, the City has, in the Ordinance, delegated the authority to various City officials and CPS Energy staff, to execute an approval certificate ("Approval Certificate") evidencing the final terms of sale with respect to, and finalizing certain characteristics of the Bonds. The Approval Certificate was executed on March 31, 2021 by an authorized City representative.

The Bonds are special obligations of the City payable solely from and equally and ratably secured, together with the currently outstanding Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued by the City, by a junior lien on and pledge of the Net Revenues of the Systems, subject and subordinate to the lien thereon and pledge thereof securing the outstanding Senior Lien Obligations, and superior to the lien thereon and the pledge thereof securing the currently outstanding Commercial Paper Obligations and any Inferior Lien Obligations, all as fully set forth in the Bond Ordinances and the Junior Lien Ordinances. The City has reserved the right to grant equal and ratable liens on and pledges of Net Revenues to secure payment of Additional Junior Lien Obligations hereafter issued in accordance with the Bond Ordinances and the Junior Lien Ordinances. See "DEBT SERVICE REQUIREMENTS", "THE BONDS – Additional Bonds" herein, and "APPENDIX D – CERTAIN PROVISIONS OF THE ORDINANCE".

The Ordinance does not create a mortgage or other security interest on the property of the Systems. The taxing power of neither the City nor the State is pledged for the payment thereof.

PERFECTION OF SECURITY FOR THE BONDS

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the Junior Lien pledge of the Net Revenues as security therefor, and such pledge is therefore, valid, effective, and perfected. Should State law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the Junior Lien pledge of the Net Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City has agreed in the Ordinance to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in such pledge to occur.

FLOW OF FUNDS

The Ordinance provides that the gross revenues of the Systems are to be deposited in CPS Energy's General Account, and further provides that such revenues are pledged and appropriated, in the following priority: (i) to the payment of reasonable and proper Maintenance and Operating Expenses of the Systems; (ii) to the payment of the Senior Lien Obligations, including the establishment and maintenance of the reserve therefor; (iii) to the payment of the Junior Lien Obligations (including the Bonds), including the establishment and maintenance of a reserve therefor (though no such reserve has been, nor is one at this time expected to be established), if any; (iv) to the payment and security of the Notes and any Credit Agreement; (v) to the payment and security of obligations hereinafter issued which are inferior in lien to the Senior Lien Obligations, the Junior Lien Obligations (including the Bonds), and the Commercial Paper Obligations, which obligations are referred to in the Bond Ordinances and the Junior Lien Ordinances and herein defined as Inferior Lien Obligations and which includes notes and other obligations issued or incurred under the FRRN; (vi) to the payment of an annual amount equal to six percent (6%) of the gross revenues of the Systems to be deposited in the Repair and Replacement Account provided for in the Bond Ordinances and the Junior Lien Ordinances; (vii) to the payment of the annual amount due to the General Fund of the City, as provided in the Bond Ordinances and the Junior Lien Ordinances; and (viii) to the extent of any remaining Net Revenues of the Systems in the General Account, to the Repair and Replacement Account to the extent provided in the Bond Ordinances and the Junior Lien Ordinances. Any remaining Net Revenues after making or providing for the foregoing payments and deposits may be used for any other lawful purpose of the Board.

REDEMPTION OF BONDS

Optional Redemption. The City reserves the right to redeem, at its option, the Bonds stated to mature on and after February 1, 2032 in whole or in part and by lot, on February 1, 2031, or on any date thereafter, at the price of par plus accrued (but unpaid) interest to such date of redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing on February 1 in the years 2046 and 2049 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to maturity in part by lot, at a price equal to the principal amount thereof plus accrued interest to the date of redemption, on February 1 in the respective years and principal amounts shown below:

**Term Bond Maturing
February 1, 2046**

Redemption Date	Redemption Amount
February 1, 2042	\$18,520,000
February 1, 2043	19,445,000
February 1, 2044	20,420,000
February 1, 2045	21,440,000
February 1, 2046 (maturity)	22,510,000

**Term Bond Maturing
February 1, 2049**

Redemption Date	Redemption Amount
February 1, 2047	\$23,640,000
February 1, 2048	24,820,000
February 1, 2049 (maturity)	26,060,000

Approximately forty-five (45) days prior to each mandatory redemption date that a Term Bond is to be mandatorily redeemed, the Paying Agent / Registrar shall select by lot the numbers of the Term Bonds within the applicable stated maturity to be redeemed on the next following February 1 from money set aside for that purpose in the Bond Fund maintained for the payment of debt service thereon. Any Term Bond not selected for prior redemption shall be paid on the date of its stated maturity.

The principal amount of a Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the City, by the principal amount of any Bonds of such stated maturity which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the City and delivered to the Paying Agent / Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent / Registrar at the request of the City with money in the Bond Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Selection of Bonds Redeemed in Part. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent / Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, with such maturity to be redeemed. If a Bonds (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bonds (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent / Registrar on the redemption date.

NOTICE OF REDEMPTION FOR THE BONDS

At least thirty (30) days prior to the date any such Bonds are to be redeemed, a notice of redemption, authorized by appropriate resolution passed by the governing body of the City, shall be given in the manner set forth below. A written notice of such redemption shall be given to the registered owner of each Bonds or a portion thereof being called for redemption by depositing such notice in the United States mail, first-class postage prepaid, addressed to each such registered owner at his address shown on the registration books kept by the Paying Agent / Registrar. By the date fixed for any such redemption, due provision shall be made by the City with the Paying Agent / Registrar for the payment of the required redemption price for the Bonds or the portions thereof which are to be so redeemed, plus accrued interest thereon to the date fixed for redemption. If such written notice of redemption is given, and if due provision for such payment is made, all as provided above, the Bonds, or the portions thereof which are to be so redeemed, thereby automatically shall be redeemed prior to their scheduled maturities, shall not bear interest after the date fixed for their redemption, and shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price plus accrued interest to the date fixed for redemption from the Paying Agent / Registrar out of the funds provided for such payment. The Paying Agent / Registrar shall record in the registration books all such redemptions of principal of the Bonds or any portion thereof. If a portion of any Bonds shall be redeemed, a substitute Bonds or Bonds having the same stated maturity date, bearing interest at the same interest rate, in any denomination or denominations in any integral multiple of \$5,000, at the written request of the registered owner, and in an aggregate principal amount equal to the unredeemed portion thereof, will be issued to the registered owner upon the surrender thereof for cancellation, at the expense of the City, all as provided in the Ordinance.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified as well as the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent / Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Ordinance, Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable on the redemption date designated in such notice. Interest on said Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding.

The Paying Agent / Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent / Registrar. Neither the City nor the Paying Agent / Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants or Beneficial Owners of the selection of portions of the Bonds for redemption. *See* "THE BONDS - Book-Entry-Only System" herein.

DELIVERY OF NOTICES TO BONDHOLDERS THROUGH DEPOSITORY TRUST COMPANY ("DTC")

The Paying Agent / Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of proposed amendments to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, shall not affect the validity of the redemption of any action premised on any such notice. Neither the City nor the Paying Agent / Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants or Beneficial Owners of the Bonds. *See* "THE BONDS - Book-Entry-Only System" herein.

RATE COVENANT

The City has covenanted in the Ordinance that it will at all times maintain rates and charges for the sale of electric energy, gas, or other services furnished, provided and supplied by the Systems to the City and all other consumers which will be reasonable and nondiscriminatory and which will be reasonably expected to produce gross revenues sufficient to pay all expenses of maintenance and operation of the Systems, and to produce Net Revenues sufficient, together with other lawfully available funds, to pay debt service requirements on all revenue debt of the Systems, including the Senior Lien Obligations, the Junior Lien Obligations, the Commercial Paper Obligations, and any Inferior Lien Obligations outstanding from time to time. The CPS Energy rate covenant is consistent with and supported by the relevant State statute concerning rate setting for municipally-owned utilities ("Municipal Utilities" or "MOUs") such as CPS Energy. Section 1502.057, Texas Government Code, as amended, provides that the charges for services provided by encumbered municipal systems, such as CPS Energy, must be "at least sufficient to pay all operating, maintenance, depreciation, replacement, improvement and interest charges in connection with the utility system; for an interest and sinking fund sufficient to pay any public securities issued or obligations incurred for any purpose relating to the utility system; and any outstanding debt against the system". This State statute could be amended or repealed by the Texas Legislature. *See* "APPENDIX D – CERTAIN PROVISIONS OF THE ORDINANCE". Also, *see* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Retail Service Rates" and "– Transmission Access and Rate Regulation" regarding rate regulation herein.

ADDITIONAL BONDS

The City may issue Additional Senior Lien Obligations on a parity with the then-outstanding Senior Lien Obligations if, among other things, it has obtained a certificate from an independent certified public accountant to the effect that the Net Revenues of the Systems during the previous fiscal year, or any 12 consecutive months out of the 15 months immediately preceding the month in which the ordinance authorizing the Additional Senior Lien Obligations is passed, were at least 1.50 times the maximum annual debt service requirements in any future fiscal year on all outstanding Senior Lien Obligations. The City may issue Additional Junior Lien

Obligations if a Designated Financial Officer certifies that the Net Revenues of the Systems during the previous fiscal year, or any 12 consecutive months out of the 18 months immediately preceding the month in which the ordinance authorizing such obligations is passed, were at least 1.00 times the average annual debt service requirements for any future fiscal year for all outstanding Senior Lien Obligations, Junior Lien Obligations, and the proposed Additional Junior Lien Obligations (including in this instance, the Bonds), assuming that variable rate interest, if any and as applicable, accrues at *The Bond Buyer's* Revenue Bond Index and adding or subtracting net payments due on or receivable under interest rate hedge agreements, if any.

The Bonds are issued as Additional Junior Lien Obligations and, in connection with their issuance, the City will, in accordance with the provisions of the Bond Ordinances and the Junior Lien Obligations, demonstrate compliance with the applicable coverage test described above.

REFUNDABLE TAX CREDIT BONDS

The refundable tax credits to be received by the City in connection with any obligations secured by Net Revenues of the Systems that are designated as obligations entitling the City to the receipt of refundable tax credits from the United States Department of the Treasury under the Code (defined herein) (including, but not limited to, obligations designated as "build America bonds" and "qualified bonds" under the Code) will be considered as an offset to debt service for the purpose of satisfying any debt service coverage requirements under any ordinance, including satisfaction of any rate covenant, reserve fund requirement, or prerequisite to the issuance of additional indebtedness at any lien level.

The City has determined that the reduced amount of refundable tax credit payments to be received from the United States Treasury in relation to its outstanding obligations designated as "build America bonds" and "qualified bonds" under the Code as a result of the automatic reductions in federal spending effective March 1, 2013, pursuant to the Budget Control Act of 2011 (commonly referred to as "Sequestration"), and extensions thereof pursuant to the Bipartisan Budget Act of 2013 signed into law by the President on December 26, 2013, will not have a material impact on the financial condition of the City or its ability to pay regularly scheduled debt service on its outstanding obligations when and in the amounts due and owing. *See* "DEBT SERVICE REQUIREMENTS" herein.

Under current law, Sequestration is scheduled to continue through 2030. The IRS has announced that payments to issuers of direct-pay bonds that are processed on or after October 1, 2020, and on or before September 30, 2030, will be reduced by the fiscal year 2021 5.7 percent Sequestration rate. The Sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise affects Sequestration, at which time the Sequestration reduction rate is subject to change. Due to the COVID-19 pandemic, the IRS previously issued notifications related to delayed processing of returns for credit payments for issuers of qualified bonds and the subsequent receipt of payments.

AMENDMENTS

The City may, without the consent of or notice to any registered owners, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of registered owners holding a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the consent of all registered owners of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission.

DEFEASANCE

The Ordinance provides for the defeasance of the Bonds when payment of the principal of the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with an authorized escrow agent in trust (i) money in an amount sufficient to make such payment and / or (ii) Government Securities (defined below) that mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The sufficiency of deposits as hereinbefore described shall be certified by an independent certified accountant, the City's Co-Financial Advisors, the Paying Agent / Registrar, or some other qualified financial institution as specified in the Ordinance. The City has additionally reserved the right in the Ordinance, subject to satisfying the requirements above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the City money in excess of the amount required for such defeasance. The Ordinance provides that "Government Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are

unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (iv) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (i) through (iii) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for any purpose, including the application of any limitation on indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that, the City's right to redeem the Bonds defeased to stated maturity is not extinguished if the City has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

REGISTERED OWNERS' REMEDIES

If the City defaults in the payment of principal of and interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("*Tooke*") that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because CPS Energy was created to act on behalf of the City to manage the Systems and the City is the issuer of the Bonds, an analysis of relevant sovereign immunity municipal case law is described below. *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality.

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson*"), the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between governmental and proprietary functions is not clear, the *Wasson* opinion held that the Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed *Wasson* for a second time and issued an opinion on October 5, 2018 clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to

determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship.

Notwithstanding the foregoing case law issued by the *Wasson* Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS – Authority and Security for the Bonds"), the City has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas Legislature has effectively waived the City's sovereign immunity from a suit for money damages outside of Chapter 1371, registered owners may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. As noted above, the Ordinance provides that registered owners may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of money due under a contract).

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the Net Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without bankruptcy court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the bankruptcy court (which could require that the action be heard in bankruptcy court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a bankruptcy court in administering any proceeding brought before it. The opinion of Co-Bond Counsel relating to the Bonds, the form of which is attached hereto as APPENDIX E, shall note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

PAYING AGENT / REGISTRAR

The principal of the Bonds will be paid to the registered owners at stated maturity or prior redemption upon presentation of the Bonds to the Paying Agent / Registrar, which initially is U.S. Bank National Association, at its offices located in Houston, Texas. Interest on the Bonds will be paid to registered owners shown on the records of the Paying Agent / Registrar on the close of business on the Record Date, and such interest will be paid by check and sent by mail to the address of such registered owner appearing on the registration books of the Paying Agent / Registrar or by such other customary banking arrangements acceptable to the Paying Agent / Registrar requested by, and at the risk and expense of, the registered owner. See "THE BONDS – Record Date" herein.

SUCCESSOR PAYING AGENT / REGISTRAR

The City reserves the right to replace the Paying Agent / Registrar. If the City replaces the Paying Agent / Registrar, the new Paying Agent / Registrar shall accept the previous Paying Agent / Registrar's records and act in the same capacity as the previous Paying Agent / Registrar. Any successor Paying Agent / Registrar selected by the City shall be a bank, a trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent / Registrar for the Bonds. Upon a change in the Paying Agent / Registrar for the Bonds, the City shall promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid, which notice shall give the address of the new Paying Agent / Registrar.

RECORD DATE

The Record Date for determining the party to whom the interest on the Bonds is payable on any interest payment date is the close of business on the fifteenth day of the month next preceding such interest payment date.

SPECIAL RECORD DATE FOR INTEREST PAYMENT

In the event of a nonpayment of interest on a scheduled payment date, and for thirty days thereafter, a new record date for such interest payment ("Special Record Date") will be established by the Paying Agent / Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be fifteen days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first-class postage prepaid to the address of each holder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

FUTURE REGISTRATION

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred, exchanged and assigned on the registration books of the Paying Agent / Registrar, only upon presentation and surrender thereof to the Paying Agent / Registrar and such transfer or exchange of the Bonds shall be without expense or service charge to the owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent / Registrar. A new Bond or Bonds will be delivered by the Paying Agent / Registrar in lieu of the Bonds being transferred or exchanged at the corporate trust office of the Paying Agent / Registrar, or sent by United States mail, first-class postage prepaid, to the new registered owner or his assignee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the contracting party or assignee of the owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the owner or his duly authorized agent, in form satisfactory to the Paying Agent / Registrar. The Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one maturity or any integral multiple thereof and for a like aggregate principal amount of the Bond or Bonds surrendered for exchange or transfer.

LIMITATION ON TRANSFER OF BONDS

Neither the City nor the Paying Agent / Registrar shall be required to issue, transfer, or exchange (i) with respect to any Bond, during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to stated maturity, within 45 days prior to its redemption date; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

REPLACEMENT BONDS

The City has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent / Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and Paying Agent / Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Board, the Co-Financial Advisors and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for the Bonds in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC provides custody and asset servicing for about 3.5 million issues of United States and non-United States equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both United States and non-United States securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both United States and non-United States securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings' rating of "AA+". The DTC Rules applicable to its participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as: redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alter native, Beneficial Owners may wish to provide their names and addresses to the Paying Agent / Registrar and request that copies of notices are provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the City or the Paying Agent / Registrar on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of

such Participant and not of DTC (nor its nominee), the Paying Agent / Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

So long as Cede & Co. is the registered owner of the Bonds, the City will have no obligation or responsibility to the DTC Participants or Indirect Participants, or to the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT

In reading this Official Statement, it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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DEBT SERVICE REQUIREMENTS

The following schedule calculated on an accrual (rather than cash) basis, reflects annual debt service requirements on all outstanding Senior Lien Obligations and Junior Lien Obligations (including the Bonds and excluding the current Fiscal Year debt service payments made through (and including) February 1, 2021). Debt service incurred on obligations issued from time to time under the Commercial Paper Program and any Inferior Lien Obligations, respectively, is excluded. See "COMMERCIAL PAPER PROGRAM" and "INTRODUCTORY STATEMENT – General Description of CPS Energy Revenue Debt and Priority of Liens – Inferior Lien Obligations" herein.

OUTSTANDING SENIOR LIEN OBLIGATIONS AND JUNIOR LIEN OBLIGATIONS

Year Ending January 31,	Total Senior Lien Obligations ⁽¹⁾	Junior Lien Obligations			Total Senior and Junior Lien Obligations ⁽⁴⁾
		Variable Rate Obligations ⁽²⁾	Fixed Rate Obligations ⁽³⁾	The Bonds ⁽⁵⁾	
2022	\$ 331,844,436	\$ 14,503,124	\$ 33,091,909	\$ 13,457,653	\$ 392,897,122
2023	328,932,186	20,792,113	33,091,909	16,535,000	399,351,208
2024	323,854,586	26,692,675	33,091,909	16,535,000	400,174,170
2025	323,057,299	28,672,761	33,091,909	16,535,000	401,356,969
2026	279,029,574	39,567,774	39,641,909	16,535,000	374,774,257
2027	299,097,524	46,128,315	39,639,409	16,535,000	401,400,248
2028	299,099,474	51,006,767	39,640,659	16,535,000	406,281,900
2029	233,270,742	98,474,033	39,639,659	16,535,000	387,919,434
2030	233,279,430	97,676,800	39,640,659	16,535,000	387,131,889
2031	233,431,350	94,176,800	39,468,854	27,365,000	394,442,004
2032	231,974,721	90,683,167	39,292,050	27,363,500	389,313,438
2033	233,004,780	87,170,433	42,683,300	27,365,000	390,223,513
2034	245,376,224	33,676,800	92,913,050	27,363,000	399,329,074
2035	253,882,385	33,676,800	89,764,800	27,366,250	404,690,235
2036	254,429,731	33,683,167	89,210,300	27,363,000	404,686,198
2037	255,024,958	33,670,433	88,615,600	27,362,000	404,672,991
2038	255,637,842	36,606,800	88,006,200	27,361,500	407,612,342
2039	238,374,269	52,072,262	87,357,564	27,364,750	405,168,845
2040	192,052,523	55,994,672	127,743,244	27,364,750	403,155,189
2041	192,784,355	55,034,758	127,015,244	27,364,750	402,199,107
2042	152,883,552	66,511,429	16,548,250	27,362,750	263,305,981
2043	108,736,830	83,883,978	16,548,500	27,361,750	236,531,058
2044	78,215,155	82,844,360	16,548,000	27,364,500	204,972,015
2045	78,215,780	81,766,804	-	27,363,500	187,346,084
2046	78,217,310	75,808,121	-	27,361,500	181,386,931
2047	78,219,510	50,567,500	-	27,366,000	156,153,010
2048	43,847,204	50,574,150	-	27,364,000	121,785,354
2049	9,754,500	21,394,650	-	27,363,000	58,512,150
2050	-	-	-	-	-
Totals	\$ 5,865,528,230	\$ 1,543,311,446	\$ 1,292,284,887	\$ 665,648,153	\$ 9,366,772,716

(1) Excludes regularly scheduled interest due on the remaining outstanding maturities of the Taxable New Series 2009C Bonds and the remaining outstanding maturities of the Taxable New Series 2010A Bonds to be off-set by the refundable tax credit to be received from the U.S. Department of the Treasury (the "Treasury") as a result of such obligations being designated as "build America bonds" and "qualified bonds" under the Code. Also, takes into account the effects of Sequestration assuming a 5.7% reduction in tax credits which began in October 2020 and continues through September 2030. See "THE BONDS - Refundable Tax Credit Bonds" herein.

(2) Assumes periodic redemptions in accordance with mandatory sinking fund requirements. Each series of variable rate Junior Lien Obligations is currently in a "term" interest rate mode; accordingly, debt service calculated on such variable rate Junior Lien Obligations on the basis of the actual term interest period and of the applicable "stepped" interest thereafter to stated maturity, which rates and periods are as follows: 2015A Bonds – 1.75% term rate through November 30, 2024, and 7% "stepped" rate thereafter to February 1, 2033 Stated Maturity; 2015B Bonds - 2% term rate through November 30, 2021, and 7% "stepped" rate thereafter to February 1, 2033 Stated Maturity; 2015C Bonds - 1.75% term rate through November 30, 2024, and 7% "stepped" rate thereafter to December 1, 2045 Stated Maturity; 2015D Bonds - 1.125% term rate through November 30, 2026, and 7.00% "stepped" rate thereafter to December 1, 2045 Stated Maturity; 2018 Bonds - 2.75% term rate through November 30, 2022, and 8% "stepped" rate thereafter to February 1, 2048 Stated Maturity; and 2020 Bonds - 1.75% term rate through December 1, 2025 and 7% "stepped rate" thereafter to February 1, 2049 Stated Maturity.

(3) Excludes regularly scheduled interest due on the Taxable Junior Lien Series 2010A anticipated to be off-set by the refundable tax credit to be received from the Treasury as a result of such obligations being designated as "build America bonds" and "qualified bonds" under the Code. See footnote 5 to table appearing under "DEBT SERVICE REQUIREMENTS - Historical Net Revenues and Coverage" herein. Also, takes into account the effects of Sequestration assuming a 5.7% reduction in tax credits which began in October 2020 and continues through September 2030.

(4) Senior Lien Obligations outstanding and Junior Lien Obligations outstanding represent the debt service requirements for the total outstanding debt payable from and secured by the Net Revenues of the Systems, excluding debt service payable with respect to the Notes and any Inferior Lien Obligations. See "COMMERCIAL PAPER PROGRAM" and "INTRODUCTORY STATEMENT – General Description of CPS Energy Revenue Debt and Priority of Liens – Inferior Lien Obligations" herein.

(5) Calculated at actual rates.

HISTORICAL NET REVENUES AND COVERAGE⁽¹⁾

(Dollars in thousands)	Fiscal Years Ended January 31, ⁽¹⁾				
	2016	2017	2018	2019	2020
Gross Revenues ⁽²⁾	\$ 2,514,685	\$ 2,494,120	\$ 2,624,411	\$ 2,808,260	\$ 2,602,177
Maintenance & Operating Expenses	1,484,744	1,489,688	1,587,906	1,608,352	1,497,182
Available For Debt Service	<u>\$ 1,029,941</u>	<u>\$ 1,004,432</u>	<u>\$ 1,036,505</u>	<u>\$ 1,199,908</u>	<u>\$ 1,104,995</u>
Actual Principal and Interest Requirements:					
Senior Lien Obligations ^{(3),(4),(9)}	<u>\$ 280,520</u>	<u>\$ 290,264</u>	<u>\$ 270,080</u>	<u>\$ 259,726</u>	<u>\$ 223,292</u>
Junior Lien Obligations ⁽⁵⁾	<u>\$ 94,722</u>	<u>\$ 98,996</u>	<u>\$ 120,996</u>	<u>\$ 148,179</u>	<u>\$ 148,806</u>
ACTUAL COVERAGE - Senior Lien ⁽⁶⁾	3.67x	3.46x	3.84x	4.62x	4.95x
ACTUAL COVERAGE - Senior and Junior Liens	2.74x	2.58x	2.65x	2.94x	2.97x
PRO FORMA MADS COVERAGE					
Senior Lien ⁽⁷⁾	3.10x	3.03x	3.12x	3.62x	3.33x
Senior and Junior Liens ⁽⁸⁾	2.46x	2.54x	2.94x	2.71x	2.34x

(1) Some numbers may have been adjusted due to rounding.

(2) Calculated in accordance with the Bond Ordinances.

(3) Net of accrued interest where applicable.

(4) Includes a reduction of \$14.5 million, \$14.5 million, \$14.6 million, \$14.6 million and \$14.3 million for fiscal years 2016, 2017, 2018, 2019 and 2020, respectively, related to the direct subsidy for the Build America Bonds. See "THE BONDS - Refundable Tax Credit Bonds" herein.

(5) Includes a reduction of \$9.1 million for fiscal years 2016 - 2020, related to the direct subsidy for the Build America Bonds. See "THE BONDS - Refundable Tax Credit Bonds" herein.

(6) Calculation differs from "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" herein, by the inclusion of nonoperating expenses in the above schedule.

(7) Maximum annual debt service on Senior Lien Obligations and the Bonds.

(8) Maximum annual debt service on Senior Lien Obligations and Junior Lien Obligations is based upon the footnoted assumptions under "Outstanding Senior Lien Obligations and Junior Lien Obligations," on the next page.

(9) Amount shown is gross debt service and does not include any cash contributions made.

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JUNIOR LIEN OBLIGATIONS

The City's debt obligations equally and ratably secured by and payable from a lien on and pledge of Net Revenues, which lien and pledge is directly junior and subordinate to the first and prior lien on and pledge of Net Revenues that secures the Senior Lien Obligations (but prior and superior to the lien on and pledge of the Net Revenues securing the payment of the Commercial Paper Obligations) (the "Junior Lien Pledged Revenues"), are referred to herein (and have heretofore been defined) as the "Junior Lien Obligations". The Junior Lien Ordinances permit the issuance of additional City obligations payable from and secured by a parity lien on and pledge of the Junior Lien Pledged Revenues (the "Additional Junior Lien Obligations"), if certain historical earnings tests and other conditions are satisfied. The Junior Lien Ordinances also provide that no obligations of the City shall be issued that are payable from a lien on and pledge of the Net Revenues of the Systems that is senior and superior to the lien thereon and pledge thereof securing the payment of the Junior Lien Obligations, except for the first and prior lien on and pledge of Net Revenues that secures the repayment of the Senior Lien Obligations.

The Junior Lien Ordinances, in comparison to the Senior Lien Ordinances, provide for less restrictive debt-related covenants to be complied with by the City in connection with their issuance and while they remain outstanding (such as no requirement to maintain a debt service reserve fund with respect to Junior Lien Obligations and an additional bonds test of one times average annual debt service of all then-outstanding Senior Lien Obligations and Junior Lien Obligations, plus any contemplated series of additional debt, as a condition to the issuance of Additional Junior Lien Obligations). The City has utilized this lien level to diversify its debt portfolio and has, historically, used such lien level to accomplish the issuance of its various series of long-term variable rate debt. As part of its debt planning process, the City evaluates each issuance of long-term debt prior to determining whether to issue such indebtedness as Additional Senior Lien Obligations or Additional Junior Lien Obligations.

The Bonds are issued as Additional Junior Lien Obligations pursuant to the Ordinance. At the time of such issuance, the City shall have demonstrated its compliance with the conditions precedent to the issuance of Additional Junior Lien Obligations prescribed in the Junior Lien Ordinances (*see* "THE BONDS – Additional Bonds"). After giving effect to the issuance of the Bonds, the City will have outstanding \$1,792,650,000 of Junior Lien Obligations. See table appearing under "DEBT SERVICE REQUIREMENTS – Outstanding Senior Lien Obligations and Junior Lien Obligations" for the City's Junior Lien Obligations' projected fixed rate and projected variable rate debt service requirements.

COMMERCIAL PAPER PROGRAM

Pursuant to authorization from the City, CPS Energy maintains a Commercial Paper Program to provide taxable and tax-exempt interim financing for various purposes. The Commercial Paper Program, which has been amended numerous times since its inception, and which was most recently amended and restated on April 11, 2019, currently is authorized to issue Commercial Paper Notes (the "Notes") in multiple series (identified as "Series A", "Series B", and "Series C") and in an aggregate principal amount not to exceed \$700,000,000 at any one time outstanding. Individual revolving credit agreements relating to each series of Notes, entered into with separate banks (together the "Credit Agreement"), provide liquidity support for the Notes in an aggregate amount of \$700,000,000 (comprised of \$400,000,000 in liquidity support for the Series A Notes, \$200,000,000 in liquidity support for the Series B Notes and \$100,000,000 in liquidity support for the Series C Notes). The Series A Credit Agreement is effective through June 21, 2023 (unless earlier terminated in accordance with its terms), with Bank of America, N.A., serving as liquidity provider thereunder. The Series B Credit Agreement is effective through June 21, 2022 (unless earlier terminated in accordance with its terms), with State Street Bank and Trust Company, serving as liquidity provider thereunder. The Series C Credit Agreement is effective through June 21, 2022 (unless earlier terminated in accordance with its terms), with Wells Fargo Bank, National Association, serving as liquidity provider thereunder.

The purpose of the Commercial Paper Program is to: (i) assist in the financing of capital improvements to the Systems; (ii) provide working capital and funds for fuel acquisition; (iii) pay interest on resold Notes; (iv) refund outstanding Notes on maturity; and (v) redeem other obligations of the Systems which are secured by and payable from a lien on and / or a pledge of Net Revenues of the Systems. Scheduled maturities of the Notes may not extend past April 11, 2049 (the maturity date specified in the current Commercial Paper Ordinance). *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Debt and Asset Management Program" and "– Capital Program" herein.

The borrowings under the Commercial Paper Program, represented by the Notes, are equally and ratably secured by and are payable from (i) the Net Revenues of the Systems, such pledge being subordinate and inferior to the pledge of Net Revenues securing the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued and the currently outstanding Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued; (ii) the proceeds from the sale of additional bonds issued for that purpose or borrowings under the Commercial Paper Program; and (iii) borrowings under and pursuant to the Credit Agreement. The obligations of the City under the Credit Agreement are secured on a parity basis with the pledge of the Net Revenues that secures the Notes and along with the Notes, comprise the Commercial Paper Obligations.

As of the date hereof, the City has an aggregate principal amount of \$420,000,000 of tax-exempt and \$100,000,000 of taxable Notes outstanding under the Commercial Paper Program. The refunding of all \$420,000,000 in tax-exempt Notes will restore \$420,000,000 in issuance capacity under the Commercial Paper Program, (which is again issuable in either tax-exempt or Taxable Notes). The result of these refundings is conversion of short-term variable rate obligations into long-term obligations and provision of additional capacity for short-term borrowing under the Commercial Paper Program.

FLEXIBLE RATE REVOLVING NOTE PRIVATE PLACEMENT PROGRAM

The City has established the FRRN for the benefit of the Systems, under which the City may issue taxable or tax-exempt notes, bearing interest at fixed or variable rates and having individual maturities of one year or less, in an aggregate principal amount at any one time outstanding not to exceed \$100,000,000 (the "Flex Rate Notes"). This program, which provides additional liquidity support for the Systems, became effective on April 28, 2009 and authorizes the issuance of such notes through November 1, 2028. These notes are secured by an inferior lien on and pledge of Net Revenues (and are classified as Inferior Lien Obligations pursuant to the Bond Ordinances), funds, deposits, or investments of the Board legally available for such purpose, or any combination of the foregoing, and will be sold, by private placement, to provider banks (i.e., the Board's depository bank) under note purchase agreements entered into by the City from time to time. On February 26, 2021, the City entered into a liquidity agreement with JPMorgan Chase Bank, National Association, as the note purchaser under this program by contractual arrangement in effect through February 25, 2022, under which it is obligated to purchase \$100,000,000 in Flex Rate Notes. On February 26, 2021, CPS Energy issued \$100,000,000 of taxable Flex Rate Notes (meaning the interest on these notes is not excluded for the purposes of federal income taxation) under this program and the same is currently outstanding as of the date of this Official Statement. The additional Inferior Lien Obligations authorized by the Board on March 1, 2021 and the City Council on March 18, 2021, herein described under "INTRODUCTORY STATEMENT – General Description of CPS Energy Revenue Debt and Priority of Liens – Inferior Lien Obligations" are expected to be structured as a new program of flexible rate revolving notes that closely resemble the existing FRRN.

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SAN ANTONIO ELECTRIC AND GAS SYSTEMS

HISTORY AND MANAGEMENT

The City acquired its electric and gas utilities in 1942 from the American Light and Traction Company, which had been ordered by the federal government to sell properties under provisions of the Holding Company Act of 1935. The Bond Ordinances establish management requirements and provide that the complete management and control of the Systems is vested in the Board. The Mayor of the City is a voting member of the Board, represents the City Council, and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the Board and its conduct of the management of the Systems. The present members of the Board are:

<u>Name & Position</u>	<u>Profession</u>	<u>Originally Appointed to the Board</u>	<u>Present Term Expires*</u>
Dr. Willis Mackey, Chair	Superintendent, Retired Judson Independent School District	April 6, 2018	January 31, 2023
Janie Gonzalez, Vice Chair	President & CEO, Webhead	February 28, 2019	January 31, 2024
John T. Steen, Jr., Trustee	Attorney, Law Office of John T. Steen, Jr.	February 1, 2016	January 31, 2026
Edward B. Kelley, Trustee	President & CEO, Retired USAA Real Estate	May 19, 2011**	January 31, 2022
Ron Nirenberg,** Ex-Officio Member	Mayor, City of San Antonio	June 21, 2017	May 31, 2021

*Dr. Willis Mackey and Janie Gonzalez are serving their first terms.

* John Steen, Jr. is currently serving his second term.

**Edward Kelley was confirmed on May 19, 2011 by City Council to serve as a replacement for Mr. Charles Foster, who resigned, until January 31, 2012. He then served a full term from February 1, 2012 – January 31, 2017, and is currently serving his second full term that ends on January 31, 2022.

***Ron Nirenberg was re-elected as Mayor for a second term in 2019. The next Mayoral election is May 1, 2021. Mayor Nirenberg is running for re-election.

All vacancies in membership on the Board are filled as follows: a nominee to fill such vacancy shall be elected by the majority vote of the remaining members of the Board of Trustees, such majority vote to include the vote of the Mayor. The elected nominee is then submitted by the Mayor to the vote of the City Council for confirmation. A vacancy in certain cases may be filled by authorization from the City Council. At the expiration of their first five-year term of office, the members of the Board are eligible for re-appointment by election of the other Board members and confirmation by the City Council to one additional term. In 1997, the City Council ordained that Board membership should be representative of the geographic quadrants established by the City Council. New Board members considered for approval by the City Council will be those whose residence is in a quadrant that provides such geographic representation.

The Board is vested with all of the powers of the City with respect to the management and operation of the Systems and the expenditure and application of the revenues therefrom, including all powers necessary or appropriate for the performance of all covenants, undertakings, and agreements of the City contained in the Bond Ordinances, except regarding rates, condemnation proceedings, issuance of bonds, notes, or commercial paper. The Board has full power and authority to make rules and regulations governing the furnishing of electric and gas service and full authority with reference to making extensions, improvements and additions to the Systems, and to adopt rules for the orderly handling of CPS Energy's affairs. The Board is further empowered to appoint and employ all officers and employees and must obtain and keep in force a "blanket" type employees' fidelity and indemnity bond (also known as commercial crime bond) covering losses in the amount of not less than \$100,000.

The management provisions of the Bond Ordinances also grant the City Council authority to review Board action with respect to policies adopted relating to research, development, and planning.

ADMINISTRATION AND OPERATING PERSONNEL

CPS Energy had 3,039 employees as of October 31, 2020, which included approximately 1,242 wage scale (hourly / field) employees. The average tenure of a CPS Energy employee is more than 15 years. The majority of all executive and supervisory personnel have experience in the utility industry, or other related experience required for their career field. CPS Energy provides employees a broad range of employee benefit programs, including a defined benefit pension plan, group life insurance, group health

(medical, dental and vision), and other benefits. CPS Energy culture, employee benefits and career growth opportunities all contribute towards the maintenance of a stable, well-qualified work force which, between February 1, 2020 and October 31, 2020, recorded a turnover rate of 5.0%.

CPS Energy continues to enhance its performance management process, which measures performance against targeted performance goals and an established set of behaviors (i.e., core values and / or critical measures). Employees are engaged in working toward key performance goals that align to organizational and business unit / area strategies and objectives. The process is designed to provide continuous monitoring and a high level of coaching and feedback to reach performance expectations, to provide meaningful developmental opportunities, to emphasize how results are achieved, and to reward and recognize contributions toward business goals. In addition, CPS Energy actively manages comprehensive workforce development and succession planning processes to promote wider development opportunities for employees to learn and grow. These processes are based on the foundational ideas that all employees are expected to develop to their maximum capabilities and that succession planning must focus on ensuring that key positions will be staffed by employees who have the capability to keep CPS Energy operating at its highest level of productivity.

CPS Energy salaried and executive employees participate in a discretionary Employee Incentive Plan ("EIP"), that rewards both individual and organizational performance for controlling expenses, promoting safety, managing reliability, maximizing cost effective energy production, environmental stewardship, and enhancing customer satisfaction. The EIP provides direct links between CPS Energy's competitiveness, performance and compensation. In addition to measuring performance on key metrics for CPS Energy, employees' individual performance is linked to their individual incentive payout. The EIP is reviewed annually to ensure overall design, metrics and targets continue to align with CPS Energy's goals and drive employee performance towards organizational goals. As of April 10, 2020, distributions for CPS Energy's EIP program have been suspended for up to two years to preserve cash in the face of reduced revenue and increased customer debt as a result of the worldwide pandemic. CPS Energy will continue to evaluate performance against the established metrics, and payments could be distributed in the future if economic indicators improve.

CPS Energy's principal executives and members of the Executive Leadership Team include: Paula Gold-Williams, President & CEO; Carolyn E. Shellman, Board Secretary, Chief Legal Officer & General Counsel ("CLO&GC"); Fred Bonewell, Chief Security, Safety & Gas Solutions Officer ("CSSGSO"); Rudy Garza, Chief Customer Engagement Officer ("CCEO"); Vivian Bouet, Chief Information Officer ("CIO"); Frank Almaraz, Chief Power, Sustainability, & Business Development Officer ("CPSBDO"); Paul Barham, Chief Grid Optimization & Resiliency Officer ("CGORO"); Lisa Lewis, Chief Administrative Officer ("CAO"), and Gary Gold, Chief Financial Officer ("CFO") & Treasurer. In addition to the Executive Leadership Team, biographies of the members of the Senior Leadership Team, which encompasses other key members of CPS Energy's senior staff, are available at www.cpsenergy.com.

A recent reorganization of the members of the Executive Leadership Team was announced on February 19, 2021, which reflected the imminent departure of Dr. Cris Eugster, who was the Chief Operating Officer ("COO") at CPS Energy for 12 years. Dr. Eugster accepted the CEO position with NAES Corporation, an energy services company in Washington state. His last day at CPS Energy was on February 26, 2021. In light of his departure, Ms. Paula Gold-Williams stated that she was splitting the COO role to address the increasing complexity across the operational landscape, into a Chief Power, Sustainability, & Business Development Officer ("CPSBDO") position, led by Frank Almaraz, and a Chief Grid Optimization & Resiliency Officer ("CGORO") position, led by Paul Barham. CPS Energy posted a notice to EMMA related to these changes on March 4, 2021. The reorganized Executive Leadership Team follows as such:

Ms. Paula Gold-Williams is the President & CEO. Ms. Gold-Williams joined CPS Energy in October 2004, after serving in several senior financial management positions at other companies. Ms. Gold-Williams is a Certified Public Accountant. She received a Bachelor's degree in Accounting from St. Mary's University and holds a Master of Business Administration degree with a concentration in finance and accounting from Regis University. Ms. Gold-Williams served as CPS Energy's Group Executive Vice President – Financial & Administrative Services, CFO & Treasurer prior to the Board's appointment to serve as interim CEO, effective November 1, 2015. Ms. Gold-Williams was selected as the President & CEO on July 25, 2016.

Ms. Carolyn E. Shellman is the CLO&GC and Board Secretary. Ms. Shellman joined CPS Energy in July 2006, after serving as Vice President, General Counsel and Board Secretary for ERCOT, and as a partner in the utility sections of two separate Texas law firms. Ms. Shellman has also served as the Director for the Hearings Division of the PUCT and as a hearing officer with the PUCT. She provides oversight for Legal, Audit, and Governmental Affairs functions, and serves as Secretary to the Board. Ms. Shellman has a Bachelor's degree from Vassar College and a Juris Doctor from the University of Oklahoma. She is a current member of the State Bar of Texas and the State Bar of Oklahoma.

Mr. Fred Bonewell is the CSSGSO. Mr. Bonewell oversees all of CPS Energy's Enterprise & Public Safety, Cyber & Physical Security, Fleet Operations, Business Continuity, Labor Relations, and Gas Solutions Operations. Mr. Bonewell has more than 30

years of progressive leadership experience in employee health and safety, risk, workers' compensation, and labor relations. He has worked for Louisville Gas & Electric, Florida Power & Light, and others. Mr. Bonewell is a graduate of Indiana State University.

Mr. Rudy Garza is the CCEO and oversees customer experience and engagement initiatives at CPS Energy. He is also responsible for ensuring consistent and exceptional customer experiences across major customer channels and touchpoints. Formerly Senior Vice President of Distribution Service & Operations, he oversaw the electric distribution system maintenance and construction activity as well as the Energy Management Center, which operates and monitors the distribution system on a daily basis. Before arriving at CPS Energy in 2012, Mr. Garza served as Assistant City Manager and as Intergovernmental Relations Director in Corpus Christi. He also worked for TXU Corporation in Dallas for 13 years. Mr. Garza has a Master of Business Administration from the University of North Texas and a Bachelor of Science in Electrical Engineering from the University of Texas in Austin.

Ms. Vivian Bouet is the CIO and is responsible for overseeing the technology roadmap, enterprise architecture, business solutions development, digital experience, and innovation functions at CPS Energy, as well as providing leadership in corporate strategic planning. Prior to joining CPS Energy, Ms. Bouet served in executive leadership and management positions as well as worked as a senior principal consultant. Her two most recent leadership positions were with Walgreens Boots Alliance, Inc., a Fortune 19 company and Anthem Health Insurance Inc., a Fortune 29 company.

Mr. Frank Almaraz is the CPSBDO and oversees Power Generation; Energy Supply & Market Operations (ESMO) and Climate Strategy & Sustainability. Previously, he held the positions of Chief Administrative & Business Development Officer (CABDO), Senior Vice President of Commercial Operations, Interim Group Executive Vice President, Treasurer & Shared Services Lead and Vice President of ESMO.

Mr. Almaraz led the execution of several key initiatives, including the acquisition of an 800 MW natural gas combined cycle power plant, negotiation of a complex 25-year 400 MW solar Power Purchase Agreement (PPA) and an agreement to deploy advanced metering infrastructure to the CPS Energy gas and electric systems. Mr. Almaraz is also on the Boards of Directors of the American Gas Association, the San Antonio Hispanic Chamber of Commerce and the DoSeum, San Antonio's Museum for Kids. He joined CPS Energy in 2011 as Senior Director of Energy Strategy and Planning after serving in various executive roles at Energy Future Holdings in Dallas.

Mr. Paul Barham is the CGORO and is responsible for Energy Delivery Services and Grid Transformation & Engineering. He oversees the Engineering functions for Transmission and Substation, field operations for all Transmission and Distribution, and System Operations along with Customer Reliability and asset management programs associated with electric delivery. Mr. Barham has been with CPS Energy for over 33 years. He has served in a variety of positions at CPS Energy, including leadership positions in Power Generation, Generation Planning and Energy Market Operations.

Mr. Barham has a Bachelor of Science in Mechanical Engineering from Texas A&M University and a Master of Science in Mechanical Engineering from the University of Texas at San Antonio. He is a registered professional engineer in the State of Texas.

Ms. Lisa Lewis is the CAO and oversees People & Culture (Human Resources), Supply Chain, & Enterprise Compliance, Ethics and Facilities. Ms. Lewis has worked for CPS Energy for 20 years and previously served as Senior Vice President of People & Culture. Ms. Lewis has focused on enabling our CPS Energy workforce to evolve with the fast-changing utility industry. Before that role, she progressed through Corporate Communications to ultimately become the VP of that area.

Before joining CPS Energy, Ms. Lewis worked in marketing communications and advertising for service industry clients ranging from healthcare to public transit. She is an advocate for STEM education and workforce development in San Antonio and serves on the advisory board for San Antonio's CAST public high schools. Ms. Lewis has a Bachelor of Arts in Communications from Texas State University and is a Certified Professional through the Society of Human Resource Management (SHRM).

Mr. Gary Gold is the CFO & Treasurer and oversees CPS Energy's Accounting & Finance functions. In this position, he is responsible for Accounting & Financial Reporting, Corporate Financial Planning, Cost Management, as well as Treasury, Strategic Pricing & Cost Recovery, Enterprise Risk Management and Financial Information Systems Management. Mr. Gold has more than 35 years of financial experience, primarily in the energy and utility sectors, having previously worked for Valero Energy and SBC Communications. He joined CPS Energy in 2005 and most recently served as Vice President of Corporate Services & Assistant Treasurer. He is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and Financial Executives International. Mr. Gold has a Bachelor of Business Administration degree in Accounting from the University of Texas at San Antonio.

Aligned with senior management's *People First* commitment to its customers, community and employees, over time CPS Energy has increased its internal focus on talent development. In particular, senior management has a robust Succession Planning Program that emphasizes development of talent on a regular basis, year-after-year. These efforts have proven beneficial, especially in

instances when CPS Energy executives retire or are sought after by other entities. Accordingly, senior management, under the leadership of CPS Energy's President & CEO, works on robust and effective short- and long-term personnel plans that promptly address departures of talent, whenever applicable. These constructive plans include, but are not limited to, promotions, streamlined team re-assignments, recruiting and other beneficial activities.

Political Action Committee Petition

In the fall of 2020, a coalition of citizen groups, known as Our Power PAC (a political action committee) announced a petition seeking to amend the City Charter as it relates to CPS Energy and its governance structure (the "CPS Petition"). Among other things, the CPS Petition sought to (1) replace the Board with a board comprised of City Council members, (2) replace the President & CEO with a director to be selected by the newly comprised board, (3) proscribe the powers and duties of the director, (4) establish an advisory commission, and (5) mandate certain energy and rate related policies.

Under State law, the City Charter may only be amended once every two years and was last amended on November 6, 2018. In order for any action to trigger an election to amend the City Charter, a valid petition consisting of at least 20,000 signatures of registered City voters gathered within 180 days of presentment must be received by the City Clerk for review and certification of the requisite number of signatures. The City Council, upon receipt of a certified petition, is then required to hold a public hearing and has sixty days to take action which (in addition to other actions) may include submitting the issue to the electorate by ordering an election on the next uniform election.

In January 2021, Our Power PAC publicly announced that the circulators did not receive the requisite number of signatures and the petition was not submitted to the City Clerk's office.

On November 12, 2020, the City, acting by and through CPS Energy filed a bond validation action under Texas Government Code Chapter 1205 in Travis County, Texas to validate the Bond Ordinances' provisions to further protect CPS Energy from any effort to modify these contracts outside of the methods described therein. The Travis County District Court heard the matter on December 7, 2020 and issued a Final Judgment and Permanent Injunction. The Court specifically found that the provisions of the Bond Ordinances, including the Ordinance, that vest management and control of the systems in the 5-member Board, establish 5-year terms for Trustees subject to one reappointment term, and set exclusive methods for amendment of the Bond Ordinances and each of the foregoing is "legal, valid, enforceable, and binding on the City" "for the entire time period during which the debt obligations of the Public Securities remain outstanding." The Court further declared that any actual or constructive amendment to the Bond Ordinances that failed to follow the exclusive methods set forth in the ordinances, that require a high-level of investor written consent, is invalid and would result in an impairment of contract. The Court also entered a permanent injunction against any person filing proceedings that contest the Bond Ordinances or the public securities issued thereunder. On February 23, 2021, two individuals filed a motion for new trial under Rule 329b of the Texas Rules of Civil Procedure and subsequently requested a hearing on the matter. A hearing has been scheduled for April 28, 2021 and will likely be held by a judge randomly selected from those sitting in Travis County because the judge who heard the matter has retired. The City, acting by and through CPS Energy, intends to defend vigorously against the motion for new trial; however, no prediction can be made, as of the date hereof, with respect to the outcome of the hearing or the outcome of any new trial that may be granted.

Management continues to communicate facts around its highly effective business strategies that have been thoughtfully designed to balance customer Affordability, Reliability, Resilience, Security, Safety, Environmental Responsibility, & Financial Stability.

RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES

RETAIL SERVICE AREA

Electric

The CPS Energy electric system serves a territory consisting of substantially all of Bexar County and small portions of the adjacent counties of Atascosa, Bandera, Bexar, Comal, Gillespie, Gonzalez, Guadalupe, Kendall, Kerr, Medina, Wilson. Certification of this service area was granted by the PUCT.

CPS Energy is currently the exclusive provider of retail electric service within this service area, including the provision of electric service to some federal military installations located within the service area. In 1999, the Texas Legislature enacted Senate Bill 7 ("SB 7"), which allows for retail electric competition within designated service areas upon a decision of the governing body having jurisdiction within such areas affirmatively acting to "opt-in" to such a competitive scenario. CPS Energy and the City have not elected to "opt-in." Until and unless the City Council and the Board exercise the option to opt-in to retail electric competition (called "Texas Electric Choice" by the PUCT), CPS Energy has the sole right to provide retail electric services in its service area.

On April 26, 2001, after a thorough feasibility study was conducted and reviewed, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002, the date Texas Electric Choice became effective. As stated above, SB 7 provides that electric "opt-in" decisions are to be made by the governing body or the body vested with the power to manage and operate a municipal utility such as CPS Energy. Given the relationship of the Board and the City Council, any decision to opt-in to electric competition would be based upon the adoption of resolutions by both the Board and the City Council. If CPS Energy and the City choose to opt-in, other retail electric energy suppliers would be authorized to offer retail electric energy in the CPS Energy service area and CPS Energy would be authorized to offer retail electric energy in any other service areas open to retail competition in ERCOT. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – THE ELECTRIC UTILITY INDUSTRY GENERALLY – ERCOT" herein. ERCOT is the independent entity that monitors and administers the flow of electricity within the interconnected grid that operates wholly within Texas; the term "ERCOT" also refers to the area within Texas served by this interconnected grid. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System - Interconnected System" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Governmentally Imposed Fees, Taxes or Payments" herein. CPS Energy has the option of acting in the role of the "Provider of Last Resort" (hereinafter defined) for its service area in the event it and the City choose to opt-in. See " SAN ANTONIO ELECTRIC AND GAS SYSTEMS - CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – THE ELECTRIC UTILITY INDUSTRY GENERALLY" and "– ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein.

Gas

The CPS Energy gas system serves Bexar County and portions of the surrounding counties of Comal, Guadalupe and Medina. In the counties of Kendall, Karnes, Wilson and Atascosa, CPS Energy has gas facilities but currently is not serving any customers. In Texas, no legislative provision or regulatory procedure exists for certification of natural gas service areas. As a result, CPS Energy competes against other gas supplying entities on the periphery of its electric service area.

Pursuant to the authority provided by Section 181.026, Texas Utilities Code, among other applicable laws, the City has executed a license agreement (the "License Agreement") with the City of Grey Forest, Texas (the "Licensee"), dated July 28, 2003, for a term through May 31, 2028. Pursuant to this License Agreement, the City permits the Licensee to provide, construct, operate and maintain certain natural gas lines within the boundaries of the City which it originally established in 1967 to provide extensions and other improvements thereto upon compliance with the provisions of the License Agreement and upon the payment to the City of a quarterly license fee of 3% of the gross revenues received by the Licensee from the sale of natural gas within the Licensed Area (as defined in the License Agreement). Thus, in the Licensed Area (which comprises less than 6.2% of the CPS Energy natural gas service area), CPS Energy is in direct competition with the Licensee, acting by and through Grey Forest Utilities, as a supplier of natural gas.

CPS Energy and the City of Castroville, a current wholesale power customer (See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES - Wholesale Power" herein), reached an agreement for CPS Energy to operate and maintain the Castroville gas system through October 1, 2022. Both the City of Castroville and the City of Lytle contracts have been renewed effective October 1, 2020 - October 1, 2022 with options to go month to month upon expiration. No further negotiations are in progress.

Franchise Agreements

CPS Energy maintains "Franchise Agreements" with 31 incorporated communities in the San Antonio area. These Franchise Agreements permit CPS Energy to operate its facilities in these cities' streets and public ways in exchange for a franchise fee of 4.5% on electric and natural gas revenues earned within their respective municipal boundaries. Four of the 31 cities have elected to increase franchise fees to 5.5%, two that went into effect February 1, 2015, the third went into effect January 1, 2018, and the fourth went into effect on May 1, 2020. Certain cities retain the ability to seek a 1% increase in their franchise fee under the applicable agreements related thereto. The additional 1% only applies to customers within those four jurisdictional city boundaries.

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Customer Base as of October 31, 2020

Electric ⁽¹⁾			Gas ⁽¹⁾		
	Number	Percent		Number	Percent
Residential	778,842	89%	Residential	344,453	94%
Commercial & Industrial	76,852	9%	Commercial	17,388	5%
All Night Security Lighting	13,423	2%	Industrial & Public		
Street Lighting, Public Authorities			Authorities	2,728	1%
& Other Utilities ⁽²⁾	10,032	1%			
Total	879,149	100%	Total	364,569	100%

(1) See "FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY" and "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" herein for information regarding consumption of energy and contribution of revenues to the Systems by the average customers for these categories as of October 31, 2020.

(2) Also includes off-system sales customers.

WHOLESALE POWER

CPS Energy has an active program to optimize its excess power generation capacity in the wholesale power market, which includes both power purchases and power sales when such can be reasonably expected to reduce cost or generate revenue for the electric system. As a part of managing the power generation portfolio, CPS Energy may also purchase power if there is an unanticipated deficit in capacity, to maintain reserve margins, to enhance reliability for the electric system, or when economically prudent to reduce overall costs of its obligations in the ERCOT market.

Trained, experienced staff in CPS Energy's Energy Market Operations, who report to the CPS Energy Interim Vice President for Energy Supply and Market Operations, conduct wholesale power transactions in accordance with established procedures. CPS Energy is a Qualified Scheduling Entity ("QSE") within ERCOT which allows CPS Energy to manage both load and generation in the ERCOT real-time and day-ahead markets. The QSE function is also managed by the Energy Market Operations. The governance for ERCOT market activity is established by the Energy Markets and Risk Management Policy. Under this policy, the Energy Portfolio Strategy Committee, comprised of select executive leadership, provides comprehensive review and oversight of proposed wholesale transactions to ensure alignment with CPS Energy strategies, including evaluation of the associated risks. CPS Energy conducts wholesale power transactions only with approved counterparties with which CPS Energy has established master enabling agreements for such transactions. The enabling agreements outline payment and delivery terms and conditions of such sales and purchases, and provide for written confirmation of each transaction between CPS Energy and its counterparts.

CPS Energy sells wholesale electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville. These three wholesale supply agreements have been renewed and have terms expiring in 2025, 2022, and 2022, respectively.

Long-term supply agreements have been entered with Central Texas Electric Cooperative, the City of Boerne, the City of Seguin, and the Kerrville Public Utility Board to provide supply for terms that began in June 2013 and extend through 2021. There are no plans to renew the Central Texas Electric Cooperative contract at this time. The other three entities are extended through 2023. The requirements under the existing wholesale agreements are firm energy obligations of CPS Energy. In addition, from time to time, CPS Energy provides a variety of supply arrangements on a short-term basis for terms ranging from one month up to one year with a variety of approved counterparts.

CUSTOMERS AND RATES

CUSTOMER RATES

CPS Energy's electric and gas monthly rate schedules list the currently effective monthly charges payable by CPS Energy customers. Each rate schedule briefly describes the types of service CPS Energy renders to customers billed in accordance with that rate schedule, plus customer eligibility criteria. Customers with similar load and usage characteristics are grouped into rate classes and are billed in accordance with the same rate schedule. The different electric rate classes include rate schedules for residential, commercial, and industrial customers. There are also rate schedules for street lighting, all night security lights, and wholesale power to other electric utilities. The gas rate schedules are categorized into general, commercial and industrial.

Retail Service Rates

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility ("IOU"). Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over electric IOUs primarily encompasses only the transmission and distribution functions. PURA generally excludes Municipal Utilities, such as CPS Energy, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility such as CPS Energy has exclusive jurisdiction to set rates applicable to all services provided by the Municipal Utility with the exception of electric wholesale transmission activities and rates. Unless and until the City Council and Board choose to opt-in to electric retail competition, CPS Energy retail service electric rates are subject to appellate, but not original rate regulatory jurisdiction by the PUCT in areas that CPS Energy serves outside the City limits. To date, no such appeal to the PUCT of CPS Energy retail electric rates has ever been filed. CPS Energy is not subject to the annual PUCT gross receipts fee payable by IOU electric utilities. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein.

The Railroad Commission of Texas ("RRCT") has significant original jurisdiction over the rates, services and operations of natural gas utilities in the State. Municipal Utilities such as CPS Energy are generally excluded from regulation by the RRCT, except in matters related to natural gas safety. CPS Energy retail gas service rates applicable to ratepayers outside the City are subject to appellate, but not original rate regulatory jurisdiction by the RRCT in areas that CPS Energy serves outside the City limits. To date, no such appeal to the RRCT of CPS Energy retail gas rates has ever been filed. In the absence of a contract for service, the RRCT also has jurisdiction to establish gas transportation rates for service to Texas State agencies by a Municipal Utility. A Municipal Utility is also required to sell gas to and transport State-owned gas for "public retail customers," including State agencies, State institutions of higher education, public school districts, United States military installations, and United States Veterans Affairs facilities, at rates provided by written contract between the Municipal Utility and the buyer entity. If agreement to such a contract cannot be reached, a rate would be set by the legal and relevant regulatory body.

The City has covenanted and is obligated under the Bond Ordinances, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all maintenance and operating expenses of the Systems and to pay the debt service requirements on all revenue debt of the Systems, including the outstanding Senior Lien Obligations, any Additional Senior Lien Obligations, the outstanding Junior Lien Obligations, obligations arising under liquidity facilities relating to such Junior Lien Obligations, any Additional Junior Lien Obligations, the Notes (and related Liquidity Facilities) and any Inferior Lien Obligations, and to make all other payments prescribed in the Bond Ordinances.

CPS Energy has periodic rate increases, with the most recent electric and gas base rate increase of 4.25% implemented on February 1, 2014 (the first such rate increase since a 7.5% electric base rate increase and an 8.5% gas base rate increase became effective on March 1, 2010). CPS Energy expects to continue to periodically seek electric and gas base rate increases that are intended to maintain debt coverage, debt-to-equity and liquidity ratios.

CPS Energy is continuing to analyze the size and potential date of a base rate increase. However, CPS Energy has not determined when this will take place, or the percentage rate increase related thereto. CPS Energy will continue to update its ratepayers and the community as appropriate.

Year-after-year, CPS Energy's management team continually monitors and analyzes its cash and revenue positions. Within this process, CPS Energy assesses its projections for actual and anticipated costs and expenses. This information is also used to evaluate the scope and timing of potential requests for rate adjustments. When possible, the CPS Energy team shares this approach with the public to ensure there is general awareness that rate adjustments will be needed from time-to-time. CPS Energy has not implemented a rate increase in over seven years for several reasons such as a continual focus on cost control and prudent implementation of technology, as well as the effective recovery of its energy efficiency, conservation and fuel costs, including its purchase power agreements and the refunding of revenue bond obligations for debt service savings. At the point CPS Energy's management team determines it is time for a new rate case, a formal and substantiated request will be made to its Board, at a public meeting in open session. When approved by the Board, the rate case will continue to be discussed publicly and the request will be presented to the City Council for consideration.

In addition to standard service rates, CPS Energy also provides several rates and riders for a variety of programs and products. Since May 2000, under Rider E15, CPS Energy has offered a monthly contract for renewable energy service (currently wind-generated electricity). The High Load Factor ("HLF") rate, first offered in February 2014, is available to customers with new or added load of 10 megawatts ("MW") or greater. The HLF rate requires eligible customers to maintain an annual billing load factor of 90 percent or more and meet the requirements of Rider E16. Rider E16 offers discounts off the Super Large Power ("SLP") and

HLF demand charge for a period up to four years for new or added load of at least 10 MW. Under certain conditions, the discount may be extended for up to an additional six years. Eligible customers that qualify for Rider E16 discounts must also meet City employment targets or other related performance metrics and targets for purchases of goods or services from local businesses. Since July 2012, under Rider E19, CPS Energy provides an optional service offering of electricity generated by wind-powered turbines, solar-powered systems, or other renewable resources. Additionally, Rider E20, which became effective February 1, 2015, waives late fees for individuals 60 years or older with income at or below 125% of the federal poverty level. CPS Energy revised its "Rules and Regulations Applying to Retail Utility Service", effective March 1, 2019, which contains provisions for alternative payment plans, payment assistance, and extensions, and is now referred to as "CPS Energy Customer Terms and Conditions Applying to Retail Utility Service". The New Service Options ("NSO") tariff, effective October 2018, is an umbrella tariff that enables CPS Energy to offer new service options on a pilot basis, with oversight by the City's Office of Public Utilities. This tariff allows CPS Energy to provide innovative energy services while gauging customer interest and gathering information to refine the offering. The Commercial Electric Vehicle Pilot Rate was the first offering under the NSO tariff.

CPS Energy also has rates that permit recovery of certain miscellaneous customer charges and for extending lines to provide gas and electric service to its customers. The Policy for Miscellaneous Customer Charges is approved periodically by the Board and is subject to a corresponding City ordinance.

In May 2009, the City Council established a mechanism to fund CPS Energy's Save for Tomorrow Energy Plan ("**STEP**"), an energy efficiency and conservation program to be funded largely through the electric fuel adjustment fee. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein. The total cost of the **STEP** program during the 2009 to 2020 time period was approved at \$849 million with annual costs ranging from \$12.3 million to over \$111 million. While approximately \$9 million is currently recovered each year through existing base rates, the additional costs for the **STEP** program will be recovered through a **STEP** charge applied to the electric fuel adjustment as stated above. Through Fiscal Year 2020, the accumulated cost for the **STEP** program was \$723 million. As of January 31, 2020, CPS Energy quantified a cumulative reduction of 845 MW. Over the lifetime of **STEP**, the benefits of the program have exceeded the implementation costs to achieve energy savings. As the **STEP** goal was achieved a year early, in January 2020, the Board and City Council voted to extend the existing **STEP** program. The extended program, known as "**STEP Bridge**", was approved to spend \$70 million to reach a targeted, additional reduction of 75 MW. CPS Energy envisions **STEP Bridge** delivering a diverse portfolio of programs to assist customers to save energy. Seeking feedback from a broad array of customers and key stakeholders, CPS Energy is using the information that it gathers to update, design, and create programs and services that meet the needs of its diverse set of customers. In light of COVID-19 and delays in achieving the **STEP Bridge** goals, CPS Energy sought and received City Council approval to extend the **STEP Bridge** program. In January 2021, the City Council authorized CPS Energy to expend up to an additional \$70 million on energy efficiency and conservation programs to be completed by July 2022. During the extension, CPS Energy will continue to seek customer and community feedback to inform its' proposed long-term program to be called **FlexSTEP**. For additional information on CPS Energy's **STEP** energy efficiency and conservation programs, *see* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – STRATEGIC INITIATIVES – *Flexible Path*SM Strategy" herein.

New Tariff

CPS Energy continues to innovate to meet the emerging needs of its customers. On August 20, 2020, the City Council approved an optional "Green Tariff" for large commercial customers which offers access to renewable energy. This new product option was created to facilitate large customers' goals of accelerating their access to renewable energy. Under this tariff, customers may ask CPS Energy to provide renewable energy from specific sources that meet their needs. The Green Tariff has three main components: a monthly grid share charge, a demand charge, and energy charges based on a renewable energy supply agreement. CPS Energy is also evaluating other optional product offerings that will enable customers to use renewable energy while still covering the full cost of service.

Fuel and Gas Cost Adjustment

The Systems' tariffs feature a fuel cost adjustment provision in the electric rates and a gas cost adjustment provision in the gas rates, which allow CPS Energy to reconcile fuel and gas cost variances above or below levels included in base rates. CPS Energy's electric rates are subject to a positive or negative monthly adjustment equal to the variance in the price of fuel above or below a base cost of \$0.01416 per kilowatt-hour ("kWh"). Similarly, CPS Energy's base gas rates are subject to an adjustment equal to the variance in the price of natural gas above or below a base cost of \$0.220 per 100 cubic feet ("CCF"), approximately equivalent to \$2.167 per one million MMBtu. A British Thermal Unit ("Btu") is a measure of energy content in fuel, and is used in the power steam generation, and heating and air conditioning industries. Natural gas is usually measured in Btus. However, the foregoing is qualified by the 2021 Winter Weather Event, which may alter these costs.

Governmentally Imposed Fees, Taxes or Payments

The rates, as previously approved by various rate ordinances adopted by the City Council, may be adjusted without further action by the City Council to reflect the increase or decrease in fees, taxes or other required payments to governmental entities or for governmental or municipal purposes which may be hereafter assessed, imposed, or otherwise required and which are payable out of or are based upon net revenues of the Systems.

In March 2000, two new governmental assessments resulting from regulatory changes in the Texas electric utility industry, including the open access wholesale transmission charges, were added to CPS Energy's electric billings as regulatory adjustments and are updated annually or as needed. The first assessment recovers additional ERCOT-related transmission expenditures not recovered through CPS Energy's current base rates. For CPS Energy residential customer rates, this adjustment (effective February 2021) adds \$0.01161 per kWh sold. The second assessment relates to CPS Energy's share of the cost to fund the staffing and operation of ERCOT, the Independent System Operator ("ISO"), and the quarterly Electric Reliability Organization ("ERO") fee. The PUCT retains oversight authority over ERCOT. For all CPS Energy retail customers, this charge increases bills by \$0.00075 per kWh sold.

In March 2005, the RRCT began imposing a regulatory fee to cover the cost of regulation by the RRCT. The fee is based upon the number of active gas customers and is recovered from CPS Energy gas customers through the payment of an annual fee assessed one time during the year.

Transmission Access and Rate Regulation

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), Municipal Utilities, including CPS Energy, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method, which sets the price for transmission at the system average for ERCOT. CPS Energy's wholesale open access transmission charges are set out in tariffs filed with the PUCT and are based on its transmission cost of service approved by the PUCT, representing CPS Energy's input to the statewide postage stamp pricing model. The PUCT's rule, consistent with provisions in PURA § 35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities to facilitate wholesale transmission service. Additional information on recovery of ERCOT transmission fees is discussed in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Governmentally Imposed Fees, Taxes or Payments" and transition to the nodal market is discussed in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Interconnected System" herein.

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TEN-YEAR ELECTRIC CUSTOMER STATISTICS⁽¹⁾

	Fiscal Years Ended January 31,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
RESIDENTIAL										
Average Monthly kWh/ Customer	1,177	1,281	1,187	1,170	1,182	1,149	1,119	1,117	1,122	1,111
Average Monthly Bill/ Customer	\$107.01	\$118.48	\$109.74	\$115.20	\$120.17	\$122.81	\$120.25	\$122.70	\$124.14	\$118.28
Average Monthly Revenue/kWh	\$0.0909	\$0.0925	\$0.0924	\$0.0985	\$0.1017	\$0.1069	\$0.1075	\$0.1098	\$0.1106	\$0.1065
COMMERCIAL AND INDUSTRIAL										
Average Monthly kWh/ Customer	10,880	11,230	11,059	10,967	10,848	10,888	11,049	10,967	10,874	10,810
Average Monthly Bill/ Customer	\$835.16	\$877.37	\$853.02	\$905.84	\$922.86	\$961.12	\$978.60	\$1,009.75	\$1,003.04	\$951.02
Average Monthly Revenue/kWh	\$0.0768	\$0.0781	\$0.0771	\$0.0826	\$0.0851	\$0.0883	\$0.0886	\$0.0921	\$0.0922	\$0.0880
ALL CUSTOMERS										
Average Monthly kWh/ Customer	2,400	2,536	2,421	2,389	2,381	2,342	2,326	2,299	2,284	2,251
Average Monthly Bill/ Customer	\$196.30	\$211.41	\$200.22	\$211.25	\$217.35	\$223.24	\$221.98	\$226.11	\$226.20	\$214.08
Average Monthly Revenue/kWh	\$0.0818	\$0.0834	\$0.0827	\$0.0884	\$0.0913	\$0.0953	\$0.0954	\$0.0983	\$0.0990	\$0.0951

(1) Excludes unbilled revenues and off-system sales.

**HISTORICAL RECORD OF CITY OF SAN ANTONIO GENERAL FUND
BENEFITS FROM CITY'S ELECTRIC AND GAS UTILITY SYSTEMS**

(Dollars in thousands)

	Fiscal Years Ended January 31,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Payments To City ^{(1),(2)}	\$ 276,863	\$ 286,943	\$ 271,589	\$ 296,672	\$ 320,933	\$ 320,454	\$ 324,469	\$ 338,455	\$ 361,351	\$ 342,989

(1) Payments to the City, by ordinance, are not to exceed 14% of CPS Energy's gross revenue (includes wholesale revenues), and includes cash payments and refund of charges for furnishing the City electricity and gas services, and for a street light replacement program.

(2) Excludes additional payments to the City. See "CAPITAL PROGRAM" herein.

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FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY

	Fiscal Years Ended January 31,				
	2016	2017	2018	2019	2020
ELECTRIC SYSTEM					
SALES IN kWh⁽¹⁾					
Residential	9,469,946,381	9,442,880,084	9,634,693,060	9,913,513,494	10,038,080,665
Commercial & industrial	9,126,055,853	9,389,924,617	9,416,835,850	9,584,259,393	9,714,043,700
Street lighting	74,213,309	74,236,222	71,894,810	69,500,510	67,702,803
Public authorities	2,710,033,507	2,832,860,627	2,813,558,496	2,792,584,406	2,781,803,288
Other utilities ⁽²⁾	6,443,248,042	5,404,120,814	5,957,173,759	8,997,699,166	6,058,856,975
ANSL ⁽³⁾	21,713,403	21,569,842	21,313,293	20,959,056	19,767,424
Total sales in kWh	<u>27,845,210,495</u>	<u>27,165,592,206</u>	<u>27,915,469,268</u>	<u>31,378,516,025</u>	<u>28,680,254,855</u>
AVERAGE NUMBER OF CUSTOMERS					
Residential	686,672	703,397	718,703	736,281	752,952
Commercial & industrial	69,850	70,821	71,554	73,447	74,884
Street lighting	2,381	2,472	2,503	2,552	2,627
Public authorities	6,824	7,027	7,040	7,146	7,328
Other utilities ⁽²⁾	18	16	17	16	13
ANSL ⁽³⁾	12,350	12,545	12,785	13,080	13,233
Total customers	<u>778,095</u>	<u>796,278</u>	<u>812,602</u>	<u>832,522</u>	<u>851,037</u>
kWh SALES PER CUSTOMER					
Residential	13,791	13,425	13,406	13,464	13,332
Commercial & industrial	130,652	132,587	131,605	130,492	129,721
GAS SYSTEM					
SALES IN MCF⁽¹⁾					
Residential	10,307,616	8,532,993	9,125,564	10,487,800	10,532,808
Commercial	10,335,964	10,403,729	10,300,019	11,235,038	11,593,503
Industrial	688,496	714,741	1,014,176	982,251	1,438,925
Public authorities	2,553,464	2,390,299	3,049,253	2,885,133	3,306,480
Total sales in MCF	<u>23,885,540</u>	<u>22,041,762</u>	<u>23,489,012</u>	<u>25,590,222</u>	<u>26,871,716</u>
AVERAGE NUMBER OF CUSTOMERS					
Residential	317,001	321,023	324,456	329,928	335,154
Commercial	17,632	17,612	17,408	17,613	17,515
Industrial	45	44	42	38	35
Public authorities	2,722	2,718	2,744	2,759	2,787
Total customers	<u>337,400</u>	<u>341,397</u>	<u>344,650</u>	<u>350,338</u>	<u>355,491</u>
MCF SALES PER CUSTOMER					
Residential	33	27	28	32	31
Commercial	586	591	592	638	662
Industrial	15,300	16,244	24,147	25,849	41,112

(1) Excludes unbilled revenues.

(2) Includes Off-Systems Sales.

(3) All Night Security Lighting.

FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE⁽¹⁾

	Fiscal Years Ended January 31,				
	2016	2017	2018	2019	2020
ELECTRIC SYSTEM					
BILLED REVENUES					
Residential	\$1,012,380,845	\$1,015,038,320	\$1,058,223,884	\$1,096,861,931	\$1,068,738,092
Commercial & Industrial	805,608,732	831,661,495	867,020,589	884,042,765	854,607,500
Street lighting	15,510,427	15,740,447	16,308,397	16,528,500	16,505,845
Public authorities	213,045,600	220,861,372	229,644,538	229,522,828	219,309,619
Other utilities ⁽²⁾	256,036,895	199,261,371	226,938,193	353,349,317	239,305,653
ANSL ⁽³⁾	5,251,978	5,359,993	5,569,333	5,653,745	5,621,729
Other	13,616,484	17,750,895	16,794,130	16,653,465	20,825,911
Total revenues	<u>2,321,450,961</u>	<u>2,305,673,893</u>	<u>2,420,499,064</u>	<u>2,602,612,551</u>	<u>2,424,914,349</u>
OPERATION & MAINTENANCE EXPENSE					
Production	962,516,339	906,097,678	982,142,687	1,015,016,433	915,986,314
Transmission	17,733,327	19,376,671	20,502,981	20,434,054	21,172,017
Distribution	94,473,807	100,054,517	106,083,499	105,647,643	107,540,953
Regulatory assessments	66,964,644	74,965,322	84,082,545	86,202,067	82,622,243
Energy efficiency	56,374,842	62,392,909	88,544,058	89,036,212	73,049,721
Customer accounts & information	25,627,083	27,601,956	28,068,874	25,329,711	24,475,716
Administrative & general	137,185,660	169,906,729	135,585,175	143,630,674	164,909,958
Payroll taxes ⁽⁴⁾	6,078,062	6,516,970	6,518,951	6,864,209	6,884,451
STP decommissioning expense	1,800,000	900,000	-	-	-
Total expenses	<u>1,368,753,764</u>	<u>1,367,812,752</u>	<u>1,451,528,770</u>	<u>1,492,161,003</u>	<u>1,396,641,373</u>
Operating income - electric	<u>952,697,197</u>	<u>937,861,141</u>	<u>968,970,294</u>	<u>1,110,451,548</u>	<u>1,028,272,976</u>
GAS SYSTEM					
BILLED REVENUES					
Residential	95,957,894	87,877,114	92,882,226	93,397,594	82,640,922
Commercial & Industrial	63,530,526	65,788,279	68,726,158	61,288,254	47,371,294
Public authorities	13,273,493	13,009,567	16,661,794	14,518,732	10,524,742
Other	1,678,390	1,840,830	1,531,804	1,533,592	2,402,972
Total revenues	<u>174,440,303</u>	<u>168,515,790</u>	<u>179,801,982</u>	<u>170,738,172</u>	<u>142,939,930</u>
OPERATION & MAINTENANCE EXPENSE					
Gas purchased	75,542,105	72,749,732	82,997,836	63,797,135	43,669,989
Distribution	17,688,066	21,449,708	27,769,265	27,882,646	30,290,497
Customer accounts & information	12,315,617	13,265,003	13,360,533	12,008,808	12,055,201
Administrative & general	10,360,657	13,048,835	9,696,966	10,684,768	12,319,422
Payroll taxes ⁽⁴⁾	310,246	326,119	320,354	348,486	371,084
Total expenses	<u>116,216,691</u>	<u>120,839,397</u>	<u>134,144,954</u>	<u>114,721,843</u>	<u>98,706,193</u>
Operating income - gas	<u>58,223,612</u>	<u>47,676,393</u>	<u>45,657,028</u>	<u>56,016,329</u>	<u>44,233,737</u>
Combined operating income - Electric and gas	1,010,920,809	985,537,534	1,014,627,322	1,166,467,877	1,072,506,713
Nonoperating income ⁽⁵⁾	18,793,828	19,930,413	24,109,514	34,909,386	34,322,842
Net revenues, per ordinances	<u>\$1,029,714,637</u>	<u>\$1,005,467,947</u>	<u>\$1,038,736,836</u>	<u>\$1,201,377,263</u>	<u>\$1,106,829,555</u>
DEBT SERVICE					
Senior lien obligations ⁽⁶⁾ -					
Principal and interest	\$280,520,356	\$290,264,115	\$270,079,605	\$259,725,621	\$223,291,750
Junior lien obligations -					
Principal and interest	94,723,593	98,996,034	120,996,491	148,178,685	148,805,700
Other interest & debt-related costs	4,145,376	5,443,039	6,074,018	11,113,767	20,634,735
Total debt service	<u>\$379,389,325</u>	<u>\$394,703,188</u>	<u>\$397,150,114</u>	<u>\$419,018,073</u>	<u>\$392,732,185</u>
DEBT SERVICE COVERAGE					
Senior & junior lien obligations, commercial paper, FRRN ⁽⁷⁾	2.71x	2.55x	2.62x	2.87x	2.82x
Senior lien obligations	3.67x	3.46x	3.85x	4.63x	4.96x

(1) Excludes unbilled revenue and component units (STP Decommissioning).

(2) The lower wholesale sales revenues and related sales volume for FY 2017 were a result of plant outages and the expiration of long-term contracts in FY 2017. The higher wholesale sales revenues and related volumes for FY 2018 and FY 2019 were primarily a result of increased market opportunities. The decreased wholesale sales revenues and related volumes in FY 2020 were primarily a result of decreased market opportunities.

(3) All Night Security Lighting.

(4) Payroll taxes are allocated separately to Production, Transmission and Distribution.

(5) Excludes fair value adjustments and gain/loss from ineffective hedging transactions.

(6) Amount shown is gross debt service and does not include any cash contributions made.

(7) On January 22, 2019, the FRRN private placement program's balance of \$25.2 million was paid off. At January 31, 2019, there was no outstanding balance under the FRRN program. See "INTRODUCTORY STATEMENT - General Description of CPS Energy Revenue Debt and Priority of Liens - Inferior Lien Obligations herein" for a description of the City's previous issuance of Flex Rate Notes and the current authorization to issue additional Inferior Lien Obligations prospectively.

OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO

CPS Energy, on an ongoing basis, conducts internal reviews and prepares forecasts and models to project immediate and intermediate operational and financial impacts attributable to the COVID-19 pandemic. These forecasts and projections are presented to the CPS Energy Board at its monthly meetings and are available to the general public online at www.cpsenergy.com. See "USE OF INFORMATION IN OFFICIAL STATEMENT" and "FORWARD - LOOKING STATEMENTS" herein.

Because of the relative unknown of the total impact of the COVID-19 pandemic, CPS Energy's analyses related to budgeted versus actual performance provides both "medium" and "high" impact assessment scenarios. CPS Energy has experienced reduced demand, but this is not both deep and uniform across sectors (for example, and as would be expected, residential usage (which comprises 42.7% of total load) in January 2021 is up 5.4% compared to budget, while other sectors (such as education, manufacturing, and hospitality services) are down but trending upward. Also, decreased revenues and increased expenses related to COVID-19 response will be mitigated by cost reduction measures such as strategic hiring freezes, travel suspensions, and delayed capital expenditures. CPS Energy also continues to take steps to assist its customers during the COVID-19 pandemic, including suspending disconnects for non-payment (although such suspensions may be lifted prospectively) and adopting a resolution suspending late fees when a customer enrolls in a payment plan. CPS Energy continues to monitor its customer receivables and has seen a continued increase in past due balances. As of January 31, 2021, past due balances were \$93 million, which is an increase of \$54 million compared to prior year. Past due balances over 90 days are reserved at over 75%. In addition to closely monitoring the customer receivable balances, CPS Energy also provides customers in need with information about assistance programs, including connecting them with partner organizations that can also provide help during this trying time. CPS Energy also raises funds for the Residential Energy Assistance Partnership to help customers pay their bills. CPS Energy received recognition from the energy industry for its efforts in serving the community during the COVID-19 pandemic. These measures, though socially responsible, may not be enough to prevent potential notable increases in future bad debt expenses, which could be financially unfavorable.

CPS Energy continues to analyze actual operational results to understand demand patterns, monitor accounts receivable and provide customers with information on assistance programs, focus on cash flow to ensure liquidity, prioritize ongoing spending for additional cost reductions and cash savings (including renegotiating contracts with financially favorable terms), and identify emerging risks, while regularly providing updates to the Board and broader community. CPS Energy expects to continue its financial managerial approach to proactively address budget challenges and continue to preserve flexibility so that CPS Energy can adapt as conditions change and positioning itself for recovery effort. The assumptions related to the foregoing projections are based upon the expectation that conditions experienced as a result of the COVID-19 pandemic (remote work policies, closing or limited hours of high-energy usage businesses) will continue in the immediate term.

Investors are directed to the CPS Energy website identified above for future, publicly available updates regarding operations, results and projections concerning financial performance.

On March 2, 2021, Governor Greg Abbott signed executive order GA-34 lifting the COVID-19 restrictions on occupancy of businesses and the mask mandate. Businesses may continue to follow the health and safety protocols they deem appropriate. CPS Energy's COVID-19 protocols currently have not changed.

FINANCIAL MANAGEMENT OF THE SYSTEMS

MANAGEMENT DISCUSSION

CPS Energy's Basic Financial Statements for the fiscal years ended January 31, 2020 and 2019, and the Independent Auditors' Report thereon are included in APPENDIX B and the unaudited financial statements for the period ending October 31, 2020 are included in APPENDIX C. CPS Energy follows Governmental Accounting Standards Board ("GASB") Statement No. 34, which requires the preparation of Basic Financial Statements to include an unaudited Management's Discussion and Analysis ("MD&A") in connection with audited Basic Financial Statements and Related Notes as well as unaudited Required Supplementary Information ("RSI") of CPS Energy. Reference is hereby made to APPENDIX B for the MD&A, Financial Statements & Related Notes and RSI pertaining to the CPS Energy fiscal year ended January 31, 2020. The Basic Financial Statements for each of the three most recently completed fiscal years and certain interim audited and unaudited financial reports are made available by CPS Energy to the general public and are accessible at www.cpsenergy.com. The terms "audited financial reports", "audited financial statements", "financial reports" and "financial reporting" herein are in reference to the audited and unaudited components of the financial package prepared to GASB Statement No. 34 standards and provided in whole or in part within APPENDIX B and as applicable, APPENDIX C. Unaudited financial results for the period ended October 31, 2020, are provided in APPENDIX C and are the subject of certain calculations delivered by CPS Energy's independent auditors at the time of initial delivery of the Bonds. CPS Energy's financial statements for fiscal year ended January 31, 2021, are currently being reviewed by CPS Energy's external auditors and such annual audit is expected to be concluded on April 26, 2021.

Certain historical financial information presented in this Official Statement in table format was derived from CPS Energy's annual audited financial reports, though the presentation format itself was not separately audited.

The operating results of the Systems reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and other operating costs, utility industry regulation and deregulation, environmental regulation, economic growth of the community, population, weather, and other matters; the nature and effect of which cannot at present be determined. See "FORWARD-LOOKING STATEMENTS" and "USE OF INFORMATION IN OFFICIAL STATEMENT" herein.

ACCOUNTING POLICIES

CPS Energy is subject to and complies with the provisions of GASB pronouncements and guidance made from time to time, upon assessment of applicability to and implementation by CPS Energy. GASB pronouncements and guidance to which CPS Energy adheres and implements are described in its audited financial statements. For a description of recent GASB pronouncements and guidance, as well as CPS Energy's response thereto in connection with its fiscal year 2020 financial reporting, see CPS Energy's fiscal year 2020 Basic Financial Statements and Independent Auditors' Report included in APPENDIX B.

Other than the changes resulting from GASB pronouncements and guidance that are described in CPS Energy's fiscal year 2020 Basic Financial Statements and Independent Auditors' Report, there were no additional significant accounting principles or reporting changes implemented in the fiscal year ended January 31, 2020, or the period ended October 31, 2020. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2020, and the period ended October 31, 2020. These accounting changes and the effects on the financial statements are described in greater detail in the MD&A and in the Notes to CPS Energy's fiscal year 2020 Basic Financial Statements and Independent Auditors' Report included in APPENDIX B hereto.

DEBT AND ASSET MANAGEMENT PROGRAM

CPS Energy has developed a debt and asset management program ("Debt Management Program") for the purposes of lowering the debt component of energy costs, maximizing the effective use of cash and cash equivalent assets and enhancing financial flexibility. An important part of the Debt Management Program is debt restructuring through the prudent employment of variable rate debt. CPS Energy does not currently use interest rate swaps, but continues to assess them as potential debt management tools that could be incorporated into the CPS Energy debt portfolio in the future. The Debt Management Program also focuses on the use of unencumbered cash and available cash flow, when available, to redeem debt ahead of scheduled maturities as a means of reducing outstanding debt. The Debt Management Program is designed to lower interest costs, fund strategic initiatives and increase net cash flow. CPS Energy has a Debt Management Policy, providing guidelines under which financing and debt transactions are managed. These guidelines focus on financial options intended to lower debt service costs on outstanding debt, facilitate alternative financing methods to capitalize on the present market conditions, optimize capital structure, and maintain favorable financial ratios. Under these guidelines, CPS Energy's gross variable rate exposure cannot exceed 25% of total outstanding debt. Gross variable rate debt as of the date hereof and reflecting issuance of the Bonds, is estimated to comprise approximately 15.5% of CPS Energy's debt portfolio (including the Flex Rate Notes).

CPS Energy management continually evaluates the inventory of all non-core business assets and determines if these assets should be divested for more efficient use.

FINANCIAL RESPONSIBILITY AND INTERNAL AND EXTERNAL REPORTING

CPS Energy management is responsible for designing and implementing an effective internal control environment that manifests in internal and external reporting for various purposes, including offering documents relating to capital markets debt issuances and related disclosure filings. This environment includes the policies, procedures, practices, technology and organizational structures that help CPS Energy achieve its operational objectives, reliable financial reporting, and compliance with laws, regulations and policies (including determination of materiality of operational events for purposes of market disclosure). From time-to-time, this process results in identification of deficiencies in procedural controls and opportunities for improvement and or enhancement of the control environment. The reporting construct reflects the values of CPS Energy and plays an important role in detecting, preventing, and (when circumstances warrant), mitigating the impacts of internal and external fraud. When deficiencies or malfeasance are identified, CPS Energy management follows an established internal process that includes prompt action to correct the issue and implement any necessary system improvements to address an identified deficiency. This evolving process allows CPS Energy staff to remain vigilant, continuously learning from experience and strengthening the internal control environment that targets protection of CPS Energy's assets and its operations.

CAPITAL PROGRAM

Comprehensive programs for planning and construction to meet current and future electric and gas systems needs are continually being reviewed and updated, and are aligned with the strategic plan. CPS Energy utilizes computer-based mathematical models for its forecasting processes. CPS Energy bases its near-term construction and operating needs on a five-year forecast. This short-term annual forecast is supported by a 35-year electric resource plan and is integrated into the long-term financial plan. These assumptions are subject to substantial change and are revised as necessary to maintain CPS Energy's competitive position.

While short-term energy demand projections have been impacted by recent economic developments and while energy efficiency and conservation are expected to reduce usage through **STEP**, positive customer growth is still expected. CPS Energy expects to see continued growth of its customer base for the Systems due to projected population growth in the San Antonio area. The current energy sales and peak demand forecast predicts annual increases in sales over the next 25 years between 1-2% and 0.5-1.6% in electric and gas sales, respectively, and an average peak demand growth rate between 1-2% per year over the next 25 years. CPS Energy has continued to expand its electric customer extensions, with ongoing construction growth in this area. The capital projects in fiscal year 2021 are being funded with transfers from internally generated funds, debt proceeds, and other sources.

A capital improvement plan is made for planning purposes and may identify projects that may be deferred or omitted entirely in future years. In addition, the proposed funding sources for the plan may be modified to meet changing conditions. Likewise, as conditions change, new projects may be added that are not currently identified. CPS Energy continually monitors and updates the capital plan with estimates of expenditures necessary to meet proposed and probable new environmental regulations and regulatory standards. Prior to the onset of the COVID-19 pandemic and the 2021 Winter Weather Event (together, the "Events"), CPS Energy's five-year capital improvement plan forecasted from February 1, 2020 to January 31, 2025 was \$3.705 billion. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Additional Generation Opportunities – Nuclear" herein.

Construction projects include electric transmission, electric generation, electric distribution, general properties, and gas facilities. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System" herein. The capital program is primarily driven by the electrical and transmission functions and includes expenditures for various infrastructure and modernization projects as well as regulatory and customer growth projects. The remainder of the capital budget is for power generation, gas distribution, and shared services including the deployment of a grid optimization program and various other demand side management technology initiatives.

Over the five-year period covered by the previous capital plan, construction funding from debt proceeds averages approximately \$337.6 million per year. Due to the 2021 Winter Weather Event, these plans have been modified. See "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein for current finance plans (which are subject to change as CPS Energy receives additional information).

INSURANCE PROGRAM

CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major financial risks. The property insurance program provides \$3.5 billion of replacement value for property and boiler, machinery loss coverage including comprehensive automobile coverage, fire damage coverage for construction equipment, and valuable papers coverage. The deductible levels for the property insurance policy are \$5.0 million per occurrence for power plants, \$2.5 million per occurrence for substations and \$1.0 million per occurrence for all other property locations. The liability insurance program includes (1) excess liability coverage with a \$100.0 million policy limit at a \$3.0 million self-insured retention, and (2) excess workers compensation coverage with a \$35.0 million policy limit at a \$3.0 million self-insured retention. Other property and liability insurance coverages include directors and officers liability, cyber insurance, employment practices liability, fiduciary liability, employee travel, event insurance and commercial crime. CPS Energy also maintains insurance reserves, which as of October 31, 2020, totaled \$26.0 million to cover losses under the self-insurance portion of the insurance program.

CPS Energy and the other participants in STP1 (defined herein) and STP2 (defined herein), as further defined herein, maintain the Nuclear Regulatory Commission ("NRC") required nuclear liability, worker liability, and property insurance, each of which includes provisions for retrospective assessments depending on occurrences at STP1 and STP2 and other commercial nuclear plants. CPS Energy is liable for 40% of the premiums and any retrospective assessments with respect to STP1 and STP2 insurance, and for costs of decontamination and repairs or replacement of damaged property in excess of policy limits.

ENTERPRISE RISK MANAGEMENT AND SOLUTIONS

The Enterprise Risk Management & Solutions ("ERMS") Division is under the direction of the Interim Vice President of Strategic Pricing & Enterprise Risk Management and is responsible for enterprise risk assessments, insurance services, internal controls

program and commodity related middle office activities. As part of these responsibilities, ERMS monitors counterparty credit related exposure on a daily basis.

In 2002, as part of its risk management and fuel and electricity purchasing policies, CPS Energy obtained the ability to hedge or mitigate price volatility associated with fuel and energy sales and purchases through the utilization of energy-based futures, options and swap contracts. The hedge program is operated in accordance with a written policy approved annually by the Board. The program oversight committee, composed of CPS Energy corporate officers and senior executives, approves operating procedures and corporate hedging strategies.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. Title VII of the Dodd-Frank Act, known as the "Wall Street Transparency and Accountability Act of 2010," substantially modified portions of the Commodity Exchange Act with respect to swaps and swap transactions. The law was designed to reduce systemic risk, establish new business conduct rules, increase transparency, and promote market integrity within the financial system. The Dodd-Frank Act gave both the Commodity Futures Trading Commission ("CFTC") and the SEC statutory authority to directly regulate the "Over the Counter" ("OTC") derivatives market, which include commodities currently being utilized by CPS Energy to hedge price risk in accordance with its own policies and procedures. CPS Energy operations are principally affected by the regulations promulgated under the Dodd-Frank Act by the CFTC. Development of regulations implementing the legislation has progressed, but the overall impact on CPS Energy remains uncertain pending completion of certain CFTC rulemakings. Exemptions intended to minimize the regulatory burden on commercial end-users and governmental entities have pared back obligations initially bearing upon CPS Energy. Certain CFTC rules and policy statements made necessary the modification of CPS Energy's contract arrangements with hedging counterparties, bringing in various representations, elections and commitments as to reporting obligations and other matters, and must be covered in new relationships. Similarly, filings with government authorities, relationships with third party services providers, and additional internal controls and responsibilities have been made necessary. On May 24, 2018, the U.S. President signed into law the *Economic Growth, Regulatory Relief and Consumer Protection Act*, which is designed to roll back or eliminate key parts of the Dodd-Frank Act and would provide smaller banking institutions with relief from the strenuous requirements originally imposed in 2010. On October 31, 2018, the Federal Reserve unveiled its plan for significantly paring back rules for regional and community banks, in direct response to Congress' May 2018 legislation. CPS Energy continues to monitor the status of the Dodd-Frank Act, and any possible revisions and the effect thereof (including the most recent draft provisions related to swap requirements), in order to remain compliant with current law.

As an "end user", CPS Energy would be exempt under currently proposed CFTC rules mandating clearing and margining of certain market participants' OTC commodity positions. The CFTC proposed rules as to "capital requirements" and financial condition reporting do not impose direct burdens on "end-user" market participants such as CPS Energy. If CPS Energy were made subject to onerous capital requirements, the organization's ability to hedge its portfolio could be impacted. Implementation of the Volcker rule, which restricts United States banks from making certain kinds of speculative investments that do not benefit customers, could affect liquidity in markets in which CPS Energy currently operates. CPS Energy takes part in efforts of its trade organizations within CFTC rule-making processes to shape rules so that they allow commercial end-users and municipal utilities to avoid undue burdens when hedging their commercial risks. Out of those efforts, CPS Energy currently benefits from an exemption applying to certain non-financial energy transactions between government- and / or cooperative-owned electric utilities.

INVESTMENTS

Operating Funds

CPS Energy invests its operating funds as authorized by the Bond Ordinances and by federal and State law including, but not limited to, the Public Funds Investment Act, as amended, Texas Government Code Chapter 2256 ("Investment Act"), Texas Local Government Code Chapter 272, as amended, and in accordance with written investment policies approved by the Board. These Bond Ordinances, laws and CPS Energy's investment policies are subject to change.

Under updated investment policies approved by the Board on December 14, 2020 and effective as of January 31, 2021, CPS Energy may invest its funds in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations, having a stated final maturity of 10 years or less, directly issued and guaranteed by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States or their agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated not less than "A" category or its equivalent; (6) interest-bearing banking deposits that are guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor; (7) interest-bearing banking deposits as described by Section 2256.009(8) of the Investment Act; (8) a certificate of deposit ("CDs") or share certificate issued by a

depository institution or a broker that has its main office or branch in the State of Texas, which is fully secured and / or federally insured; (9) securities lending programs that are 100-102% collateralized; (10) fully collateralized repurchase agreements; (11) certain bankers' acceptances; (12) commercial paper rated not less than "A-1" or "P-1" or equivalent by at least two nationally recognized credit rating agencies and that have a stated maturity of 365 days or fewer from the date of issuance; (13) no-load money market mutual funds that comply with Rule 2a-7; (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years; and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) certain guaranteed investment contracts that are funded by bond proceeds if authorized in the order, ordinance, or resolution authorizing the issuance of the bonds; (16) investment pools that stabilize at a \$1 NAV to the extent reasonably possible and are rated no lower than "AAA" or "AAA-m" or equivalent and meet all other requirements as stipulated in Section 2256.016 of the Investment Act; (17) in connection with a transaction authorized by Section 272.004 of the Texas Local Government Code, one or more of the investments, securities, guarantees, and / or insurance contracts or other contracts and agreements described in Section 452.108(d) of the Texas Transportation Code, including, but not limited to the following: payment agreements, financial guarantees or insurance contracts with counterparties having either a corporate credit or debt rating in any form, a claims-paying ability, or a rating for financial strength of "AA" or better; and (18) for the General Account only, hedging instruments authorized by Section 2256.0201 of the Investment Act and in accordance with CPS Energy's Energy Price Risk Management Policy for the purpose of managing risks of financial uncertainty or loss associated with adverse volatility in the pricing of CPS Energy's energy and fuel assets, to include energy based futures contracts, option contracts, swap contracts, insurance contracts, and structured contracts composed of combinations of hedging instruments.

CPS Energy is specifically prohibited from investing its funds in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and (4) collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the change in the market index.

The weighted term to maturity of investments at October 31, 2020, was 1.8 years for CPS Energy's funds. CPS Energy's funds, as of October 31, 2020, were invested entirely in government agency obligations, collateralized mortgage obligations directly issued by and guaranteed by a Federal agency, U.S. Treasury securities, money market mutual funds, investment pools, high quality municipal bonds, and Investment Act-compliant money market deposit funds. The market value of the investments held as of October 31, 2020 totaled approximately \$1.174 billion. Based on market value, 55% in money market mutual funds / investment pools, 20% of the portfolio was invested in United States government agency obligations, 11% in collateralized mortgage obligations and other pass through securities whose principal and interest are backed by Federal Agencies, 13% in high-quality municipal bonds, and 1% in U.S. Treasury securities. CPS Energy determines the market value of non-cash investments primarily through Interactive Data Corporation, a reputable third party data provider, as well as by reference to Bloomberg's financial terminal, published quotations and other comparable information. No CPS Energy funds are invested currently in reverse repurchase agreements or derivative securities, securities whose rate of return is determined by reference to some other instrument, index, or commodity, except for certain natural gas options held under the Energy Price Risk Management Policy. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – Wholesale Power", "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Enterprise Risk Management and Solutions" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Fuel Supply" herein.

Investment Policies

Under the Investment Act, CPS Energy is required to invest its funds in accordance with written investment policies that (1) primarily emphasize safety of principal and liquidity; (2) address investment diversification, yield, maturity, and the quality and capability of investment management; (3) include a list of authorized investments for CPS Energy funds and the maximum allowable stated maturity of any individual investment; (4) state the maximum dollar-weighted average maturity allowed for pool fund groups; (5) contain the methods to monitor the market price of investments acquired with public funds; (6) require the settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and (7) monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021 of the Investment Act. All CPS Energy funds must be invested consistent with formally adopted written investment strategies that specifically address each fund's investment. Each strategy describes its objectives concerning (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

Under the Investment Act, CPS Energy investments under all investment policies must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's

own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived."

Consistent with the requirements of the NRC, Texas Property Code, the Investment Act, and as applicable, the PUCT, the STP Decommissioning Trust and the Master Trust (TCC Funded) will be invested consistent with the following objectives: (1) the funds will be invested with the objective of earning a reasonable return commensurate with the need to preserve the value of the assets; (2) the portfolio of securities will be diversified to the extent reasonably feasible given the size of the trust; (3) the asset allocation will take into consideration the acceptable risk level of the portfolio, the current and expected market conditions, the time horizon remaining before the commencement and completion of decommissioning, and the funded status of the trust; (4) while maintaining an acceptable risk level, the investment emphasis when the remaining life of the liability exceeds five years will be to maximize net long-term earnings and the investment emphasis in the remaining investment period of the trust will be on current income and asset preservation; and (5) in selecting investments, the impact of the investment on the portfolio's volatility and expected return net of fees will be considered.

Additional Provisions

Under the Investment Act for the Operating Funds, STP Decommissioning Trust and the Master Trust (TCC Funded), CPS Energy must: (1) review annually and, if desired, change its adopted written investment policies and strategies; (2) designate investment officers to be responsible for investment of its funds consistent with the investment policies of CPS Energy; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms seeking to sell securities to CPS Energy to (a) receive and review the CPS Energy investment policies; (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions not authorized by the CPS Energy investment policies; and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the CPS Energy investment policies; (6) provide specific investment training for CPS Energy's investment officers; and (7) review, revise, and adopt on an annual basis a list of qualified brokers that are authorized to engage in investment transactions with CPS Energy. *See* "Trust Funds" below.

For the STP Decommissioning Trust and the Master Trust (TCC Funded), CPS Energy is prohibited from being engaged as investment manager for the funds or from giving day-to-day management direction of the funds' investments. Therefore, the use of one or more professional investment managers is necessary to assure that the trusts are managed in a manner so that the funds are secure and earn a reasonable return. CPS Energy has the following duties concerning the use of one or more investment managers: (1) a duty to determine whether the investment manager's fees for investment management services is reasonable, when compared to other such managers; (2) a duty to investigate and determine whether the past performance of the investment manager in managing investments has been reasonable; (3) a duty to investigate and determine whether the financial stability and strength of the investment manager is adequate for purposes of liability; (4) a duty to investigate and determine whether the investment manager has complied with the investment management agreement; and (5) a duty to investigate any other factors which may bear on whether the investment manager is suitable.

Trust Funds

STP Decommissioning Funds

CPS Energy invests in two specific decommissioning trusts, the STP Decommissioning Trust and the Master Trust (TCC Funded), in accordance with its decommissioning trust investment policy and as authorized by Texas law, the NRC and, where applicable, the PUCT. The STP Decommissioning Trust is the sinking fund created by CPS Energy for the sole purpose of financing the decommissioning expenses for its original 28% interest in STP. CPS Energy obtained the Master Trust (TCC Funded) after it purchased from AEP Texas Central Company ("TCC") its additional 12% interest in STP. As part of the acquisition of the additional interest in STP, CPS Energy obtained a proportionate amount of the nuclear decommissioning trust fund originally created by TCC. Responsibility for continuous funding of the Master Trust (TCC Funded) will remain the responsibility of TCC customers through final decommissioning of STP. At acquisition by CPS Energy of the additional interest in STP from TCC, the funds were transferred to CPS Energy by TCC and placed into the Master Trust (TCC Funded), which is entirely separate from the existing decommissioning trust fund held in the STP Decommissioning Trust created and maintained by CPS Energy for its original interest in STP. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – External Events Impacting Nuclear Power Generation Industry and STP1 and STP2, and CPS Energy's Response" herein for further discussion of CPS Energy's acquisition of the 12% interest in STP from TCC. CPS Energy's investments in the STP Decommissioning Trust and in the Master Trust (TCC Funded) are held by an independent trustee and are invested pursuant to a separate investment policy adopted by the Board and pursuant to the provisions of the trust agreements of each trust.

Effective September 1, 2005, the Investment Act was amended to allow a Texas municipality which owns a municipal electric utility to invest its decommissioning trust funds in any investment authorized by Subtitle B, Title 9 of the Texas Property Code. The broad investment authority found in the Texas Property Code includes, but is not limited to, the power to invest in equities.

STP Decommissioning Trust

Under the Texas Property Code, other applicable law and the South Texas Project Decommissioning Trust Investment Policy ("STP Investment Policy") approved by the Board, the STP Decommissioning Trust may be invested as follows: (1) funds may be invested in investments permissible by law under the guidance and regulations issued by the NRC and under the Texas Property Code; (2) funds should be diversified such that (a) no more than 5% of the securities held are issued by one entity, with the exception of the federal government, its agencies and instrumentalities, and (b) the portfolio shall contain at least 20 different issues of securities with municipal securities and real estate investment trusts diversified as to geographic region; (3) derivative securities are limited to those whose purpose is to enhance returns of the STP Decommissioning Trust without a corresponding increase in risk of the portfolio; (4) securities lending transactions must be collateralized at 100-102%; (5) fixed income securities may not be rated below "BBB-" by S&P and Fitch, or "Baa3" by Moody's, at the time of purchase, and the overall fixed income portfolio must be rated no less than "A" by S&P and Fitch and "A2" by Moody's; (6) equity securities are permissible investments (a) limited to a cap of (i) 60% when the weighted average remaining life of the decommissioning liability exceeds 5 years, (ii) 30% when the weighted average remaining life of decommissioning liability ranges between 5 years and 2.5 years and during all years in which expenditures for decommissioning the nuclear units occur, and (iii) 0% when the weighted average remaining life of the decommissioning liability is less than 2.5 years, and (b) when the equities are of a type not considered to be speculative; (7) no load commingled funds of the United States, including investments in commingled real estate limited partnerships or funds; and (8) commingled funds that include United States equity-indexed funds, actively managed United States equity funds, balanced funds, bond funds, real estate investment trusts, and international funds are permissible investments, if the commingled funds are consistent with the goals stated in the STP Investment Policy. Commingled funds (a) may be focused on specific market sectors or concentrated in a few holdings only as necessary to balance the trust's overall investment portfolio mix, and (b) may contain some below investment grade bonds; but the overall portfolio of debt instruments shall have a quality level, measured quarterly, not below an "A" rating by S&P and Fitch, respectively, and "A2" by Moody's.

The STP Decommissioning Trust is specifically prohibited (1) from investing in derivatives if being used to increase the value of the portfolio by any amount greater than the value of the underlying securities; (2) from the use of leverage (borrowing) to purchase securities or the purchase of securities on margin; (3) from investing in corporate or municipal debt securities that have a bond rating below investment grade (below "BBB-" by S&P and Fitch or "Baa3" by Moody's) at the time that the securities are purchased and the appropriateness of continuing to hold a particular debt security must be reexamined if the debt rating of the company in question falls below investment grade after the debt security has been purchased; and (4) from investing in equity securities that are considered speculative (e.g., stocks of companies with limited operating history or that have low "safety" rankings from ratings agencies).

Investments in the STP Decommissioning Trust as of September 30, 2020, consisted of fixed income securities, equity securities, Real Estate Investment Trusts of the United States ("US REITs") and cash equivalents. The market value of cash, cash equivalents and investments (including accrued interest) held as of September 30, 2020, totaled approximately \$481 million and was comprised of fixed income securities totaling approximately \$298 million, equity securities (domestic and international) having a market value of approximately \$132 million, US REITs in the amount of approximately \$38 million, and the remaining \$13 million being invested in cash and cash equivalents. Based upon market values, 49% of fixed income securities were invested in United States Government and Government Agency obligations, 44% were invested in corporate bonds and municipal bonds, 4% were invested in foreign bonds and other, and 3% was invested in cash and cash equivalents, such as money market funds.

Master Trust (TCC Funded)

Under applicable law, including NRC and PUCT regulations, and the STP Investment Policy, the Master Trust (TCC Funded), may be invested as follows: (1) funds may be invested in investments permissible by law under the guidance and regulations issued by the NRC and under the Texas Property Code; (2) funds are diversified such that (a) no more than 5% of the securities held are issued by one entity, with the exception of the federal government, its agencies and instrumentalities, and (b) the portfolio shall contain at least 20 different issues of securities with municipal securities and real estate investments diversified as to geographic region; (3) derivative securities are limited to those whose purpose is to enhance returns of the trust without a corresponding increase in risk of the portfolio; (4) securities lending transactions must be collateralized at 100-102%; (5) fixed income securities are not rated below "BBB-" by S&P and Fitch, or "Baa3" by Moody's, at the time of purchase; (6) equity securities are, (a) limited to a cap of (i) 60% when the weighted average remaining life of the decommissioning liability exceeds 5 years, (ii) 30% when the weighted average remaining life ranges between 5 years and 2.5 years and during all years in which expenditures for decommissioning the nuclear units occur, and (iii) 0% when the weighted average remaining life of the decommissioning liability is less than 2.5 years, and (b) with at least 70% of the aggregate market value of the equity portfolio, including the individual securities in commingled

funds, having a quality ranking from a major rating service and the overall portfolio of ranked equities with a weighted average quality rating equivalent to the composite rating of the S&P 500 index assuming equal weighting of each ranked security in the index; and (7) commingled funds that include United States equity-indexed funds, actively managed United States equity funds, balanced funds, bond funds, real estate investment trusts, and international funds that (a) are consistent with the goals stated in the investment policy, (b) are focused on specific market sectors or concentrated in a few holdings only if used as necessary to balance the trust's overall investment portfolio mix, and (c) may contain some below investment grade bonds; however, the overall portfolio of debt instruments shall have a quality level, measured quarterly, not below a "AA" rating by S&P and Fitch, respectively, or "Aa2" by Moody's.

The Master Trust (TCC Funded) is specifically prohibited (1) from investing in derivatives if being used to increase the value of the portfolio by any amount greater than the value of the underlying securities; (2) from the use of leverage (borrowing) to purchase securities or the purchase of securities on margin; (3) from investing in corporate or municipal debt securities that have a bond rating below investment grade (below "BBB-" or "BBB-" by S&P and Fitch, respectively, or "Baa3" by Moody's) at the time that the securities are purchased and the appropriateness of continuing to hold a particular debt security must be reexamined if the debt rating of the company in question falls below investment grade at some time after the debt security has been purchased; (4) from investing in equity securities where the issuer has a capitalization of less than \$100 million; and (5) from investing in securities issued by the electric utility collecting the funds or any of its affiliates; however, investments may include commingled funds that contain securities issued by the electric utility if the securities of the utility constitute no more than 5% of the fair market value of the assets of such commingled funds at the time of the investment.

As of September 30, 2020, investments in the Master Trust (TCC Funded) consisted of fixed income securities, equity securities (domestic and international), US REITs and cash equivalents. The market value of cash, cash equivalents and investments held as of September 30, 2020, totaled approximately \$178 million and was comprised of fixed income securities totaling approximately \$112 million, equity securities having a market value of approximately \$46 million, US REITs in the amount of approximately \$14 million and the remaining \$6 million being invested in cash and cash equivalents. Based upon market values, 46% of fixed income securities were invested in United States Government and Government Agency obligations and 49% were invested in corporate and municipal bonds, 2% were invested in foreign bonds and other, and 3% was invested in cash and cash equivalents.

EMPLOYEE BENEFITS

CPS Energy provides health, dental and vision benefits for employees, their spouses, and covered dependents, as well as Pension and Other Postemployment Benefits ("OPEB") as discussed in the following section. The health, dental and vision benefits provided during active employment are funded on a pay-as-you-go basis, with premiums from the participants and CPS Energy designed to cover current year claims.

PENSION AND OTHER POSTEMPLOYMENT BENEFITS

CPS Energy provides Pension and OPEB for its employees. There are four plans which include: the CPS Energy Pension Plan (the "Pension Plan"), the CPS Energy Group Health Plan, the CPS Energy Group Life Insurance Plan, and the CPS Energy Long-Term Disability Income Plan (the Group Health Plan, the Group Life Insurance Plan, and the Long-Term Disability Income Plan, collectively referred to herein as the "OPEB Plans"). All plans are reported on a calendar-year basis. While all plans are separately and independently audited, they are also included as fiduciary component units in CPS Energy's financial statements and required information related thereto is disclosed in the financial statements, related Notes and RSI. See "Basic Financial Statements – Note 9 – Employee Pension Plan and Note 10 – Other Postemployment Benefits" in CPS Energy's Basic Financial Statements attached hereto as APPENDIX B ("Notes 9, 10 and RSI").

All plans are operated based on a Statement of Governance ("SoG") approved by the Board. The SoG provides for an Employee Benefits Oversight Committee ("EBOC"), which is composed of the President & CEO, the CFO & Treasurer and the Audit & Finance Committee members of the Board. Among other functions, the EBOC approves all changes to the plans, engages external auditors, appoints members of an Administrative Committee (which manages daily operations and makes investment decisions), and approves all changes to the investment policy. All plan investments are made and managed in accordance with the investment policy, which requires diversification of assets and maintaining appropriate liquidity according to the needs of each plan.

CPS Energy retains an actuary to perform annual actuarial valuations for the Pension Plan and each of the OPEB Plans. Conducted in accordance with generally accepted actuarial principles and practices, the actuarial reports summarize the funding status of each plan for the current and prior year, as well as provide projected funding contribution recommendations for CPS Energy's next fiscal year. Additionally, information included in the actuarial reports provides the basis for CPS Energy's financial reporting of costs and liabilities related to the Pension and OPEB Plans.

Use of Assumptions and Estimates

As a result of the annualized valuation methodology related to pensions, interim reporting period valuations of CPS Energy's Pension and Benefits Plans are difficult to forecast and can vary greatly from quarterly or annual results under normal operating conditions. These efforts are further exacerbated by the unprecedented (and still unknown) impact of the Events, discussed elsewhere in this Official Statement under the captions "INTRODUCTORY STATEMENT – COVID-19", "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event", and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO". The specific impacts of the Events continue to evolve and their extent remains unknown; accordingly, CPS Energy has not attempted to update the descriptions and calculations included in this section in an attempt to account for the possible effects of the Events (though CPS Energy can communicate that the funding status and projected funding contribution requirements relating to the Pension and Benefits Plans have been negatively impacted by the local, national, and global results of the Events). As a result of the foregoing, the entirety of this section is qualified by the expected negative impacts of the Events, the full extent of which on the CPS Energy Pension and Benefits Plans' funding status and prospective contribution funding requirements will not be known until completion of the next scheduled annual actuarial valuation of Pension and Benefit Plans, to be performed by qualified actuaries trained to determine such complex valuations. Investors are directed to the Events' disclosures identified above for additional descriptions concerning the Events and their initially-identified, unaudited impacts on CPS Energy's operations and financial condition.

As set forth herein and in Notes 9 and 10 and RSI of APPENDIX B, the disclosures relating to the Pension Plan and the OPEB Plans are based upon certain assumptions and estimates that may vary based upon the risk factors. To the extent that these assumptions and estimates do not materialize or are inaccurate, the financial information disclosed herein and in Notes 9 and 10 and RSI of APPENDIX B, including the estimates as compared to the actual values of the assets and liabilities, could change substantially and in a materially adverse manner. The actuarial values determined for the measurement of benefit plan assets and liabilities were based on reasonable assumptions, which are estimates based on information available at the time the actuarial reports were prepared.

An experience study, covering Pension and OPEB Plans' experience during calendar years 2012 to 2016, was completed by CPS Energy's actuary, and the results were communicated to the Administrative Committee in June 2017. CPS Energy engaged a third party to evaluate the experience study, the results of which were communicated to CPS Energy in August 2017. Changes to both demographic and economic assumptions were recommended for consideration based on the study results. The most impactful were (1) a reduction to the expected rate of return on assets from 7.50% to 7.25% and (2) the use of the RP-2016 combined health, with no collar adjustment, male and female mortality tables with the MP-2016 mortality improvement scale. Both changes resulted in an increase in the liability, recommended contributions and expense. The Administrative Committee authorized the actuary to use the recommended assumptions to prepare the January 1, 2018, actuarial reports that were used to determine liability, contributions, and expense for CPS Energy's fiscal year 2020 financial statements, and formally approved the assumptions during a meeting held in August 2018. The impact of the changed assumptions is reflected in the information provided in CPS Energy's Basic Financial Statements attached hereto as APPENDIX B ("Notes 9, 10 and RSI"). An experience study was conducted during 2020 and changes to both demographic and economic assumptions were recommended for consideration. The Administrative Committee authorized the actuary to use the recommended assumptions to prepare the January 1, 2020, actuarial reports that will be used to determine liability, contributions, and expense for CPS Energy's fiscal year 2022 financial statements.

PENSION PLAN

The Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan and provide retirement and ancillary benefits for substantially all CPS Energy employees who attain age 21 and complete a minimum period of service and / or otherwise become eligible. The benefits provided by the Pension Plan are paid from a pension trust (the "Pension Trust") established by CPS Energy that is kept separate from, and in addition to the benefits employees are entitled to receive under any other CPS Energy program and under the federal Social Security Act. This Pension Plan and the Pension Trust were established by the Board in accordance with applicable law and are maintained for the exclusive benefit of the eligible employees and their beneficiaries.

CPS Energy offered a voluntary retirement incentive program to employees who were eligible to retire, as of August 1, 2014, based on their age and / or years of participation in its pension plan. Over 25% of CPS Energy's workforce was eligible to retire; 30.8% of those eligible accepted the offer and retired during fiscal year 2015.

In 2015, in conjunction with the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was later updated by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (described herein), CPS Energy elected to use regulatory accounting to capitalize the associated costs to recover through future rates. GASB Statement No. 68 required the immediate recognition of CPS Energy's previously unrecognized pension liability. For governmental entities other than those whose operations are rate regulated, the GASB Statement No. 68 adoption accounting required a charge to net position (equity) for the net effect of the restatements required to recognize the net pension liability.

CPS Energy elected to use regulatory accounting, as allowed under GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, to create a regulatory asset representing the net effect of the prior period restatement that is being amortized over a 50-year period.

In March 2016, GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, the requirements of which were effective for CPS Energy beginning in fiscal year 2017. Specifically, Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in RSI, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement did not have a significant impact on CPS Energy's financial reporting.

Refer to complete disclosures at Note 9 and RSI at APPENDIX B regarding CPS Energy's Net Pension Liability ("NPL") and pension expense and related details of plan features, plan funding, the measurement of NPL, underlying actuarial assumptions, discount rate assumptions and sensitivity, and deferred outflows of resources and deferred inflows of resources related to pension.

Information related to new accounting guidance applicable to CPS Energy is available in APPENDIX B hereto.

The following schedule presents selected multiyear trend information regarding NPL and related statistics. Amounts presented are determined as of the measurement date of the NPL for the following fiscal years:

Pension Plan

Fiscal Year Ended	Ending Total Pension Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net Pension Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total Pension Liability (b / a)
January 31, 2021 ⁽¹⁾	\$ 2,060,241	\$ 1,766,519	\$ 293,722	85.7%
January 31, 2020	\$ 1,988,963	\$ 1,610,835	\$ 378,128	81.0%
January 31, 2019	\$ 1,940,317	\$ 1,684,448	\$ 255,869	86.8%
January 31, 2018	\$ 1,784,838	\$ 1,472,376	\$ 312,462	82.5%
January 31, 2017	\$ 1,734,177	\$ 1,299,766	\$ 434,411	74.9%

(1) Disclosures as of January 31, 2021, based on the January 1, 2019, valuation report, are currently being reviewed by CPS Energy's external auditors during the annual audit concluding in April 2021.

OPEB PLANS

The OPEB Plans are single-employer defined benefit contributory plans that are funded by employee contributions and annual contributions from CPS Energy. The assets of the OPEB Plans are stated at fair market value.

Most CPS Energy employees are eligible for Group Health and Life Insurance benefits upon retirement. CPS Energy's Long-Term Disability Income Plan provides income to eligible employees of CPS Energy who become disabled. CPS Energy established each plan as a "risk pool" as that term is defined in the Texas Political Subdivision Employees Uniform Group Benefits Act ("Benefits Act"), Chapter 172, Texas Local Government Code, as amended. These plans are each operated at all times and in all respects as a risk pool under the Benefits Act. The benefits provided by the OPEB Plans are paid from OPEB Trusts. The OPEB Plans and the OPEB Trusts were established by the Board in accordance with applicable law and are maintained for the exclusive benefit of the eligible employees and their beneficiaries.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. CPS Energy implemented Statement No. 74 in the OPEB Plan's fiscal year ended December 31, 2017, and adopted Statement No. 75 in CPS Energy's fiscal year ended January 31, 2018.

Similar to previously implemented pension guidance, GASB Statement No. 74 enhances note disclosures and RSI for all defined benefit OPEB plans that are administered through trusts that meet the specified criteria. It requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in ten-year RSI schedules. Statement No. 74 also requires that notes to financial statements include descriptive information, such as the types of OPEB provided, the classes of plan members covered, and the composition of the OPEB plan's board. Such OPEB plans also are required to disclose information about OPEB plan investments, including the OPEB plan's investment policies, concentrations of investments with individual organizations equaling or exceeding 5% of the OPEB plan's fiduciary net position.

Also similar to previously implemented pension guidance, GASB Statement No. 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. For each qualifying plan providing postemployment benefits other than pensions, employers are required to report the difference between the actuarial OPEB liability and the related plan's fiduciary net position as the net OPEB liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to each plan were exceeded by the actuarially calculated contributions for those plans. Additionally, Statement No. 75 sets forth note disclosure and required supplementary disclosure requirements for defined contribution OPEBs.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, which addressed practice issues that were identified during implementation and application of certain GASB Statements. Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which was adopted in CPS Energy's fiscal year ended 2018.

Refer to complete disclosures at Note 10 and RSI in APPENDIX B regarding CPS Energy's Net OPEB (Asset) Liability and OPEB Expense and related details of plan features, plan funding, the measurement of Net OPEB (Asset) Liability, underlying actuarial assumptions, discount rate assumptions and sensitivity, and deferred outflows of resources and deferred inflows of resources related to OPEBs.

Health Plan

Fiscal Year Ended	Ending	Ending Plan	Ending Net	Plan Fiduciary
	Total OPEB Liability (a)	Fiduciary Net Position (b)	OPEB (Asset) Liability (a-b)	Net Position as a Percentage of Total OPEB Liability (b / a)
January 31, 2021 ⁽¹⁾	\$ 250,115	\$ 284,986	\$ (34,871)	113.9%
January 31, 2020	\$ 263,922	\$ 267,509	\$ (3,587)	101.4%
January 31, 2019	\$ 253,241	\$ 289,822	\$ (36,581)	114.4%
January 31, 2018	\$ 234,808	\$ 260,648	\$ (25,840)	111.0%
January 31, 2017	\$ 245,908	\$ 227,889	\$ 18,019	92.7%

⁽¹⁾ Disclosures as of January 31, 2021, based on the January 1, 2019, valuation report, are currently being reviewed by CPS Energy's external auditors during the annual audit concluding in April 2021.

Life Plan

Fiscal Year Ended	Ending Total OPEB Liability	Ending Plan Fiduciary Net Position	Ending Net OPEB (Asset) Liability	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
	(a)	(b)	(a-b)	(b / a)
January 31, 2021 ⁽¹⁾	\$ 47,261	\$ 52,591	\$ (5,330)	111.3%
January 31, 2020	\$ 46,187	\$ 49,760	\$ (3,573)	107.7%
January 31, 2019	\$ 46,800	\$ 54,921	\$ (8,121)	117.4%
January 31, 2018	\$ 47,289	\$ 49,698	\$ (2,409)	105.1%
January 31, 2017	\$ 44,788	\$ 45,286	\$ (498)	101.1%

⁽¹⁾ Disclosures as of January 31, 2021, based on the January 1, 2019, valuation report, are currently being reviewed by CPS Energy's external auditors during the annual audit concluding in April 2021.

Disability Plan

Fiscal Year Ended	Ending Total OPEB Liability	Ending Plan Fiduciary Net Position	Ending Net OPEB (Asset) Liability	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
	(a)	(b)	(a-b)	(b / a)
January 31, 2021 ⁽¹⁾	\$ 5,457	\$ 6,238	\$ (781)	114.3%
January 31, 2020	\$ 6,114	\$ 5,566	\$ 548	91.0%
January 31, 2019	\$ 6,366	\$ 5,396	\$ 970	84.8%
January 31, 2018	\$ 6,295	\$ 4,234	\$ 2,061	67.3%
January 31, 2017	\$ 6,032	\$ 3,762	\$ 2,270	62.4%
January 31, 2016	\$ 5,850	\$ 4,286	\$ 1,564	73.3%

⁽¹⁾ Disclosures as of January 31, 2021, based on the January 1, 2019, valuation report, are currently being reviewed by CPS Energy's external auditors during the annual audit concluding in April 2021.

Total OPEB Plans

Fiscal Year Ended	Ending	Ending Plan	Ending Net	Plan Fiduciary
	Total OPEB Liability (a)	Fiduciary Net Position (b)	OPEB (Asset) Liability (a-b)	Net Position as a Percentage of Total OPEB Liability (b / a)
January 31, 2021 ⁽¹⁾	\$ 302,833	\$ 343,815	\$ (40,982)	113.5%
January 31, 2020	\$ 316,223	\$ 322,835	\$ (6,612)	102.1%
January 31, 2019	\$ 306,407	\$ 350,139	\$ (43,732)	114.3%
January 31, 2018	\$ 288,392	\$ 314,580	\$ (26,188)	109.1%
January 31, 2017	\$ 296,728	\$ 276,937	\$ 19,791	93.3%

⁽¹⁾ Disclosures as of January 31, 2021, based on the January 1, 2019, valuation report, are currently being reviewed by CPS Energy's external auditors during the annual audit concluding in April 2021.

An Actuarial Standard of Practice ("ASOP 6") relating to the measurement of OPEB liabilities requires actuaries to select the best estimate assumptions with neither a conservative nor an aggressive bias, which will require the liability to now reflect the benefit of certain pharmaceutical manufacturer rebates not previously considered. ASOP 6 became effective with the January 1, 2016, actuarial valuation, which began impacting CPS Energy in fiscal year 2018.

STRATEGIC INITIATIVES

In 2008, CPS Energy implemented Vision 2020, outlining CPS Energy's long-term view and focusing on four key objectives: increasing its energy efficiency and conservation efforts; expanding renewable-energy resources; providing cost-competitive electricity; and maintaining its strong commitment to the environment. To ensure achievement of Vision 2020, the following key strategic business drivers were established, along with targets for each: customer relationships, employee relationships, external relationships, operational excellence, renewable / carbon constraints / environment, technology and innovation, and financial integrity. As part of the Vision 2020 Generation Strategy, CPS Energy projected, by 2020, its generation mix would be approximately 25.0% of coal, 25.0% of nuclear, 30.0% of natural gas, 10.0% of wind power, 4.0% of solar power, 5.7% of purchased power and 0.3% of landfill gas. As of January 31, 2020, CPS Energy met or exceeded these projections with an annual generation mix being 21.2% coal, 29.5% nuclear, 32.8% gas, 10.6% wind, 3.9% solar, 1.8% purchased power, and 0.2% landfill gas. CPS Energy also exceeded its goal of 4.0% as part of its generation projection to be met through the **STEP** (EE / DR) program by reaching approximately 5% of what its generation needs would have been without **STEP**. The **STEP** program has been extended as the **STEP Bridge** program with funding approved through July 2022. CPS Energy is now focused on implementing and achieving its **STEP Bridge** goals and its *Flexible Path* Strategy, as more fully described herein.

In support of CPS Energy's commitment to provide world-class energy solutions to meet the diverse and unique needs of its customers, while acting as an economic engine to drive value and growth in the community, CPS Energy designed a two-year integrated planning process ("CPS Energy Integrated Planning Process") to serve as its roadmap forward.

Through thoughtful leadership, partnerships and CPS Energy's passionate employees, management continues to strategically and successfully evolve its value portfolio to achieve top-tier safety, customer service, electric and gas delivery, generation availability and financial performance.

The CPS Energy Integrated Planning Process is derived through a deliberately orchestrated cross-functional effort, and aligned with current strategic drivers, risk management and financial planning. Complementary to the CPS Energy Business Plan are business unit plans designed to reinforce CPS Energy's objectives by way of major initiatives, milestones, metrics, targets and goal alignment. Supporting lowered-tiered metrics, targets and goals are appropriately cascaded throughout the organization, ensuring a traceable path from enterprise level objectives, to business unit goals and to individual performance accountabilities.

CPS Energy's success is measured through operational excellence processes, including reporting, monitoring and assessing metric trends throughout the year, ultimately managing and leading towards goal attainment.

To enhance its relationship with the community and to provide community input directly to the Board and CPS Energy staff, CPS Energy established a 15-member Citizens Advisory Committee ("CAC"). The CAC meets monthly with the primary goal of

providing recommendations on utility-related projects and programs to offer a customer perspective on community issues, assist in identifying strengths and offer suggestions for improvement to the organization. Representing the various sectors of CPS Energy's service area, the CAC encompasses a broad range of representation in order to identify concerns and understand community issues. The City Council members nominate ten of the 15 members, one representing each City Council district. The other five members are at-large candidates who can reside anywhere within the service territory. The Board approves all members of the CAC and each member can serve up to three two-year terms.

In January 2021, CPS Energy solicited applications for the community to participate in a new Rate Advisory Committee ("RAC") that CPS Energy is forming. The RAC's mission is to provide helpful and unique knowledge and customer insights to the efforts and projects related to rate structure and rate design with the ultimate goals of helping management balance its Guiding Pillars and increasing the mutual understanding of public issues and concerns. Applications were due March 12, 2021, with an expectation that members will be selected sometime in April 2021 for the first meeting tentatively set for May 2021.

With respect to State and national legislative action regarding competition, CPS Energy continues to participate actively in the legislative process to voice the interests of Municipal Utilities and play an integral part in shaping the environment in which it will operate. CPS Energy continues to evaluate the price components of the energy services it provides, recognizing that the price for electricity will be a paramount factor for succeeding in a deregulated environment. Cost containment initiatives coupled with additional phases of debt management strategies will continue in the years ahead.

Flexible Path Strategy

Flexible Path

In March of 2018, CPS Energy announced its ***Flexible Path*** strategy. The ***Flexible Path*** strategy is CPS Energy's thoughtful approach to prudently leverage its existing community-owned generation assets to bridge to a future that enables more low and non-emitting resources such as wind, solar, energy storage, and new technology. CPS Energy will use its ***Guiding Pillars of Reliability, Customer Affordability, Security, Safety, Environmental Responsibility and Resiliency***, as key priorities to drive this strategy. These ***Guiding Pillars*** are all grounded in ***Financial Responsibility***.

CPS Energy's goals include integrating new and emerging technologies like battery storage and electric vehicles, renewable energy resources, and adding more programs and services like energy efficiency and demand response. Strategic and operational flexibility will allow CPS Energy to remain successful with a diverse generation portfolio that focuses on the environment as well as traditional generation assets that continue to be an important bridge to the future while ensuring value and reliability to customers. This ***Flexible Path*** strategy ultimately positions CPS Energy to embrace the changing utility landscape while serving its customers.

CPS Energy has a strong history of community and partner engagement. The challenges presented by the pandemic have not stopped the company from interacting with and listening to the community to ensure it continues to serve its customers in ways that are innovative and aligned with their needs. The utility continues to leverage technology to communicate with stakeholders in many ways including phone, social media, web and more.

***FlexPOWER Bundle*SM**

In June of 2019, CPS Energy announced the ***FlexPOWER Bundle***SM initiative. The ***FlexPOWER Bundle*** initiative, an important part of the ***Flexible Path***SM, is a deliberately blended approach to power generation through which CPS Energy will consider adding more solar capacity, battery energy storage and new technologies. The ***FlexPOWER Bundle*** initiative is a diversified solution that recognizes today's renewable technology, alone, cannot support all customers consistently and reliably, 24 / 7 / 365. The multi-faceted generation approach of the ***FlexPOWER Bundle*** initiative will ensure the community has the power to thrive while maximizing the existing community-owned generation assets.

In July 2020, CPS Energy released a Request for Information ("RFI") to help identify potential non- or low-emitting generation and demand-side resources consistent with the utility's ***Flexible Path*** strategy. The RFI responses helped to inform the design of two strategic CPS Energy initiatives, the ***FlexPOWER Bundle***SM initiative, and ***FlexSTEP***SM programs. CPS Energy released a Request for Proposal ("RFP"), for generation resources in support of ***FlexPOWER Bundle*** in December 2020, and contracts are expected to be awarded in July 2021. CPS Energy expects to release a future RFP for demand side resources in support of ***FlexSTEP*** programs, to include tried and true energy efficiency programs as well as new and innovative demand side solutions.

Both the ***Flexible Path*** strategy and the ***FlexPOWER Bundle*** initiative will help the community move closer to a cleaner energy footprint.

FlexPOWER Bundle is envisioned to provide up to 900 MW of additional solar power, up to 50 MW of storage, and up to 500 MW of firming capacity.

CPS Energy anticipates the implementation of many more programs and strategic partnerships under the **Flexible Path** strategy and the **FlexPOWER Bundle** initiative.

BUSINESS AND ECONOMIC DEVELOPMENT

CPS Energy works independently, as well as with the San Antonio Economic Development Foundation ("SAEDF") and other local economic development agencies, to recruit, retain and encourage the expansion of targeted businesses throughout CPS Energy's service territory. Strategic initiatives include the pro-active recruitment of the following industries which have the most potential advantage to CPS Energy: clean energy technology, manufacturing, aviation, aerospace, automotive, life sciences / bio-medical, cyber-security / information technology, logistics / distribution, corporate business services and large-scale retail developments.

CPS Energy, through its partnership with SAEDF, assists in the recruitment of new company locations / expansions into the CPS Energy service territory. These companies represent diverse industries including business service operations, manufacturing, distribution, new energy, healthcare and bioscience, finance, and information technology. Some of the new and expanding companies include: Toyota and its major supplier Aisin AW, Navistar, Pabst Brewing Co., OKIN BPS, Ernst & Young, Cuisine Solutions, AMERIVET, The Hut Group, JPSECURE, Grunt Style, Cell Right Technologies, and Renu Robotics. All of these companies represent new megawatt growth for CPS Energy, as these companies alone provide over 2,800 jobs and more than \$160 million in local capital expenditures. Additional potential collaborative efforts with private corporations and governmental entities may have additional positive impacts on CPS Energy's business.

CPS Energy is also at the forefront within the San Antonio community by leading the way into the New Energy Economy ("NEE"). The NEE is built on partnerships with companies who share CPS Energy's belief in clean energy, innovation, and energy efficiency. Since 2011, CPS Energy has worked with a number of partners to turn those principles into economic development while protecting the environment and helping its customers use energy more efficiently. Furthermore, these partner companies, which have relocated their headquarters / offices to the San Antonio area, have fully supported CPS Energy's Vision 2020 and now turn their attention in support of CPS Energy's **Flexible Path** strategy.

All of the New Energy Economy partners are fully committed to reaching their respective economic milestones. Nevertheless, some partners have experienced economic setbacks related to the COVID-19 pandemic and may experience additional setbacks due to the 2021 Winter Weather Event. As a result, these partners are restructuring their business models which is temporarily preventing them from attaining some of their economic commitments.

To date, CPS Energy's NEE partners have contributed to San Antonio's economic development as follows:

- An NEE average, since its 2011 inception, of more than 200 new jobs annually along with a cumulative economic impact to San Antonio that has exceeded \$5 billion;
- Capital expenditures in excess of \$200 million, exceeding a commitment of \$124 million by 2020; and
- Over \$9 million donated toward education with commitments of over \$24 million.

OCI Solar Power: Developer, owner, and operator of solar power plants. OCI completed the development of 500 MW of solar power through the combined use of multiple solar farms in San Antonio and throughout Texas. All 500 MW became operational in December 2018. OCI has exercised its option to sell five of its solar farms to third parties approved by CPS Energy. All of OCI's obligations are assumed by the buyer. OCI has complied with all contract requirements resulting from its failure to attain the requisite number of qualifying jobs; and both OCI and CPS Energy continue to monitor the actual number of qualifying jobs for purposes of potential future OCI obligations related to maintaining the requisite number of qualifying jobs.

Mission Solar Energy: Producer of solar panels at its state-of-the-art solar module manufacturing facility located in San Antonio. This facility, which produces up to 200 megawatts of manufactured solar modules, is currently the only one of its kind in Texas.

Sun Action Trackers: A full line manufacturer of solar tracking and racking systems. These components / trackers allow solar panels to collect the maximum amount of light for conversion to solar energy.

Siemens Corporation: In 2019, Siemens Corporation acquired KACO New Energy and plans to continue production of solar inverters which serve to transform the output of solar panels into an electrical current that can be fed into a standard electrical grid.

Mortenson: Engineering, procurement and construction firm for solar farms. Mortenson provides a complete range of construction services including planning, general contracting, construction management and design-build.

ITRON: Developer of networking systems for Smart Grid and Smart City technologies. ITRON, formerly Silver Spring Networks, provides communication infrastructure for CPS Energy's current Smart Grid Initiative.

GreenStar Products, Inc.: Manufacturer of a highly developed, eco-friendly, and cost-saving LED lighting systems for commercial interests. GreenStar builds and assembles its lighting systems at its facility in San Antonio.

Landis + Gyr: Manufacturer of the smart meters that are part of CPS Energy's upgrades and grid modernization project. Landis + Gyr's smart meters help customers improve energy efficiency, reduce energy costs, and contribute to a sustainable use of resources. It also manages the home energy management system that allows customers to monitor energy consumption using a computer or smart device.

PowerFin: A renewable energy investment advisor and manager of solar project assets. CPS Energy has partnered with PowerFin for a citywide solar rooftop program, SolarHost SA, which allows residents and businesses to install solar panels on rooftops at no cost and, in return, receive credits on their respective energy bills.

Franklin Energy Services LLC: Franklin Energy is an industry expert in program administration and implementation for utility clients across the nation. They pinpoint value-driven solutions and deliver goal-focused results for a wide array of program markets, from business to residential to everything in between. CPS Energy utilizes Franklin Energy's services to implement weatherization and residential energy efficiency programs within the CPS Energy service territory.

CLEARresult: CLEARresult is composed of energy experts that specialize in designing and maintaining energy optimization services for utility companies. They focus on solutions that lower load requirements for utilities, reduce energy bills for end users and minimize environmental burdens on communities. CPS Energy utilizes CLEARresult's services to provide commercial energy efficiency programs in the CPS Energy service territory.

Go Smart Solar: CPS Energy has partnered with Go Smart Solar to create the Big Sun Community Solar program. Big Sun Community Solar plans to provide 5 MW of community solar capacity for 500 – 600 CPS Energy customers and will install an expected fifteen (15) solar carports around the City of San Antonio.

Other Economic Development: On June 2, 2016, the City Council passed an ordinance authorizing a competitive matter memorandum of understanding between the City and CPS Energy regarding the acquisition of electric and gas distribution systems at Lackland Air Force Base, Chapman Training Annex (formerly Lackland Training Annex) and Randolph Air Force Base (the "JBSA Sites").

On September 28, 2017, CPS Energy entered into a 50-year Utilities Privatization Contract ("Contract") with the Defense Logistics Agency ("DLA") to own, operate and maintain the natural gas and the electric distribution systems at the JBSA sites. On July 1, 2019, CPS Energy and the DLA executed the Bill of Sale for the systems covered by the Contract, valued at \$87.1 million and, in doing so, the Air Force transferred ownership of these systems to CPS Energy. The DLA provided immediate cost recovery for the transfer of assets, which began in Fiscal Year 2020 and as a result, there are no cash outlays for this transaction. The advanced recovery payment will be amortized to revenue over 50 years, the life of the JBSA Contract, on a straight-line basis. Additionally, the DLA will reimburse CPS Energy for the costs to operate, maintain and upgrade these systems throughout the contract term. These payments will be adjusted annually based on changes to the Consumer Price Index. As of July 1, 2019, the overall net-present value of the fifty-year JBSA Contract was \$289 million.

In addition, the Alamo Area Council of Governments will manage a \$5 million grant from Governor Greg Abbott's office to enhance energy resiliency at JBSA, in partnership with CPS Energy. To support the grant, CPS Energy is supplying matching funds and an in-kind contribution and will be executing the projects to specifically harden 11 CPS Energy substations supporting JBSA from external threats as well as convert an overhead system to underground in clear zones surrounding JBSA Randolph.

On August 31, 2020, the Board approved a Resolution of support for a partnership with the San Antonio Water System ("SAWS") and Itron to expand the intelligence of the SAWS water distribution system to promote cost management and improve information and services to customers.

DESCRIPTION OF FACILITIES

ELECTRIC SYSTEM

Power Generation Sources

CPS Energy currently operates 20 non-nuclear electric generating units, two of which are coal-fired, 15 of which are gas-fired, 2 solar photovoltaic ("PV") sites, and 1 Battery Energy Storage System ("BESS"). Some of the gas-fired generating units may also burn fuel oil (diesel), which provides fuel flexibility and greater reliability. CPS Energy also owns a 40% interest in the STP's two existing nuclear generating Units 1 and 2. These nuclear units supplied 36.4% of the electric system's native load for the twelve months ending January 31, 2020. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Nuclear" herein. The generating plants are normally referred to by the plant name and number (i.e., Spruce1 for Spruce unit 1, Braunig3 for Braunig unit 3). *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Capability" herein.

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Generating Capability⁽¹⁾

<u>Plant</u>	<u>Unit</u>	<u>Fuel</u>	<u>Year Installed</u>	<u>Summer Net Max Capability MW⁽²⁾</u>	<u>Total Summer Capability MW</u>	
STP (40% interest) ⁽³⁾	Unit 1	Nuclear	1988	516.0		
	Unit 2	Nuclear	1989	512.0	1,028.0	Nuclear
Spruce Plant	Unit 1	Coal	1992	560.0		
	Unit 2	Coal	2010	785.0	1,345.0	Coal
Arthur Von Rosenberg (NGCC 2x1)	Unit 1	Gas	2000	518.0		
Sommers Plant	Unit 1	Gas / Oil	1972	420.0		
	Unit 2	Gas / Oil	1974	410.0		
Braunig Plant	Unit 1	Gas / Oil	1966	217.0		
	Unit 2	Gas / Oil	1968	230.0		
	Unit 3	Gas / Oil	1970	412.0		
Milton B. Lee West Plant	MBLCT 1 ⁽⁴⁾	Gas	2004	46.0		
	MBLCT 2 ⁽⁴⁾	Gas	2004	46.0		
	MBLCT 3 ⁽⁴⁾	Gas	2004	46.0		
	MBLCT 4 ⁽⁴⁾	Gas	2004	46.0		
Milton B. Lee East Plant	MBLCT 5 ⁽⁴⁾	Gas / Oil	2010	48.0		
	MBLCT 6 ⁽⁴⁾	Gas / Oil	2010	48.0		
	MBLCT 7 ⁽⁴⁾	Gas / Oil	2010	48.0		
	MBLCT 8 ⁽⁴⁾	Gas / Oil	2010	47.0		
Rio Nogales Plant ⁽⁵⁾ (NGCC 3x1)	Unit 1	Gas	2012	<u>759.0</u>	<u>3,341.0</u>	Gas / Oil
Commerce BESS ⁽¹⁰⁾	Unit 1	Solar PV	2019	<u>10.0</u>	<u>10.0</u>	BESS
CEC Beck (Community Solar) ⁽⁹⁾	Unit 1	Solar PV ⁽⁶⁾	2016	<u>1.0</u>		
Commerce PV	Unit 1	Solar PV ⁽⁶⁾	2019	<u>5.0</u>	<u>6.0</u>	Solar PV
Total Capability Owned by CPS Energy					<u>5,730.0</u>	
Renewable Purchased Power Nameplate Capability:						
Desert Sky Wind Farm ⁽⁷⁾		Wind	2002	168.0		
Cottonwood Creek Wind Farm (Sweetwater3) ⁽⁸⁾		Wind	2005	82.6		
Sweetwater 4		Wind	2007	240.8		
Penascal		Wind	2009	76.8		
Papalote Creek		Wind	2009	130.4		
Cedro Hill		Wind	2010	150.0		
Los Vientos		Wind	2012	200.1	1,048.7	Wind
Covel Gardens		Landfill Gas	2005	9.6		
Nelson Gardens		Landfill Gas	2014	4.2	13.8	Landfill Gas
Blue Wing		Solar PV ⁽⁶⁾	2010	13.9		
Sinkin 1		Solar PV ⁽⁶⁾	2012	9.9		
Sinkin 2		Solar PV ⁽⁶⁾	2012	9.9		
Somerset		Solar PV ⁽⁶⁾	2012	10.6		
Alamo 1		Solar PV ⁽⁶⁾	2013	39.2		
St. Hedwig (Alamo 2)		Solar PV ⁽⁶⁾	2014	4.4		
Eclipse (Alamo 4)		Solar PV ⁽⁶⁾	2014	39.6		
Walzem (Alamo 3)		Solar PV ⁽⁶⁾	2015	5.5		
Helios (Alamo 5)		Solar PV ⁽⁶⁾	2015	95.0		
Solara (Alamo 7)		Solar PV ⁽⁶⁾	2016	106.4		
Sirius 1 (Alamo 6)		Solar PV ⁽⁶⁾	2017	110.2		
Sirius 2 (Pearl)		Solar PV ⁽⁶⁾	2017	50.0		
Lamesa II (Ivory)		Solar PV ⁽⁶⁾	2018	50.0	<u>544.6</u>	Solar PV
Total Renewable Purchased Power Nameplate Capability					<u>1,607.1</u>	
Total Capability including Renewable Purchased Power					<u>7,337.1</u>	

(1) Data as of October 1, 2020.

(2) Summer net max capability reflects net summer rating for CPS Energy owned plants.

(3) Current net summer electric rating (MWe) for CPS Energy's share of STP1 & 2. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources - Nuclear" herein.

(4) "CT" stands for "Combustion Turbine". Plants renamed MBL (Milton B. Lee) CT as of March 6, 2014.

(5) The Rio Nogales Plant was commissioned in 2002 and purchased by CPS Energy on April 9, 2012. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources - Gas / Fuel Oil Plants" herein.

(6) Solar PV capacity is reported on an alternating current (AC) nameplate basis.

(7) Desert Sky Wind Farm capacity updated to better reflect contracted nameplate capacity after turbine uprate.

(8) Subject to a contract amendment for repowering the turbines for increased output, without any modification to the original contracts length (and resulting in a total savings of \$7 million).

(9) Community Solar project "CEC Beck" added to CPS Energy owned renewable portfolio table to align with other corporate reporting.

(10) BESS – Battery Energy Storage System.

Nuclear

Nuclear is one of CPS Energy's base energy options, providing about 29.5% of CPS Energy's total net annual generation for the twelve months ending January 31, 2020. STP is a two-unit nuclear power plant with Unit 1 and Unit 2 (or "STP1" and "STP2") having a combined nominal output of approximately 2631.5 MW. STP is located on a 12,220 acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles from San Antonio. CPS Energy currently owns 40% of these units. Participant Ownership ("Participants") in STP1 and STP2 and their shares therein are as follows:

<u>Participants</u>	<u>Ownership</u>	
	<u>%</u>	<u>Nominal Output MW</u> <u>(approximate)</u>
NRG Energy, Inc. ("NRG")	44.0	1157.9
CPS Energy	40.0	1052.6
City of Austin-Austin Energy	<u>16.0</u>	<u>421.0</u>
	<u>100.0</u>	<u>2631.5</u>

(1) In 2006, Texas Genco, holder of a 44% interest in STP, was acquired by NRG. NRG holds its interest in STP1 and STP2 in NRG South Texas LP, a wholly-owned subsidiary of NRG.

STP is maintained and operated by a non-profit Texas corporation ("STP Nuclear Operating Company" or "STPNOC") financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs the STPNOC, with each owner appointing one member to serve with the STPNOC's chief executive officer ("CEO"). The STPNOC Board of Directors selected Tim Powell as the Interim CEO and President on January 11, 2018. On August 20, 2018, STPNOC announced that Mr. Powell, assumed the role permanently. All costs and output continue to be shared in proportion to ownership interests.

On February 9, 2017, STPNOC received a final significance determination notice from the NRC concerning a previously identified security-related finding. The NRC concluded the finding was Greater than Green and of low to moderate security significance. The finding was identified during an NRC inspection conducted from October 19 through December 1, 2016. STP took prompt actions to address the finding. Because the finding was characterized as Greater than Green, the NRC determined that STP would be in the Regulatory Response Column of the Reactor Oversight Process Action Matrix. STP successfully completed an NRC follow-up inspection in August 2017. Subsequently, the NRC returned STP to the Licensee Response Column of the Reactor Oversight Process Action Matrix effective October 2017.

NRC, which retains jurisdiction to conduct cybersecurity-related inspections at nuclear facilities, completed a cyber security inspection of STP in October 2017. STP successfully completed this inspection and was the first nuclear facility in the country that received such an inspection.

In September 2017, the NRC approved STPNOC's license renewal applications for STP1 and STP2 that extends the operating licenses to 2047 and 2048, respectively.

During the twelve-months ended December 31, 2020, STP1 and STP2 operated at approximately 95.1% and 105.1% of net capacities, respectively. Due to the 2021 Winter Weather Event, STP1 automatically shut down on February 15, 2021 amid bitter cold. The unit, located in Bay City, Texas, was operating at 36% of capacity in the early morning of February 18, 2021 and then ascended back toward 100% capacity. STP2 remained online at full generating capacity.

Five-Year South Texas Project Capacity Factor⁽¹⁾

Calendar Years Ended December 31,

	<u>2016⁽²⁾</u>	<u>2017⁽²⁾</u>	<u>2018</u>	<u>2019⁽²⁾</u>	<u>2020⁽²⁾</u>
Unit 1	102.8%	92.3%	94.1%	105.1%	95.1%
Unit 2	95.2%	105.0%	95.2%	96.0%	105.1%
Total	99.0%	98.7%	94.7%	100.6%	100.1%

(1) Capacity Factor based on nameplate rating of 1250.6 MW per unit.

(2) Greater than 100% due to plant upgrades.

Recent operational highlights for STP include the following: In September 2016, STPNOC was recognized by *EHS Today's*, a national publication for environment, health and safety leaders, as one of 10 companies selected to the 2016 list of America's Safest Companies. This is the second time STP has received this national honor, also receiving the award in 2010. In 2014 total generation, STP2 ranked #1 of 100 reactors in the United States and #2 of 424 reactors worldwide; STP1 ranked #33 in the United States and #55 in the world. In 2017, STP's annual Total Generation Cost (\$ / MWh) ranked in the top decile nationally compared to the other United States nuclear generation stations and from 2017 to 2019, STP's three-year Total Generation Cost (\$ / MWh) ranked in the top decile nationally as well. STP produced more energy than any other two-unit nuclear plant in the country for the period 2004 through 2011 and 2014.

Coal Plants

Coal, with its relatively stable low cost, provided 21.2% of CPS Energy's total net annual generation in Fiscal Year 2020 and 1,345 MW of reliable capacity in the ERCOT market. Coal units also provided 24.3% of the Fiscal Year 2020 electric system native load.

The Deely and Spruce Plants are located at the Calaveras Power Station southeast of the City and share Calaveras Lake's cooling capacity. The Deely Plant and the Spruce Plant each are equipped with substantial environmental controls. CPS Energy obtains its low sulfur content coal from the Powder River Basin area of Wyoming.

The Deely Plant consists of two large units, Deely1 and Deely2, which were installed in 1977 and 1978, respectively, and are both rated to provide 420 net MW of capacity to the Bulk Electric System ("BES") operated by ERCOT. Both Deely units were deactivated at the end of calendar year 2018, as described in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Additional Generation Opportunities".

The Spruce Plant also consists of two large well maintained units. Spruce1 and Spruce2 were installed in 1992 and 2010, respectively. Spruce1 is capable of providing 560 net MW of capacity to the BES. Spruce2 is capable of providing 785 net MW of capacity to the BES. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Station Events" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Capability" herein. The units are usually base loaded and remain online 24 / 7 for dispatch to the electric system by ERCOT. CPS Energy has an SCR on the Spruce2 unit. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Air Act - Nitrogen Oxides ("NO_x")" herein. To support new effluent and coal combustion residual standards, CPS Energy is considering the installation of water discharge treatment technology on the Spruce1 and Spruce2 units. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Water Act - New Effluent Standards" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Other Environmental Issues – Coal Combustion Residuals" herein.

Gas / Fuel Oil Plants

The Sommers Plant, located at the Calaveras Power Station, comprises two large steam units operating on natural gas. Sommers1 and Sommers2 were installed in 1972 and 1974 respectively. Sommers1 is capable of providing 420 net MW of intermediate / peaking capacity to the BES. Sommers2 is capable of providing 410 net MW of intermediate / peaking capacity to the BES. Both units are offered to the ERCOT Energy Market and are selected to operate as the market economics and load demand dictates. The units are typically cycled during peak load months in the summer and winter based on the load demand and market pricing for the day. During the shoulder months of fall and spring, the units typically operate in a standby mode available to cover CPS Energy native load obligations as well as to take advantage of ERCOT market opportunities.

The Braunig Plant and Arthur Von Rosenberg Plant ("AVR Plant") are located at the Braunig Power Station southeast of the City and share Braunig Lake's cooling capacity. The Braunig Plant has three steam units which operate on natural gas. Braunig1, Braunig2 and Braunig3 were installed in 1966, 1968, and 1970 respectively. Braunig1, Braunig2, and Braunig3 are capable of providing 217, 230 and 412 net MW, respectively, of capacity to the BES. All three units are typically cycled during peak load months in the summer and winter. During the shoulder months of fall and spring the units typically do not run as often and are in standby mode available to take advantage of ERCOT market opportunities.

The Braunig Plant also has four simple cycle combustion turbines (renamed Milton B. Lee East Plant) which provide quick-start peaking energy for CPS Energy's generation portfolio, as well as Black Start capability to ensure CPS Energy's generation assets can expeditiously come online in an outage situation. The Milton B. Lee East Plant was installed in 2010. Three of the four units are capable of providing 48 MWs, and one of the units provides 47 MWs net capacity to the BES. Each unit consists of a generator driven by a General Electric (GE) LM6000 Combustion Turbine aero derivative. These combustion turbine units may be fueled with either gas or diesel making them very flexible and able to take advantage of constrained energy situations in the ERCOT

market. The units are operated as cycling peaking units and are utilized to provide reliable and valuable energy in high demand periods as well as to meet CPS Energy's ancillary service obligations.

The AVR Plant, located adjacent to the Braunig Plant, uses combined cycle technology that is 25% to 30% more fuel efficient than other gas generation technologies and provides a competitive low heat rate asset for CPS Energy. The AVR Plant's three generators combine to provide 518 net MW of reliable competitive capacity to the BES. The plant consists of two GE 7FA Frame Combustion Turbines driving one generator each and a GE D11 Steam Turbine driving another generator. The exhaust heat from both turbines is used to generate steam to drive the steam turbine generator. The plant can operate in a 1x1 configuration with one combustion turbine and the steam turbine, or a 2x1 configuration with both combustion turbines in service along with the steam turbine giving it the flexibility to maximize its value.

The Milton B. Lee West Power Station located in southwest Bexar County has four additional quick-start natural gas simple cycle combustion turbines that include Black Start capability to ensure CPS Energy's generation assets can expeditiously come on line in an outage situation and provide 184 net MW of flexible capacity for CPS Energy. The Milton B. Lee West Plant was installed in 2004. Each of the four units is capable of providing approximately 46 net MW of capacity to the BES. Each unit consists of a generator driven by a GE LM6000 Combustion Turbine aero derivative. These combustion turbine units operate on natural gas. The units are operated as cycling units and are utilized to cover energy in periods of high demand and ancillary service obligations of CPS Energy.

On April 9, 2012, CPS Energy closed on the acquisition of the Rio Nogales natural gas combined cycle power plant (the "Rio Nogales Plant"), located in Seguin, Texas. The low heat rate 759 MW (net summer rating with duct firing) plant was purchased from Tenaska Capital Management, LLC and provides CPS Energy with reliable, efficient generation capacity. Natural gas is supplied to the plant through a pipeline lateral that accesses the Oasis pipeline, a DCP Midstream pipeline, and a Kinder Morgan / Houston Pipe Line joint venture pipeline. Water sources for the plant consist of treated sewage effluent from the City of Seguin's wastewater treatment plant, surface water from the Guadalupe River, and ground water from the Schertz / Seguin Local Government Corporation well field in Gonzales County. All of the Rio Nogales Plant's water is supplied through an agreement with the City of Seguin. The agreement was entered into in 2001 and has a primary term of 25 years, terminating in 2027 with options to extend the agreement for up to three additional five-year terms. CPS Energy initially sold the plant capacity into the ERCOT wholesale market (including bilateral sales) during the first few years of ownership. The plant capacity is now dedicated to CPS Energy native load demand (corresponding approximately with the reduction in generating capacity attributable to the deactivation of Deely1 and Deely2, which occurred on December 31, 2018). See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Coal Plants" herein.

Renewable Resources

As of October 31, 2020, CPS Energy's renewable energy capacity totals 1,613.1 MW. CPS Energy has one of the strongest and most diverse renewable energy programs in Texas, including local solar, West Texas solar, West Texas wind, coastal wind and landfill gas. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ELECTRIC UTILITY RESTRUCTURING IN TEXAS - Environmental Restrictions of Senate Bill 7 and Other Related Regulations" herein.

As a step in diversifying its energy resource plan, CPS Energy is proactively pursuing renewable energy supplies. CPS Energy is currently receiving renewable energy under several long-term contracts. CPS Energy has two contracts for wind-generated energy from the Desert Sky Wind Project: a 20-year contract for 135 MW and a 15-year contract for 25.5 MW. These contracts were renegotiated into one single contract, with a termination date of December 31, 2021, in response to a request from the developer to repower the project with improved equipment. The plant capacity factor will improve, providing CPS Energy with additional MWh at a lower cost per MWh than the original contracts. The term of the new contract remained the same as the original contracts. The repower was completed in August 2018 and added approximately 8 MW of nameplate capacity. The Cottonwood Creek Wind Farm (Sweetwater 3) was also repowered and the contract renegotiated to provide 82.6 MW of capacity to CPS Energy. CPS Energy also has a 20-year contract for 240.8 MW from the Sweetwater 4 Wind Farm; a 15-year contract for 76.8 MW from the Penascal Wind Farm; a 15-year contract for 130.4 MW from the Papalote Creek Wind Farm; a 20-year contract for 150 MW from the Cedro Hill Wind Farm; and a 25-year contract for 200.1 MW from the Los Vientos Wind Farm. Recent transmission congestion in South Texas during various seasons has impacted the Cedro Hill and Los Vientos wind farms, resulting in agreed-upon curtailment of these units during periods of negative pricing (a standard procedure).

CPS Energy also has a 15-year contract for a landfill gas-generated energy project totaling 9.6 MW which came on-line in December 2005. Under an additional contract, the Nelson Gardens 4.2 MW landfill gas generation project achieved commercial operation in April 2014.

CPS Energy is growing its solar energy portfolio with a 30-year contract for the 13.9 MW Blue Wing solar energy project which entered into commercial operation in November 2010; two 25-year contracts for Sinkin 1 and 2, each 9.9 MW which became

operational in May 2012 and a 25-year contract for 10.6 MW from the Somerset Solar project, which became operational in August 2012. Sinkin 1 and 2 and Somerset Solar projects comprise what was formally referred to as the SunEdison Project. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – STRATEGIC INITIATIVES – Business and Economic Development" herein.

In August 2018, renewable energy infrastructure developer Renewable Energy Systems was selected by CPS Energy to construct an innovative solar and energy storage project, located at Southwest Research Institute and is the first co-located solar and storage project interconnected at the distribution level within ERCOT. This project broke ground on October 9, 2018 and went online February 2020. This project has 17,752 solar panels that produce about 5 MW of solar, enough to power approximately 1,000 homes. The project also includes a Battery Energy Storage System, with 10 MW of storage capacity, which provides flexibility to store energy by charging when market prices are low and discharge the stored energy when market prices are high.

CPS Energy executed a Master Agreement with OCI Solar Power for approximately 400 MW from seven facilities. All seven facilities have been or became operational in early 2017. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – STRATEGIC INITIATIVES – Business and Economic Development" herein. Each individual facility comprising OCI Solar's 401.8 MW has an existing PPA. OCI's Alamo 1 project facility of 39.2 MW achieved commercial operation in December 2013; St. Hedwig (Alamo 2) for 4.4 MW achieved commercial operation in March 2014; Eclipse (Alamo 4) facility at 39.6 MW, achieved commercial operation in August 2014; Walzem (Alamo 3) project at 5.5 MW achieved commercial operation in January 2015. The Uvalde (Helios – Alamo 5) facility at 95 MW became operational at the end of December 2015. The Haskell (Solara – Alamo 7) facility at 106.4 MW became operational in September 2016. The Sirius 1 (Alamo 6), at 110.2 MW in Pecos County, Texas, began producing test energy in late 2016 and became operational in March 2017. At this time, Alamo 6 is one of the largest solar PV plants in Texas. In addition to the PPAs executed under the Master Agreement with OCI, CPS Energy has also executed two separate 25-year PPAs for Project Pearl (50 MW located adjacent to Alamo 6) and for Project Ivory (50 MW located near Lamesa). Project Pearl became operational on October 16, 2017, and Project Ivory, which previously sold to D.E. Shaw Renewable Investments, began commercial operation on December 20, 2018. On September 1, 2019 Commerce PV consisting of 5.0 MW, became operational. In March 2017, CPS Energy and OCI executed an Amended and Restated Master Power Purchase and Economic Development Agreement. The original Master Agreement was replaced in order to simplify the agreement and reflect pertinent terms going forward.

CPS Energy receives energy from 1,048.7 MW of wind, 550.6 MW of solar and 13.8 MW of landfill gas generated energy for a total renewable energy capacity in operation of 1,613.1 MW, thereby exceeding CPS Energy's goal of 1,500 MW of renewable capacity by 2020.

An estimate of 1.0 MW of solar electricity will be produced by the utility's Solartricity Producer Program. The Solartricity Producer Program is a limited pilot project that is currently closed to any new subscribers and is not included in the "Generating Capability" table. Each Solartricity participant has a 20-year contract with CPS Energy. In addition, the pilot "Simply Solar" programs discussed in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein, currently constitute approximately 6 MW of solar capacity. When including these pilot programs, CPS Energy's renewable portfolio capacity increases to 1,619.1 MW. Only CEC Beck is included in the "Generating Capability" table, since it is owned and operated by CPS Energy and to align with other corporate reporting.

Peak Demand and Native Load

In the CPS Energy service territory, a previous record system peak demand of 5,080 MW was set on July 23, 2018, on hour ending 7 p.m. At the time of the 2018 peak, CPS Energy was receiving 586 MW of renewable capacity helping to meet the peak demand. Along with the 4,943 MW of fossil fuel and nuclear capacity, a total of 5,529 MW was available to meet CPS Energy's native load summer peaking needs. The peak demand for the summer of 2017 was 4,866 MW due to more moderate weather. The peak demand for the summer of 2018 was driven by native load growth and a 105° peak temperature, surpassing the record of 5,017 MW set on August 12, 2016. In the summer of 2019, a new all-time high system peak was reached on August 26, 2019, of 5,159 MW, surpassing the previous 2018 record. CPS Energy continues to provide innovative and growing conservation and demand-response programs, such as automatically adjusting participating customers' thermostats served to keep CPS Energy's peak demand lower than it otherwise would have been. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Capability" herein.

Replacement Power for Events

Depending upon the time of the year and actual customer demand, unplanned outages may or may not result in a need to purchase power from other providers on the ERCOT wholesale market. While replacement power can be more expensive to CPS Energy's customers than generation from its own facilities, CPS Energy's existing rate structure allows the cost of replacement power to be funded through its monthly fuel and gas cost adjustment fee. CPS Energy makes no representation as to the costs of replacement

power and qualifies the foregoing in response to the 2021 Winter Weather Event (*See* INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein.)

Assets Supporting Generation

Braunig and Calaveras Lakes are CPS Energy-owned man-made lakes that provide cooling for the majority of CPS Energy's generating units. These lakes utilize treated sewage effluent and runoff waters to maintain operating levels. CPS Energy was a pioneer in the use of non-potable, recycled water from treated sewage effluent for cooling purposes, thereby saving higher quality, potable ground water for other uses.

CPS Energy has contracted with SAWS, the City's municipally-owned water and sewer system, to provide a maximum of 50,000 acre-feet of treated sewage effluent per year to CPS Energy. CPS Energy projects that these contract volumes, along with water available under existing water rights, will provide sufficient cooling capacity for existing and planned generation units at Braunig and Calaveras Lakes. However, low flow in the San Antonio River could create challenges in pumping make-up water from the river to keep the lakes in optimal operating conditions.

CPS Energy owns an additional 3,064 acre-feet of Edwards Aquifer ground water rights to supply process water and some cooling water to other power plants in its service territory. CPS Energy previously leased 1,000 acre-feet of this water to the Edwards Aquifer Authority (the "EAA") on a short term basis as described in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Water Resources Planning" herein. A lease of 1,000 acre-feet additional Edwards Aquifer water rights to SAWS was executed in May 2014. The two 1,000 acre-feet water leases to SAWS and EAA expired by their terms, and a new 2,000 acre-feet contract providing leases to SAWS was executed in 2019. This water had gone unused in the past and CPS Energy projects that the retained 1,069 acre-feet of water is sufficient to maintain power plant operations even in drought conditions. CPS Energy also purchases potable water from SAWS and East Central Special Utility District through standard water delivery rates for power plant process water and miscellaneous plant needs.

CPS Energy continues to manage water-related legal, supply, and conservation issues through participation with local and regional water stakeholder groups. CPS Energy has conserved water by using technologies such as once-through cooling ponds (instead of cooling towers), increased power plant efficiency projects, the installation of water-efficient gas turbines (versus gas steam turbines), and new water treatment technologies. CPS Energy continues to study other water conservation technologies, such as dry cooling. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters" herein.

For description of other assets of the Systems that support generation, please *see* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Fuel Supply" herein.

Smart Grid Modernization Program

Starting in 2013, CPS Energy began building a converged Advanced Metering Infrastructure ("AMI") and distribution automation ("DA") network. The rollout of new electric meters and gas interface management units ("IMUs") using this network began in 2014 in order to reduce operational costs and improve reliability. A new energy portal was implemented to give customers the opportunity to better track and manage their energy usage. The project was completed in the summer of 2018. The combined cost of the network, electric and gas upgrades was \$264 million. Operational savings, accurate reads, and distribution automation are all factored in the program. Savings are expected to cover the cost in approximately 13 years. As of January 31, 2020, approximately 1.2 million smart grid devices have been installed pursuant to this program. In addition, CPS Energy has added a smart meter requirement to its rooftop solar rebate program. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs – Energy Conservation" herein.

Smart Streetlights

CPS Energy and the City have partnered on a joint Request for Proposal to pilot and award a smart streetlight control solution with added smart city use cases. Smart streetlight controls will allow for centralized monitoring and control of streetlights which will improve maintenance planning and increase operational efficiency. The solution will allow for adaptive lighting schedules, provide defective operation notifications, provide GPS locations of streetlights, and provide streetlight failure and status reports.

The smart streetlight platform will be leveraged by smart city use cases. The City has identified several smart city use cases to pilot, which include the following: temperature and air quality monitoring, flood detection, noise detection, and smart parking.

CPS Energy and the City have selected two solution providers to pilot smart streetlight control & smart city applications within the City's three Innovation Zones (Downtown, Medical Center, and Brooks City Base) over a 6-month period which began in the third quarter of

2020, with the installation of this technology at Brooks Innovation Zone. Results from the 6-month streetlight pilot will be evaluated in the summer of 2021.

New Products & Services

CPS Energy continually evaluates its entire portfolio of electric & gas products & services in an effort to more fully meet customers' needs. To that end, CPS Energy has received approval from the Board and City Council for three new offerings that will soon be available to commercial customers. First, CPS Energy developed a tariff that provides large commercial customers with improved access to renewable energy sources. Under this optional new Green Tariff (as described under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – New Tariff"), CPS Energy will procure renewable energy from a source chosen by the customer, and then sell it to the customer through the Green Tariff. Second, CPS Energy converted a limited Resiliency Service pilot into a permanent tariff for its commercial customers. Under the Resiliency Service offering, CPS Energy will provide on-site backup generators capable of providing electricity to retail customers during outages of the electric system in exchange for a monthly Resiliency Service capacity fee. The natural gas backup generators are owned and operated by one of CPS Energy's suppliers. As of January 31, 2021, Resiliency Service has been enabled at 27 customer sites with a total capacity of 30.4 MW. The Green Tariff and Resiliency Service offerings have both been fully approved.

Lastly, in support of growing demand for distribution-level interconnection by energy storage facilities to enable access to the ERCOT wholesale energy markets as generation resources, CPS Energy is finalizing regulatory approvals of updates to its existing Wholesale Distribution Service ("WDS") tariff. The updated WDS tariff enables eligible transmission service customers to interconnect at various locations within the distribution system at applicable rates for utilizing the portion of distribution assets ascribed to the location of interconnection. Consistent with the Board's recommendation, the WDS tariff updates were approved by the City Council on September 17, 2020 and became effective immediately. Unlike other tariff offerings, the WDS tariff is subject to reasonableness review by the PUCT which has jurisdiction over infrastructure used to access the ERCOT wholesale energy markets, including this tariff update for transmission service at distribution voltage. As of the date of this Official Statement, the WDS tariff is pending PUCT approval in Docket No. 51409.

Qualified Scheduling Entity

CPS Energy operates as an ERCOT Level 4 Qualified Scheduling Entity ("QSE") representing all of CPS Energy's assets and load. The communication with ERCOT and the CPS Energy power plants is monitored and dispatched 24 hours per day / 365 days a year. Functions are provided from the Energy Market Center housed within the main office of CPS Energy. Backup facilities have also been created. QSE functions include load forecasting, day ahead and real time scheduling of load, generation and bilateral transactions, generator unit commitment and dispatch, communications, invoicing and settlement. The QSE operates in all aspects of the ERCOT Market, including submitting bids and offers in the Day Ahead Market ("DAM"), operating generation and load in the Real Time Market ("RTM"), participating in Congestion Revenue Rights auctions, and offering Ancillary Services into the grid.

Transmission System

CPS Energy maintains a transmission network for the movement of large amounts of electric power from generating stations to various parts of the service area, to or from neighboring utilities, and for wholesale energy transactions as required. This network is composed of 138 and 345 kilovolt ("kV") lines with autotransformers to provide the necessary flexibility in the movement of bulk power.

Distribution System

The distribution system is supplied by 94 substations strategically located on the high voltage 138 kV transmission system stepping down to distribution system voltages of 34.5 kV and 13.2 kV. The City's central business district is served by nine underground networks, each consisting of four primary feeders operated at 13.2 kV, transformers equipped with network protectors, and both a 4-wire 120 / 208 volt secondary grid system and a 4-wire 277 / 480 volt secondary spot system. This system is designed for the highest level of distribution reliability.

Approximately 8,100 circuit miles (three-phase equivalent) of overhead distribution lines are included in the distribution system. These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution system consists of 697 miles of three-phase equivalent distribution lines, 86 miles of three-phase downtown network distribution lines, and 5,332 miles of single-phase underground residential distribution lines.

Interconnected System

The electric system is integrated with more than 100 other utilities, municipalities, independent power producers, power marketers, and co-operatives in Texas to form ERCOT, which covers a large portion of Texas. The ERCOT system is operated entirely within the State and is connected to other reliability councils and Mexico through asynchronous connections, providing only limited import / export capability. CPS Energy and the eight utilities listed below are the major transmission entities in ERCOT:

American Electric Power Service Corporation	Austin Energy
Brazos Electric Power Co-op Inc. ⁽¹⁾	CenterPoint Energy
LCRA Transmission Services Corp.	Oncor Electric Delivery Co LLC
South Texas Electric Co-op Inc.	Texas-New Mexico Power Co

⁽¹⁾ Filed bankruptcy on March 1, 2021. See "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein. The effect of the bankruptcy is still being assessed.

The transmission facilities of CPS Energy, the eight above entities, and those of other transmission facility owners have been integrated into a single control area, which is operated by ERCOT acting as the Independent System Operator ("ISO"). ERCOT operates the transmission grid through each of the transmission-owning entities that maintain direct control and maintenance of their respective portions of the transmission infrastructure.

On March 8, 2018, the PUCT approved the petition of Lubbock Power & Light (the municipal electric utility owned by Lubbock, Texas) to join ERCOT. Lubbock Power & Light will transfer 430 MW of its load from the Southwest Power Pool to ERCOT. The move is expected to result in an investment of approximately \$364 million in infrastructure to construct new transmission lines to interconnect with the ERCOT grid. Lubbock Power & Light previously announced it will pay ERCOT \$110 million for infrastructure needed to connect Lubbock to the State's grid and is expected to join the ERCOT grid by June 1, 2021. Lubbock city officials previously indicated Lubbock Power & Light will not immediately join the competitive market. Lubbock Power & Light stated it is on track to transfer approximately 70% of its electrical grid to the ERCOT market by June of 2021.

On August 12, 2019, ERCOT set a peak record of 74,820 MW compared to the grid's previous all-time high demand of 73,473 MW on July 19, 2018. The winter peak record was set on February 14, 2021, reaching 69,150 MW. Increased power usage in response to weather conditions has impacted and may continue to impact the grid's ability to prospectively operate effectively and efficiently, although as reported by the March 2021 ERCOT fact sheet, over 86,000 MW of generating capacity is expected to be available to meet summer 2021 demand.

Pursuant to the PUCT's open access transmission rule, discussed under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein, ERCOT members and other wholesale market participants jointly established, by a filing with the PUCT in 1996, the ERCOT organization as an ISO and an integrated electronic transmission information network. ERCOT's responsibilities were augmented in 1999 under SB 7 for the retail competitive market and include alternate dispute resolution procedures, coordination of the scheduling of ERCOT generation and transmission, directing the redispatch of ERCOT generation and transmission transactions for economic purposes, preserving system reliability, and administering the electronic transmission information network. Beginning July 31, 2001, ERCOT began operating the interconnected system as a single control area, in contrast to the multiple control areas historically in place, as part of the transition to the retail competitive market, which was fully implemented on January 1, 2002.

In December 2010, ERCOT transitioned from its existing "Zonal" market structure to a "Nodal" market structure. Instead of simply facilitating the scheduling of generation resources and loads, in the Nodal market ERCOT optimizes the dispatch of all generating units in the RTM using Security Constrained Economic Dispatch ("SCED"). Resource operators submit offer curves to ERCOT and load serving entities submit bid curves to ERCOT. The SCED engine optimizes deployment of generation assets (constrained by the limits of the transmission system) to meet demand through an electronic auction run every five minutes. In order to provide predictability in the RTM, ERCOT also operates a financial DAM. This voluntary market allows market participants to sell resources and buy load one day prior to the operating day, securing positions and adding predictability to their revenues and costs. The DAM is conducted by ERCOT itself, and each participant must show adequate creditworthiness to participate. CPS Energy participates in both the DAM and the RTM on a daily basis. ERCOT's costs of converting to a single control area and of administering system operations for the competitive retail market are recovered through an administrative fee assessed to system participants, including CPS Energy, allocated on an energy basis. CPS Energy recovers the fee through the billing adjustment discussed above under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Governmentally Imposed Fees, Taxes or Payments".

ERCOT also manages commercial operations of the wholesale power market, as well as acts as a single clearinghouse for retail customer switches and metering information.

CPS Energy is a qualified scheduling entity, load serving entity, distribution service provider, resource entity, and transmission service provider in the ERCOT wholesale market, and is thereby obligated to comply with all rules established by ERCOT as reflected in its protocols, planning guides, and operating guides, which are subject to change from time to time and subject to oversight and review by the PUCT.

CPS Energy is also complying with the reliability standards of the North American Electric Reliability Corporation ("NERC"), including the Critical Infrastructure Protection standards. CPS Energy must comply with these standards as a Transmission Planner, Transmission Owner, Transmission Operator, Distribution Provider, Generator Owner and Generator Operator. CPS Energy is continually monitoring proposed new reliability standards, new versions of existing standards, and the potential of violations related to the standards. CPS Energy does not anticipate any violations that would have a material financial impact.

External Events Impacting Nuclear Power Generation Industry and STP1 and STP2, and CPS Energy's Response

On March 11, 2011, a magnitude-9.0 earthquake struck off of the north-eastern coast of Japan. This earthquake triggered a tsunami that devastated portions of Japan. The Fukushima Daiichi nuclear power plant site was one of the areas struck by the earthquake and tsunami. This event resulted in core damage to Units 1, 2, and 3 at that plant. The nuclear industry responded to the events at Fukushima. The NRC formulated a Near-Term Task Force to conduct a review of the NRC's processes and regulations in light of the events at Fukushima. The Near-Term Task Force's 90-day report confirmed the safety of United States nuclear power plants and included twelve recommendations to the NRC commissioners. In October 2011, the NRC commissioners directed NRC staff to implement seven of the recommendations that were identified as those that should be implemented without unnecessary delay. In addition, the NRC commissioners directed the staff to identify the schedule and resource needs associated with those Near-Term Task Force recommendations that were identified as long-term actions and / or that require additional staff study to inform potential regulatory changes. On March 12, 2012, the NRC issued three orders (the "NRC Orders") and one Request for Information letter. These actions represented the first regulatory activity initiated as a result of the lessons learned from the events at Fukushima. The NRC Orders outline actions that must be taken and also provide a compliance deadline. License holders must have completed the actions within two refueling outages or by December 31, 2016 (whichever came first). The Request for Information letter requires specific responses from license holders. Additionally, NRC developed the diverse and flexible mitigation capability ("FLEX"), an additional layer of backup power after an extreme event at nuclear energy sites, which will maintain cooling water at the reactors in the event backup systems fail. Most recently, NRC staff reviewed the International Atomic Energy Agency's report, "The Fukushima Daiichi Accident" and determined the observations concluded therein do not introduce issues not previously considered by NRC, the U.S. Government, or the U.S. nuclear industry, either as a part of a pre-existing program or Fukushima enhancements. As of July 21, 2016, STPNOC has submitted the requested information and complied with the NRC Orders in a timely manner to comply with all deadlines that have come due. NRC released its site evaluation report on June 8, 2017.

The NRC evaluates plant performance by analyzing two distinct inputs: inspection findings from the NRC's inspection program and performance indicators that are reported by the licensee. Inspection findings and performance indicators are given a color designation based on their safety significance. The current plant assessment for STP can be found at a summary level at http://www.nrc.gov/NRR/OVERSIGHT/ASSESS/pim_summary.html, or by writing to United States Nuclear Regulatory Commission, Public Document Room, O-1F-13, Washington, D.C. 20555.

The NRC regulations require that each holder of a nuclear plant operating license submit to the NRC a decommissioning plan, which contains, among other things, a cost estimate for decommissioning such plant and either a funding plan or a guaranty method for covering decommissioning costs for such plant. Participants in STP have filed a decommissioning plan for the STP in compliance with these regulations, which includes representations by each Participant that it has established a trust into which it annually pays, throughout the life of the STP, amounts which, when accumulated with investment income, are projected to provide the funds required by the rules to pay its respective portion of such decommissioning costs.

CPS Energy maintains decommissioning funds for its 28% interest in STP separate from decommissioning funds associated with its 12% STP interest ("former AEP TCC interest") to meet its decommissioning obligations for its entire 40% interest in STP. See Note 14 to CPS Energy's Basic Financial Statements in APPENDIX B. Total funds in each Trust are allocated to decommissioning costs, spent fuel management and site restoration. The funds available for decommissioning costs are based on cost estimates most recently provided in a cost study finalized in May 2018. As of December 31, 2019 and 2018, CPS Energy had accumulated approximately \$473 million and \$413 million, respectively, in the 28% Trust. Based on the most recent available annual calculation of financial assurance (required by the NRC every two years), as of December 31, 2018, the 28% Trust funds available for decommissioning costs totaled \$264 million, which exceeded the estimated NRC requirement of \$111 million. With respect to decommissioning funds for the former AEP TCC interest, the acquisition by CPS Energy and Texas Genco of AEP TCC's interest

in STP includes, proportionately, the responsibility for decontamination and decommissioning, but also resulted in the transfer of decommissioning funds held in trust by AEP TCC. Under PUCT's Substantive Rules Applicable to Electric Service Providers – Nuclear Decommissioning – Rule 25.303, AEP TCC collected decommissioning fees from its historical retail customers, which were paid into trust accounts applicable to the new shares of STP acquired by CPS Energy and Texas Genco. Based on analysis of the May 2018 cost study, funds are projected to be adequate to meet expected costs and approval has been obtained from the PUCT to discontinue the collection of fees from the AEP TCC retail customers beginning mid-2019. The need for additional funding is subject to review and adjustment by the PUCT every five years or at the request of an interested person including CPS Energy or Texas Genco. As of December 31, 2019 and 2018, the CPS Energy balance in the Decommissioning Master Trust Related to the South Texas Project Interest Acquired from AEP Texas Central Company, "Master Trust (TCC Funded)", was \$173 million and \$152 million, respectively. Based on the most recent annual calculation of financial assurance, as of December 31, 2018, the TCC Funded Trust funds available for decommissioning costs for CPS Energy's 12% interest in STP totaled \$106 million, which exceeded the estimated NRC requirement of \$48 million. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS - Investments – Trust Funds – STP Decommissioning Funds" and "Master Trust (TCC Funded)" herein for information concerning the value of investments in the decommissioning trusts. Actual decommissioning costs could vary substantially from the estimate of such costs depending on future regulatory requirements, the method used for decommissioning, and other factors, and the amounts in the decommissioning trusts may or may not be adequate to pay these costs. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS - Investments – Trust Funds – STP Decommissioning Trust" herein.

Used Nuclear Fuel Management

Under the Nuclear Waste Policy Act, 42 U.S.C. 10101, et seq. ("NWPA"), the Department of Energy ("DOE") has an obligation to provide for the permanent disposal of high level radioactive waste, which includes used nuclear fuel at United States commercial nuclear power plants such as STP. To fund that obligation, all owners or operators of commercial nuclear power plants have entered into a standard contract under which the owner(s) pay a fee to the DOE of 1.0 mill per kilowatt hour (1M/kWh) electricity generated and sold from the power plant along with additional assessments. In exchange for collecting this fee and the assessments, DOE undertook the obligation to develop a high-level waste repository for safe long-term storage of the fuel and, no later than January 31, 1998, to transport, and dispose of the used fuel. To date, no high-level waste repository has been licensed to accept used fuel. The National Association of Regulatory Utility Commissioners ("NARUC") has challenged further collection of this fee. On November 19, 2013, the U.S. Court of Appeals for the District of Columbia ruled in favor of NARUC and ordered DOE to submit to Congress a proposal to reduce the fee to zero until certain conditions are met. While the reporting of volumes will continue, effective May 16, 2014, the rate changed to 0.0 mill per kilowatt hour (0 / M / kWh), or no fee.

To date, the DOE has not accepted used fuel from any domestic commercial nuclear power plant. According to the filings in one recent suit brought against the DOE, at least 66 cases have been filed in the Court of Federal Claims against the DOE related to its failure to meet its obligations under the NWPA by the existing owners or operators of nuclear facilities seeking damages related to ongoing used nuclear fuel storage costs. In early 2016, a federal district court in Washington, D.C. ruled against the DOE, ordering the government to clean up the Hanford Nuclear Reservation in response to NWPA violations. Entergy Nuclear Generation Company ("Entergy") and Boston Edison Company ("Boston Edison") filed suits alleging a \$40 million claim before the Court of Federal Claims regarding allegations that the DOE failed to compensate a nuclear energy company for nuclear waste storage fees incurred. In an opinion and order addressing both companies' claims, dated February 14, 2017, the court dismissed Boston Edison's complaint (based on the rationale that such claim was not yet ripe) and dismissed the government's motion to stay discovery related to the Entergy case due to Boston Edison's claim resolution by the court.

On August 31, 2000, in *Maine Yankee Atomic Power Company, et al. v. US*, the United States Court of Appeals for the Federal Circuit affirmed that the DOE has breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. Subsequent to that decision, the DOE has settled with certain commercial nuclear power plant owners and agreed to provide funds to pay for storage costs while the DOE continues to develop a permanent high-level waste repository. In early February 2013, STPNOC, on behalf of the owners of STP, entered into a similar settlement with the DOE. Under the terms of the settlement, the DOE will reimburse STP for certain costs that will be incurred in continuing onsite storage of all of its used nuclear fuel. As with similar settlements throughout the nuclear industry, the terms of the agreement call for the DOE to reimburse for certain costs incurred through December 2013. In early November 2013, STPNOC and its outside counsel received notice from the Department of Justice ("DOJ") that the DOE was offering to extend the terms of the settlement to allow for the DOE to reimburse for costs incurred through December 2016. The settlement extension (addendum) was executed on January 24, 2014, and extended the term of the Spent Fuel Settlement Agreement with the DOE through December 31, 2016. In November 2016, STPNOC and its outside counsel received notice from the DOJ that the DOE extended the terms of the settlement through December 31, 2019. On June 25, 2020 STPNOC and its outside counsel received notice from the DOJ that the DOE extended the terms of the settlement through December 31, 2022. Additionally, *In re Aiken County*, 725 F.3d 255 (D.C. Cir. 2013), the court ordered the NRC to comply with the NWPA and use available funds to resume consideration of the DOE's Yucca Mountain application as a possible depository. NRC staff concluded the Yucca Mountain to be a safe location, but the DOE must still obtain

acquisition rights and complete licensing requirements. On May 6, 2016, NRC issued its final supplement to the environmental impact statement examining the use of the Yucca Mountain as a permanent repository for used nuclear fuel and high-level radioactive waste. After analyzing the potential impacts on groundwater and surface groundwater discharge, the NRC determined all impacts would be "small". The adjudicatory hearing, which must be completed before a licensing decision can be made, remains suspended. On December 16, 2016, the DOE released its "Draft Plan for a Defense Waste Repository", evaluating the possibility of a separate disposal repository (other than the Yucca Mountain). The preliminary plan describes the technical, regulatory, risk management, cost, and schedule consideration thereof and remained open for comment until March 20, 2017. In January 2017, the Government Accountability Office issued a report that assessed DOE's analysis of the defense-only repository as excluding major costs "that could add tens of billions of dollars" and including a schedule that "appears optimistic," in light of "past repository siting experiences". As of the date hereof, no funding for the Yucca Mountain repository is pending before the Congress, and legislation has been filed requiring consent from Nevada political subdivisions before constructing a permanent repository.

Until the DOE fulfills its responsibilities under the NWA (which includes a permanent underground disposal facility), the NWA has provisions directing the NRC to create procedures to provide for interim storage of used nuclear fuel at the site of a commercial nuclear reactor. Pursuant to STPNOC analysis of NRC guidance, STPNOC constructed an on-site independent spent fuel storage installation ("ISFSI" also known as "Dry Cask Storage") and commenced dry cask loading operations of spent nuclear fuel in January 2019. Expenditures for the spent fuel management project are being funded by the STP owners as the costs are incurred. CPS Energy funds its 40% ownership share of these costs and periodically requests reimbursement from its Decommissioning Trusts for allowable costs. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Investments – Trust Funds – STP Decommissioning Trust" herein.

Annually, STPNOC submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned by STP to the owners upon receipt of funds from the DOE. CPS Energy reimburses the Decommissioning Trusts for the settlement amount received from the DOE. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Decommissioning Trusts. Any costs not reimbursable by the DOE or the Trusts are recorded as STP operational and maintenance expenses or capital costs.

CPS Energy received reimbursement for certain initial costs related to the Dry Cask Storage project incurred prior to May 1, 2012. A second claim submitted to the DOE under the Spent Fuel Settlement Agreement was submitted on October 31, 2013, and sought reimbursement for covered costs during the period of May 1, 2012 through July 31, 2013. On April 14, 2014, the DOE issued a letter that denied reimbursement for certain costs associated with upgrading the spent fuel dry cask handling cranes. On May 8, 2014, STPNOC agreed to accept the DOE's decision but reserved the right to seek reimbursement for future costs associated with upgrading the cranes. CPS Energy expects that the DOE will render its decision regarding the eligibility for reimbursement of future crane upgrade costs as part of the review process for each annual claim. For those costs that have been deemed, or that in the future may be determined to be, non-reimbursable by the DOE, CPS Energy expects to pay these costs using funds currently held in the STP Decommissioning Trusts. CPS Energy received its share of the allowable reimbursement costs from the DOE on August 6, 2014. The third claim with the DOE under the Spent Fuel Settlement Agreement was submitted on October 31, 2014, and sought reimbursement for covered costs during the period of August 1, 2013 through July 31, 2014. In January 2015, \$3.2 million was recorded for STP spent fuel management project capital costs. On February 25, 2015, STPNOC received DOE's "Determination Letter" regarding this claim which disallowed reimbursement of certain costs associated with dry cask handling crane upgrades. STPNOC filed a Request for Reconsideration with the DOE on March 27, 2015. On June 25, 2015, the DOE issued a Supplemental Determination letter which determined that a portion of the costs to upgrade the dry cask handling cranes was reimbursable as an allowable cost. CPS Energy received its share of the allowable reimbursement costs from the DOE on August 21, 2015 for the third claim. The fourth claim with the DOE under the Spent Fuel Settlement Agreement was submitted on October 30, 2015, and sought reimbursement for covered costs during the period of August 1, 2014 through July 31, 2015. On March 3, 2016, STPNOC received DOE's "Determination Letter" regarding this claim which disallowed reimbursement of certain costs. On June 13, 2016, CPS Energy received its share of the allowable reimbursement costs from the DOE for the fourth claim. The fifth claim with DOE under the Spent Fuel Settlement Agreement was submitted on October 28, 2016. On February 13, 2017, STPNOC received DOE's "Determination Letter" regarding this claim for reimbursement of certain costs. On June 14, 2017, CPS Energy received its share of the allowable reimbursement costs from the DOE for the fifth claim under the Spent Fuel Settlement Agreement. On April 11, 2018, DOE issued its "Determination Letter" regarding the October 2017 claim from STP. STP accepted the DOE's "Determination Letter" on April 20, 2018 and payment was received on June 1, 2018. The seventh claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2018 for the period of August 1, 2017 to July 31, 2018. On April 29, 2019, CPS Energy received its share of the allowable reimbursement costs from the DOE. The eighth claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2019 for the period of August 1, 2018 to July 31, 2019. On June 24, 2020, CPS Energy received its share of the allowable reimbursement costs from the DOE. The most recent claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2020 for the period of August 1, 2019 to July 31, 2020. DOE is in the review process for this reimbursement request.

A June 2012 decision by the United States Court of Appeals for the District of Columbia (the "D.C. Circuit Court") vacated the NRC's waste confidence rule update. In response, the NRC issued an order stating that final approval of licenses dependent on the waste confidence rule, such as new reactor licenses and license renewals (combined construction and operating license application - "COLA"), would not be granted until the court ruling had been addressed. Subsequently, the NRC directed staff to develop a new waste confidence rule and GEIS by September 2014. In January 2014, the NRC revised the review schedule for the GEIS and to have a new final rule by October 3, 2014. The slight delay in schedule was related to time lost during the government shutdown and lapse of appropriations in October 2013. On August 26, 2014, the NRC approved the GEIS and final rule (renamed the Continued Storage Rule). In a separate order, NRC approved lifting the licensing suspension once the Continued Storage Rule becomes effective. The rule became effective on October 20, 2014. On September 29, 2014, intervenors filed a petition to suspend the new rule with the Atomic Safety and Licensing Board (a unit of the NRC) and a proposed contention opposing the NRC's action. On February 26, 2015, the NRC issued a decision that rejects the petition, the proposed contention, and the motion to reopen filed by the intervenors in September 2014. On January 28, 2015, the intervenors filed a petition with the NRC to require reactor specific environmental impact statement for each license application for a new reactor and license extension (renewal). The NRC issued a decision in April 2015 that denied the petition. On April 24, 2015, the intervenors filed a petition with the NRC to intervene in the STP1 and STP2 license renewal and STP3 and STP4 license application proceedings regarding the Continued Storage Rule. On May 1, 2015, NRC staff responded to the intervener's hearing request and motion to reopen the record in the license renewal proceeding for STP1 and STP2. The NRC concluded the intervention petition was inadmissible because it raised an issue that was beyond the scope of the proceedings by challenging a NRC rule without requesting a waiver of the rule. Furthermore, the NRC noted that the petition failed to raise a genuine issue of material fact or law and was filed late without good cause. The motion to reopen was deemed inadmissible because it was "untimely without addressing an extremely grave issue", did not address a significant environmental issue, and did not demonstrate that a materially different result would be likely if its proposed new contention had been raised at the beginning of the proceeding. Furthermore, a move to reopen and request to allow "placeholder" contentions to challenge the 2014 Continued Storage Rule and GEIS were denied by the NRC on June 9, 2015.

In late October 2014, the states of New York, Vermont, Massachusetts, and Connecticut filed a timely petition for review of the Continued Storage Rule by the D.C. Circuit Court. The NRC issued further guidance in February 2015 determining the AEA does not require a waste confidence safety filing and declined to suspend final licensing decisions. Intervenor-Respondents filed a brief with the D.C. Circuit Court on September 11, 2015 in support of the Continued Storage Rule. Petitioners' reply briefs were due by October 23, 2015. The U.S. Court of Appeals heard oral arguments on February 12, 2016. On June 3, 2016, the D.C. Circuit Court upheld the NRC's justification for allowing spent nuclear fuel to be stored on-site at active facilities. Petitions for rehearing were later denied by the court.

Additional Generation Opportunities

One of CPS Energy's strongest aspects of operational and financial effectiveness has been the benefit it has derived from its diverse and low-cost generation portfolio. Continued diversification is a primary objective of the CPS Energy management team. Accordingly, this team periodically assesses future generation options that would be viable for future decades. This extensive assessment of various options involves projections of customer growth and demand; technological viability; financial investment requirements; annual asset operation and maintenance costs; environmental impacts; and other factors.

CPS Energy continues to monitor proposed regulatory changes that could raise the costs of operating plants, such as those that have been proposed for units that use carbon-based fuels. To work towards mitigating this carbon based regulatory risk, CPS Energy management deactivated its two oldest non-scrubbed coal units, Deely1 and Deely2, at the end of 2018 (and whose supply to native load was substantially replaced with the Rio Nogales Plant output; *see* footnotes to the table appearing under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Generating Capability" and "Generating Station Events – Rio Nogales" herein). CPS Energy management is pursuing a multifaceted strategy with the goal of maintaining a well-balanced portfolio. In addition to analyzing traditional generation sources and aggressively growing its renewable energy portfolio, as described in the "Generating Capability" table, CPS Energy is expanding its efforts towards community-wide energy efficiency and conservation. These mitigation efforts are also referred to as the "Fifth Fuel" and are very important to CPS Energy's strategic energy plans and specifically to its new generation needs. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein. Additionally, CPS Energy management has explored and continues to cooperatively develop opportunities with the City Council for potential changes in ordinances, codes and administrative regulations focused on encouraging commercial and residential utility customers, builders, contractors and other market participants to implement energy conservation measures. For additional information on CPS Energy's energy efficiency and conservation program, *see* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein.

CPS Energy annually conducts an assessment of generation resource options to meet its expected future electric requirements. This assessment includes updates to fuel prices, wholesale electric market forecasts and its electric peak demand forecast which

incorporates the most recent economic, demographic and historical demand data for the CPS Energy service territory. Additionally, this assessment includes updated demand reductions due to the **STEP** energy efficiency and conservation program.

Before a commitment is made to construct the next generation facility, CPS Energy management pursues several objectives. These objectives include additional stakeholder input; expanded community education about the long-term energy and conservation needs of the San Antonio community; continued option analyses and evaluations, including CPS Energy's own formalized cost estimates; additional Board approval to move forward; and expanded presentations to the City Council, which governs the related rate increases and bond issuances that may be required to support any generation construction project or existing generation asset purchase.

Nuclear

In mid-2006, CPS Energy management directed that staff conduct an initial investigation, study and analysis of additional nuclear capacity as one type of possible generation infrastructure. In 2007, CPS Energy received Board approval to participate in the early development phase of two additional nuclear projects that involved third-party co-owners. The first possible nuclear project was development of two additional reactors at the STP site, also known as STP3 and STP4. The second possible nuclear project was a proposed new two-unit facility tentatively located in Victoria County, which is also located in south Texas.

In June 2009, CPS Energy management provided the Board its formal assessment and recommendations concerning these options compared to other possible new generation types including the first public estimate of the cost of the first possible project at \$13 billion, inclusive of financing costs. Reports of higher cost estimates, however, resulted in reconsideration of the advisability of participating in the STP3 and STP4 Project and, ultimately, in CPS Energy's decision to limit participation in further development of STP3 and STP4. In a settlement negotiated with NRG and the other participants in the development of STP3 and STP4, CPS Energy received a 7.625% ownership interest in the combined STP3 and STP4. CPS Energy is not liable for any STP3 and STP4 Project development costs incurred after January 31, 2010. CPS Energy also received two \$40 million installment payments upon award of a DOE loan guarantee to Nuclear Innovation North America LLC ("NINA"), a NRG / Toshiba joint venture. NINA also agreed and has made, a contribution of \$10.0 million over a four-year period to the Residential Energy Assistance Partnership, which provides emergency bill payment assistance to low-income customers in the City and Bexar County. In August 2015, Toshiba announced that it planned to write down its semiconductor, home appliance, and nuclear business units following an investigation into accounting issues that have resulted in the need for Toshiba to restate their past financial results. On April 25, 2016, media reports indicated the preliminary operating loss after it wrote down the value of Westinghouse nuclear power subsidiary was \$6.2 billion. Previously in 2011, NRG announced it had written off its investment in STP3 and STP4. On October 1, 2015, the NRC issued a press release indicating that NRC staff had completed its Final Safety Evaluation Report (report) for the Combined Licenses ("COL") for the proposed STP3 and STP4. The NRC staff provided the report along with the Final Environmental Impact Statement on the application to the NRC for the mandatory hearing phase of the licensing process. The mandatory hearings took place on November 19, 2015, when the NRC staff provided the Final Safety Evaluation Report and Final Environmental Impact Statement on the application to the NRC. On February 9, 2016, the NRC commissioners authorized issuance of the COL for STP3 and STP4 and the licenses were issued on February 12, 2016. Prior to the write off, CPS Energy performed a thorough re-evaluation of its investment in the STP3 and STP4 to reassess the ongoing viability of the project and the appropriateness of continuing to report the cost of the project on its Statements of Net Position. Despite the project having secured the NRC's authorization for issuance of the COL, in January 2016, CPS Energy concluded that, as a result of sustained changes in a number of environmental and economic factors directly affecting the projected economic feasibility of completing construction of STP3 and STP4, the project experienced a permanent impairment. CPS Energy determined it appropriate to write off the entire \$391.4 million investment in STP3 and STP4 and has not performed a re-evaluation since. The impairment loss was reported as an extraordinary item on CPS Energy's Statements of Revenues, Expenses, and Changes in Net Position for the period ending January 31, 2016. This noncash transaction did not impact CPS Energy's debt service coverage ratio; however, there was a resulting increase from 61.1% to 63.7% in the debt to debt and net position ratio at January 31, 2016. Going forward, CPS Energy continued to retain a legal interest in STP3 and STP4.

On May 31, 2018, Toshiba issued a release that provided their notice to withdraw from a project to build two additional advanced boiling water reactors at the South Texas Project. On June 14, 2018, NINA issued a letter to NRC that provided their notification of Intent to Terminate this project (STP3 and STP4) because the project was no longer financially viable. On June 22, 2018, NINA issued a letter requesting NRC approval to withdraw the COL for STP3 and STP4. On July 12, 2018, the NRC issued a letter that approved the termination of the STP3 and STP4 COL. Construction was not initiated for STP3 and STP4, and nuclear materials were never procured or possessed under these licenses. Consequently, STP3 and STP4 are approved for unrestricted use.

STP cancelled all contracts related to NINA, which was established for the purpose of building additional units. On August 13, 2018, NINA provided a draft document to the STP owners, a proposed STP3 and STP4 Assignment and Assumption Agreement and Mutual Release. This agreement essentially returns the site ownership to NRG, CPS Energy, and Austin Energy and restores site ownership and future expansion rights to the original pre-STP3 and STP4 conditions when executed. NINA executed this agreement on October 1, 2018.

Generating Station Events

In addition to routine planned generation maintenance and repairs conducted from time to time, there were several unforeseen events at the power generation facilities that occurred recently and during past years. Certain unplanned events that had potential financial impact to CPS Energy greater than \$1 million (including costs to address loss of revenue and costs of replacement load) are hereafter described. In addition, CPS Energy's generation facilities were impacted by the 2021 Winter Weather Event, and CPS Energy continues to analyze the effects thereof.

Braunig

During a start-up of Braunig2 on August 10, 2020, a cooling water regulator valve was stuck closed, which caused an exciter temperature excursion. The unit was brought off-line as a precaution to perform inspections and testing of the exciter. No damages were found during inspection and the unit was released to dispatch on August 26, 2020.

On December 16, 2017, Braunig2 entered an unplanned outage to repair a damaged extraction steam valve that was discovered during routine unit inspections. The damage was repaired and the unit was released for dispatch on January 20, 2018.

On March 24, 2016, Braunig1 was forced offline due to high turbine bearing vibrations. The turbine bearings were repaired, and the unit was released for dispatch on April 27, 2016.

Deely

Deely1 and Deely2 were deactivated and removed from service on December 31, 2018. CPS Energy prepared for Deely's deactivation by purchasing the Rio Nogales NGCC Power Plant, expanding its efficiency programs, and adding solar farms with approximately 550 megawatts of capacity.

With the deactivation of the Deely units and a projected remaining book value of \$186M at January 31, 2019, CPS Energy recorded \$182.7M to recognize a noncash impairment loss in its Fiscal Year 2019 financial statements. The impairment loss was classified as a special item reported below net income on CPS Energy's Statement of Revenues, Expenses and Changes in Net Position.

Rio Nogales

On February 17, 2020, Rio Nogales entered an unplanned outage due to cracks discovered on the High Pressure ("HP") Steam system isolation valve seat on three Heat Recovery Steam Generators ("HRSG"). The damage was discovered during the planned maintenance outage earlier that month. The valves were repaired, and the unit was returned to service in a 2x1 configuration on March 6, 2020, while CT301 remained off-line for a planned overhaul.

On February 22, 2019, Rio Nogales CT101 was made unavailable due to a ground fault on the generator breaker. The three phases of the generator breaker were shipped out for repair by GE Grid Solutions. The generator breakers were received back on site on April 25, 2019. The Rio Nogales CT101 generator was released to full load operation by May 11, 2019.

Milton B. Lee

On August 10, 2017, MBLCT8 was derated to 46 MWs net due to fouled chiller compressors. The chillers were cleaned during the unit's planned outage, and the derate was released on October 20, 2017.

On April 7, 2017, MBLCT6 was forced offline due to a damaged combustion can. The damage was found during a routine inspection. The combustion can was replaced, and the unit was returned to service on May 9, 2017.

Sommers

On July 31, 2019, Sommers1 was derated from 420 MW to 290 MWs net due to issues with the #1 turbine control valve. On August 31, 2019, Sommers1 was further derated to 235 MWs net due to issues with the #4 turbine control valve. The unit entered a maintenance outage on September 7, 2019, to inspect and repair the turbine control valves, and the unit was released to full load capability on October 10, 2019.

On August 6, 2016, Sommers2 was derated to 355 MWs net due to condensate flow issues. Plant personnel investigated the issue, and determined that the derate was due to reduced performance from one of the unit's condensate pumps. The unit was returned to full load capacity following the replacement of the condensate pump, which occurred during the unit's previously planned overhaul that began on January 13, 2017 and ended on February 17, 2017.

Spruce

On February 14, 2021, Spruce1 entered a forced outage when a unit fan tripped causing a significant amount of ash to drop into the ash removal system resulting in a unit trip. The ash removal system was removed from service and the unit was returned to service on natural gas February 15, 2021. The unit began a shutdown to repair the ash removal system on February 20, 2021 and was returned to full load operations on February 24, 2021.

On January 2, 2020, during start-up of the unit following a planned overhaul at the end of 2019, Spruce1 experienced high vibration on the #8 turbine-generator bearing. Plant maintenance and engineering teams worked with a consultant to analyze the vibration and determined a balance shot was required to reduce vibration. A balance shot was installed on the turbine-generator and the unit was returned to service on January 15, 2020.

On April 21, 2020, Spruce1 was derated to 275 MW net due to a coupling insert failure on the 1A Induced Draft Fan. The coupling insert was replaced, and the unit was restored to full capacity on June 1, 2020.

On July 2, 2017, Spruce2 was derated to 670 MWs net as a result of 2A boiler feed pump being taken out of service due to problems with the pump's mechanical seals. Plant personnel worked with the mechanical seal OEM to identify the cause of the failure. New seals were installed, and the derate was released during an outage that took place in December 2017 and ended on February 13, 2018.

On April 8, 2017, Spruce2 was derated to 645 MWs net due to baghouse damper issues. Baghouse bypass dampers would inadvertently open which could cause an environmental opacity exceedance. As a result, the particular bypass dampers had to be pinned in the closed position. The derate was to protect the baghouse by allowing enough relieving capacity of the remaining bypass dampers if the unit experienced a full bypass situation. On May 29, 2017, modifications were made to allow the unit to be released back to full load capacity.

Since its commercial operation in May 2010, Spruce2 realized boiler tube failures that had an adverse effect on unit reliability. CPS Energy worked with the OEM to identify the root cause of the failures and to provide permanent solutions to all failures. There were two outages, one in April 2013 and the other in October 2013 that addressed the boiler tube issues. Large sections of the boiler tubes were replaced to address the failures. Spruce2 was brought on line December 2013. On June 2014, Spruce2 experienced failures in the finishing superheat section of the steam generator. The superheat section was replaced in the spring of 2016 to address the tube failures.

On November 21, 2014, Spruce2 was brought offline due to a fault in the internal section of the generator. The generator was disassembled and inspected to determine the extent of damage. Stator core hot spots were discovered in the flux shunt. The generator stator defects were repaired by Toshiba including a partial restack of the generator stator core and complete generator stator rewind. The unit was released under restrictions for dispatch on May 4, 2015. At that time, the capacity limit was reduced to 600 MW Net. The reactive power limits were also reduced to 50 MegaVAR in the lagging direction and 0 MegaVAR in the leading direction. These restrictions were re-evaluated with the OEM and plant personnel in June of 2016. As a result of this evaluation, the capacity limit was removed, releasing the unit back to the original designed capacity of 785 MWs net. The reactive power limits were also changed to 220 MegaVAR in the lagging direction, but remained 0 MegaVAR in the leading direction. CPS Energy replaced the generator in January 2019 with a new generator supplied by MD&A / MHPS. The new generator had two core thermocouples, out of a total of 40 thermocouples reading abnormal high temperatures during start-up and commissioning. The high temperature measurements from the two generator core thermocouples were being managed by adjusting reactive power to remain below the OEM recommended temperature values. MD&A submitted a repair plan which CPS Energy implemented in the first quarter of 2020. As a result, the Spruce2 generator is able to operate without any real or reactive power capability restrictions.

STP1

On February 15, 2021 an automatic reactor trip occurred in Unit 1. The trip resulted from a loss of feedwater attributed to extreme cold weather-related failure of a pressure sensing line to the feedwater pumps. STP staff validated the issue did not exist in Unit 2. Unit 1 was repaired, and the Unit was returned to service on February 17, 2021. Unit 1 reached 100% power on February 18, 2021.

On March 17, 2017, STP1 reactor was manually shutdown due to a piping leak on the open cooling loop system. On January 15, 2017, STP identified a small piping leak in the system that they were closely monitoring and managing. STP planned to correct the leak during the spring 2017 planned refueling outage. The cause of the increased leakage rate that led to the manual shutdown was investigated and subsequent repairs were made to the pipe. STP1 was scheduled to commence a planned refueling outage on Saturday, March 18, 2017. STP1 returned to service on April 29, 2017, following the planned refueling outage.

On May 1, 2016, STP1 reactor automatically tripped due to a main generator lockout. Subsequent investigation into the event identified that a small strip of hard rubber booting from the cooling duct that directs air flow into the bushing area of the "Bravo" iso-phase had degraded and intermittently came in contact with the "Bravo" phase causing a path to ground. The other rubber boots for the "Alpha" and "Charlie" phase were inspected and replaced. The cause was identified and corrected and STP1 was returned to service on May 6, 2016.

STP2

On October 4, 2019, STP2 commenced a scheduled refueling outage and was returned to service on November 5, 2019.

FUEL SUPPLY

CPS Energy acquires and manages the fuel supply for its electric generating units and natural gas distribution system. CPS Energy's generating units utilize a diverse fuel supply that includes coal, natural gas, nuclear, and fuel oil. While coal, natural gas, and nuclear fuel represent the primary fuel supply, certain CPS Energy power plants also have the capability to burn petroleum coke to supplement coal, while others can burn fuel oil (diesel) as an alternate fuel or to supplement natural gas. This dual fuel capability provides greater reliability and operational flexibility.

CPS Energy's coal units are designed to use Powder River Basin ("PRB") coal from Wyoming. Coal is secured through contracts providing both fixed and variable prices that reflect current market conditions. Delivery of PRB coal to CPS Energy occurs on the Union Pacific ("UP") railroad with BNSF Railway having access rights to CPS Energy's coal yard at Calaveras Power Station. While CPS Energy will take every reasonable step to assure the continuity of its coal supply, CPS Energy cannot predict whether any future coal shipment delays or curtailments could have a material adverse effect on the availability of its coal-fired generating stations. CPS Energy amended its rail contract with UP effective September 1, 2017 to provide significantly lower rates and increased delivery flexibility. The amended contract extends through December 31, 2021.

CPS Energy owns 1,193 and leases 76 aluminum railcars, which are used in unit trains to haul coal from mines in the Southern Powder River Basin of Wyoming to the Calaveras Power Station. CPS Energy performs railcar maintenance and servicing on owned railcars at its railcar maintenance facility located at Calaveras Power Station.

CPS Energy acquires and manages the combined natural gas supply requirements for its gas-fired generating units and gas distribution system through a diversified contract portfolio with a number of suppliers. In accordance with the CPS Energy Fuels Management Procedures, designated CPS Energy staff may enter into natural gas supply transactions using master enabling agreements, which incorporate standard commercial terms. CPS Energy has over 80 master enabling contracts with natural gas suppliers under which CPS Energy purchases its natural gas requirements. CPS Energy manages firm natural gas transportation and storage contracts with various service providers for local gas distribution and generation and to serve the Rio Nogales Plant, with limited ability to share services between CPS Energy facilities.

CPS Energy also owns and operates natural gas transmission facilities, consisting of two larger systems and some short segments connected to power plants. The North Gate Pipeline and the South Gate Pipeline are the two larger systems. The North Gate Pipeline is a 24-inch steel pipeline which extends 17.2 miles from southern Comal County into northern Bexar County, Texas. Natural gas can be supplied to the pipeline through Energy Transfer's 36-inch Oasis Pipeline and Enterprise Texas Pipeline's ("Enterprise") 30-inch West Texas Pipeline.

The South Gate Pipeline comprises 60.3 miles of 24 and 30-inch steel pipeline, of which 46.9 miles of 30-inch pipeline extends south into Karnes County. A major meter station in Karnes County connects to the joint venture pipeline owned by Kinder Morgan and Energy Transfer. In early 2016, CPS Energy added a new pipeline interconnection at the Karnes meter station that provides direct access to gas supplies from the Eagle Ford Shale production area. CPS Energy also operates numerous taps throughout the system connecting to Enterprise, on the North Gate and South Gate Pipelines. Most of the major natural gas delivery stations are owned by CPS Energy and remotely monitored by the CPS Energy control center, for more reliable operation. CPS Energy utilizes its diverse natural gas supply portfolio and interconnects with these pipelines for its power plant and distribution system natural gas requirements.

Periods of prolonged cold weather, during which natural gas supply has previously and may prospectively fall short of demand (*see* "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein), may necessitate the curtailment of gas use for boiler fuel. The Natural Gas Policy Act subjects intrastate gas, including gas intended for boiler fuel uses, to Presidential emergency purchase authority and emergency allocation authority to assist in meeting interstate natural gas requirements for high priority uses. CPS Energy's gas supply is subject to the ability of its gas suppliers to make available sufficient quantities of supply, as well as fluctuations in market prices.

Fuel oil can be used for generation, when needed, at the Sommers, Braunig and in the Milton B. Lee East plants. At these plants, CPS Energy maintains fuel oil inventory and fuel oil receipt capability by truck. Inventory and receipt capability at these plants are options to support operation during natural gas supply disruptions or price events.

An Energy Price Risk Management Policy was implemented in 2002 to reduce the effects of energy price volatility consistent with the policy. At times, financial derivative instruments are utilized to hedge natural gas prices. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – Wholesale Power" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Enterprise Risk Management and Solutions" herein.

On June 14, 2007, CPS Energy entered into a prepaid natural gas transaction with SA Energy Acquisition Public Facility Corporation ("SAEA" or "PFC"), a non-profit public facility corporation previously created by the City pursuant to Chapter 303, as amended, Texas Local Government Code, and J. Aron & Company, a subsidiary of Goldman Sachs Group ("J. Aron"). This transaction enabled the PFC to purchase a 20-year supply of natural gas from J. Aron totaling approximately 20,000 MMBtu per day (the "PFC Transaction"). CPS Energy has contracted to purchase this gas for use in its gas distribution system under a take-and-pay gas purchase agreement, obligating CPS Energy to pay a monthly index-based price less a fixed discount for delivered gas. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Gas System" herein. The PFC prepaid for this gas by issuing \$644,260,000 of tax-exempt fixed rate bonds and used the proceeds to make the prepayment to the natural gas supplier. This prepaid gas transaction was described in the offering document relating to such PFC bonds, in which the transaction and related risks were disclosed. On February 25, 2013, and June 30, 2016, SAEA executed certain amendments to the Prepaid Gas Agreement and related documents. Under the 2013 amendments, Goldman Sachs & Co. LLC ("Goldman") surrendered for cancellation \$111,060,000 of the SAEA bonds which were owned by J. Aron, Goldman, or affiliates. In exchange, SAEA agreed to reduce future required natural gas delivery volumes from 104.6 million MMBtu to 81.3 million MMBtu, reflecting a reduction in required volumes to be delivered that corresponds to the par value of the bonds that were surrendered. Under the 2016 amendments, the investment contract for the debt service fund for the bonds was novated from DEPFA Bank, PLC to J. Aron. The amendments contain provisions in the event of a downgrade in the credit rating on the guaranteed investment contract ("GIC") provider. If the higher rating between J. Aron and its guarantor, Goldman, falls below "BB+" by S&P, or "Ba1" by Moody's, which results in a ratings event, J. Aron is required to provide collateral equal to 100% of the invested balance held by J. Aron plus any accrued interest. At January 31, 2019, no collateral balances were posted.

The PFC bonds are currently rated by Fitch, Moody's and S&P at "A", "A2", and "BBB+", respectively. On May 1, 2020 Fitch revised the outlook on fifteen prepaid energy transactions, including the PFC Transaction, from stable to negative, based on Fitch's assessment of the credit quality of the various counterparties, including the revision of Goldman Sachs Group Inc.'s Issuer Default Rating to negative from stable. On February 1, 2021, Moody's upgraded Goldman Sachs Group Inc. from "A3" to "A2" and also upgraded the PFC bonds to "A2". The PFC credit ratings have no impact on the day-to-day operations of CPS Energy or its respective credit ratings. CPS Energy continues to purchase and receive natural gas at the discounted price, but only if and when delivered. However, if a party providing funds (or gas to be sold to produce funds) used to pay the PFC's bonds were to default, the PFC's gas supply agreement could be terminated, thereby eliminating future fuel expense savings passed through to CPS Energy customers.

On November 23, 2020, the trustee for the PFC bonds issued a notice in which it received a request from Syncora Guarantee Inc. ("Syncora"), joined by Assured Guaranty Corp. ("Assured Guaranty"), that the trustee is seeking court approval to execute documents that would replace Syncora with Assured Guaranty as the issuer of certain policies insuring payments due to the PFC under the Natural Gas Supply Agreement (as defined in the indenture related to the PFC bonds). On January 29, 2021, the trustee issued an additional notice announcing the commencement of a trust instruction proceeding ("TIP") where the trustee requested, among other things, direction and instruction in connection with Syncora's request to novate the policy. A preliminary order was issued by the court on March 11, 2021, approving the relief requested in the petition, and notice was given for interested parties to submit objections. The order will be deemed final 45 days after service in the absence of any objections from interested parties.

Nuclear fuel procurement for STP is managed by the STPNOC staff with oversight and guidance provided by the Participants. STP fuel supply requires uranium oxide, conversion of uranium oxide to uranium hexafluoride, enrichment of fissile uranium 235 isotope from 0.7% to about 4.5%, design and fabrication of fuel assemblies. Prior to May 2014, fuel supply also provided for disposal of spent fuel assemblies. In May of 2014, the DOE suspended the collection of the spent fuel disposal fee pending identification of an alternative disposal facility. No plan to reinstitute the fee has been identified; however, some sources indicate there is a possibility of the fee being reinstated sometime in 2023. Uranium supply is typically provided by primary producers, either through long-term contracts or through favorable short-term and / or spot market purchases. Uranium conversion services are obtained under contracts with primary producers of several years duration, covering STP's current operating license term. Enrichment requirements are contracted with Urenco USA through STP's current operating license term. Fabrication requirements are contracted with Westinghouse through STP's current operating license term. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS –

DESCRIPTION OF FACILITIES – Electric System – External Events Impacting Nuclear Power Generation Industry and STP1 and STP2, and CPS Energy's Response – Used Nuclear Fuel Management" herein.

GAS SYSTEM

Transmission System

The gas transmission system consists of a network of approximately 89 miles of steel mains that range in size from 8 to 30 inches. Over 62 miles of the gas transmission was placed into service since 2000 and approximately 73% is less than 25 years old. The entire system is coated and cathodically protected to mitigate corrosion. The gas transmission system operates at pressures between 135 psig and 1,100 psig, and supplies gas to the distribution system and CPS Energy Generating Plants. A Supervisory Control and Data Acquisition ("SCADA") computer system monitors the gas pressure and flow rates at many strategic locations within the transmission system. Additionally, most of the critical pressure regulating stations and isolation valves are remotely controlled by SCADA.

CPS Energy has completed the required baseline assessments of the gas transmission system, in accordance with State and federal transmission integrity rules, using the most recently available technology. Furthermore, CPS Energy maintains an ongoing reassessment plan and maintains a more conservative leak survey and patrol schedule interval than is required by regulation.

Distribution System

The gas distribution system consists of 297 pressure regulating stations and a network of approximately 5,787 miles of mains. The system consists of 2 to 30-inch steel mains and 1-1/4 to 10-inch high-density polyethylene (plastic) mains. The distribution system operates at pressures between 9 psig and 485 psig. All steel mains are coated and cathodically protected to mitigate corrosion. Critical areas of the distribution system are also remotely monitored by SCADA and designated critical pressure regulating stations and isolation valves are also remotely controlled by SCADA.

CPS Energy has been methodical in its assessment and renewal of distribution infrastructure utilizing a risk-based leak survey approach to identify both mains and services that are in highest need of replacement and has an annual budget for on-going system renewal.

Rule Relating to Replacement of Gas Distribution Facilities

On August 1, 2011, CPS Energy implemented its plans in compliance with RRCT Rule § 8.209 Distribution Facilities Replacement as set forth at 16 TAC Chapter 8 - Pipeline Safety Regulations and the Federal Distribution Integrity Management Program ("DIMP") rules. CPS Energy has utilized a risk-based approach to facility replacement for a number of years, and it has been successful in significantly reducing system leak rates and mains and services as well as lost and unaccounted for gas. These plans will continue to strengthen CPS Energy's renewal processes and support the continued safe operation of the gas system.

RRCT Annual Audit Results

The results of the 2020 RRCT Annual Distribution Audit conducted in May of 2020 resulted in six alleged violations involving valve checking, various pipeline deficiencies, and pressure regulation station operational matters. The alleged violations cited are being addressed with a mitigation plan and a response to the RRCT with a plan of correction. The response to the RRCT with the plan of correction to address the alleged violations was submitted on August 10, 2020.

The RRCT conducted a Specialized Audit of the CPS Energy Operation and Management Manual (the "O&M Manual") which resulted in one alleged violation. The audit took place April 15-18, 2019. The alleged violation involved procedures outlining protection of pipelines located in close proximity to electric transmission tower footings, ground cables or counterpoise, or other areas where fault currents or unusual risk of lightning may be anticipated. The final response to the RRCT was sent July 15, 2019 confirming the O&M Manual procedure was edited to address the alleged violation.

The results of the 2018 RRCT Annual Transmission Audit resulted in one alleged violation. The final response to the alleged violation was sent to the RRCT on November 1, 2018. The alleged violation involved nineteen critical valves that were identified as "not checked" or "serviced" for calendar year 2015 at intervals not exceeding 15 months but examined at least once each calendar year. All critical valves identified were inspected and partially operated by CPS Energy on March 3, 2016 and have since been inspected in all subsequent calendar years to-date, as required by CPS Energy's programs, which were validated by the auditor. CPS Energy implemented additional controls to track and monitor compliance dates relating to the required inspection and maintenance of these types of valves.

RRCT Subsequent Audit Results

The RRCT conducted an evaluation of a reportable incident that took place on April 1, 2019. The evaluation transpired over multiple months and involved the review of operations records and the incident investigation reports which resulted in two alleged violations. The first alleged violation involved leak survey records pertaining to calibration of equipment used during the activity. The RRCT found that records were not maintained to show calibrated equipment used during past surveys of this area. The RRCT assessed an administrative penalty for this finding and it was settled on May 28, 2020. The second alleged violation involved the auditor witnessing the use of improperly maintained equipment during the incident investigation. In its response to this item, CPS Energy provided proof of compliance supporting equipment being maintained as required and the alleged violation was dismissed. CPS Energy also modified its equipment calibration schedule to coincide with manufacturer's recommendations and controls to remove the functionality of the equipment past the re-calibration due dates.

RRCT Damage Prevention

The RRCT rules set forth in 16 TAC Chapter 18 Underground Pipeline Damage Prevention provide guidance for pipeline operators and third party excavators to reduce pipeline damages during excavation activities. All reportable third party damages are reviewed by the RRCT and occasionally CPS Energy is assessed a penalty based on the root cause in the form of a Damage Prevention Docket. CPS Energy responded to 228,273 locate requests during the 2020 calendar year; the RRCT has assessed CPS Energy penalties on 44 dockets in 2020 totaling \$110,000. In comparison, CPS Energy responded to 203,094 locate requests and had \$58,750 assessed in penalties in calendar year 2019 and 191,801 locate requests with \$66,250 assessed in penalties in calendar year 2018.

OTHER ELECTRIC AND GAS SYSTEMS STATISTICS⁽¹⁾

	Electric System			Gas System	
	Transmission System	Overhead Distribution System	Underground Distr. System & Network	Gas Transmission Pipeline	Gas Distribution System
Substations	17 ⁽²⁾	95			
Miles of Lines	1,555	8,142	6,274 ⁽³⁾		
Miles of Lines			87 ⁽⁴⁾		
Kilovolts	138 / 345	13.2 / 34.5	13.2 / 34.5		
Miles of Main				89	5,787
Main Sizes (inches)				8 - 30	1 1/4 - 30
Main Pressures (psig)				135 – 1,100	9 – 485 ⁽⁵⁾

(1) As of January 31, 2021.

(2) Includes switchyards.

(3) Underground single phase, includes 705 miles three-phase commercial, industrial lines.

(4) Downtown Network three-phase.

(5) Maximum allowable operating pressure.

GENERAL PROPERTIES

Operation Control System

CPS Energy's electric transmission and distribution systems, substations, power plant switchyards, and major gas regulating points are continually monitored. Abnormalities register an alarm and control room operators can operate and control certain circuit breakers and valves as required, maintaining reliable delivery of gas and electric service. In addition to control capability, the system gathers data that is electronically recorded for various reporting needs.

CPS Energy's operations are highly dependent on a comprehensive operational technology ("OT") and information technology ("IT") infrastructure that is supported by a team of technical experts. The OT and IT systems are regularly updated and are monitored for vulnerabilities in order to best ensure security of CPS Energy and customer information. Continuous monitoring and risk mitigation will continue to be necessary as CPS Energy implements more customer-facing portals and increases its dependency on technology and software.

CPS Energy is identified as a creditor by the standards set forth in the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"). One of the intended purposes of the FACT Act was to protect customer information. CPS Energy is currently compliant with the FACT Act and has existing internal policies, procedures and trainings in place for continued compliance.

CPS Energy makes a concerted effort to maintain its geographical information mapping system, which supports its gas, electric transmission and distribution system activities. This system is used to maintain information on locations of CPS Energy's infrastructure. From time-to-time, location errors are detected by individuals (contractors, other utilities and CPS Energy employees). When such problems are detected, the specific issue is addressed promptly, including correcting the problem encountered and updating of the mapping information system.

Support Facilities

Core business operations are supported by various support facilities used for maintenance of such items as meters, transformers, communication equipment, vehicles, railroad cars and heavy construction equipment. These maintenance facilities, together with warehouses, administrative offices, customer service centers and storage areas, are strategically located throughout the service area to minimize driving time to work locations.

General Offices and Customer Service Centers

The Main Office Complex ("Complex"), located at 500 McCullough Avenue in San Antonio, Texas, is the new headquarters site for CPS Energy. CPS Energy's General Offices are located at the intersection of McCullough and Avenue B. Executive, administrative, financial, information technology and engineering functions are located at the Complex. The building has 494,000 square feet of space, and consists of 11-story and 14-story towers joined by a 3-story section. This building permits consolidation of all headquarters' functions in a single campus to improve operational efficiency. An adjacent 6 story garage has been constructed to accommodate employee and company vehicle parking, as well as housing amenities available to employees and the community in the area. Architects Corgan Associates Inc. disseminated preliminary designs of the new headquarters in October 2016, and the City's Historic Design and Review Commission approved the final design in March 2017. On June 26, 2017, the Board approved the selection of Sundt Construction as the construction manager at risk via a competitive process. Construction of the new headquarters is complete, and the Certificate of Occupancy has been received. CPS Energy moved into the new headquarters during the fall of 2020.

The old complex was not sufficient to accommodate all of CPS Energy's office and parking needs, and CPS Energy is in the process of selling the old complex. On September 24, 2018, the Board declared the old complex as a surplus. On March 30, 2020, after locating a potential and undisclosed buyer for its old headquarters, the Board authorized Ms. Paula Gold-Williams to complete the sale of the old complex. On February 5, 2021, CPS Energy sold the Navarro piece of the former complex to BH Properties, a Los Angeles based real estate company, for \$22.5 million. The Main Office piece of the old complex is under contract and scheduled to close in FY 2022.

CPS Energy's customer service center staff provides information concerning customer accounts and processes customer payments. Customer service centers and authorized pay agents are located geographically in all sectors of the service area. These centers are convenient to the customers' homes and in locations readily accessible to freeways and public transportation. At the present time, the Northside Customer Service Center, which recently relocated, serves as a walk-in center, customer call center, and additional general office space for personnel. The previous Northside Customer Service Center was declared surplus by the Board on September 24, 2018 and is in the process of being sold.

Construction Centers and Service Centers

CPS Energy owns five construction centers, accommodating electric and gas construction, repair and maintenance services, support personnel for administration, planning, training, warehousing functions and garage facilities. The Salado Street Central Garage Service Center serves as the primary central garage for heavy equipment and vehicle repair and maintenance functions, with separate buildings housing a central printing shop, billing operations, remittance processing, and warehousing. Land has been acquired to relocate the primary central garage to another site in the service territory. CPS Energy's Management Center controls the electric grid for the service territory, and also provides training and conference facilities. Additional training facilities are located at the former Tuttle power plant facility.

CPS Energy owns the Green Mountain facility that houses the System Measurement & Technology, Customer Engineering business units, all the electric metering operations equipment, test and calibration labs, and associated warehousing functions. This facility serves as the inventory and asset management point for electric metering and the deployment point for the AMI Program. Local builders and developers also visit the Green Mountain facility to coordinate new construction services with the support personnel in Customer Engineering. CPS Energy's Nacogdoches facility currently supports the transmission and substation portions of the electric grid. The Malone Avenue campus serves as the site for underground construction staff and equipment.

Villita Assembly Building

The Villita Assembly Building is located in downtown San Antonio at 401 Villita Street near the CPS Energy old complex. The main floor of the building has a capacity to accommodate 1,800 people in an auditorium type seating, or 900 for a dinner function. The building is leased out to individuals and to corporate, civic, community, and non-profit organizations for weddings, quinceañeras, banquets, meetings and social events. The Villita Assembly Building is also used for large CPS Energy internal meetings and events. CPS Energy intends to sell the property and has entered into a signed Purchase & Sale Agreement with a potential buyer.

Vehicles and Work Equipment

CPS Energy operates and maintains a diversified vehicle and equipment fleet of 2,700 units. These units range from light to heavy duty vehicles and construction equipment that are specific to maintaining natural gas and electric infrastructure and large coal moving equipment to support generation. A total of eight garages, including five located at various construction centers, one located at the Coal Yard, one at the Nacogdoches facility, and one primary central garage, are staffed with skilled technicians. CPS Energy technicians use manufacturers' diagnostics software to perform in-house, proactive maintenance and repairs. In 2016, CPS Energy purchased a property on Gembler Road for future construction of a new fleet service garage to relocate the primary central garage currently on Salado Street. Enterprise Fleet's mission is to provide the safest and most reliable fleet through environmental stewardship, efficient repair and maintenance, employee development, and cost-conscious asset management aligned with industry best practices. This group provides solutions from vehicle and equipment acquisition to decommissioning, which drives efficient, effective and expedient service to CPS Energy's customers. Furthermore, Enterprise Fleet is environmentally responsible, participating in CPS Energy's recycling program that includes tires, batteries, oil, and other material. A Flexible Fleet Fulfillment strategy includes plans to continue acquiring a range of alternative-fueled fleet when available.

Real Estate Holdings

CPS Energy owns various properties throughout the service territory and a collection of buildings, totaling 2.6 million square feet, which includes office buildings, service centers, warehouses, data centers, parking garages, vehicle maintenance facilities, tool shops and a community center. CPS Energy is divesting itself of its Jones Avenue Service Campus.

CPS Energy constructed a 66,000 square foot, 1 megawatt, Tier III data center in 2013, which became operational in May 2015. Total cost of the facility was approximately \$47 million. The property also houses an electric substation.

CPS Energy owned approximately eight (8) acres of land and a newly-constructed shell building in northwest San Antonio. This property was declared surplus and was sold in early 2020.

COMPLIANCE AND REGULATION

GENERAL REGULATORY CLIMATE

The election of President Biden in November 2020 resulted and will continue to result in a host of newly appointed administrators to top government agencies, especially those positions affecting the environment. Since inauguration, officials began to amend and enact provisions promulgated through the Environmental Protection Agency ("EPA") and other environmental agencies to increase regulation.

ENVIRONMENTAL MATTERS

CPS Energy operations have the potential to affect the environment in a variety of ways, but primarily through discharges to air, land and water. To minimize environmental impact, CPS Energy constructs and operates its facilities according to, and, in certain areas, in excess of, the standards established for the utility industry by federal, State, and local laws and regulations. CPS Energy's commitment to the environment is evidenced by its official environmental policy, which places the responsibility for regulatory compliance on all CPS Energy employees, regardless of job function or title. CPS Energy maintains a full-time Environmental Department consisting of educated and trained professionals who oversee the enforcement of this policy. Since 1996, internal environmental operating procedures have been developed to provide guidance to CPS Energy employees as to how to perform their jobs in a way that protects the environment.

CPS Energy endeavors to ensure its facilities comply with applicable environmental regulations and standards; however, no assurance can be given that normal operations will not encounter occasional technical difficulties or that necessary permits and authorizations will be received. Federal and State standards and procedures that govern the control of the environment and Systems'

operations can change. These changes may arise from legislation, regulatory action, appeals of past judicial decisions, and judicial interpretations regarding the standards, procedures, and requirements for compliance and issuance of permits. Therefore, there is no assurance that the Systems' current operations, current or future construction related thereto, and contemplated projects will remain subject to the regulations that are currently in effect. Furthermore, changes in environmental law and standards may result in increased capital and operating costs of the Systems.

Federal Clean Air Act

Congress enacted the Clean Air Act Amendments of 1990 ("Clean Air Act Amendments") with the intent of improving ambient air quality throughout the United States. All of CPS Energy's generating sites in Bexar County have been issued Federal Operating (Title V) permits and Federal Acid Rain (Title IV) permits under the Clean Air Act by the Texas Commission on Environmental Quality ("TCEQ"), the environmental agency for the State. CPS Energy received a Plantwide Applicability Limit ("PAL") permit from the TCEQ for the Calaveras Power Station. This PAL permit sets a cap on emissions at the site based on past emissions. This is a voluntary permit submitted by CPS Energy to provide flexibility to better manage facility-wide emissions. The PAL permit allows CPS Energy to have limited flexibility in maintaining its generating units at the Calaveras Power Station while enhancing environmental protection. CPS Energy's PAL permit includes a commitment to maintain emission reductions already achieved. On September 8, 2009, the EPA proposed to disapprove key aspects of the Texas clean-air permitting program that do not meet federal Clean Air Act requirements followed by other states. On August 13, 2012, the United States Court of Appeals for the Fifth Circuit (the "Fifth Circuit") ruled the EPA overstepped its regulatory authority in violation of the Clean Air Act when it belatedly rejected revisions to the State plan, known as the Texas Flexible Permit Program ("TFPP"), for issuing air permits. In late December 2014, the EPA signed off on the TFPP, of which the proposed rule was published in the Federal Register on December 31, 2014. Several citizen and environmental groups disagreed with the EPA's decision and brought suit in early 2015, asserting the EPA's approval was "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law". In a notice dated April 17, 2015, the EPA extended public comment on the TFPP to May 18, 2015. The Fifth Circuit issued an opinion in July 2015 affirming the EPA's original approval of the TFPP. The EPA officials stated they would continue to work with the TCEQ to implement the TFPP as approved. In early February 2017, the EPA gave final approval of the TFPP. On July 3, 2017, the D.C. Circuit Court held in *Clean Air Council v. Pruitt* that the EPA's decision to stay implementation of portions of a final rule concerning methane and other greenhouse gas emissions lacked authority, and the court vacated the stay. Subsequently on July 10, 2017, the EPA asked the court to recall its mandate vacating the stay, in an effort to gain additional time for consideration of further appeal. On August 10, 2017, the court rejected a request by states and industry groups to reconsider the July panel ruling that lifted the EPA's stay of portions of the rule intended to curb methane emissions from new oil and gas infrastructure. On December 2, 2019, the EPA Administrator Andrew Wheeler signed the "Revised Policy on Exclusions from 'Ambient Air'", which modifies the definition to allow for exclusions of certain areas of a source's property from ambient air. On May 29, 2020, the U.S. Court of Appeals for the Fifth Circuit ruled unanimously in *Environmental Integrity Program v. EPA* that the EPA does not need to second guess states' Clean Air Act permitting decisions. The court denied a subsequent petition for rehearing and substituted its opinion stating that Title V permitting is not the appropriate vehicle for examining the substantive validity of permits.

The EPA revised its major New Source Review ("NSR") applicability regulations to clarify when the requirement to obtain a major NSR permit applies to a source proposing to undertake a physical change or a change in the method of operation (i.e., a project) under the major NSR preconstruction permitting programs. Under these programs, an existing major stationary source proposing to undertake a project must determine whether that project will constitute a major modification subject to the major NSR preconstruction permitting requirements by following a two-step applicability test. The final rule clarifies that both increases and decreases in emissions resulting from a proposed project can be considered in Step 1 of the major NSR major modification applicability test. The consideration of emissions increases and decreases in Step 1 is referred to as project emissions accounting. This final rule became effective December 24, 2020.

Sulfur Dioxide ("SO₂"): One objective of the Clean Air Act Amendments is to reduce emissions of SO₂, a gaseous emission formed during the combustion of coal by coal-burning power plants. Although the Spruce1 and older gas units are the only units that receive allowances, all the CPS Energy generating units are subject to the Clean Air Act Amendments' Acid Rain program SO₂ emission allowance system. All new units also have to comply with the program even though no new allowances are provided for them. An allowance is an authorization to emit one ton of SO₂ during or after a specified year. Under the emission allowance system, each affected generating facility is issued annual allowances based upon a variety of factors. No utility may emit more tons of SO₂ in a year than are authorized by its total allowances. Allowances issued to one generating facility may be used by a utility to offset the emissions of another generating facility. Allowances not needed by the recipient utility for its current emissions may be banked for future use, or they may be sold or otherwise transferred. CPS Energy upgraded the Spruce1 scrubber in early 2009 prior to Spruce2 coming on line because of a commitment made in the Spruce2 air permitting process which required Spruce1 to reduce SO₂ emissions by the amount expected to be emitted by Spruce2.

In addition to the Acid Rain program, the EPA wrote the Clean Air Interstate Rule ("CAIR") that would further reduce SO₂ by reducing the value of the Acid Rain program allowances. On July 11, 2008, the D.C. Circuit Court vacated the CAIR in its entirety.

In late December 2008, the D.C. Circuit Court granted the EPA's petition to remand CAIR to the EPA to be "fixed" rather than be vacated. The EPA finalized a rule to replace CAIR in July of 2011. The new rule was the Cross State Air Pollution Rule ("CSAPR"), which required a 50% reduction in SO₂ starting January 2012. CPS Energy planned to meet the reductions by utilizing ultra-low sulfur coal and by reduced dispatch of the Deely units. In January 2013, the courts denied an EPA petition to keep CSAPR in place.

On April 29, 2014, the United States Supreme Court (the "Supreme Court") reversed a D.C. Circuit Court decision that vacated CSAPR in its entirety. The Supreme Court remanded the case back to the D.C. Circuit Court for additional proceedings consistent with its opinion. The decision did require the EPA to begin immediate implementation of CSAPR, so CAIR remained in place while additional issues were addressed. On January 16, 2015, the EPA filed its brief on the merits in the D.C. Circuit Court regarding the remaining legal challenges to CSAPR that were not decided by the April 29, 2014 decision. With the use of ultra-low sulfur coal at the Deely units, CPS Energy had enough SO₂ allowances to meet the CAIR requirements.

On October 23, 2014, the D.C. Circuit Court lifted its stay of the EPA's CSAPR. Compliance options under the rule began on January 1, 2015. Phase 1 emission budgets began to apply on January 1, 2015, for the annual programs and also applied in 2016. On June 1, 2015, the EPA published a proposed rule providing notice of the availability of preliminary calculations of emission allocations to certain units under CSAPR, specifically in regard to the first round of new unit set-aside allowance allocations for the 2015 year. On July 28, 2015, the D.C. Circuit Court issued an opinion that upheld EPA's CSAPR but remanded without vacating EPA's 2014 SO₂ and ozone season NO_x budgets for several states, including Texas. The court did not vacate any emissions' budgets, but instead declared them "invalid" and instructed the EPA to reconsider them. Some Texas units received additional allowances. Phase 2 emission budgets began January 1, 2017. As stated above, with the use of ultra-low sulfur coal at the now-deactivated Deely units, CPS Energy is able to meet the SO₂ targets for CSAPR. On September 21, 2017, the EPA signed a rule finalizing withdrawal of the federal implementation plan ("FIP") provisions that require affected electricity generating units ("EGUs") in Texas to participate in Phase 2 of the CSAPR trading programs for annual emissions of SO₂ and NO_x. Texas will stay in the most stringent NO_x Ozone Season Program.

The EPA issued the final primary SO₂ National Ambient Air Quality Standards ("NAAQS") on June 2, 2010. The EPA is determining designations for potential non-attainment areas in different rounds. On August 10, 2015, the EPA signed a final standard that requires state agencies, like TCEQ to submit additional information. Specifically, the TCEQ has to provide additional data for sources that emit greater than 2,000 tons per year, such as the Calaveras Power Station. The TCEQ identified 25 sources in the State with emissions greater than 2,000 tons per year (with the Calaveras Power Station the only location identified in Bexar County), and notified the EPA on January 15, 2016 of these locations. The State identified the characterization approach planned for each identified source prior to the July 2016 deadline. For any source to be evaluated with modeling, states were required to submit a modeling protocol by July 1, 2016 (of which the State complied), a modeling analysis by January 13, 2017, and annual reports thereafter, to the EPA. On June 30, 2016, the EPA submitted the final second round SO₂ NAAQS designations to be published in the Federal Register. For sources to be monitored, the SO₂ monitors must have been in operation by January 1, 2017. Any enforceable emissions limits agreed to must have been adopted and effective by January 13, 2017. States and tribes were permitted to submit exceptional events' demonstrations to the EPA explaining event-influenced SO₂ by July 14, 2017. The EPA announced completion of its Round 3 SO₂ area designations on December 21, 2017 after evaluating air quality modeling and monitoring data, analyzing established emission limits, and reviewing areas not subject to the EPA's Data Requirements Rule. A supplement to these designations was issued on March 28, 2018. States were required to certify their 2019 monitoring data for Round 4 designations by March 1, 2020, and the EPA notified states of intended modifications by September 2, 2020. On December 21, 2020, the EPA took the final step to implement the Round 4 designations for SO₂ set in 2010; however, Round 4 designations were not published in the Federal Register and are undergoing review in accordance with the "Regulatory Freeze Pending Review Memorandum" that White House Chief of Staff Ronald Klain, issued on January 20, 2021. With Deely deactivated in 2018, the Calaveras Power Station site is now under the 2,000 tons per year threshold. On February 25, 2019, the EPA issued a decision to retain the existing NAAQS for SO₂ based on its judgement that the current NAAQS protects public health, with an adequate margin of safety. The existing standard, established in 2010, is 75 ppb based on the 3-year average of the 99% of the yearly distribution of 1-hour daily maximum concentrations. On July 23, 2019, the EPA issued a final Notice of Data Availability ("NODA") required by CSAPR, listing new units that receive a "1st Round" 2019 SO₂ allowance allocation and allocation amounts.

The emission reductions expected from the EPA's Mercury and Air Toxics Standards ("MATS") are not included in the estimated emission reductions from CSAPR; once those standards are implemented, emissions from the power sector are likely to be reduced even further. On March 17, 2016, the EPA finalized a number of clarifying changes and corrections to the final MATS, including action to remove the rule provision establishing an affirmative defense for malfunction. In 2017, the EPA finalized a rule permitting e-reporting of power plants for MATS purposes of which the EPA extended reporting deadlines until July 1, 2020. On December 28, 2018, the EPA issued a proposed rule finding that MATS is not appropriate and necessary to regulate hazardous air pollutants ("HAPs"), but stated it planned to leave the underlying MATS rule in place. CPS Energy is in compliance with all MATS requirements and plans to continue to monitor amendments to MATS to ensure future compliance. In December of 2018, the EPA proposed to revise the cost-benefit analysis justifying the mercury restrictions in MATS. The public hearing was held on March 18, 2019, and the comment period closed April 17, 2019. The utility sector has asked for the rule to be left as is, since companies have

already spent money to bring their units into compliance. On May 22, 2020, the EPA published in the Federal Register a reconsideration of the appropriate and necessary finding for the MATS, correcting flaws in the 2016 supplemental cost finding while ensuring that power plants will emit no more mercury to the air than before. After primarily considering compliance costs relative to the HAPs benefits of MATS, the EPA is concluding that it is not "appropriate and necessary" to regulate electric utility steam generating units under section 112 of the Clean Air Act. On July 17, 2020, the EPA finalized revisions to the electronic reporting requirements for MATS.

The EPA previously engaged in a residual risk and technology review ("RTR") that is required by section 112 of the Clean Air Act. The results from the RTR showed that emissions of HAPs have been reduced such that the residual risk is at acceptable levels, that there are no developments in HAPs emissions controls to achieve further cost-effective reductions beyond the current standards, and, therefore, no changes to the MATS rule are warranted. Litigation contesting the validity of the foregoing actions immediately commenced.

Nitrogen Oxides ("NO_x"): In addition to SB 7 regulations that require NO_x reductions at CPS Energy's formerly grandfathered gas units, the TCEQ implemented additional rules. Chapter 117 of Title 30 of the Texas Administrative Code, regarding Control of Air Pollution from Nitrogen Compounds regulations ("Chapter 117"), requires all fossil fuel power plants to achieve a NO_x emission level cap. For coal units this cap is based on a NO_x emission rate of 0.165 lb / MMBtu (pounds per million British thermal units) by mid-2005; for gas units this cap is based on a NO_x emissions rate of 0.14 lb / MMBtu. However, CPS Energy management chose to comply with a system cap rather than the emission specifications. CPS Energy has met the system cap for the past compliance years. The revised CAIR reduced the NO_x emission rate to less than 0.15 lb / MMBtu in the first phase and were accomplished via statewide allocations that were required to be met in 2009 with further reductions by 2015. The CAIR rule was a cap and trade rule which means that specific units are not required to meet any particular emission limit, only that they have adequate NO_x allowances for the amount they actually emit. CPS Energy made further reductions in NO_x by installing selective catalytic reduction ("SCR") technology on Deely2 in 2011 and currently has SCR on Spruce2.

As stated earlier, the EPA, in July 2011, finalized CSAPR for the purpose of replacing CAIR. The proposal included Texas in an Ozone Season only NO_x program and an Annual NO_x program. Ozone season includes the summer months of May - September. Because CPS Energy began installing NO_x reduction technologies in 1997, the targets for CSAPR can be met with current equipment (but such compliance does not provide reserve margins for future regulations). CSAPR was intended to be effective on January 1, 2012; however, the D.C. Circuit Court put the rule on hold, and on August 21, 2012, the court vacated CSAPR and required the EPA to continue administering CAIR pending the promulgation of a valid replacement. In January 2013, the courts denied a petition to keep CSAPR in place, so CAIR remained as the requirement for NO_x. See the SO₂ disclosure above for a discussion concerning the current status of CSAPR litigation.

On October 23, 2014, the D.C. Circuit Court lifted its stay of the EPA's CSAPR. Compliance options under the rule began in 2015. Phase 1 emission budgets began to apply on January 1, 2015, for the annual programs and May 1, 2015, for the ozone-season NO_x program and also applied in 2016. Phase 2 emission budgets began to apply in 2017 and subsequent years. On September 14, 2015, the EPA issued a preliminary Notice of Data Availability, as required by CSAPR, which lists new units eligible for a "2nd Round" 2015 CSAPR NO_x Ozone Season allowance allocation. With the use of the Spruce2 SCR, CPS Energy will be able to meet the NO_x targets. On November 12, 2015, the EPA issued a final Notice of Data Availability, as required by CSAPR, which details the 2015 allowance allocations to certain new units eligible for a 2nd Round CSAPR ozone season new unit set-aside allocation, and to CSAPR existing units in states in which the new unit set-asides for the 2015 CSAPR ozone season were undersubscribed. On November 16, 2015, the EPA proposed an update to the CSAPR for the 2008 NAAQS by issuing the proposed CSAPR Update Rule. On December 15, 2015, the EPA issued a preliminary Notice of Data Availability, as required by CSAPR, which lists new units eligible for a "2nd Round" 2015 CSAPR NO_x Annual, SO₂ Group 1, or SO₂ Group 2 allowance allocation. The EPA later issued, on February 12, 2016, a final Notice of Data Availability, as required by CSAPR, that details compliance year 2015 allowance allocations to certain new units eligible for a "2nd Round" CSAPR NO_x Annual, Group 1 SO₂, or Group 2 SO₂ new unit set-aside allocation and to CSAPR existing units in states in which the new unit set-asides for 2015 for those annual CSAPR Trading Programs that were undersubscribed. On February 26, 2016, the EPA issued a ministerial action affirming changes to CSAPR that align the dates in CSAPR's rule text with its revised implementation schedule for 2015 Phase 1 implementation and 2017 Phase 2 implementation (this change was made in 2014 on an interim basis). On May 27, 2016, the EPA issued a preliminary NODA, as required by CSAPR, that listed new units eligible for a "1st Round" 2016 CSAPR NO_x Annual, NO_x Ozone Season, or SO₂ Group 1 or SO₂ Group 2 allowance allocation and allocation amounts. On June 21, 2017, the EPA issued a NODA on emission allowance allocations to certain units from the new unit set asides ("NUSAs") for the 2017 control periods and posted the calculations on the EPA website. The EPA completed calculations for the second round of allocations from the NUSAs for the 2017 control periods to new units and posted the calculations as of February 16, 2018. In February 2019, the EPA completed the second final round of NODA and published the NUSA from the 2018 control period, and in May 2019, the EPA provided the preliminary NODA for the first round of allocation allowances from the NUSA. On July 23, 2019, the EPA issued a final NODA, as required by CSAPR, that lists new units that receive a "1st Round" 2019 CSAPR NO_x Annual and NO_x Ozone Season allowance allocation and allocation amounts. On February 12, 2020, the EPA issued a final Notice of Data Availability, as required by CSAPR,

that lists new units that receive a "2nd Round" 2019 CSAPR NO_x Annual, NO_x Ozone Season, or SO₂ allowance allocation and allocation amounts. The notice also details 2019 allowance allocations to CSAPR existing units in states in which the new unit set-asides for 2019 for those CSAPR trading programs were undersubscribed. On October 15, 2020, the EPA proposed the revised CSAPR update in order to fully address 21 states' outstanding interstate pollution transport obligations for the 2008 ozone NAAQS. Starting in the 2021 ozone season, the proposed rule would reduce emissions of NO_x from power plants in 12 states.

On September 7, 2016, the EPA released its final CSAPR update rule for the 2008 ozone NAAQS. The final rule makes a few key changes, by establishing a one-time allowance conversion that transitions a limited number of banked 2015 and 2016 allowances for compliance use in CSAPR Update states in 2017 and beyond. In May 2017, this rule began to reduce summertime (May through September) NO_x emissions from power plants in 22 states in the eastern U.S., providing up to \$880 million in benefits and reducing ground-level ozone exposure for millions of Americans. The rule will reduce air quality impacts of ozone pollution that crosses state lines and will help downwind areas meet and maintain the 2008 ozone air quality standard. The EPA also refined its methodology for establishing emission budgets to better reflect power sector NO_x reduction potential by using historical data in combination with projections of potential NO_x emission rate improvements in each state. These refinements resulted in changes to individual state emission budgets and the combined total increased slightly (by less than 5 percent) from the proposed rule. For CPS Energy, this resulted in a reduction of Ozone Season NO_x allowances from 4,650 to 3,698 tons, with only about a third of the banked allowances from 2015 and 2016 rolling over. In response to the D.C. Circuit Court's remand of the CSAPR Phase 2 SO₂ emissions' budgets, the EPA proposed to remove the State from the CSAPR SO₂ and NO_x trading programs on November 3, 2016. Such removal includes withdrawal of the FIP, sources in the State will not contribute significantly to nonattainment, and therefore the EPA will have no requirement to issue a new FIP. The proposal also includes a sensitivity analysis showing actions taken in response to the remand. The rule was published on January 4, 2017, and a public hearing was held on January 10, 2017. Comments to the rule were closed on March 6, 2017. On September 21, 2017, the EPA signed a rule finalizing withdrawal of the FIP provisions that require affected EGUs in Texas to participate in Phase 2 of the CSAPR trading programs for annual emissions of SO₂ and NO_x. Texas will stay in the most stringent NO_x Ozone Season Program. On October 29, 2020, a CSAPR update was published by the EPA in response to a previous ruling by the D.C. Circuit Court. The update was written under the Clean Air Act's "Good Neighbor" provision and was previously the subject of a remand in the D.C. Circuit Court. The court was concerned with the ability of upwind states to allow significant contributions to downwind air quality problems beyond the 2021 deadline for the 2008 ozone standard. In response, the EPA revised CSAPR to address the concern. The air pollution rule updates a trading program for NO_x emissions designed to help eastern states meet federal ozone limits. The EPA finalized the rule on March 15, 2021 in accordance with court order.

Mercury: In early 2004, the EPA published a proposed rule to reduce mercury to a level of 21 X 10⁻⁶ lb / MWh (pounds per megawatt hour) from new units (about 2.0 lb / trillion Btu) and CPS Energy agreed to this level for the new Spruce2 unit. The final rule published in May 2005, called the Clean Air Mercury Rule, established mercury emission limits on new and existing units and set up a cap and trade system starting in January 1, 2010. The final rule had a less stringent mercury limit for new units; however, CPS Energy agreed to the previously proposed level and the final Spruce2 unit permit has a mercury limit (2.0 X 10⁻⁵ lb / MWh), which is currently being met.

On February 8, 2008, the D.C. Circuit Court vacated the Clean Air Mercury Rule. Since the procurement and installation of continuous mercury monitors was already in process, CPS Energy decided to complete the installation. The EPA proposed a rule in March 2011 for all HAPs including mercury, commonly referred to as the MATS rule. The limits are very stringent and all four CPS Energy coal units will need mercury specific reduction technologies added in order to comply. The rule allows three years for compliance from the final rule date. The rule was finalized on December 16, 2011. The rule also included limits for HAPs such as non-mercury metals (measured as particulate matter and acid gases (measured as hydrochloric acid or sulfur dioxide). The rule requires continuous monitoring of mercury, particulate matter and acid gases by March 2015 and CPS Energy is in compliance. On April 21, 2015, the EPA completed review of requests to reconsider certain aspects of MATS, denying all such requests. The Supreme Court consolidated three EPA cases in early 2015 and agreed to hear arguments regarding whether the EPA unreasonably refused to consider costs in determining whether it is appropriate to regulate HAPs emitted by electric utilities. On June 29, 2015, the Supreme Court overturned the EPA's rules limiting mercury and HAPs released from power plants, thus ruling the EPA should have considered the compliance costs when crafting the regulations. In December 2015, the D.C. Circuit Court agreed to leave intact the MATS rule while government officials decided how to best account for implementation costs. Subsequently, 20 states asked the Supreme Court to stay the Clean Air Mercury Rule, which the court rejected in March 2016. On June 13, 2016, the Supreme Court denied a *writ of certiorari*, but sent the rule back to the D.C. Circuit Court after finding the EPA improperly failed to consider the cost of the rule before promulgating it. The D.C. Circuit Court allowed the rule to stay in place while the EPA revised to comply with the U.S. Supreme Court's finding. In April 2016, the EPA released a cost analysis that determined the rule still valid. On February 10, 2017, several states, local governments, and two energy companies submitted an intervenor brief supporting the rule, stating the EPA proved its necessity. On April 27, 2017, a three-judge panel at the United States Court of Appeals for the D.C. Circuit Court granted the EPA's request to pause the MATS litigation. Since the coal units already have technologies to control particulate matter and acid gases, the only additional technology required was mercury reduction technology. CPS Energy installed activated carbon injection (a mercury reduction technology) on Spruce1 and Spruce2 in early 2013 and Deely

1 and 2 in July 2014 to meet the April 2015 compliance deadline. On April 14, 2016, the EPA issued a final finding that it is appropriate and necessary to set standards for emissions of air toxics from coal- and oil-fired power plants. This finding responds to a decision by the Supreme Court that the EPA must consider cost in the appropriate and necessary findings supporting the MATS. The EPA subsequently denied two petitions for reconsideration related to the standard for periods of startup and shutdown authorized in lieu of numeric standards for coal- and oil-fired power plants. The EPA recently amended its power plant electronic reporting requirements as it relates to MATS and further proposed additional revisions in April 2020 identifying certain data elements to be reported by power plants. The EPA's goal was that emissions of mercury from power plants be reduced 70% from 1999 levels, resulting in a 15 ton cap nationwide in 2018. The EPA submitted its pre-publication proposal to reconsider the MATS rule for power plants to the White House Office of Management & Budget ("OMB") for interagency review. On April 17, 2019, 21 state attorney generals and other regulators, urged the EPA not to revise its 2016 final findings. On April 16, 2020, the EPA completed a reconsideration of the appropriate and necessary finding for the MATS, correcting flaws in the approach to considering costs and benefits while ensuring that HAPs emissions from power plants continue to be appropriately controlled. The EPA is maintaining its MATS emissions standards as Administrator Wheeler previously announced. The EPA is not removing coal- and oil-fired power plants from the list of affected source categories for regulation under section 112 of the Clean Air Act, so MATS remains in effect. The foregoing actions have been the subject of litigation. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Sulfur Dioxide" herein.

On April 16, 2020, the EPA issued the final MATS rule. As a general matter and as expected, the final rule invalidates the "necessary and appropriate" finding but keeps in place the existing MATS regulations. In addition, the EPA completes the residual risk and technology review for the MATS rule, confirming that no further emissions controls are needed to address any potential residual risks from the emissions of coal-fired power plants. The final action leaves emission limits in place and unchanged. The EPA on May 22, 2020 published in the Federal Register the Final Revised Supplemental Finding and Results of the Residual Risk and Technology Review. The EPA considered compliance costs relative to benefits and concluded it is not "appropriate and necessary" to regulate EGUs for HAPs, but is leaving the current emission standards in place. The EPA also took final action on the residual risk and technology review, finding that HAPs emissions have been reduced such that residual risk is at acceptable levels and thus no changes to the MATS rule is warranted. On July 17, 2020, the EPA issued a final action identifying data elements to be reported electronically by power plants using the "Emissions Compliance and Monitoring Plan System Client Tool" and extended the submission of certain reports using portable document format file through December 31, 2023.

On November 19, 2020, the EPA finalized amendments that apply to National Emission Standards for HAPs. The amendments implement that plain language reading of the "major source" and "area source" definitions of section 112 of the Clean Air Act and provide that a major source can be reclassified to area source status at any time upon reduction of its potential to emit HAP below the major source thresholds.

Ozone ("O₃"): On March 12, 2008, the EPA revised the NAAQS for ground-level ozone (the primary component for smog). This revision was part of a required review process mandated by the Clean Air Act, as amended in 1990. Prior to the revision, an area met the ground-level ozone standards if the three-year average of the annual fourth-highest daily maximum eight-hour average at every ozone monitor (the "eight-hour ozone standard") was less than or equal to 0.08 parts per million ("ppm"). Because ozone is measured out to three decimal places, the standard effectively became 0.084 as a result of rounding. The EPA's March 2008 revision changed the NAAQS such that an area's eight-hour ozone standard must not exceed 0.075 ppm rather than the previous 0.084 ppm.

The Clean Air Act requires the EPA to designate areas as "attainment" (meeting the standards), "nonattainment" (not meeting the standards), or "unclassifiable" (insufficient data to classify). As a result of the revisions to the NAAQS, states were required to make recommendations to the EPA no later than March 12, 2009 for areas to be classified attainment, nonattainment, or unclassifiable. In 2009 former Texas Governor Rick Perry submitted a list of 27 counties in Texas, including Bexar County, that should be designated as nonattainment. The final designations were put on hold while the EPA worked on revising the standard even further downward.

On January 6, 2010, the EPA formally proposed a regulation that would lower the primary NAAQS for ozone to a level within a range of 0.060 to 0.070 ppm. The EPA postponed issuing a final rule revising the ozone NAAQS standards from August 31, 2010 to October 2010. At the end of 2010, the EPA postponed the final rule until July 2011. On September 2, 2011, President Obama requested that the EPA withdraw its draft of the NAAQS revision. On September 22, 2011, the EPA issued a memorandum stating it would designate areas as non-attainment under the 2008 ozone standard of 0.075 ppm. On December 18, 2014, the EPA completed its initial nonattainment designations under the 2012 annual fine particle standard, issuing a revision to the list on March 31, 2015.

On November 26, 2014, the EPA proposed ozone standards to within a range of 65 to 70 parts per billion ("ppb"), while taking comment on a level as low as 60 ppb. The proposed revision to the NAAQS was published in December 2014. On October 1, 2015, the EPA lowered the NAAQS for ground level ozone from 75 ppb to 70 ppb, "based on extensive scientific evidence about the ozone's effects on public health and welfare". The EPA was under a court order to finalize this rulemaking on or before such date. Under the Clean Air Act, the EPA has two years from the time it finalizes a revised NAAQS to complete the designation

process. Some final designations were issued in 2017. On February 25, 2016, the EPA issued the area designations for the 2015 NAAQS in a memorandum, which also outlined the important factors that the EPA intends to evaluate in making the final nonattainment area boundary decisions for these standards. On August 3, 2016, the TCEQ approved a recommended nonattainment designation for Bexar County and submitted that recommendation to Texas Governor Greg Abbott for consideration. Texas Governor Greg Abbott's recommendations of area designations within the State were due to the EPA by October 1, 2016. The EPA was expected to make final designations by October 1, 2017. On June 6, 2017, the EPA sent a letter to each state Governor stating that designations will be delayed by one year, which would have made October 2018 the new deadline; however, on August 11, 2017, the EPA stated it would provide designations by the original October 1, 2017 date. The EPA did not make the designations by October 1, 2017. On December 5, 2017 several states filed suit in the Northern District of California alleging the EPA had a duty to designate all areas within the county, as opposed to a partial designation of the counties released so far. Several environmental groups filed a lawsuit in the same court the day prior alleging the same causes of action. If the EPA issued a designation that deviated from a state's recommendation, the EPA is required to notify the state at least 120 days prior to promulgating the final designations. Following the issuance of final designations, states are required to submit State Implementation Plans ("SIPs") outlining how they will reduce pollution to meet the new standards. See "Cross-State Air Pollution Rule Upheld" herein for further discussions regarding SIPs. These SIPs are due to the EPA by a date established under a separate rule, but will be no later than three years after the EPA's final designations (e.g., 2021 for the EPA designations made in 2018.) On December 19, 2017, the D.C. Circuit Court issued an order requiring the EPA to file a report describing when it plans to issue a final rule establishing air quality designation for the 2015 ozone NAAQS. In conjunction with the revised NAAQS, the EPA proposed separate rules to address monitoring the new standard. Generally, the proposal from the EPA would require a greater number of EPA-approved monitors in both urban and non-urban areas and longer ozone monitoring seasons in many states. For Texas, the proposal calls for year-round monitoring throughout the State.

On July 17, 2018, the EPA, in response to a March 12, 2018 order of U.S. District Judge Haywood S. Gilliam Jr., finalized the designations for the eight counties in the San Antonio area (the "San Antonio Area"), which took effect on September 24, 2018, sixty days after being published in the Federal Register. Of the eight counties in the San Antonio Area, only Bexar County has been designated as marginal Nonattainment. Because the marginal Nonattainment classification is closest to meeting the federal ozone standard, achieving Attainment will require fewer mandatory planning and control requirements. The TCEQ issued a response stating that it disagreed with the EPA's decision to designate Bexar County as Nonattainment but that it would work with local stakeholders to address the Nonattainment designation. Because San Antonio has been designated as a marginal Nonattainment area, a SIP is not required. In response to this designation, City leaders appointed the San Antonio Metropolitan Health District Director to develop an Ozone Action Plan and lead efforts to improve the area's air quality. On August 28, 2018, the State (including Governor Greg Abbott and the TCEQ) sued the EPA in the Fifth Circuit disputing the Nonattainment designation, stating EPA's decision would impose an unwarranted financial burden on the State's economy with minimal public health benefit. CPS Energy remains committed to improvement of the area's air quality by helping to develop constructive air quality improvement solutions and is working with the City and the Alamo Area Council of Governments in identifying community mitigation strategies to reduce ozone in the region. On October 17, 2018, a nationally-recognized ozone expert presented his findings to City Council regarding the San Antonio Area, which noted rotating wind patterns, industrial chemical compounds, and the current placement of air quality monitors as contributors to the current air quality. On March 20, 2019, the City of San Antonio Metropolitan Health District (the "Metropolitan Health District") issued an Ozone Attainment Master Plan. The plan called for evaluation of targeted ozone reduction efforts as of December 31, 2020. The City sought feedback on the Ozone Attainment Master Plan to reduce ozone levels as the program's SASPEAKSUP Air Quality survey was made available in May 2019 and finalized in June 2019.

The SIP to reduce ground-level ozone may curtail new industrial, commercial and residential development in the City and adjacent areas. Examples of past efforts by the EPA and the TCEQ to provide for annual reductions in ozone concentrations in areas of Nonattainment under the former NAAQS include imposition of stringent limitations on emissions of volatile organic compounds ("VOCs") and NO_x from existing stationary sources of air emissions, as well as specification that any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.1 times the amount of pollutants proposed to be emitted by the new source. Studies have shown that standards significantly more stringent than those currently in place in the San Antonio Area and across the State are required to meaningfully impact an area's ground-level ozone reading, which will be necessary to achieve compliance with the new 70 ppb ozone standard.

Depending on the severity of the violation, air pollution control programs could include the Nonattainment New Source Review permitting program and Federal General Conformity and Transportation Conformity programs. When an area is designated as Nonattainment, state plans first focus on reduction of emissions from major pollution sources, such as power plants and cement factories, and then will focus on programs to further reduce emissions of pollutant precursors from sources such as cars, fuels, and consumer products. In the meantime, it must be demonstrated to the EPA that reasonable further progress toward improving the air quality is being made in the Nonattainment area. However, the EPA Administrator Andrew Wheeler noted that analysis

from Texas about the role of international emissions and the scheduled closure of a local coal-fired plant will ensure implementation measures to meet standards will have minimal burden on economic development.

Economic development would not be totally stopped by a Nonattainment designation, but there could be costly consequences due to the designation. Limitation on production and operation of industrial facilities could be imposed, or installation of pollution control equipment could be required, or otherwise industrial facilities may be asked to find reductions in emissions by "offsetting" in order to expand. New facilities wanting to locate in a Nonattainment area will most likely be required to install pollution controls or take stringent operational limits. There are also increased costs to businesses and consumers due to special requirements for vehicles, fuels sold in the area, and for commercial and consumer products.

Overall, these potential consequences can be summarized as the following:

1. Loss of industry and economic development in and around the area.

Companies interested in building a major manufacturing plant in a Nonattainment area could be impacted due to the increased costs, delays, and uncertainties associated with the restrictive permit requirements.

2. Loss of federal highway and transit funding.

Federally supported highway and transit projects may be halted in a Nonattainment area if the state cannot demonstrate that the project will cause no increase in applicable emissions.

3. New emissions in the area must be "offset," or the unit cannot be built.

Companies must offset the projected emissions of the proposed new plant or major modification by purchasing unused emission credits from others, or by reducing their own emissions. The ability to purchase emissions credits becomes increasingly difficult as the available emissions credits are used up over time. Similarly, the ability to reduce existing emissions at a plant that is proposing a major modification may be difficult or impossible for sources that already meet stringent standards and have installed emissions control equipment. Where no offset can be found, the project may not go forward. In marginal ozone Nonattainment areas, offsets typically must be greater than 1:1 ratio (e.g., a ton of offsets per ton of emissions) of NO_x and VOC.

4. Compensation for foreign sources of emissions.

Certain states may also have to compensate for contributions to ambient concentrations in an area coming from foreign sources (such as Mexico) in order to reach Attainment with the NAAQS.

5. Additional restrictive permitting requirements that are not applied in Attainment areas.

Companies that plan to build a new facility or construct a major modification to an existing facility in, or near, a Nonattainment area will be required to install the most effective emission reduction technology without consideration of cost. Less stringent controls may be installed in Attainment areas. The permitting process can be expected to last a year or longer as the company demonstrates that its proposal will meet all of the applicable Nonattainment area requirements. These differences could discourage new business investments in Nonattainment areas compared with moving to an Attainment area.

6. Greater EPA involvement and oversight in permit decisions.

The EPA may intervene and require permit revisions, even after the state and company seeking the permit have negotiated the terms of a final permit. This causes tremendous uncertainty, delays, and increased costs in the permitting process.

7. Continuing oversight by the EPA even after the Nonattainment area meets the standard.

Before a Nonattainment area can be re-designated as an Attainment area, the EPA must determine that: 1) the area has met the standard (for ozone, this means it must be in Attainment for three full years); 2) the improvement in the area's air quality is due to permanent and enforceable emissions reductions; and 3) the area has an approved maintenance plan and an approved contingency plan that contain enforceable requirements to keep the area from lapsing into Nonattainment.

8. Technical and formula changes for commercial and consumer products.

In order to meet the NAAQS standard, some SIPs may include regulations that would reduce the pollutant or its chemical "precursors" (e.g., for ozone, certain types of VOCs), by requiring changes to operating processes, to a product's technical design, or to the actual chemical formulation of commercial or consumer products, such as paint, which may result in increased costs to users or differences in performance.

Failure by an area to comply with the EPA's rules and regulations regarding ground level ozone by the requisite time could result, in the most serious of scenarios, in the EPA delivering a mandatory FIP to the region in a move beyond the State's authority, and imposing a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works

construction projects. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and the EPA seeking to compel the early adoption of additional emission reduction measures.

On December 6, 2018, the EPA issued final requirements that apply to state, local, and tribal air agencies for implementing the 2015 NAAQS for ground-level ozone. The EPA revised both the health-based and welfare-based standards for ozone on October 1, 2015 to 70 parts per billion ("ppb"). This final rule is largely an update to the implementing regulations previously promulgated for the 2008 ozone NAAQS, and the EPA is retaining without significant revision most of those provisions to implement the 2015 ozone NAAQS. The EPA determined the interstate pollution transport obligations (under the 2008 NAAQS for the twenty affected states, including Texas) do not extend to the submission of SIPs establishing additional control requirements. The final rule includes attainment demonstrations, reasonable further progress ("RFP") and associated milestone demonstrations, reasonably available control technology ("RACT"), reasonably available control measures ("RACM"), major nonattainment new source review, emissions inventories, the timing of required SIP submissions and compliance with emissions control measures in the SIP. The EPA is not taking any final action on the EPA's proposed approach for revoking the prior ozone NAAQS and establishing anti-backsliding requirements. The EPA intends to address any revocation of the 2008 ozone NAAQS and any potential anti-backsliding requirements in a separate future rulemaking.

On August 1, 2019, the EPA stated in a court filing it does not intend to revise and modify the previously promulgated rules related to the 2015 ozone standard (ending speculation as to this anticipated change). CPS Energy continues to work closely with the TCEQ, the Metropolitan Health District, and the Alamo Area Council of Governments on strategies for reducing ozone levels in the San Antonio Area and surrounding counties. The Metropolitan Health District has organized stakeholders to work with TCEQ regarding the Texas SIP as it pertains to Bexar County. The City has developed an Ozone Attainment Master Plan to establish a strategic and technical review of current local ozone levels and provides recommendations for reducing emissions of ozone-forming compounds (NO_x and VOCs) into the atmosphere.

On June 10, 2020, the TCEQ adopted the 2015 Eight-Hour Ozone NAAQS Emissions Inventory ("EI") SIP Revision for the Houston-Galveston-Brazoria ("HGB"), Dallas-Fort Worth ("DFW"), and Bexar County Nonattainment Areas ("Non-Rule Project No. 2019-111-SIP-NR"). The SIP revision satisfies Federal Clean Air Act, §172(c)(3) and §182(a)(1) EI reporting requirements for areas designated nonattainment for the 2015 eight-hour ozone NAAQS. The revision also includes certification statements to confirm that the emissions statement and nonattainment new source review requirements have been met for the HGB, DFW, and Bexar County 2015 eight-hour ozone nonattainment areas.

On July 13, 2020, the EPA issued its proposed rule to retain the 70 ppb ozone NAAQS. The proposal responds to a Clean Air Act mandate to review NAAQS every five years. The EPA's staff has recommended keeping the primary, or health-based, ozone NAAQS unchanged at the level of 70 ppb over eight hours set in 2015. The EPA has also proposed to retain the secondary, or welfare-based, NAAQS at the same level of 70 ppb. Public hearings related to the foregoing were held on August 31 and September 1, 2020. The EPA on December 23, 2020, announced its decision to retain, without changes, the 2015 ozone NAAQS set by the Obama Administration. The rule was finalized on December 31, 2020.

On January 29, 2021, the D.C. Circuit Court vacated three of four challenged provisions of EPA's rule implementing the 2015 Ozone NAAQS. *See Sierra Club v. EPA*, No. 15-1465 (D.C. Circuit). One of the challenged provisions was the rule's inter-precursor trading program. The future use of NO_x emission reduction credits ("ERCs") to satisfy VOC offset requirements, and vice versa, is likely in question. TCEQ may continue to allow permit holders in the County, as a marginal nonattainment area, to buy ERCs generated in marginal, moderate, serious, severe, or extreme nonattainment areas that are contributing to the County's violation of the NAAQS to satisfy offset requirements. However, TCEQ could not allow permit holders in the County to sell ERCs for use as offsets in moderate, serious, severe, or extreme nonattainment areas that do not contribute to the County's violation of the ozone standard, such as Houston or Dallas.

Cross-State Air Pollution Rule: As required by the Clean Air Act, the EPA establishes NAAQS to protect public health. The EPA periodically revises or creates additional standards to those currently in place and identifies locations ("Nonattainment Areas") that fail to meet the NAAQS. Within three years from the effective date of a new standard or modification, each state is required to propose and submit a SIP to the EPA evidencing prospective compliance with the updated NAAQS. If the EPA determines a SIP to be inadequate, the EPA must implement a FIP remedying these inadequacies within two years. On June 14, 2016, the D.C. Circuit Court ordered the EPA to create, under the Clean Air Act, a "good neighbor" FIP for the State to meet national standards on particulate matter.

Congress previously noted a persistent issue of certain states ("Upwind States") emitting toxins beyond their borders, contributing to pollution in neighboring states ("Downwind States"). Consequently, Congress mandated all SIPs adhere to the Clean Air Act's Good Neighbor Provision (the "Provision"), which prohibits Upwind States from emitting pollution in an amount that would interfere with another state's ability to maintain compliance with NAAQS. The EPA previously identified and attempted to regulate states contributing to other states' nonattainment status by enacting measures controlling nitrogen oxide and sulfur dioxide

emissions, yet the issue persisted and courts found these measures insufficient. The EPA's latest promulgation implementing the Provision, the CSAPR, controlled states' hazardous emissions through a two-step process. The EPA analyzed the level of pollution emitted by Upwind States and identified those states exceeding a pre-determined pollution threshold. The EPA then evaluated the cost of reducing various emissions in 27 selected states and regulated their pollution according to the most efficient method (highest level of emission reduction at the lowest cost), while simultaneously issuing FIPs. The EPA rationalized the controlled states' SIPs failed to comply with the updated Provision, triggering the obligation to issue a FIP within the two-year limitation period. In an opinion dated September 13, 2019, the D.C. Circuit Court affirmed the constitutionality of the Provision. However, on May 19, 2020, the D.C. Circuit Court clarified the Provision by finding the EPA acted arbitrarily and capriciously by refusing to consider data from air quality monitors located outside of one state but within an attainment region the state shares with other states. The three-judge panel agreed that a state can use data from another state if that data shows nonattainment in a multi-state nonattainment area.

Challengers, comprised of state and local governments as well as industry leaders, filed suit to overturn the CSAPR and to allow states the ability to submit an amended SIP after the EPA's determination of inadequacy. On April 29, 2014, the Supreme Court rendered a decision in *Environmental Protection Agency v. EME Homer City Generation, L.P.*, 134 S. Ct. 1584 (2014). The Supreme Court found CSAPR to be a reasonable and appropriate implementation of the Provision. Under 42 U.S.C. § 7410(a)(2)(D)(i), the EPA is afforded deference in determining an acceptable manner to satisfy the Provision. Because the CSAPR analyzes the most cost-effective method of achieving the highest level of attainment in affected states, the CSAPR is a permissible interpretation of the Provision. On July 28, 2015, the D.C. Circuit Court, on remand, considered individual states' challenges to the EPA's determinations regarding emission budgets. The D.C. Circuit Court held the emissions budgets imposed by the EPA for SO₂ in regard to four states and NO_x in regard to 11 states were invalid, and the EPA overregulated emissions beyond the statute. Therefore, the D.C. Circuit Court remanded to the EPA for reconsideration of the invalid emissions budgets and subsequent compliance. The CSAPR remained valid. In response to this court decision, on November 16, 2015, the EPA issued a press release regarding proposed updates to CSAPR, which would reduce summertime emissions of NO_x from power plants that contribute to downwind ozone problems. Specifically, the proposed updates identify cuts in power plant NO_x emissions in 22 states in the eastern half of the country that contribute significantly to downwind ozone air quality problems. The EPA held a public hearing on this matter on December 17, 2015 and received public comments until February 1, 2016. To assist some Downwind States meet their 2018 ozone attainment deadlines, the EPA updated the existing CSAPR ozone season program. In late November 2016, five states challenged the EPA's incorporation of the 2008 national ozone standards into CSAPR, which require upwind states to reduce NO_x emissions from power plants.

In its 2014 opinion, the Supreme Court determined it unnecessary for states to be given the opportunity to submit an additional SIP after the EPA issued limitations to states' toxic emissions. The statute, 42 U.S.C. § 7410(c)(1), allows the EPA to issue FIPs upon a finding of inadequacy, regardless of whether CSAPR's additional regulations implementing the Provision were enacted subsequently to an Upwind State's initial submission of its SIP. The plain text of the statute does not necessitate the EPA to give a state the opportunity to cure its SIP in order to issue a FIP.

On September 7, 2016, the EPA released its final CSAPR update rule for the 2008 ozone NAAQS. The update adopts FIPs for all 22 states, updating the existing CSAPR NO_x ozone season emission budgets for each state's fleet of electricity generating units (to be implemented through the existing CSAPR NO_x ozone season allowance trading program). States could begin replacing the EPA's FIP in 2018 by submitting an approvable transport SIP. The final rule makes a few key changes, by establishing a one-time allowance conversion that transitions a limited number of banked 2015 and 2016 allowances for compliance use in CSAPR update states in 2017 and beyond. Starting in May 2017, the final CSAPR began reducing ozone season emissions of NO_x from power plants in 22 states in the eastern United States, providing both monetary benefits and reducing overall exposure. The EPA changed individual state emission budgets and the combined total increased slightly (by less than 5 percent) from the proposed rule. For CPS Energy, this resulted in a reduction of Ozone Season NO_x allowances from 4,650 to 3,698 tons, with only about a third of the banked allowances from 2015 and 2016 rolling over. On September 21, 2017, the EPA signed a rule finalizing withdrawal of the FIP provisions that require affected EGUs in Texas to participate in Phase 2 of the CSAPR trading programs for annual emissions of SO₂ and NO_x. Texas will stay in the most stringent NO_x Ozone Season Program. On October 27, 2017, the EPA issued a memo providing supplemental information to states regarding the development and review of SIPs addressing the Provision as it relates to the 2008 NAAQS, including future year ozone design values and contributions, modeling outputs based on updated data. On June 29, 2018, the EPA proposed to close-out the Provision based on data indicating the 2008 NAAQS were fully addressed. A public hearing was held August 1, 2018 and a final ruling that the CSAPR update addresses the requirements of the Provision was issued on February 19, 2019. See "Ozone" above. In an opinion dated October 1, 2019, the D.C. Circuit Court vacated the close-out Provision.

On October 15, 2020, the EPA proposed the Revised CSAPR Update to fully address 21 states' outstanding interstate pollution transport obligations for the 2008 ozone NAAQS. Starting in the 2021 ozone season, the rule requires additional emissions reductions of NO_x from power plants in 12 states. For 9 of the 21 states for which the CSAPR Update was found to be only a partial remedy (Alabama, Arkansas, Iowa, Kansas, Mississippi, Missouri, Oklahoma, Texas, and Wisconsin), projected 2021 NO_x

emissions do not significantly contribute to a continuing downwind nonattainment and/or maintenance problem, and therefore the states' CSAPR Update FIPs (or the SIP subsequently approved to replace certain states' CSAPR Update FIPs) fully address their interstate ozone transport obligations for the 2008 ozone NAAQS. Texas is not impacted by this rule.

Best Available Retrofit Technology ("BART"): The BART program is administered by the EPA / TCEQ in response to regional haze. The pollutants addressed by BART are NO_x and SO₂, the same as by CSAPR. CPS Energy was not included in a BART regulation in 2010 that required some Texas coal units to install SO₂ Scrubbers; however, BART is once again being looked at by EPA/TCEQ as a way to control NO_x and SO₂.

On July 28, 2015, the D.C. Circuit Court remanded the CSAPR allowances budgets for Texas. As a result, Texas could no longer rely on CSAPR as a way to comply with BART. As a result of the CSAPR action, the TCEQ was required to propose BART eligible units by December 9, 2016, under a consent decree. CPS Energy received and responded to an Information Collection Request ("ICR") from the EPA, in March 2016 for the Calaveras and Braunig sites. Based on the date of construction, the Sommers and Braunig steam boilers are all BART eligible. The Spruce units are newer and not under consideration.

On July 21, 2016, the EPA informed CPS Energy that due to revisions to the BART screening modeling with improved information, they determined that the Braunig facility screened out and thus does not have any units that are subject to BART. As a result Braunig1, 2 and 3 are no longer eligible. CPS Energy has two potential BART eligible sources: Sommers1 and Sommers2. While the EPA has not completed the subject to BART modeling, CPS Energy believes Sommers1 and Sommers2 could potentially be included due to ability to burn fuel oil.

In late February 2017, environmental groups submitted a brief to the D.C. Circuit Court challenging the emissions trading programs within CSAPR, or the "Transport Rule", to achieve more environmental progress at national parks and wilderness areas than BART. On March 22, 2017, the Fifth Circuit allowed the EPA to revise and change the State's regional haze FIP when the court granted the EPA's motion to remand the plan to the EPA for revision.

On November 16, 2017, the EPA finalized its determinations regarding BART for EGUs in Texas. For SO₂ requirements, the EPA promulgated a BART alternative consisting of an intrastate trading program addressing the SO₂ emissions from certain EGUs. To address BART requirements for NO_x, the EPA finalized its proposed determination that Texas' participation in CSAPR's trading program for ozone season NO_x qualifies as an alternative to BART. The EPA also approved Texas' determination that its EGUs are not subject to BART for particulate matter. In its final rule, the EPA disapproved of portions of several SIP revisions to satisfy the Clean Air Act requirements to address interstate visibility transport for several NAAQS, finding that the previously-mentioned BART alternatives meet these NAAQS visibility transport requirements.

On October 3, 2017, the EPA proposed a FIP for BART units in Texas. This was expected as the TCEQ / Governor's Office's request for an extension for time to complete a SIP was refused. The FIP proposes to use CSAPR allowances and make a trading program for Texas rather than having to install scrubbers on effected units. The SIP would have requested the same, just with a longer timeframe. The impact to CPS Energy is low, as Deely was shut down at the end of 2018. On January 17, 2018, the EPA announced it is reconsidering aspects of the BART Rule, but has not issued any proposals modifying the BART Rule. On March 20, 2018, the D.C. Circuit Court upheld a challenge to the EPA's move to incorporate CSAPR into regional haze regulations. On August 20, 2019, the EPA issued new regional haze guidance for compliance with long-standing mandates to protect visibility.

In response to challenges to the rule implementing the Texas SO₂ Trading Program, the EPA requested additional public input on the program as it appears in the Federal Register dated August 27, 2018. The EPA noted that several units in Texas have recently or will soon be retired, including the recent deactivation of Deely units. Deely's emissions allowances are available for use for five years. The EPA "specifically solicit[ed] comment on how these shutdowns should impact the provision regarding allocation to retired units for a period of five years". Under the EPA's alternative approach, the number of allowances that may be allocated from the Supplemental Allowance Pool would reduce the number of annual allocations for the participating units that have been permanently retired as of January 1, 2019.

On August 12, 2020, EPA published in the Federal Register a final rule approving a Texas regional haze plan allowing an emissions trading program for coal-fired electric generating units in the state. The first compliance period began on January 1, 2021. Deely 1 and 2 and Sommers 1 and 2 are included in the rule. There is no impact to CPS Energy.

The proposed rule for particle matter ("PM") (particles of dust) was published on April 30, 2020 with subsequent virtual public hearings held thereafter. The EPA is required to review the NAAQS every five years. Based on the EPA's review of the PM NAAQS, the EPA is proposing to retain the current standard without changes to the NAAQS for PM including both fine particles (PM_{2.5}) and course particles (PM₁₀). As of June 8, 2020, the EPA developed ambient air quality trends for PM. The final rule was published on December 7, 2020 in the federal register ,which stated that the EPA will retain without revision the existing primary ("health based") and secondary ("welfare based") NAAQS for PM.

Carbon Dioxide ("CO₂") and Greenhouse Gases ("GHG"): In 2007, the Supreme Court rendered its first major decision in the climate change arena. In *Massachusetts v. EPA*, 549 U.S. 497 (2007), the Supreme Court held that CO₂ and other greenhouse gases from motor vehicles are "air pollutants" and are subject to regulation under the Clean Air Act. There have also been several bills introduced in Congress that propose to regulate GHG through a cap and trade and / or quasi-carbon tax program.

In a noteworthy Clean Air Act decision, in the wake of *Massachusetts v. EPA*, the Environmental Appeals Board ("EAB") avoided the key question of whether CO₂ is currently "subject to regulation" under the Clean Air Act. In *re Deseret Power Electric Cooperative*, E.A.D. App. No. PSD 07-03 (EAB 2008) it appears that the decision was carefully designed to leave open for the Obama Administration the question of whether CO₂ would be regulated under a key EPA permitting program. EAB sided with the EPA, agreeing that the EPA is not required to treat CO₂ as "subject to regulation" for purposes of the Prevention of Significant Deterioration ("PSD") permitting program. However, EAB found that the EPA could exercise its discretion to treat CO₂ as "subject to regulation," and thus require permit limits for CO₂ based on the best available control technology ("BACT"). At that time, the EPA made it clear that, for both legal and policy reasons, it did not want to treat CO₂ as "subject to regulation" under the Clean Air Act. This position was confirmed in a memorandum dated December 18, 2008, from Stephen L. Johnson, the Administrator of the EPA, establishing that CO₂ is not "subject to regulation" under the Clean Air Act. The EAB found, however, that the *Deseret* permitting record was not adequate to support this position. It then remanded the permit back to the EPA with instructions that made it difficult for the EPA to respond to the remand without further presidential directive. The EAB has created significant uncertainty for anyone planning to construct virtually any type of commercial building or industrial facility (such as a new power plant). In January 2015, environmental groups filed petitions with the EAB challenging Deseret Power Cooperative ("Deseret") and its ability to operate the Bonanza Power Plant in Utah. In a proposed settlement agreement, Deseret would submit an application for a minor New Source Review permit which would provide for installation of low NO_x burners with over-fire air controls, along with other operator-requested permit terms and conditions. Under the settlement agreement, the pending PSD permit application and a proposed PSD permit would also be withdrawn. The EPA signed the settlement agreement on October 5, 2015. As CPS Energy is not currently seeking a new PSD permit for any of its facilities, CPS Energy is not currently affected by this decision.

In April 2009, the EPA signed two distinct findings under Section 202(a) of the Clean Air Act ("Section 202(a)"). The first was an endangerment finding, in that concentrations of GHG in the atmosphere threaten the public health and welfare. The second was a cause or contributing finding, in that combined emissions of GHG from motor vehicles and engines contribute to GHG pollution, which threatens the public health and welfare. An endangerment finding under Section 202(a), or any other similar section, is the necessary prerequisite to mandatory regulation. In most instances, once an endangerment finding is made, the Clean Air Act requires the EPA to regulate the subject pollutant. That mandatory duty to regulate, combined with the cascading effect of a single endangerment finding, means that the EPA may face a burden of needing a regulatory regime in place for all emission sources at the time it starts to regulate the first source. Accordingly, the creation of GHG emission standards for new motor vehicles could trigger a duty for the EPA to regulate GHG emissions from stationary sources under other Clean Air Act sections, such as the development of NAAQS, New Source Performance Standards ("NSPS"), the PSD program, Title V, and NESHAP. Senators John Kerry (D-MA) and Joseph Lieberman (I-CT), on May 12, 2010, released the comprehensive climate change and clean energy bill, titled the "American Power Act". The bill included similar targets to the American Clean Energy and Security Act of 2009 to reduce economy-wide GHG emissions from 2005 levels, but this bill was never enacted.

On August 13, 2020, in response to President Trump's Executive Order on Promoting Energy Independence and Economic Growth, Administrator Wheeler announced two final rules for the oil and gas industry, providing direction for the EPA to review, and if appropriate revise, the 2016 Oil and Natural Gas NSPS to ensure that the rules do not burden the development or use of domestically produced oil and natural gas.

The first rule, referred to as the "policy package", determines that the EPA's previous addition of the transmission and storage segment was improper and removes it from the regulation while also rescinding emissions standards for that segment. In addition, the policy package establishes the EPA's position that the Clean Air Act requires the EPA to make a finding that a pollutant contributes significantly to air pollution before setting NSPS requirements. The second rule, referred to as the "technical package" includes changes to the NSPS that will directly benefit smaller oil and gas operators who rely on regulatory policy to run their businesses.

CPS Energy is monitoring and evaluating proposed legislation, and continues to document its climate change activities, particularly its GHG emissions. CPS Energy includes a potential carbon dioxide cost in its assumptions when it evaluates alternatives for meeting the growing demand for electricity in the CPS Energy service territory. In conjunction with the Alamo Area Council of Governments, the City coordinated the development of a regional GHG emission inventory and entity-specific emission inventories for SAWS, Bexar County, CPS Energy and itself. The baseline year chosen for the inventory is 2005. CPS Energy now tracks an annual GHG inventory and is working with the City and its Mission Verde Alliance to address a wide range of issues affecting the community.

On September 22, 2009, the EPA finalized the nation's first GHG gas reporting system and monitoring regulations. On January 1, 2010, the EPA, for the first time, required large emitters of heat-trapping emissions to begin collecting GHG data, under a new reporting system. This new program covered approximately 85 percent of the nation's GHG emissions and applied to roughly 10,000 facilities. The EPA's new reporting system aimed to provide a better understanding of where GHGs are coming from and will guide the development of policies and programs to reduce emissions. Fossil fuel and industrial GHG suppliers, motor vehicle and engine manufacturers, and facilities that emit 25,000 metric tons or more of CO₂ equivalents per year will be required to report GHG emissions data to the EPA annually. The first annual reports for the largest emitting facilities, which include CPS Energy plants, were submitted to the EPA in 2011. On December 1, 2010, the EPA finalized a rule to include the reporting of GHG from large sources of fluorinated GHG, which includes SF₆; annual reporting to the EPA began in 2012. On November 29, 2013, the EPA finalized amendments to the GHG reporting program, effective January 1, 2014. The amendments consist of three parts: technical amendments, amendments related to global warming potentials, and confidentiality determinations for new or revised data. The EPA released its *Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2018* on April 13, 2020, which presented a national-level overview of annual GHG emissions since 1990. The inventory shows GHGs in the United States have increased from 2017 to 2018 by 2.9% largely due to an increase in CO₂ emissions from fossil fuel combustion.

On September 30, 2009, using the power and authority of the Clean Air Act, the EPA proposed a rule requiring new or modified power plants and other large stationary CO₂ emitters to have the BACT installed. Such rule would have applied to industrial facilities that emit at least 25,000 tons of GHGs each year. The new rule conflicted with a Clean Air Act provision calling for regulation of facilities that emit over 250 tons per year. The GHGs covered include CO₂, methane, nitrous oxide, hydrofluorocarbons, fluorocarbons and sulfur hexafluoride. The EPA estimated 400 new sources and modifications would be subject to review each year for GHG emissions and, in total, 14,000 sites would have to get permits under the proposal. The administration has not done any calculations on how much emissions the law would cut or the costs to industry. BACT would be decided somewhat on a case-by-case basis, with the EPA staff doing technical work to see what the best options are. The most promising technology for fossil generation is carbon capture and storage, but that is at least a decade away from commercial viability. BACT would change over time. Permitting delays and increased Title V permit fees are projected. In January 2016, the U.S. Department of the Interior proposed updates to natural gas emissions regulations for oil and gas operations, including a requirement that producers adopt modern techniques and equipment to limit flaring, since venting and leaks during oil and gas operations are major sources of GHG emissions.

The EPA issued a final endangerment finding on December 7, 2009, that GHGs pose a danger to human health and the environment, clearing the way for a Clean Air Act regulation limiting CO₂ emissions from power plants, vehicles and other major sources. Power plants and other large stationary sources of CO₂ are now required to use BACT to reduce emissions when they modify or construct plants. The next time CPS Energy constructs or modifies a plant, its permits will have to include CO₂ limits, and it will have to meet those limits using the traditional BACT process. Acquisition of the Rio Nogales Plant, acquired with proceeds of certain Senior Lien Obligations on April 9, 2012, did not result in the application of these limitations to such facility. Currently, there is no commercially available technology to reduce CO₂ emissions. The EPA may push for BACT determinations for coal and gas fired generation (new and existing fleet) to meet 50-80% reduction in CO₂ through carbon capture and sequestration ("CCS"). Possibly as an alternative to reducing CO₂ emissions through a removal technology, offsets could be purchased to meet the limits. On December 2009, the EPA denied the petitions to reconsider the Endangerment and Cause or Contribute Findings for Greenhouse Gases under Section 202(a) of the Clean Air Act.

In March 2012, the EPA proposed NSPS for coal units and natural gas combined cycle units, so any new units will have a CO₂ limit to meet. Based on the NSPS, the EPA is also in the process of creating limits for existing units. Standards of Performance for New Stationary Sources, 40 C.F.R. § 60 (2015) contains the existing standards, which are continually updated and it remains unforeseen what compliance measures will need to be taken.

On June 24, 2013, President Obama announced his Climate Change Action Plan. In the plan, he called for a 17% reduction in GHG emissions by 2020 from 2005 levels. He asked the EPA to revise and re-propose the new unit standard by September 30, 2013. On September 20, 2013, the EPA re-proposed the standard, but it did not differ drastically from the previous March 2012 proposal. They did separate coal and natural gas combined cycle into separate categories with the rates of 1,000 and 1,100 lbs / MWh, respectively. An EGU can either meet a 1,100 CO₂/ MWh-gross standard over a 12-operating month period or meet a slightly tighter 1,000-1,050 CO₂/ MWh-gross standard over an 84-operating month period, allowing the unit to phase in the use of partial CCS over 7 years as an option. In November 2014, President Obama announced a plan to reduce by 2025 the GHG emissions by 26 to 28% below the 2005 levels. On March 31, 2015, the United States submitted these goals in a formal statement, known as an Intended Nationally Determined Contribution, to the United Nations Framework Convention on Climate Change. On April 21, 2015, President Obama announced two executive actions to support energy infrastructure resilience. The first includes \$72 million from the USDA to support rural electric infrastructure projects with major investments to drive solar energy, and the DOE announced the Partnership for Energy Sector Climate Resilience, which will improve U.S. energy infrastructure resilience against extreme weather and climate change impacts. Furthermore, on July 2, 2015, the EPA finalized its rule to reduce hydrofluorocarbon emissions (a GHG), which was revised in November 2016 to set forth policies and procedures for the acquisition of items that

contain ozone-depleting substances and hydrofluorocarbons, and also addresses public disclosure of GHG emissions and reduction goals. Initial projections indicate this rule will reduce emissions by 54 to 64 million metric tons of carbon dioxide equivalent by 2025. On February 9, 2015, the Supreme Court ordered the Obama Administration not to take any steps to carry out its Clean Power Plan ("CPP"). The order spares the operators of coal-fired power plants from having to take action to begin planning for a shift to "cleaner" energy sources.

On June 2, 2014, the EPA proposed the much awaited CPP that calls for a 30% reduction by 2030 in carbon emissions from power generation sources, when compared to 2005 levels. This proposal followed through on the steps laid out in President Obama's Climate Action Plan and the June 2013 Presidential Memorandum. The rule followed section 111(d) of the Clean Air Act in the fact that it proposed guidelines but allowed the flexibility for states to customize a plan that works for their state. On June 23, 2014, the Supreme Court issued a decision addressing the application of stationary source permitting requirements to GHG. In *Utility Air Regulatory Group v. Environmental Protection Agency*, 124 S. Ct. 2427 (2014) (the "UARG Decision"), the Supreme Court said that the EPA may not treat GHG as an air pollutant for purposes of determining whether a source is a major source required to obtain a prevention of significant deterioration ("PSD", or "title V permit"). The Supreme Court also said that the EPA could continue to require PSD permits, otherwise required based on emissions of conventional pollutants, contain limitations on GHG emissions based on the application of BACT. The EPA subsequently issued memorandums outlining the next steps on the application of the Clean Air Act in light of the UARG Decision, including revisions to the EPA's PSD regulations. In early 2016, the EPA began approving rescission requests for PSD permits.

On August 3, 2015, the EPA released the final rule for the CPP.

Since the promulgation of the CPP, the EPA received 38 petitions requesting the EPA reconsider, withdraw, or re-propose various elements of the CPP; all but two issues were denied consideration. The EPA also received 22 petitions that the EPA issue an administrative stay until judicial resolution of the CPP or completion of the EPA's reconsideration process; all of these requests were denied.

On March 28, 2017, President Trump signed an executive order directing the EPA Administrator to immediately review and begin steps to rescind the CPP, which included a request to delay the court proceedings. On April 28, 2017, the D.C. Circuit Court granted the EPA's request, holding the litigation in abeyance for 60 days and has since granted a succession of 60-day abeyances, the latest issued on April 5, 2019. On July 15, 2019, the petitioners in the CPP litigation filed a motion to dismiss the petitions in the matter because of the promulgation of the new rules replacing the CPP. The D.C. Circuit Court granted the motion to dismiss on September 17, 2019, citing the litigation as moot.

In April 2019, the EPA submitted its final rule, "Emission Guidelines for Greenhouse Gas Emissions from Existing Electric Utility Generating Units; Revisions to Emission Guideline Implementing Regulations; Revisions to New Source Review Program" to the White House OMB's Office of Information and Regulatory Affairs for interagency review. The EPA issued the final Affordable Clean Energy ("ACE") rule on June 19, 2019 and was effective on September 6, 2019. The final ACE rule included three actions: (1) the repeal of the CPP; (2) the promulgation of a new set of emission guidelines for regulations of GHG emissions under section 111(d) of the Clean Air Act; and (3) the promulgation of amended section 111(d) implementation regulations governing submission and review of state plans under these and future emission guidelines. The ACE rule grants authority to the states in setting performance standards on a case-by-case review of existing coal-fired power plants. The EPA provides states with a list of "candidate technologies" that can be used to establish standards of performance for CO₂ emission and incorporate into their state plans. The ACE rule defined the best system of emission reductions ("BSER") for CO₂ emissions from an existing power plant is by heat-rate improvements ("HRIs"). CPS Energy has already implemented most of the HRI projects listed in the ACE rule. On February 25, 2020, TCEQ issued an Information Collection Request ("ICR") to owners of existing coal fired generators in Texas that are subject to the rule. The ICR was due October 30, 2020. CPS Energy formed an internal team to respond to the ICR. On January 19, 2021, the D.C. Circuit Court issued its opinion in *American Lung Association et. al v. EPA* (No. 19-1140) vacating and remanding to the EPA the ACE rule while also vacating the EPA's separate action extending compliance timelines for all rules issued under section 111(d) of the Clean Air Act. In 2017 during the Trump Administration, the EPA repealed the Obama Administration's CPP and promulgated the ACE rule as a replacement under section 111(d) of the Clean Air Act. Both the CPP and the ACE rule mark the EPA's attempts to regulate CO₂ emissions from existing fossil fuel-fired power plants. The vacatur includes all efforts conducted by the EPA under section 111(d), including both the CPP and the ACE rule. The Biden Administration will be able to draft a new rule, but it will take time to get through the regulatory process.

On March 25, 2020, the EPA issued guidance addressing its interpretation of "begin actual construction" under the regulations implementing the NSR permitting program. An owner or operator of a major stationary source or major modification must obtain an NSR permit before "begin[ning] actual construction" on the facility. Currently, the EPA considers almost every physical on-site

construction activity that is of a permanent nature to constitute the beginning of "actual construction," even where that activity does not involve construction "on an emissions unit." This interpretation tends to preclude source owners/operators from engaging in a wide range of preparatory activities they might otherwise desire to undertake before obtaining an NSR permit. In this draft guidance, the EPA adopted a revised interpretation that is more consistent with the regulatory text. Under this revised interpretation, a source owner or operator may, prior to obtaining an NSR permit, undertake physical on-site activities – including activities that may be costly, that may significantly alter the site, and/or are permanent in nature – provided that those activities do not constitute physical construction on an emissions unit. The EPA accepted comments on the draft guidance through May 11, 2020. On October 22, 2020, the EPA finalized a rule to clarify the process for evaluating whether the NSR permitting program would apply to a proposed modification of a source of air emissions. This final rule makes clear that both emissions increases and decreases from a major modification are to be considered during Step 1 of the two-step NSR applicability test, a process known as project emissions accounting.

CPS Energy has been on an aggressive path to diversify and reduce the carbon intensity of its own generation fleet for several years now, through the increased use of natural gas, wind and solar energy. CPS Energy's longtime investment in carbon-free nuclear power also helps keep the fleet's carbon intensity down, while robust energy efficiency and demand response programs shrink demand, and in turn emissions. As a result of the rule, CPS Energy will continue to diversify its generation fleet with renewable energy sources, low carbon generation, energy conservation and demand response.

The City has also established working groups within the business community to provide feedback on mitigation strategies. The City Council adopted the City-led Climate Action and Adaptation Plan ("CAAP") at its October 17, 2019 meeting. The Board adopted CAAP during its August 2019 meeting. Within the plan, the City aims to reduce its GHGs and carbon emissions by 2050 and further states the City, in partnership with CPS Energy, will focus on a transition from fossil fuel energy sources to a less carbon intensive portfolio. Further information related to the CAAP can be found on the City's website at <https://www.sanantonio.gov/sustainability/SAClimateReady>. Neither the information on this website nor any links from that website is a part of this Official Statement. On July 27, 2020, the Board sought proposals for new zero emission technologies to transition aging power plants, in accordance and alignment with CAAP.

Federal Clean Water Act

The National Pollutant Discharge Elimination System ("NPDES") program is administered by the EPA under the federal Clean Water Act ("CWA"). The NPDES program provides the framework for monitoring and regulating the discharge of pollutants to surface waters of the United States. In 1998, the EPA delegated NPDES authority to the State through the TCEQ and the RRCT. With the exemption of discharges resulting from exploration, development, and production of oil and gas over which the RRCT has authority, the TCEQ administers the Texas Pollutant Discharge Elimination System ("TPDES") in Texas to control discharges of pollutants to state water or "waters of the United States". CPS Energy has historically operated all of its generating facilities with no significant compliance issues. Discharges resulting from hydrostatic testing of gas pipelines meet RRCT requirements. On January 15, 2021, the responsibility for regulating discharges of produced water from hydrostatic testing as well as oil and gas activities was delegated to the TCEQ per TCEQ's application request to the EPA.

CPS Energy currently has individual TPDES permits for the discharge of industrial waste water to Braunig and Calaveras Lakes and into Leon Creek for the Leon Creek Power station. The focus of these permits is to reduce discharge of industrial waste and other constituents that could impair water quality in the San Antonio River basin and meet the current effluent standards that apply to steam electric plant operations under the Steam Electric Power Generating Point Source Category (40 C.F.R. Part 423). Additionally, the TCEQ has broad powers under the Texas Water Code to adopt rules and procedures equally or more stringent than federal standards, and to issue permits to control the quality of discharges into or adjacent to waters in the State. These standards and requirements are incorporated in each individual permit as permit conditions that must be met or satisfied by the permittee.

On February 19, 2019, the United States Supreme Court granted a petition for writ of certiorari in *County of Maui v. Hawaii Wildlife Fund* ("Maui") to determine whether the federal CWA requires a permit when pollutants originate from a point source but are conveyed to navigable waters by a nonpoint source, such as groundwater. Recent court rulings resulted in a split among the U.S. Court of Appeals with regards to nonpoint discharges into groundwater as a discharge requiring an NPDES permit. On November 6, 2019, the Supreme Court heard oral arguments on the issue, and issued its opinion on April 23, 2020, holding that the Clean Water Act, which forbids "any addition" of any pollutant from "any point source" to "navigable waters" without the appropriate EPA permit, requires a permit when there is a direct discharge from a point source into navigable waters or when there is the functional equivalent of a direct discharge. On January 14, 2021, the EPA issued a memorandum on the application of the *Maui* decision for guidance to the regulated community and permitting authorities, including the EPA, on applying the recent decision on a case-by-case basis, in the Clean Water Act NPDES.

On April 15, 2019, the EPA issued an interpretive statement clarifying the application of the CWA permitting requirements to groundwater. The EPA concluded the release of pollutants to groundwater are categorically excluded from the CWA's permitting requirements because Congress explicitly left regulation of discharges to groundwater to the states and to the EPA under other statutory authorities.

New Effluent Standards: Effluent standards for the steam electric category were last revised in 1982. The EPA completed a multi-year study of the electric power industry and concluded that power plant discharges have changed significantly over time and that regulations have not kept up with the changes in industry, in particular, waste water discharges resulting from air pollution controls installed at coal-fired power plants. The EPA conducted an Information Collection Request ("ICR") from over 750 power plant owners to provide information regarding power plant effluent, available treatment technologies, and the impact on industry of changes in water quality standards. CPS Energy participated in this ICR by completing questionnaires for the Calaveras Power Station units. On November 3, 2015, the EPA finalized the Effluent Limits Guidelines ("ELG") rule, which became effective on January 4, 2016. The final rule sets the first federal limits on the amount of toxic metals and other harmful pollutants that steam electric power plants are allowed to discharge in several of their largest sources of wastewater, based on technology improvements in the steam electric power industry over the last three decades. Rule compliance will be phased in based on the facility permitting cycle. In the new rule, effective September 28, 2020, the EPA set forth the deadlines, ranging from April 11, 2021 to October 17, 2028 for cease of receipt of waste and completion of closure, as applicable. CPS Energy requested an applicability of the rule extension from the TCEQ to allow discharges from the Deely bottom ash ponds for pond closure and dewatering through December 31, 2023. Studies were performed to evaluate the best technology to treat flue-gas desulfurization ("FGD") discharges from the J.K. Spruce coal units to meet the new standards that will be applied in the 2019 wastewater permitting cycle. The TCEQ had indicated they are amenable to an extension of the compliance date as long as adequate justification is provided. In April 2017, the EPA announced it was preparing a proposed rule and sought input from industry groups to discuss options that were included in a new proposed rule.

On June 6, 2017, the EPA proposed a rule to officially postpone the compliance deadlines for the wastewater ELG rule in response to President Trump's February 28, 2017 executive order. The comment period ended July 6, 2017. The D.C. Circuit Court denied EPA's motion to dismiss the challenge to the EPA's stay of the rule. On September 18, 2017, the EPA issued the final rule postponing the earliest compliance date for FGD wastewater and bottom ash transport water to November 20, 2020 until it completes new rulemaking on appropriate technology bases and associated limits applicable to both FGD and bottom ash transport water. CPS Energy is in the process of evaluating possible treatment technologies for its SO₂ scrubber wastewater. The preliminary cost is estimated at \$55-60 million. On July 13, 2018, eight environmental groups filed a brief with the Fifth Circuit challenging the delay in ELG rule compliance and the proper venue in which to hear these claims. On September 19, 2018, the EPA asked the Fifth Circuit to uphold its decision to postpone parts of the ELG rule that sets limits on how much toxic metal can be discharged with power plants' wastewater. In an opinion dated April 12, 2019, the court held the portions of the ELG rule regulating legacy wastewater and combustion residual leachate are unlawful, thereby vacating those portions of the rule and remanding to the EPA for reconsideration. During the 2018 renewal of the Calaveras TPDES permit, CPS Energy requested extension of the applicability date to 2023 for the ash transport water from the Deely bottom ash pond and FGD discharges from the J.K. Spruce coal units. CPS Energy is currently evaluating the best technology to treat the FGD discharges to meet the new standards that are applied in the 2019 wastewater permitting cycle. The TCEQ has indicated they are amenable to an extension of the compliance date as long as the adequate justification is provided. CPS Energy anticipates compliance with the rule by 2023.

On August 31, 2020, the EPA finalized the rule revising the requirements for FGD, which provides additional compliance options for FGD wastewater. The EPA proposed to extend the final compliance deadlines to December 31, 2025 or to December 31, 2028 if a Voluntary Incentive Program ("VIP") treatment is chosen for compliance. The proposed rule was issued November 22, 2019 and was finalized in October 2020. CPS Energy is planning to install Zero Liquid Discharge ("ZLD") evaporation ponds for its scrubber FGD wastewater if Spruce1 and Spruce2 continue to burn coal. The ZLD option for FGD waste is considered one of the VIP treatment options.

Waters of the U.S. ("WOTUS"): On November 22, 2017, the EPA and the U.S. Department of the Army (the "Army") published a proposed rule in the Federal Register to postpone the effective date of the 2015 rule defining WOTUS for two years, to allow the agencies for new rulemaking. The rule is still under a regulatory stay. The rule proposes to repeal the 2015 Clean Water Rule: Definition of Waters of the U.S. and recodify the regulatory text defining WOTUS that was in place prior to the 2015 rule. On July 12, 2018, the EPA and the United States Army Corps of Engineers published a supplemental proposed rule to repeal the June 29, 2015 final WOTUS rule in its entirety, which aims to clarify the scope of the definition of "WOTUS" subject to the CWA and proposes to reinstate the definition that existed prior to the 2015 rule. The agencies found that the 2015 rule exceed the agencies' authority under the CWA. On August 16, 2018, a court ruling impacting WOTUS modified its nationwide application. However, on September 12, 2018, a Texas federal district court issued a preliminary injunction preventing the 2015 WOTUS rule taking effect in Texas, Mississippi, and Louisiana. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Proper Venue for Clean Water Act Challenges" herein. On March 9, 2019, the federal government withdrew its notice of appeal in the Fourth and Ninth Circuits regarding these lower court decisions. The capital cost

for compliance is estimated at \$61 million (this also includes cost for related coal combustion residuals compliance). On November 26, 2018, a federal judge in the State of Washington reinstated the Obama Administration's definition of WOTUS, ruling the EPA and the Army Corps of Engineers committed procedural violations by implementing pre-2015 WOTUS. On May 28, 2019, a Texas federal district court ruled that the 2015 rule violated the notice-and-comment requirements of the Administrative Procedure Act and granted summary judgment in favor of the plaintiffs on that ground and remanded the 2015 rule to the EPA and the Army to provide notice and a comment period on the 2015 rule. The court further ordered that the preliminary injunction issued by the court on September 12, 2018 remain in place pending the proceedings on remand.

On February 14, 2019, the EPA, Department of Defense and U.S. Army Corps of Engineers published a proposed revision to the definition of WOTUS to narrow the scope of waterbodies subject to regulations under the CWA. In response to the comments to the 2015 rule, the rule proposal clarifies federal authority under the CWA. Under this new proposal, WOTUS includes traditional navigable waters, tributaries to those waters, impoundments of jurisdictional waters, wetland adjacent to jurisdictional waters, and certain ditches. The proposal also identifies which bodies of water would be excluded from the rule such as groundwater and certain ditches. The public comment period for this proposed rule closed on April 15, 2019. In late August 2019, a Georgia federal court ruled WOTUS is unlawful under the CWA due to its vast expansion of jurisdiction over water and lands that typically fall within a state's regulatory authority. The case was remanded back to the EPA and Army for further consideration. CPS Energy continues to monitor the status of this proposed rule to determine impact on future electric transmission and gas construction projects.

The EPA issued the final WOTUS rule on September 12, 2019. The rule repealed the 2015 Clean Water Rule – Definition of "Waters of the U.S." that was adopted previously by the EPA and restores the regulatory text that existed prior to the 2015 rule. The final rule repeal was published in the Federal Register on October 22, 2019 which took effect on December 23, 2019. On April 21, 2020, the EPA published the Navigable Waters Protection Rule to define WOTUS in the Federal Register. The EPA streamlined the definition so that it includes four categories of jurisdictional waters, provides clear exclusions for many water features that traditionally have not been regulated, and defines terms in the regulatory text that have not previously been defined. Congress, in the Clean Water Act, explicitly directed the certain agencies to protect "navigable waters". The Navigable Waters Protection Rule regulates traditional navigable waters and the core tributary systems that provide perennial or intermittent flow into them. The final rule fulfills Executive Order 13788 and reflects legal precedent set by key Supreme Court cases as well as robust public outreach and engagement, including pre-proposal input and comments received on the proposed rule. The rule was finalized on June 22, 2020 and replaces the rule published on October 22, 2019. Multiple parties have sued the EPA over the WOTUS rule rollback, including the State of Colorado, which resulted in a lift of the current nationwide stay of the Navigable Waters Protection Rule and effected its applicability for the same as of March 2, 2021.

On January 13, 2021, the U.S. Army Corp of Engineers revised their Nationwide Permitting ("NWP") program adding clarity to regulations which decreases compliance risk for obtaining authorization for construction projects with minimal environmental impact. The effective date of the change was March 15, 2021. The Biden Administration called for a review of the 2021 NWPs and the rule is being challenged legally.

Clean Water Act Section 316(b): The power plants at Braunig and Calaveras Lakes use the lakes as the source for once-through cooling water. Section 316(b) of the CWA requires that adverse environmental impacts by cooling water intake structures on aquatic species be minimized, a requirement that was recently upheld by the United States Court of Appeals for the Second Circuit. Numerous lawsuits from both environmental and industry groups have resulted in the previously issued regulations being suspended and remanded; after contentious litigations and consent decree agreements with environmental groups, the EPA issued the final rule for existing facilities on August 1, 2014, effective 60 days later. Both Braunig and Calaveras plants are affected by the rule. The final rule allows some flexibility for permitting authorities to determine best technology available for protecting fish and shellfish from impingement and entrainment and based on site-specific conditions, cost-benefit analysis, and best professional judgment. The final rule provided waivers of some requirements for surface impoundments that were originally built for cooling, are managed fisheries, and with minimized water use, which apply to both Braunig and Calaveras lakes. Since most Texas reservoirs are man-made and meet the waiver criteria provided under the final rule, CPS Energy requested 316(b) waivers for both Braunig and Calaveras during the 2014 TPDES permit renewal applications submitted to the TCEQ. TCEQ granted exemptions and waivers for both Braunig and Calaveras in the TPDES permits issued in 2016.

Discharge of Hazardous Substances ("HS"): The EPA did not establish new requirements for hazardous substances under CWA section 311 but directed the President to establish procedures, methods, and equipment and other requirements for equipment to prevent discharges of oil and HS from vessels and from onshore facilities and offshore facilities, and to contain such discharges. The EPA has been delegated and/or redelegated authority for certain facilities as identified below. On July 21, 2015, a lawsuit was filed against the EPA for failing to comply with the alleged duty to issue regulations to prevent and contain CWA hazardous substance discharges under CWA section 311. On February 16, 2016, the United States District Court for the Southern District of New York entered a Consent Decree between the EPA and the litigants that required a notice of proposed rulemaking pertaining to the issuance of hazardous substance regulations, and a final action after notice and comment. After seeking public comment and based on an analysis of the frequency and impacts of reported CWA HS discharges, as well as the existing framework of the EPA

regulatory requirements, the EPA has not established at this time new discharge prevention and containment regulatory requirements under CWA section 311. This final action was effective on October 3, 2019.

Proper Venue for Clean Water Act Challenges

On January 13, 2017, the Supreme Court granted a request filed by the National Association of Manufacturers, which asked the court to determine whether the U.S. Court of Appeals for the Sixth Circuit erred when it claimed exclusive jurisdiction to decide petitions to review the Obama Administration's CWA rules. In light of the Water Executive Order, the federal government asked the Supreme Court to hold a briefing schedule on this issue in abeyance pending a new draft of the rule.

On February 28, 2017, President Trump executed an executive order mandating the EPA to formally reconsider the Clean Water Rule, as well as the definition of WOTUS. On June 27, 2017, the EPA initiated the repeal of the WOTUS by proposing to reinstate prior Clean Water Rule policies, including jurisdictional provisions provided for in prior codifications. The proposed re-codification of the pre-existing rules was published in the Federal Register on July 27, 2017. WOTUS repeal could affect CPS Energy's electric and gas projects in the future.

On January 22, 2018, the Supreme Court ruled that challenges to the CWA belong at the district, rather than the appellate court level. Now that the Supreme Court established proper jurisdiction for CWA challenges, several district court cases previously put on hold could be restarted. On August 16, 2018, a federal district judge in South Carolina issued a nationwide injunction on the Trump Administration's delay regarding WOTUS and effectively reinstated the rule in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas granted the State of Texas' motion for a preliminary injunction preventing the 2015 WOTUS rule taking effect in Texas, Mississippi and Louisiana until the case is resolved. Similarly, on November 26, 2018, Judge John Coughenour of the Western District of Washington ruled the implementation of the pre-2015 WOTUS rule resulted in procedural violations.

On February 2019, the EPA and the U.S. Army Corps of Engineers published a proposed revision to the definition of WOTUS to clarify federal authority under the CWA, which limits WOTUS under the CWA to those that are physically and meaningfully connected to traditional navigable waters. The EPA issued the final WOTUS on September 12, 2019, repealing the definition set forth therein and is implementing the text as it existed prior to the 2015 rule. The final rule repeal took effect December 23, 2019. Lawsuits have been filed in several jurisdictions challenging the repeal of the rule. Other lawsuits have been threatened against the substantive provisions of the rule.

On April 21, 2020, the EPA and the Army published the Navigable Waters Protection Rule to define "Waters of the United States" in the Federal Register. The Navigable Waters Protection Rule regulates traditional navigable waters and the core tributary systems that provide perennial or intermittent flow into them. Under the final "Step 2" rule, four clear categories of waters are federally regulated: (a) the territorial seas and traditional navigable waters, (b) perennial and intermittent tributaries to those waters, (c) certain lakes, ponds, and impoundments, and (d) wetlands adjacent to jurisdictional waters. The final rule also details 12 categories of exclusions, features that are not WOTUS, such as features that only contain water in direct response to rainfall (e.g., ephemeral features); groundwater; many ditches; prior converted cropland; and waste treatment systems.

The final rule clarifies key elements related to the scope of federal Clean Water Act jurisdiction, including providing clarity and consistency by removing the proposed separate categories for jurisdictional ditches and impoundments, refining the proposed definition of "typical year," which provides important regional and temporal flexibility and ensures jurisdiction is being accurately determined in times that are not too wet and not too dry, and defining "adjacent wetlands" as wetlands that are meaningfully connected to other jurisdictional waters, for example, by directly abutting or having regular surface water communication with jurisdictional waters.

The Navigable Waters Protection Rule is the second step in a two-step process to review and revise the definition of WOTUS consistent with the February 2017 Presidential Executive Order entitled "Restoring the Rule of Law, Federalism, and Economic Growth by Reviewing the 'Waters of the United States.'" This final rule became effective on June 22, 2020 and replaced the "Step One Rule" published in October 2019.

Water Resources Planning

The Texas Legislature Senate Bill 3 ("SB3"), which was adopted in 2007, required the TCEQ to adopt by rule appropriate environmental flow standards for each river basin and bay system in the State, to manage the State's water resources and availability of water supply. CPS Energy participated in this environmental flow process for the Guadalupe and San Antonio ("GSA") River basins, bays and estuaries. The process culminated in environmental flow recommendations to the TCEQ for adoption and implementation. CPS Energy owns surface water rights from the San Antonio River for Braunig and Calaveras Lakes. The TCEQ finalized the new environmental flow regulations for the GSA river basins in 2012. Although the current flow requirements will

not affect existing permit holders per SB3 mandate, future legislative actions may change the current protection for existing surface water permits. CPS Energy participated in the Edwards Aquifer Recovery Implementation Program ("EARIP") which was another stakeholder process tasked to develop a plan to protect federally protected species at Comal and San Marcos Springs while managing pumping from the Edwards Aquifer, the primary source of drinking water in the San Antonio metropolitan area and surrounding counties. The EARIP participants developed a Habitat Conservation Plan ("HCP") which was approved by the United States Fish and Wildlife Department, to manage the aquifer and protect the endangered species at Comal and San Marcos Springs. Successful implementation of the HCP will ensure a stable water supply for the San Antonio region, protect the endangered species, and minimize the risk of federal intervention (court litigation) regarding use of the aquifer. The cost of the program is \$10 million in start-up costs and \$20 million annually. The majority of this cost is borne by the municipal and industrial pumpers of the aquifer with an increase in their aquifer management fees. As an Edwards Aquifer groundwater user, CPS Energy's current aquifer management fee is \$84 acre-foot. CPS Energy owns 3,064 acre-feet of Edwards Aquifer pumping rights. In addition, as a "downstream beneficiary" of this plan, CPS Energy also contributes \$100,000 annually to the program. To offset some of its costs, CPS Energy previously leased 1,000 acre-feet of unused Edwards Aquifer water rights to the EAA through 2018 to support the HCP. CPS Energy leased an additional of 1,000 acre-feet of unused Edwards Aquifer water to SAWS through 2018. Both the EAA and SAWS leases expired by their terms in 2018, and in 2019, CPS Energy leased all 2,000 acre-feet of its Edwards Aquifer water to SAWS for a 5-year term.

The Rio Nogales Power Plant located in nearby Seguin, Texas, has water supplied via a contractual agreement with the City of Seguin, Texas. For more information See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources - Gas / Fuel Oil Plants" herein.

CPS Energy has a Strategic Water Resources Plan and a Drought Contingency Plan. In 2011, as part of its strategic planning, CPS Energy renewed until 2060 its waste water contract with SAWS for an additional 10,000 acre-feet of treated effluent for re-use at Braunig and Calaveras Lake for a total contract volume of 50,000 acre-feet. CPS Energy coordinates closely with SAWS to optimize pumping to match discharge from the Steven M. Clouse Water Recycling Center in order to minimize the effects of drought on cooling lake levels.

CPS Energy carefully monitors the flow in the San Antonio River and the Calaveras and Braunig Lake levels. CPS Energy, working with the United States Geological Survey, installed a flow meter upstream of CPS Energy's river pumps at IH37 / Loop 410 to improve river pumping operations and lake management operations. In the fall of 2017, CPS Energy began installation of a variable flow drive to its San Antonio River pumps to optimize diversion from the river; the project is complete.

Water Conservation

CPS Energy recognized the importance of preserving the Edwards Aquifer water resource and began planning to reduce consumption of Edwards Aquifer water for power plant cooling shortly after the drought of record in the 1950s. CPS Energy built Braunig and Calaveras Lakes to utilize treated sewage effluent and runoff waters to maintain operating levels at these man-made cooling lakes. CPS Energy has conserved billions of gallons of Edwards Aquifer water. For these water conservation efforts, the Association of Environmental Professionals selected CPS Energy as one of eight 2001 recipients of the National Environmental Excellence Award. As part of CPS Energy's sustainability efforts, on March 30, 2009, the Board approved a resolution supporting a mutually beneficial cooperative relationship between CPS Energy and SAWS that promotes conservation of both energy and water. To address future water requirements, CPS Energy shifted its generation capacity to less water intensive technologies and added renewables to its energy mix. Approximately 1,500 MW of generating capacity is from renewables. By using this strategy, CPS Energy has saved millions of gallons of water. Additionally, recognizing energy saved is water saved, CPS Energy implemented demand reduction and conservation programs for its customers to derive a 771 MW energy savings by year 2020 (which has since been exceeded). The foregoing also translated to water consumption savings. Additional information on CPS Energy's sustainability programs can be found in "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein.

While the State currently maintains adequate water supplies, long term drought conditions and / or water shortages are possible throughout most of Texas. CPS Energy carefully monitors the resources on which it relies upon for generation.

Other Environmental Issues

Polychlorinated Biphenyls: By the early 1990s, CPS Energy completed a program aimed at removing from its system all electrical equipment accessible to the public that was known to contain polychlorinated biphenyls ("PCBs") in concentrations of 500 ppm or greater, as required by the Federal Toxic Substances Control Act. In addition, all oil-filled equipment is tested at the time of servicing as part of an ongoing program at CPS Energy for voluntarily eliminating electrical equipment containing mineral oil with any level of PCBs. Since 1996, in connection with capital improvements being made to many of its substation sites, CPS Energy has identified and remediated areas found to be contaminated by pollutants, such as PCBs. The EPA allows a provisional disposal

option at a local landfill of soil and debris contaminated with 1-49 ppm of PCBs from electrical equipment spills from unknown sources, in lieu of distant disposal sites, resulting in considerable cost savings.

Coal Combustion Residuals: The EPA considered a proposal to regulate coal ash generated during the combustion of coal to produce electricity (referred to as coal combustion residuals or "CCRs") and classify it as a hazardous waste. The rule was finalized on December 19, 2014, published in the Federal Register on April 17, 2015, and became effective on October 4, 2016. The rule did not list CCRs as a hazardous waste. CPS Energy's CCRs have been analyzed and have tested non-hazardous for the following constituents: mercury, selenium, chromium, cadmium, silver, arsenic, barium and lead. For the past several years, CPS Energy has recycled nearly all of its CCRs and will continue to do so. CPS Energy is currently in full compliance with the CCR self-implementing rule requirements. On December 16, 2016, the President signed into law water infrastructure legislation that contained coal ash provisions that enable states to implement and enforce the requirements of the final CCR rule through state permitting programs. The coal ash legislation is necessary because the EPA and states lack the statutory authority to implement and enforce the current requirements of the federal CCR rule through permit programs. This legislation fills a major regulatory gap and will provide greater regulatory certainty and flexibility while ensuring the protection of the environment.

The EPA filed a motion for voluntary remand of five CCR Rule provisions challenged in litigation (*Utility Solid Waste Activities Group v. EPA*) (No. 15-1219). The EPA's motion explains it has identified specific provisions of the CCR Rule it intends to reconsider as a result of the reconsideration petitions filed by the Utility Solid Waste Activities Group and AES Puerto Rico L.P., a provider of electricity for Puerto Rico, and requests that the court remand these provisions without vacatur (remanded provisions would remain in place until the EPA completes a new rulemaking repealing or revising those provisions). The provisions sought to be remanded include: (1) the regulation of inactive CCR surface impoundments; (2) the regulation of CCR that is stored in piles on-site and destined for beneficial use; (3) the 12,400 ton threshold in the fourth beneficial use condition; (4) the default to background as the groundwater protection standard for Appendix IV constituents (listing the various elements as constituents for assessment monitoring) without maximum contaminate levels; and (5) the EPA's failure to regulate inactive impoundments at closed power plants (legacy ponds).

Part One of the CCRs Phase One rule became effective on August 29, 2018. The final rule adopts two alternative performance standards, revises groundwater protection standards ("GWPS") for four constituents, and extends the deadline by which facilities must cease the placement of waste in CCR units closing for cause in two situations: (1) where the facility has detected a statistically significant increase above a GWPS from an unlined surface impoundment; and (2) where the unit is unable to comply with the aquifer location restriction. The deadline was extended until October 31, 2020.

On March 1, 2018, the EPA Administrator signed the first of two rules that proposes to amend the April 2015 final rule. The proposal: (1) addresses provisions of the final rule that were remanded back to the EPA on June 14, 2016 by the D.C. Circuit Court; (2) provides states with approved CCR permit programs (or the EPA where it is the permitting authority) the ability to set certain alternative performance standards; and (3) addresses one additional issue that has arisen since the April 2015 publication of the final rule. The EPA is proposing six provisions that would allow states or the EPA the ability to incorporate flexibilities into their coal ash permit programs. These flexibilities would also be available to facilities with U.S. EPA-issued CCR permits.

On August 23, 2018, a federal appeals court ruled the EPA's rule setting requirements for coal ponds and impoundments is too lenient. The EPA has since finalized a rule related to these requirements, as well as applicable guidelines related thereto. Closure of CPS Energy's bottom ash ponds is estimated at \$3 million.

On September 18, 2018, the United States Court of Appeals for the Fourth Circuit issued an opinion that coal ash settling ponds are not considered a "point source" of pollution under the CWA, thereby limiting environmentalists from bringing similar suits to control pollution. The court held that such coal ponds are not subject to the CWA because they do not convey a measurable amount of pollutant.

On October 22, 2018, several environmental groups filed a petition for review in the D.C. Circuit Court regarding the EPA's final actions to the CCR rule. Rather than litigate, the EPA requested a voluntary remand for it to reconsider the CCR rule, of which such request was granted on March 19, 2019.

On August 14, 2019, the EPA published a proposed rule to amend the regulations governing the disposal of CCRs, also known as the CCR Phase Two Rule. Specifically, the following changes are being proposed: replacing the 12,400-ton usage threshold; temporary placement of CCR on land; revising the annual groundwater monitoring and corrective action report requirements; establishing an alternative groundwater protection standard for boron if it is added to the list of constituents for assessment monitoring; and revising the CCR website requirements.

On December 2, 2019, the EPA released proposed rule changes for "unlined" surface impoundments containing coal ash and impoundments located near aquifers. The rules are in response to the March 2019 D.C. Circuit Court ruling. A closure date of

August 31, 2020 was proposed as the new date to stop placing CCR into the impoundments and initiate closure, but facilities can apply for a 90-day extension (November 30, 2020). The rule also allows site-specific alternate closure dates due to lack of impoundment capacity, allowing up to a 3-year extension (no later than October 15, 2023), with the approval of the EPA or EPA-approved State program. CPS Energy is planning to build a new CCR impoundment to meet the proposed rule requirements. The Deely bottom ash impoundments are planned for closure over the next few years. CPS Energy is monitoring the proposed rule changes and has key proposed deadlines to remain in compliance.

On August 28, 2020, the EPA published a new final coal ash rule revising the final version of the rule proposed in December 2019. The rule was effective on September 28, 2020. The revised rule changed the compliance dates, as the date to stop placing CCR into the impoundments and initiate closure was moved from August 31, 2020 to April 11, 2021. The latest date allowed to complete site-specific alternate closure moved from October 15, 2023 to October 15, 2024. CPS Energy plans to build new CCR impoundments, while continuing to operate the sludge recycling holding and evaporation impoundments. The cost estimate for the new impoundments is \$35 million. In November 2020, CPS Energy submitted applications to the EPA requesting extended use of these two CCR impoundments. The applications are currently under review by the EPA. The extensions must be approved and granted by the EPA to become effective.

Material Management: CPS Energy also operates its own Class 1 non-hazardous waste landfill, which is registered with the TCEQ, and initiative that reduces disposal costs and CPS Energy's reliance upon off-site disposal facilities. Since 1990, CPS Energy has significantly reduced the amount of hazardous waste generated by its operations. CPS Energy also has an extensive recycling program which includes electronics, wood, paper, cardboard, metals, plastic bottles, aluminum cans, used oil, coal combustion by-products, concrete and asphalt.

Power Plant Decommissioning: In 2013, CPS Energy completed the decommissioning and remediation of the Mission Road Power Plant which began in 2009. In 2011, CPS Energy retired Tuttle Power Plant located at 9911 Perrin Beitel Road in northeast San Antonio. This plant consisted of four gas-fired steam electric generation plants which began commercial operation in the 1950s. Environmental remediation and decommissioning of the plants commenced in 2013 and was completed in early 2017. The last of the four boilers at the former Tuttle Plant have since been demolished. Remediation work occurred at the site, including filling in the cooling tower basins, and leveling and reseeded the property's grounds. Additional assessment and remediation of the remaining power house slab, cooling tower vault and solid waste management units are planned for completion by the end of 2021. CPS Energy plans to put the property on the market in the next two to fourteen months. *See* "DESCRIPTION OF FACILITIES – General Properties – Real Estate Holdings" herein for further information regarding this project.

OSHA Hazard Communication Standard: In March 2012, OSHA adopted the new Globally Harmonized System-Hazard Communication Standard. Although, the proposal required all labels and Safety Data Sheets ("SDSs") for chemicals and products to be in compliance with the new standardized requirements within three years after publication (or by August 2014) the final rule required manufacturers and importers to modify labels and SDSs by June 1, 2015, and gives distributors an additional six months, until December 1, 2015, to ship and sell stock labeled 269 under the current standard. In addition, employers were given another six months, until June 1, 2016, to update their training and their hazard communication program with any new hazard information received because of the final rule. Private employers had until December 1, 2013, to complete employee training. CPS Energy acquired new SDSs so they are available to all employees and CPS Energy continues to work with all applicable business units on the new hazard communication program requirements. Applicable CPS Energy employees were trained on how to read and understand the new labels and SDSs elements.

Chemtco Superfund Site: CPS Energy received a January 21, 2014 Special Notice Letter ("SNL") from the EPA naming CPS Energy as one of 115 Potentially Responsible Parties ("PRP") for the Chemtco Superfund Site ("Chemtco") in Chouteau Township, Illinois. The EPA is directing remediation efforts under the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") to address metals contamination at the site which operated as a secondary copper smelter that produced copper cathodes and anodes. Copper wire and lead covered cable that CPS Energy sold in 2000 and 2001 on a material bid were ultimately sent to the Chemtco site.

On March 19, 2014, CPS Energy joined the PRP group. The PRP group developed a Remedial Investigation and Feasibility Study ("RI / FS") of the off-site property. On February 3, 2015, parties signed the RI / FS Study, Order, and Statement of Work detailing the necessary work, which the EPA approved. The RI / FS field work began in January. CPS Energy was offered a settlement in June 2018, which it accepted. It is not expected that additional CPS Energy involvement will be necessary.

Compliance: CPS Energy received a proposed agreed enforcement order from the TCEQ on June 30, 2017 for failing to investigate a suspected release of a regulated substance within 30 days of discovery and for failing to report a suspected release to the TCEQ within 24 hours of discovery for the underground petroleum storage tank system located at the northwest service district facility. Monthly inventory control records for March and April 2016 indicated a suspected release that was not investigated or reported. A penalty of \$10,500 was proposed. CPS Energy submitted all documentation for the completed investigation on March 28, 2017 and

again on June 22, 2017, including the tank system tightness test which indicated no release occurred. Malfunctioning pulsars on the fuel dispensers were replaced. Additional training, procedures and internal controls were implemented. The final TCEQ Agreed Order was received May 8, 2018. CPS Energy submitted a supplemental offset check in the amount of \$10,500 to the TCEQ on May 8, 2018.

On August 15, 2017, CPS Energy notified the TCEQ of its plans to conduct an Environmental, Health and Safety compliance audit under the Texas Audit Privilege Act at its underground petroleum storage tank sites. The scope of the audit was a review of CPS Energy's compliance with state and federal storage tank regulations, including but not limited to CPS Energy's processes and procedures, and the applicable monitoring, maintenance, management, and reporting requirements. Any issues disclosed to the TCEQ are protected from enforcement as long as CPS Energy corrects them in a timely manner as required by the Texas Audit Privilege Act. The audit was performed, and the audit action items were completed and the TCEQ was notified.

On December 20, 2018, CPS Energy received a notice of potential violation during a TCEQ site assessment for an amendment to an existing Water Pollution Abatement Plan (the "WPAP") at the Stonegate Substation. The Stonegate Substation site is undergoing modifications to facilitate the TXDOT 281 North widening project. A WPAP is required because the substation is over the Edwards Aquifer Recharge Zone. On January 30, 2019, CPS Energy received a Category C violation for disturbance of a permanent stormwater Best Management Practices ("BMP"), namely soil from construction activities was placed on a grass strip which was designed to assist in stormwater runoff filtration. Corrective measures were implemented. A Category C violation is considered a minor violation by the TCEQ, and no fine was assessed.

The soil that was placed on the grass strip was removed on December 21, 2018. The strip was hydromulched and seeded on December 27, 2018 and topsoil and grass sod was installed in January 2019. Existing procedures were revised and additional training of personnel and contractors was conducted to ensure understanding of the WPAP regulatory requirements. New procedures were developed to prevent reoccurrence. Additional signage was added to substation locations over the Edwards Aquifer Recharge Zone to indicate they are under a WPAP. A corporate Root Cause Analysis was conducted. CPS Energy submitted a response to the TCEQ on March 1, 2019, with documentation demonstrating vegetation had been re-established in the grass strip area; therefore, the matter is closed.

On August 31, 2020, CPS Energy received written notification from EPA for a Notice of Violation for the Braunig Power Station for: 1) exceeding the monthly waste volume threshold of 220 lbs/month as a Small Quantity Generator ("SQG") in April 2016 and 2) for not making advanced notification of the change in generator status, for a drum of unused chemical product that was left behind by a contractor. CPS Energy manifested and properly disposed of the unused chemical product; therefore, there was no harm to the environment. The EPA conducted a 5-yr. waste management records review for the Braunig Plant. CPS Energy operated in compliance during the remaining 5 year. time period. Under the EPA's Enforcement Response Policy, CPS Energy is considered a Secondary Violator SV, in which violators pose no actual threat or a low potential threat of exposure to hazardous waste or constituents. CPS Energy has no history of recalcitrant or non-compliant conduct and promptly returned to compliance with all applicable rules and regulations. No penalty is being assessed.

During the spring of 2020, a logic error in the CISCO Continuous Emission Monitoring System ("CEMS") was identified during start-ups at the Rio Nogales Power Station. The data acquisition and handling system, which sends values from the analyzer to the CEMS, was only reporting the low range from the NO_x analyzer. The logic error dates as far back as the original commissioning of the units in 2002. The issue was corrected during the spring 2020 outage, and the analyzers are now recording correctly. Because of the error, three emission deviations during startup were reported to the TCEQ. CPS Energy has since revised its state standard air permit to increase the NO_x Maintenance Startup and Shutdown emission limits to account for the higher recorded emission readings from the analyzers. After an October 9, 2020 TCEQ air inspection, the inspector noted the alleged violations for the three deviations on the inspection exit form. The final notice of violation has not been issued yet.

ENERGY CONSERVATION AND PUBLIC SAFETY PROGRAMS

Energy Conservation

CPS Energy programs and activities to assist customers in understanding energy and ways to reduce electric and gas usage include:

- comprehensive suite of energy efficiency programs offering rebates and incentives for residential, commercial and industrial customers;
- maintaining a secure web site, Manage My Account at <https://www.cpsenergy.com/en/customer-support/manage-my-account.html>. Using an Internet connection to log in, CPS Energy customers can: access My Energy Portal; view their current bill; view current balance due; view past bills; pay by check or credit card; start / stop / transfer service; sign up for a payment plan; view payment history; view energy usage; update mailing address; update phone number; authorize contacts; set up alert preferences; and manage their profile;

- maintaining a secure web site, named My Energy Portal, at <https://www.cpsenergy.com/en/customer-support/my-home-billing-acct/my-energy-portal.html>. The portal is available through Manage My Account. With a smart meter and the My Energy Portal, customers can see energy usage (both gas and electric) as recently as the day before. Customers are able to: see their monthly bill, as far back as a year; compare energy efficiency to similar "neighbors"; access over 150 energy efficiency tips; set up their own customized energy savings plan; and compare month-to-month energy usage billing and see reasons for a decrease or increase. These additional insights will eventually be available to all customers. CPS Energy has installed more than 1.2 million smart meters as of January 31, 2020;
- maintaining a phone number where customers can obtain conservation and other energy-related information;
- providing a free comprehensive weatherization program for low-income customers at or below 200% of the federal poverty level;
- providing load curtailment programs for commercial and industrial customers;
- providing multiple residential thermostat offerings under My Thermostat Rewards umbrella, that help residential and small commercial customers to save energy and reduce demand at peak times;
- offering a full suite of rebate programs for energy efficiency improvements by residential, small commercial, multi-family and large commercial customers;
- scheduling consumer information exhibits at high-traffic locations such as customer care fairs, special events and trade shows;
- conducting utility-related presentations for schools, community service organizations, business and professional groups, and home owner associations; and
- making available a free in-person home energy assessment at <https://residential.savenow.cpsenergy.com/assessment>.

On January 20, 2009, the Board approved a new Sustainable Energy Policy Statement. Centralized power plants, including utility scale solar, and the traditional electric utility business model are needed now to bridge the gap to the future. However, in the future, more electricity will come from distributed renewable resources and stored energy, and will be distributed on a "smart grid," to customers empowered with the information to better control their own energy cost and consumption. CPS Energy offers rebates for residential and commercial customers who elect to install a "rooftop" solar PV system. In addition to receiving a rebate, these customers currently receive the additional benefit of being placed on net metering, in which the credit value of the energy their system produces is equivalent to the retail value of the energy delivered by the utility. The current net metering program does not include recovery of the utility's costs for maintaining and upgrading its systems. In October 2014, CPS Energy issued the first of two one-megawatt (AC) solar Requests for Proposal. Responses to these pilot program requests for proposal were evaluated and two vendors were selected. CPS Energy selected Clean Energy Collective ("CEC"), to bring the first "Roofless" community solar pilot project to the City. CEC developed a 1.2 MW (DC) solar PV facility, providing CPS Energy customers the opportunity to own local clean energy generation through the Roofless Solar program. The Roofless Solar program went live August 26, 2016, and is fully subscribed. CPS Energy also selected PowerFin Partners ("PowerFin"), a solar development firm based in Austin and San Antonio, to launch SolarHostSA, a groundbreaking pilot program that allows participants to host photovoltaic systems on their rooftops in exchange for credits on their energy bill. Working under a power purchase agreement with CPS Energy, PowerFin installs and operates up to 5 MW (AC) of rooftop solar on homes and businesses throughout the CPS Energy service territory, offering the community the chance to realize the benefits of local solar at no cost to them. The two new programs, Roofless Solar and SolarHostSA, are marketed to customers under the trademarked name Simply Solar. Beginning February 1, 2016, CPS Energy allocated an additional \$30 million of solar rebates for customer-owned PV systems. The rebate extension was designed so the rebate amount would decline at predetermined spending levels. The first \$10 million of rebate funds were designated with a rebate of \$1.20 per watt, the second \$10 million at \$1.00 per watt, and the last \$10 million at \$0.80 per watt. On January 30, 2017, CPS Energy announced its intention to fund an additional \$15 million in solar rebates (\$9 million for residential and \$6 million for commercial projects) allocated for this initiative. The new solar incentive, which took effect April 2017, is at \$0.60 per watt, with an additional \$0.10 per watt applicable to systems that utilize locally-manufactured components. CPS Energy added an additional \$15 million in rebate funds in January 2018 that took effect starting March 2018. On December 3, 2018, CPS Energy initiated another round of solar rebate funding with a new flat incentive of \$2,500 for residential systems. An additional \$500 is provided for systems utilizing local-made panels. Commercial systems are rebated at \$0.60 per watt for the first 25 kW and \$0.40 per watt on greater than 25 kW, with another \$0.10 per watt for utilizing local-made panels. As of October 31, 2020, 22,314 customers have installed rooftop solar with 189 MW of capacity.

In connection with CPS Energy's development of a Strategic Energy Plan that includes energy efficiency as well as generation, CPS Energy committed to the **STEP** program. The goal of the **STEP** program was to save 771 MW of demand between 2009 and 2020 which was achieved. The 771 MW is equivalent to the amount of energy produced by a medium-sized power plant on an annual basis. To put this into perspective, the CPS Energy Spruce1 power plant generates 555 MW and the newest Spruce2 generates 785 MW of electricity. Cumulatively, the **STEP** program has, since its implementation, saved approximately 845 MW through fiscal year 2020. As the **STEP** goal was achieved a year early, in January 2020, the Board and City Council voted to extend over one year the existing **STEP** program by \$70 million, an amount that would allow an additional reduction of 75 MW. In light of COVID-19 and delays in achieving the **STEP Bridge** goals, CPS Energy sought and received City Council approval to extend

the **STEP Bridge** program. In January 2021, the City Council authorized CPS Energy to expend up to an additional \$70 million on energy efficiency and conservation programs to be completed by July 2022.

On May 23, 2016, CPS Energy approved three-year agreements to outsource the delivery of its energy efficiency programs. CPS Energy selected CLEAResult, the nation's largest implementer of energy efficiency programs, to deliver its commercial efficiency programs. CPS Energy selected Franklin Energy Services, a leading implementer of energy efficiency programs for utility, state and municipal clients nationwide and in Canada, to deliver its residential efficiency and weatherization programs. The agreements have expanded the portfolio of program offerings available to customers and increased adoption toward achievement of the **STEP** goal. On May 29, 2019, CPS Energy approved an extension of the CLEAResult and Franklin Energy contracts for delivery of services. On June 29, 2020, the Board approved an additional expenditure of up to \$31 million from the authorized \$70 million **STEP Bridge** budget for the continued delivery of services.

CPS Energy evaluates and modifies program offerings annually to target the most effective methods for energy reduction. With the first **STEP** program completed, CPS Energy reached out to the community to solicit input on **FlexSTEP** initiative, the next generation of energy management programs for its customers. After receipt of feedback from a broad array of customers and key stakeholders, CPS Energy compiled and analyzed the information in an effort to update, design, and create programs and services that meet the needs of its diverse set of customers. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein. In line with CPS Energy's **Flexible Path** strategy, the next round of the **STEP** program is referred to as "**FlexSTEP**".

On June 8, 2010, CPS Energy committed to partner with the Texas Sustainable Energy Research Institute (the "Institute") at the University of Texas at San Antonio ("UTSA") for sustainable energy research. CPS Energy agreed to invest up to \$50 million over 10 years in the Institute. From its inception in September 2010 through May 2018, CPS Energy has invested \$8.7 million in the Institute. On June 26, 2018, the Board approved funding for four research initiatives to enhance intelligent building energy management, solar forecasting, energy harvesting from roadways, and smart grid security, totaling approximately \$0.9 million. Future funding will be determined by the scope of the projects defined by the partnership and will be subject to annual approval by the Board. Since the fall of 2019, UTSA, in a strategic alliance with the Texas Sustainable Energy Research Institute and CPS Energy, to conduct research to enhance and improve grid security and resilience, solar energy generation and more efficient technology for power generation.

Public Safety Programs

CPS Energy's Public Safety Awareness ("PSA") program provides natural gas safety messaging, in accordance with the API's RP 1162 guidance (which requires pipeline operators to develop and implement public awareness programs that follow the guidance provided by the American Petroleum Institute), to public officials, emergency officials, excavators and the general public within Bexar and surrounding counties. In addition to formal presentations to the stakeholder audiences referred to, PSA is in constant face-to-face contact with excavators in the area to disseminate messaging regarding Texas' 811 Call Before You Dig program.

In addition, PSA has taken steps above and beyond RP 1162 to make sure all stakeholders working and / or living around natural gas pipelines get the safety messages through additional mailings, media, billboards, excavator events and at public gatherings.

Additionally, CPS Energy publishes and maintains a webpage at www.cpsenergy.com/safety that provides up to date safety tips and training resources for contractors, first responders, educators, students and families.

LITIGATION AND REGULATORY COMPLIANCE

The City of San Antonio

This section describes the litigation involving the City that does not directly involve CPS Energy or claims payable out of Systems' revenues. This section describes litigation which has been determined by the City Attorney's office as being material (that the financial results of a decision adverse to the City could have a negative result on the City's financial position). Please see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Litigation and Regulatory Compliance – Systems Litigation and Claims" herein for a description of litigation involving CPS Energy.

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and promotional practices; various claims from contractors for additional amounts under construction contracts; and property tax assessments and various other liability claims. The amount of damages in most of the pending lawsuits is capped under the Texas Tort Claims Act ("TTCA"). Consequently, the amount of \$16,523,456 (unaudited) is the reserve for claims liability as of the City's fiscal year ended September 30, 2020. This estimated

liability, including an estimate of incurred but not reported claims, is recorded in the Insurance Reserve Fund of the City. Specific litigation statuses range from assertion of potential claims, to filing of lawsuits, to early discovery stage to various levels of appeal of judgments both for and against the City. The City intends to defend vigorously against the lawsuits, including the pursuit of all appeals; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the outcome of such lawsuits.

In the opinion of the City Attorney, it is improbable that the lawsuits now outstanding against the City could become final in a timely manner, as determined by the date of this document, so as to have a material adverse financial impact upon the City that should be reflected in the financial information of the City included herein.

The City provides the following information related to the lawsuits:

Jimmy Maspero and Regina Maspero, et al. v. City of San Antonio, et al. Plaintiffs allege that on September 19, 2012, Plaintiffs' vehicle was involved in a collision with a vehicle being pursued by a San Antonio Police Department ("SAPD") patrol car causing the death of two of Plaintiffs' children and severe permanent injuries to the remaining Plaintiffs (two children, two adults). The Plaintiffs asserted a "state-created danger" theory under 42 U.S.C. § 1983 alleging a violation of Plaintiffs' 14th Amendment substantive due process. Plaintiffs are also asserting State law theories of negligence. Plaintiffs seek to recover damages for mental anguish, physical pain, impairment, medical expenses, and the wrongful death of two of their children. Plaintiffs are seeking monetary damages of at least \$3 million. This case has been remanded back to State District Court. On February 19, 2018, the District Court granted the City's plea to the jurisdiction, dismissing all claims. Plaintiffs' motion for a new trial was denied. Plaintiffs filed an appeal to the Fourth Court of Appeals. On August 28, 2019, the Fourth Court issued its opinion reversing the trial court and remanding the case to the trial court for further proceedings. The City filed a motion for rehearing en banc, which was denied. The City has filed a Petition for Review with the Texas Supreme Court. The Texas Supreme Court has requested full briefing on the merits.

Elena Scott, Individually and as Representative of the Estate of Antronie Scott v. City of San Antonio, et al./Diane Peppar, et al. v. City of San Antonio, et al. An SAPD officer was attempting to execute an arrest warrant when Plaintiff's decedent exited his vehicle with an object the officer believed was a weapon. The officer discharged his service weapon, fatally wounding decedent. Plaintiffs have filed suit under 42 U.S.C. § 1983 alleging use of excessive force. This case was consolidated with *Diane Peppar v. City of San Antonio*. Diane Peppar is Decedent Antronie Scott's mother. In March 2019, the Court granted the City's motion for summary judgment, dismissing all claims against the City. The officer's motion for summary judgment was granted in part but denied as to the claims of excessive force and unreasonable seizure. This matter is not currently set for trial.

Rogelio Carlos III, et al. v. Carlos Chavez, et al. SAPD SWAT officers were assisting High-Intensity Drug Trafficking Areas ("HIDTA") in searching for a fleeing suspect. Plaintiff was misidentified by the HIDTA officer as being the suspect. The HIDTA officer engaged and attempted to physically apprehend Plaintiff and was assisted by SAPD SWAT officers. Plaintiff suffered minor injuries as a result of the arrest, although he later complained of neck and shoulder/arm pain. Several months after the incident, Plaintiff underwent surgery, during which procedure, Plaintiff was paralyzed. Plaintiff has filed suit against the City and various officers under 42 U.S.C. § 1983. The Plaintiff has amended his suit to include the physicians involved in the Plaintiff's surgical procedure. Discovery is completed. Motions for summary judgment were filed on behalf of the City and all officers. In April 2020, the Court entered its order dismissing all claims against the City and two officers. Claims against the three remaining officers are pending trial. This case is not currently set for trial.

Neka Scarborough Jenkins v. City of San Antonio. Plaintiff's decedent was driving northbound on Blanco Road and attempted to turn left onto Lockhill Selma at a controlled traffic signal. Plaintiff contends that the traffic signal for her lane of traffic was facing the wrong direction. While making the turn, decedent was struck by an oncoming vehicle and was killed. Plaintiff claims the City had prior notice but failed to correct the issue within a reasonable period of time. Plaintiff also claims the investigation revealed the light was placed too low and was not at the correct height for a traffic signal. This litigation is brought under the TTCA and discovery is ongoing. Under the TTCA, damages are capped at \$250,000. This case is not yet set for trial.

Patricia Slack, et al. v. City of San Antonio and Steve Casanova. SAPD officers responded to persons complaining they had been assaulted in front of a nearby residence. The officers went to the address provided by the victims and approached the front door, which was behind a security door made of metal bars. The officers knocked, and the door swung open to the living room, although the security door remained closed. At least three individuals were present in the living room. One individual stood and approached the door while reaching his hand into his waistband. Officer Casanova discharged his weapon. A bullet fired by Officer Casanova grazed one individual and fatally struck a second individual. A suit was brought on behalf of the estate of the deceased, the injured individual and another individual on the scene. Plaintiffs have filed suit under 42 U.S.C. § 1983 alleging use of excessive, deadly force. Discovery is ongoing. No trial date has been set.

Texas Sterling Construction Co. v. City of San Antonio. The City contracted with Plaintiff in a Construction Manager at Risk Contract to build road improvements on Bulverde Road. Plaintiff billed on a unit cost basis and after the City paid all the bills, Texas Sterling Construction Co. ("TSC") wrote complaining it should have been paid for actual costs. TSC also claimed the City caused multiple delays. Plaintiff filed suit for breach of contract and is claiming damages in excess of \$250,000. Discovery is ongoing. This matter is set for trial on September 7, 2021.

Jesse Quinones, et al. v. City of San Antonio. On May 2, 2017, an SAPD officer was operating his patrol vehicle on non-emergency patrol, when he rear-ended a 2003 Tahoe with eight passengers. The officer was following Plaintiffs' vehicle as they went through a green light. A third vehicle on the cross street ran the red light in front of the officer. The officer looked back at the third vehicle and did not see Plaintiff Quinones' vehicle stop in front of him for a traffic signal. As a result of the accident, Plaintiff Quinones is claiming back injury and has obtained a future surgical recommendation at a cost greater than \$250,000. This case is set for trial on February 2, 2022.

Ken Paxton v City of San Antonio, et al. On December 23, 2017, SAPD received a call concerning an 18-wheeler stopped on I - 35 at the Splashtown exit. At the scene, 12 immigrants were found in the back of the truck. The driver was still on scene. SAPD initially reached out to Homeland Security Investigations but federal agents did not arrive on the scene for more than three hours. SAPD eventually took jurisdiction of the matter under the Texas Human Smuggling statute. Subsequently, the Texas Attorney General's Office investigated and filed suit against the City, the Chief of Police and the City Manager, alleging that the City materially interfered with the enforcement of federal immigration laws, in violation of Texas Senate Bill 4. The Texas Attorney General also claims the City has policies that materially interfere with the enforcement of federal immigration laws. The Texas Attorney General seeks penalties and attorney's fees in excess of \$250,000. This case is currently set for trial on September 13, 2021.

City of San Antonio, et al. v Hotels.com, et al. In 2006, the City filed suit against 13 online reservation companies alleging that they were not properly paying hotel occupancy taxes. Class certification was granted and approximately 183 cities and towns joined suit. The matter was tried to a federal jury resulting in a verdict in favor of the cities in the amount of approximately \$185 million. The reservation companies appealed to the Fifth Circuit which reversed the decision and ordered the City costs and fees be taxed against the City. The trial court determined the amount due and owing is \$2,226,724.37 and issued judgment against the City in that amount. The City appealed, contending the amount should be limited to \$287,047 and alternatively that the costs should be apportioned to all plaintiff cities. In March 2020, the Fifth Circuit affirmed the trial court's judgment. The matter is currently on appeal to the United States Supreme Court.

Paid Sick Leave Ordinance and Litigation

Working Texans for Paid Sick Time, a State-wide coalition of grassroots organizations, submitted to the City on May 24, 2018 a petition seeking a referendum on a City ordinance requiring that businesses operating within the City (being those that annually perform 80 hours or more of work within the City) provide mandatory paid sick leave to their employees or be subject to a civil penalty of \$500 per violation. Under the proposed ordinance, businesses with 15 or more employees would be required to provide eight days of paid sick leave to each employee; those with less than 15 employees would be required to provide six days of paid sick leave per employee. The City Council voted to adopt the proposed ordinance on August 16, 2018 which eliminated the need for an election on the matter. Plaintiff businesses and the State sued to enjoin implementation. Texas Organizing Project ("TOPS") and MOVE Texas intervened in the suit in support of the ordinance. In August 2019, the court approved an order submitted by the parties delaying the effective date to December 1, 2019 and abating injunction proceedings until the City amended the ordinance. On October 3, 2019, City Council approved amendments recommended by the Paid Sick Leave Commission. Plaintiff's application for injunction was heard on November 7, 2019 and was granted on November 22, 2019. MOVE Texas filed a notice of appeal of that decision and the City joined in the appeal. Plaintiffs/Appellees filed a motion with the Fourth Court of Appeals to abate the matter until the Texas Supreme Court issues a decision in the pending appeal concerning a similar Austin Paid Sick Leave ordinance. On March 4, 2020, the Fourth Court of Appeals granted the abatement. On June 5, 2020, the Texas Supreme Court refused to review an order from the Third Court of Appeals finding that the Austin Paid Sick Leave Ordinance was unconstitutional and preempted by the Texas Minimum Wage Act. On June 12, 2020, Intervenor / Appellants in the San Antonio matter filed an opposed motion to lift the abatement. On June 26, 2020, the Fourth Court of Appeals entered an order reinstating the case to the docket. Intervenor / Appellant's filed a brief with the Fourth Court of Appeals on July 16, 2020. On July 16, 2020, the City of San Antonio filed a letter notifying the Fourth Court of Appeals it was adopting Intervenor / Appellant's brief and requesting that the court reverse the December 12, 2019 temporary injunction. On September 4, 2020, Plaintiffs / Appellees filed responsive briefs and a partially opposed motion to dismiss for want of jurisdiction and motion to strike. On October 27, 2020, the case was submitted to the court and an opinion was issued on March 10, 2021, stating the paid sick and safe leave provision establishes a minimum wage inconsistent with the Texas Minimum Wage Act, violating the Texas Constitution.

San Antonio Park Police Officers Association Lawsuit

On September 3, 2019, the San Antonio Park Police Officers Association ("PPOA"), the union representing the park and airport officers, sued the City alleging that State law requires that PPOA receive the same pay and benefits as City police officers. PPOA seeks a declaratory judgment that park and airport officers are entitled to both civil service and collective bargaining rights and benefits bargained for by the San Antonio Police Officers Association ("SAPOA"). The City filed pleadings seeking the dismissal of the suit in November 2019. On February 21, 2020, the court heard the City's and SAPOA's pleas to the jurisdiction. The court denied the motions. The City appealed to the Fourth Court of Appeals. Oral argument took place on March 4, 2021.

Collective Bargaining Negotiations

The City is required to collectively bargain the compensation and other conditions of employment with its fire fighters and police officers. The City engages in such negotiations with the association selected by the majority of fire fighters and police officers, respectively, as their exclusive bargaining agent. The International Association of Fire Fighters, Local 624 ("Local 624") is the recognized bargaining agent for the fire fighters. The SAPOA is the recognized bargaining agent for the police officers. The following is a status of the collective bargaining negotiations with each association.

Collective Bargaining Agreement between the City of San Antonio and the San Antonio Police Officers Association. The City Council approved a collective bargaining agreement with the SAPOA on September 1, 2016, which provides for a term through September 30, 2021. Negotiations for a new contract began on February 12, 2021.

Collective Bargaining Agreement between the City of San Antonio and the International Association of Fire Fighters, Local 624 (Local 624). On February 13, 2020, a collective bargain agreement was awarded pursuant to arbitration. The new contract took effect immediately and concludes on December 31, 2024.

Airport Concession

Background. On March 21, 2019, the City Council considered a recommendation to award a concession contract for the San Antonio International Airport to Paradies Lagadere ("Paradies"). The Paradies proposal included a Chick-fil-A fast food concept as part of the overall package. After deliberation the City Council approved a motion to award the contract to Paradies, with the further instruction to replace the Chick-fil-A concept with a different national fast food concept.

Patrick Von Dohlen et al. v. The City of San Antonio et al. On September 26, 2019, the City was served with a lawsuit brought by five individuals (Patrick Von Dohlen, Brian Greco, Kevin Jason Khattar, Michael Knuffke, and Daniel Petri) against the City and Paradies. The lawsuit alleges that the City Council vote taken on March 21, 2019 concerning food vendors at the City's airport, violated a newly enacted law by the Texas Legislature in the Texas Government Code, Section 2400.002. The law became effective on September 1, 2019 after the City Council action and states: "[A] governmental entity may not take any adverse action against any person based wholly or partly on the person's membership in, affiliation with, or contribution, donation, or other support provided to a religious organization." The City filed a motion to dismiss and plea to the jurisdiction, challenging the ex post facto application of the law. The motion to dismiss and plea to the jurisdiction were denied. The City filed an interlocutory appeal to the Fourth Court of Appeals, which reversed the denial and rendered judgment in favor of the City. Plaintiffs have filed a petition for review with the Texas Supreme Court.

Systems Litigation and Claims

CPS Energy is involved in various legal proceedings related to alleged personal and property damages, condemnation appeals and discrimination cases. As the operator of the Systems, various claims have been asserted against CPS Energy. Most of those claims, including those in active litigation, do not merit individual disclosure, and in all cases, except where mentioned below, CPS Energy maintains a litigation reserve that CPS Energy management believes to be sufficient to satisfy reasonable outcomes concerning these pending claims and litigation. Subject to the foregoing, CPS Energy separately discloses certain pending litigation and potential claims, as follows:

Austin McElroy v. Donahue Electrical Services, LLC, City of San Antonio by and through City Public Service Board D/B/A CPS Energy. CPS Energy has been sued by Austin McElroy for injuries he alleges were due to an electrical shock he received that caused him to fall from a ladder while working on a customer's pole. Mr. McElroy is also suing Donahue Electrical Services, LLC. He has incurred significant medical expenses and similar future expenses are expected in the future. No demand has been made at this early stage of the suit. CPS Energy is currently analyzing its potential exposure as well as its defensibility in the matter.

Jesus Rodriguez v. City of San Antonio by and through City Public Service Board D/B/A CPS Energy. CPS Energy has been sued by Jesus Rodriguez, as the representative of the estate of Ann Rodriguez, alleging wrongful death of Ms. Rodriguez as a result of the 2021 Winter Weather Event. CPS Energy is currently analyzing its potential exposure as well as its defensibility in the matter.

Time Warner Cable San Antonio, L.P. v. City Public Service of San Antonio. Texas law prohibits discrimination by a MOU in the rates and terms the MOU charges a certificated telecommunications provider ("CTP") for the attachments the CTP makes to a MOU's poles and, beginning September 1, 2006, required the MOU to charge a single, uniform pole attachment rate to all CTPs. Beginning with its 2007 invoices, CPS Energy started charging all CTPs the same pole attachment rate, but since inception of uniform invoicing of pole attachment rates AT&T claimed that under its 1987 joint use pole attachment agreement with CPS Energy it was entitled to pay a lower contractual rate. The 1987 joint use contract was terminated July 31, 2016. Effective August 1, 2016, AT&T executed a new pole attachment agreement with CPS Energy under which there is no dispute as to the appropriate pole attachment rate.

AT&T's position asserting the right to pay a lower pole attachment rate under the joint use contract was the basis for the lawsuit filed against CPS Energy by Time Warner Cable San Antonio, L.P. ("TWC"), which is now owned by Charter Communications, Inc.* TWC sued CPS Energy in State district court in Bexar County, claiming CPS Energy's failure to collect the outstanding balance from AT&T is in violation of the statutory requirement and that CPS Energy had discriminated against TWC by charging TWC and AT&T different pole attachment rates. TWC seeks damages of no less than \$5 million. CPS Energy responded to the lawsuit by asking the court to abate the lawsuit pending a final outcome in a PUCT docket CPS Energy filed, *Petition of CPS Energy for Enforcement Against AT&T and Time Warner Cable Regarding Pole Attachments*, Docket No. 36633. CPS Energy also counter-sued for TWC's outstanding balance, which has resulted from TWC paying for its pole attachments at the 30-year-old AT&T rate instead of the 2008 rate CPS Energy is uniformly charging all pole attaching entities. By order issued March 17, 2009, the Bexar County District Court abated the proceeding pursuant to CPS Energy's request, and on April 3, 2009, the PUCT issued an order assuming jurisdiction over the administrative case in Docket No. 36633. The State Office of Administrative Hearings ("SOAH") heard the PUCT docket on September 8-14, 2011. The SOAH issued a Proposal for Decision on March 9, 2012, and the PUCT released a final Order on February 1, 2013. CPS Energy, TWC and AT&T appealed the PUCT order to the Travis County District Court, which heard the case on January 22, 2014 and issued its order on March 3, 2014. The Travis County District Court's March 3, 2014 final judgment reversed the PUCT on the grounds that the PUCT lacked jurisdiction to make determinations about private pole attachment agreements, about whether a breach of contract had occurred, and about whether discrimination under State law caused harm. The final judgment also reversed the PUCT's determinations on using a rate of return other than the Federal Communications Commission's (the "FCC") default rate of return and on using three attaching entities in its calculation of the pole attachment rate for billing years 2005-2010. The final judgment affirmed the PUCT's final order in all other respects and remanded it to the PUCT. CPS Energy, AT&T, TWC, and the Texas Attorney General (on behalf of the PUCT) all appealed the district court's decision to the Texas Third Court of Appeals (the "Third Court of Appeals") in May and June 2014. The case was argued before the Third Court of Appeals on April 22, 2015. On July 31, 2016, TWC's existing pole attachment agreement was terminated and it executed a new agreement effective August 1, 2016. CPS Energy's potential exposure under the case may not extend beyond July 31, 2016.

On February 24, 2017, the Third Court of Appeals issued its opinion in the appeal of the PUCT order. The Third Court of Appeals found that the PUCT has jurisdiction to review and modify CPS Energy's pole attachment rate formula inputs because it was not setting rates, but rather calculating the highest annual pole attachment rate allowed by statute. On a related jurisdictional issue, the Third Court of Appeals vacated the district court's judgment that the FCC's 2011 amendment to the pole attachment formula was prospectively applicable to CPS Energy under State law, finding that the PUCT's ruling on the matter was advisory, not ripe for adjudication, and outside the scope of the Third Court of Appeals' jurisdiction to review. Regarding formula inputs, the Third Court of Appeals ruled that (i) three was the appropriate average number of attaching entities per pole to consider in the pole-attachment rate calculation, finding that CPS Energy met its burden of proof to overcome the FCC formula's presumptive average of five for a metropolitan area; and (ii) the default rate of return of 11.25% in the FCC formula applied to CPS Energy for all years in dispute, including 2005, and rejected the argument that the PUCT had the authority to set CPS Energy's rate of return. On the issue of discrimination, the Third Court of Appeals ruled that CPS Energy had provided discriminatory terms for a four month period between September 1, 2006 and December 31, 2006 (the result of different billing period applicable to AT&T and TWC); otherwise, CPS Energy did not engage in discriminatory treatment for the rest of the billing years in dispute (2007 to 2010). The court reached this conclusion by finding that CPS Energy had properly charged a non-discriminatory, uniform rate throughout the billing period in dispute as required by statute.

On March 9, 2017, the Third Court of Appeals granted TWC's request for a 30-day extension to file a motion for rehearing. On April 12, 2017, TWC filed its motion for rehearing and en banc reconsideration. On August 31, 2017, the Third Court of Appeals denied TWC's motion for rehearing and en banc hearing and issued a substitute opinion replacing the opinion issued on February 24, 2017. The substitute opinion did not alter the Court's earlier rulings. On November 15, 2017, TWC filed a petition for review with the Texas Supreme Court, which was joined by the Texas Attorney General. The high court requested that CPS Energy file a response to TWC's petition for review, which was filed on April 18, 2018. Subsequently, on June 1, 2018, the Texas Supreme Court requested the parties to file briefs on the merits of the case. TWC and the Texas Attorney General filed their initial briefs on

July 23, 2018, followed by CPS Energy's response on September 5, 2018, and concluding with TWC's reply brief on September 28, 2018. On November 11, 2018, the Texas Supreme Court granted TWC's petition for review. The Texas Supreme Court heard oral arguments on January 24, 2019 and issued an opinion on May 17, 2019. The court ruled the PUCT's finding that CPS Energy failed to make any serious or meaningful effort to collect from AT&T before it initiated the enforcement proceeding is supported by substantial evidence, and the effect on TWC was clearly discriminatory. Thus, the Texas Supreme Court reversed the Third Court of Appeal's decision in part and remanded the case to the trial court.

On June 17, 2019, CPS Energy filed a motion for rehearing with the Texas Supreme Court arguing that the high court erred in its May 17, 2019 opinion by holding that CPS Energy waived the "argument" that a cable company is not entitled to the nondiscriminatory protections of State law applicable to a certificated telecommunications provider for failure to raise the argument at a lower court. The motion for rehearing asserts that error occurred because the holding is contrary to the court's long-standing precedent providing that "issues" not raised below are waived, but parties are free to construct new "arguments" in response to issues raised before the high court by opposing parties, whether or not those arguments were raised at a lower court. On October 4, 2019, the motion for rehearing was denied. On October 8, 2019, the Texas Supreme Court remanded the case back to the District Court, which issued a Final Judgment of Remand on March 13, 2020. The PUCT opened Docket No. 50665 on March 16, 2020 for the purpose of issuing an Order on Remand incorporating the findings and rulings on appeal as reflected in the Final Judgment on Remand. The matter is currently pending before the PUCT.

*On October 5, 2012, the PUCT approved the consolidation of State-Issued Certificates of Franchise Authority ("SICFA") granted to Time Warner Cable San Antonio, LP (SICFA No. 90007) and Time Warner Cable Texas LLC (SICFA No. 90008), both affiliated companies of Time Warner Cable, Inc., into SICFA No. 90008. PUCT Project No. 40756, Notice of Approval (October 5, 2012), *Joint Application of Time Warner Entertainment, Advance/Newhouse Partnership and Time Warner Cable San Antonio, L.P to Amend Its State-Issued Certificate of Franchise Authority; Name Change, Expansion of SAF & Other*. On May 18, 2016, Time Warner Cable Texas LLC became an indirectly, wholly owned subsidiary of Charter Communications, Inc. On July 13, 2016, the PUCT amended SICFA No. 90008 to recognize the change of ownership from Time Warner Cable, Inc. to Charter Communications, Inc., but otherwise the name of SICFA No. 90008 remained in the name of Time Warner Cable Texas LLC d/b/a Time Warner Cable. PUCT Project No. 46020, Notice of Approval (July 13, 2016), *Application of Time Warner Cable Texas LLC for Amendment to a State-Issued Certificate of Franchise Authority for Name Change and Transfer of Ownership*.

No Litigation Certificate

On the date of delivery of the Bonds to the Underwriters, the City will execute and deliver to the Underwriters respective certificates to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

Except as disclosed herein and as of the date hereof, the City is aware of no litigation of any nature that has been filed or is pending, as of the date hereof, to restrain or enjoin the issuance or delivery of the Bonds or which could affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

Regulatory Compliance

By the nature of its business and through its ownership of nuclear assets, CPS Energy is required to comply with a variety of state and federal regulations involving environmental, system reliability, nuclear plant safety, physical and cybersecurity, employee and operational safety, and other business issues. Responsibility for ensuring compliance lies within the responsible business units and, at an enterprise level, with the Interim Vice President of Compliance, Ethics & Facility Master Planning. The STPNOC also has a strong compliance program which CPS Energy monitors closely. On occasion, violations are found either through internal review processes or during a regulatory agency compliance audit. In these instances, CPS Energy is fully cooperative with regulators in ensuring that steps are taken to identify the cause of the compliance gap and to implement a mitigation plan to prevent a recurrence. The violations that do occur are typically minor and do not reflect serious lapses in business processes or attention to regulatory requirements. Violations involving significant monetary penalties or business risks would be disclosed individually, if they were to occur.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

THE ELECTRIC UTILITY INDUSTRY GENERALLY

The electric utility industry in general has been, and in the future may be, affected by several factors which could impact the business affairs, financial condition and competitiveness of an electric utility, and the level of utilization of generating facilities, such as

those of the Systems. One of the most significant of these factors has been the effort on national and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on both the wholesale and retail level. For a description of the competition in the electric utility industry in Texas and the response of CPS Energy thereto, *see* " SAN ANTONIO ELECTRIC AND GAS SYSTEMS - CERTAIN FACTORS AFFECTING THE ELECTRIC INDUSTRY – THE ELECTRIC UTILITY INDUSTRY GENERALLY – ELECTRIC UTILITY RESTRUCTURING IN TEXAS" herein.

Such factors include, among others, (i) effects of compliance with rapidly changing cyber, environmental, safety, licensing, regulatory, and legislative requirements; (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy; (iii) changes that might result from a national energy policy; (iv) increased competition from independent power producers; (v) "self-generation" by certain industrial and commercial customers; (vi) issues relating to the ability to issue tax-exempt obligations; (vii) severe restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations; (viii) changes from previously projected future electricity requirements; (ix) increases in costs; (x) shifts in the availability, intermittency and relative costs of different fuels; (xi) management and integration of renewable generation and storage systems into the supply portfolio; and (xii) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways. CPS Energy cannot predict what future effects these factors may or will have on its business operations and financial condition, but the effects could be significant. The following is a brief discussion of several factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement. Extensive information on the electric utility industry is available from sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

FEDERAL ENERGY POLICY

On January 27, 2021, President Biden signed executive actions that make climate change both a domestic and foreign policy goal for the United States. These actions followed the President's initial actions of rejoining the Paris Climate Agreement by addressing domestic climate policies that seek to create jobs and sustainable infrastructure and address environmental justice. The executive actions direct the Secretary of the Interior to pause on entering new oil and natural gas leases on public lands or offshore waters, create a new civilian conservation corps and deliver economic help to coal-producing regions. The executive actions also establish a commission that is focused on environmental justice and green jobs, direct federal agencies to rely on science in their rulemakings and convene a climate summit of world leaders on Earth Day, April 22nd. Additionally, the President pledged to use the purchasing power of the federal government to buy a fleet of zero-emissions vehicles that are manufactured in the United States.

President Biden elevated climate change to a national security priority and instructed his Administration to prepare a national intelligence estimate on the security implications of the climate crisis and directed all agencies to develop strategies for integrating climate considerations into their international work. The President announced the reestablishment of the President's Council of Advisors on Science and Technology, and formation of the National Climate Task Force, which will be composed of leaders across 21 federal agencies and departments.

On January 20, 2021, President Biden issued executive orders directing federal agencies to consider revising vehicle fuel economy and emissions standards, methane emissions standards, and appliance and building efficiency standards to "ensure that such standards cut pollution, save consumers money, and create good union jobs". Additionally, the executive orders re-established the Interagency Working Group on the Social Cost of GHG and directing the issuance of an interim social cost of GHG schedule to "ensure that agencies account for the full costs of GHG emissions, including climate risk, environmental justice and intergenerational equity". Additionally, President Biden signed paperwork to rejoin the Paris Climate Agreement on January 20, 2021.

REFORM GENERALLY

On January 20, 2021, President Joe Biden began rolling out some of his energy initiatives through a series of executive orders. President Biden laid out initiatives to "roll back President Trump's environmental actions in order to protect public health and the environment and restore science". His executive orders directed all executive departments and agencies to immediately review and take appropriate action to address federal regulations and other executive actions taken during the Trump Administration that were "harmful to public health, damaging to the environment, unsupported by the best available science, or otherwise not in the national interest".

On January 19, 2021, the D.C. Circuit Court vacated the ACE rule and remanded it to the EPA. The court determined the EPA did not act lawfully in adopting the 2019 ACE rule as a means of regulating power plants' emissions of greenhouse gases. The Trump EPA had drafted the ACE rule to limit the EPA's ability to regulate emissions of greenhouse gases under the Clean Air Act (particularly compared to the CPP). This decision will allow the Biden EPA to draft a new rule. The EPA had proposed the ACE

rule on August 21, 2018, which sought to establish emission guidelines for states to develop plans to address GHG emissions from existing coal-fired power plants. The final rule was issued on June 19, 2019 and became effective on September 6, 2019.

On December 16, 2016, former President Obama signed into law the Water Infrastructure Improvements for the Nation Act ("WIIN Act"), which included industry-supported coal ash legislation and funding for water improvements. The WIIN Act was the product of bipartisan negotiations, and it includes the Water Resources Development Act ("WRDA") of 2016. Under the new law, the Resource Conservation and Recovery Act ("RCRA") is amended to allow states to design a coal ash permit program that will then be approved by the EPA. If states do not design a coal ash permit program, the federal coal ash rule remains in effect. The EPA is proposing a federal permitting program for the disposal of CCR in surface impoundments and landfills, which will also include electronic permitting. This proposal includes requirements for federal CCR permit applications, content and modification, as well as procedural requirements. The EPA would implement this permit program directly in certain jurisdictions, as it does other RCRA programs, and at CCR units located in states that have not submitted their own CCR permit program for approval.

The EPA is extending the comment period on EPA's proposal to establish a federal CCR permit program. The document announcing this proposal was published on February 20, 2020, and the public comment period was originally scheduled to end on April 20, 2020. In a notice published on April 14, 2020, the EPA extended the comment period 30 days, through May 20, 2020. The EPA extended the public comment period again for an additional 60 days, through July 19, 2020. On December 3, 2020, the EPA took the first step in the process of making a determination of whether to approve the Texas CCR permit program by notifying the State that the application was complete and the formal process of soliciting public comment and making a final determination on whether to approve Texas's CCR permit program will begin.

CYBERSECURITY

In 2013, President Obama issued an Executive Order "Improving Critical Infrastructure Cybersecurity", to develop a voluntary risk-based cybersecurity framework. The National Institute of Standards and Technology ("NIST") framework (the "Framework") was finalized and released in mid-February 2014. The Framework is designed to be a living document and continual updates occur concerning its development. The Framework covers 16 sectors and the portion pertaining to the energy sector will be implemented by the DOE. Compliance is voluntary. The DOE continues to explore methods to encourage compliance, such as possibly issuing grants. In an update provided July 1, 2015, NIST has engaged in education and outreach efforts, as well as a campaign to clarify and highlight guides consistent with the Framework. On December 11, 2015, NIST issued an additional request for information on its "Views on the Framework for Improving Critical Infrastructure Cybersecurity", to receive feedback. NIST released an analysis of the responses received to this request on March 24, 2016, and circulated an updated draft version refining, clarifying, and enhancing the Framework on January 10, 2017. NIST released a second draft of the updated Framework in late 2017, and public comments were due January 19, 2018. NIST released the new Framework on April 16, 2018. Pursuant to an executive order issued by President Trump on May 11, 2017, entitled "Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure", all federal agencies are required to use the Framework to manage cybersecurity risks. In July 2019, NIST published its "Smart Grid Profile", which applies risk management strategies from the Framework to the smart grid. On June 18, 2020, the Federal Energy Regulatory Commission ("FERC") issued its Cybersecurity Incentives Policy White Paper Docket No. Ad20-19-000 discussing a potential new framework for providing transmission incentives to utilities for cybersecurity investments. The Congress continues to make cybersecurity and grid security a priority regarding preparedness of the electric utility sector for cybersecurity threats.

On May 1, 2020, President Trump declared a "national emergency with respect to the threat to the United States bulk-power system" and issued an Executive Order ("EO") regarding transactions involving "bulk-power system electric equipment" developed, manufactured or supplied by a "foreign adversary". Specifically, the EO empowers the Secretary of Energy, in consultation with the heads of other agencies assembled into a task force, to prohibit certain transactions if they raise significant national security concerns, including posing a risk to the health and safety of the United States. As of June 2020, the DOE has taken initial steps, along with FERC and NERC, to begin work on implementing the EO. However, at this time, a formal rulemaking has not been initiated.

On March 7, 2014, FERC directed NERC to develop reliability standards requiring owners and operators of the bulk-power system to address risks due to physical security threats and vulnerabilities. The order gave NERC 90 days to submit one or more proposed standards that require owners and operators of the bulk-power system to take at least three steps to protect physical security. NERC met the deadline and drafted a standard ("CIP-014-1"), which requires transmission owners and operators to (1) perform a risk assessment of their system to identify facilities that, if damaged, could have a critical impact on the operation of the bulk-power system; (2) evaluate potential threats and vulnerabilities to those facilities; and (3) develop and implement a security plan to address potential threats and vulnerabilities. The final rule was issued on November 20, 2014. CPS Energy has taken steps to comply with the CIP-014-1 standard requirements.

The FERC acted in July 2016 to improve the cybersecurity of the bulk electric system ("BES") NERC to develop a supply chain risk management standard to address risks to information systems and related electric system assets. FERC directed NERC to

develop a Critical Infrastructure Protection ("CIP") Reliability Standard that requires entities to develop and implement a supply chain management plan for industrial control system hardware, software, and vendor services associated with electric system operations. NERC was required to submit the new CIP standard within one year. The standard was developed and approved by NERC on June 16, 2017. On December 21, 2017, FERC unanimously voted to direct NERC to modify the existing "Cybersecurity Incident Reporting and Response Planning" standards, citing concerns that current reporting "understates the true scope of cyber-related threats facing the bulk electric system". NERC approved the proposed standard on August 10, 2017. The standard was approved by FERC on July 19, 2018, as revised on June 20, 2019 (to extend mandatory reporting of cyber incidents to attempted attacks and events that comprised the system without necessarily impacting a reliability task) and will be effective on or about January 1, 2021. CPS Energy is making the necessary preparations to comply with this new CIP standard, as supplemented.

On June 24, 2020, FERC issued public statements seeking comment on whether the CIP Reliability Standards adequately address the following topics: (i) cybersecurity risks pertaining to data security, (ii) detection of anomalies and events, and (iii) mitigation of cybersecurity events. In addition, the Commission seeks comment on the potential risk of a coordinated cyberattack on geographically distributed targets and whether Commission action including potential modifications to the CIP Reliability Standards would be appropriate to address such risk. Comments were due September 22, 2020.

CPS Energy participates in a variety of cyber initiatives and continues to analyze vulnerabilities and update its security, monitoring, and alerting technology in an effort to prevent cybersecurity incidents. CPS Energy withstands hundreds of attempted cyberattacks a day and previously brought in specialists from the National Security Agency and Secret Service to assist in preventing attacks and identifying vulnerabilities. Officials with the Department of Homeland Security regularly test and review CPS Energy's computer and security systems.

In addition, CPS Energy uses multiple security measures to protect its physical assets. In-house and third-party physical security audits and analysis are routinely performed. Access control / card reader systems are located throughout CPS Energy facilities, including at substation fences and control houses. Other technologies, such as cameras, photoelectronic ("PE") beams, fiber optic fence detection systems and lighting, are also employed to deter security threats. As portions of the CPS Energy teams have continued to work from home amid the Events, CPS Energy continues to provide and implement cybersecurity measures to prevent incidents.

CPS Energy also participates with community partners to ensure cybersecurity remains a focal point. On June 18, 2020, the City Council approved \$2.5 million for the Alamo Regional Security Operations Center ("ARSOC"), which will be combined with \$1.5 million in funding from CPS Energy. ARSOC will serve as a central cybersecurity hub at Port San Antonio and will initially use members of the City's and CPS Energy's security teams. Construction on the center started in 2020, and it is expected to be operational in 2021.

TAX CREDITS, REPORTING, & OTHER MATTERS

Beginning with the 112th United States Congress, lawmakers extended various tax credits, including approval of a \$205 billion package on tax credit extenders that includes extensions and changes to a number of energy-related tax credits. The package expired on December 31, 2013, including the tax credit for electricity produced by wind and other renewable resources. Congress in 2014 failed to pass legislation extending these tax credits. At the end of 2015, the 114th Congress passed a five-year extension, modification and phase-out of the Investment Tax Credit ("ITC") for solar power and the Production Tax Credit ("PTC") for wind and other renewables. The bill extended the PTC as-is for two years (including one retroactive year because the credit expired at the end of 2014), and phases out the credit to 80% in 2017, 60% in 2018, and 40% in 2019. The 30% temporary ITC was extended for three additional years (from its original December 31, 2016 expiration), and would then be phased out with a 26% credit in 2020, a 22% credit in 2021, and a 10% credit in 2022.

On September 22, 2009, the EPA finalized the nation's first greenhouse gas reporting system / monitoring regulations that will require large emitters of heat-trapping emissions to collect GHG data. While Congressional action on environmental policy has been limited, the focus has been at the administrative level at the EPA. Additional information can be found in the "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters" section herein. On August 3, 2015, the EPA released its CPP that proposed to reduce carbon dioxide emissions from power plants by 32% (relative to 2005 levels) by 2030. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Carbon Dioxide ("CO₂") and Greenhouse Gases ("GHG")" herein. In February 2016, the U.S. Supreme Court granted an emergency stay of the CPP that put implementation of the rule on hold while the courts hear legal challenges to it. In September 2016, the D.C. Circuit Court heard oral arguments. In early 2017, President Trump directed the Justice Department to ask the court to postpone or forego consideration of the CPP. On October 16, 2017, the EPA proposed to repeal the CPP, citing the plan's inconsistency with the Clean Air Act. Public comment on the proposal was extended to January 16, 2018. On July 9, 2018, the EPA sent its draft rule entitled "State Guidelines for Greenhouse Gas Emissions from Existing Electric Utility Generating Units" to the Office of Information and Regulatory Affairs in the White House OMB. A decision by the D.C. Circuit Court vacated the ACE rule, likely requiring a new framework prospectively for regulating GHG.

The Energy Policy Act of 2005 ("2005 Energy Act") extended limited FERC jurisdiction, known as "FERC-Lite", over public power entities within ERCOT, such as CPS Energy that own transmission lines, and gave FERC authority to delegate certain transmission reliability standard-setting responsibilities to the Energy Reliability Organization ("ERO") and to establish mandatory reliability standards for operation of the nation's transmission system. CPS Energy has operated its electric system under compatible ERCOT reliability standards for many years, so CPS Energy does not anticipate any problems with FERC's reliability standards. CPS Energy's Transmission Owner ("TO"), Transmission Operator ("TOP"), Distribution Owner ("DO"), Generator Owner ("GO"), and Generator Operator ("GOP") functions have all undergone periodic audits. Any findings discovered during the audits were quickly mitigated. Additional information on FERC's authority over CPS Energy can be found in "FERC Authority" below.

The 2005 Energy Act included several provisions that could affect CPS Energy's business and continue to be evaluated by management, including:

- repeal of existing Public Utility Holding Company Act of 1935 requirements;
- conditional termination of the mandatory federal purchase and sale requirements for co-generation and small power production;
- expansion of FERC's merger review authority;
- re-authorization of renewable energy production incentives for solar, wind, geothermal, and biomass, and authorization of new incentives for landfill gas;
- incentives for development of new commercial nuclear power plants and other non- or low-carbon emitting technologies;
- establishment of a 7.5% goal for increased renewable energy use by the federal government by 2013, and a 20% required reduction in energy use by federal buildings by 2015; and
- increased funding for weatherization of low-income homes and state energy efficiency programs.

The 2005 Energy Act also included provisions affecting existing nuclear generating units, including:

- extension of the Price-Anderson Act to 2025 and increases in the retrospective premiums for which licensees are liable for claims resulting from a nuclear incident;
- expansion of the NRC authority to regulate decommissioning trust funds (primarily affecting funds held by former plant licensees);
- direction of the DOE to take responsibility for safe disposal of high-level radioactive waste;
- procedural protections for individuals filing claims under federal whistleblower provisions;
- enhanced provisions relating to NRC oversight of the security of licensed facilities; and
- various decommissioning tax-related adjustments beneficial to federal tax-paying licensees.

Furthermore, the 2005 Energy Act amended the Public Utility Regulatory Policies Act of 1978 ("PURPA") by adding five new standards that Municipal Utilities must consider and determine whether to implement. These new standards address net metering, diversity of fuel sources, efficiency of fossil-fuel-fired generation, time-based or "smart" metering, and the interconnection of distributed generation. CPS Energy considered the new standards and developed five modified standards that more accurately reflect local conditions and priorities. These new standards were approved by the Board on June 25, 2007. In October 2019, FERC proposed to modernize its regulations governing small power producers under PURPA to better address consumer concerns and market changes.

In December 2007, the President signed the Energy Independence and Security Act ("EISA") requiring utilities to consider, for adoption, rejection, or modification by December 19, 2009, the implementation of (1) integrated resource planning; (2) rate design modifications to promote energy efficiency investments; (3) smart grid investments; and (4) smart grid information. CPS Energy studied technologies that would allow implementation of the standards, as modified to fit its needs, and has completed the regulatory assessment as required under the EISA. Municipal Utilities, such as CPS Energy, are designated as "non-regulated" under EISA, as well as the 2005 Energy Act, because those utilities are not regulated by state utility commissions.

FERC Authority

In 1992, pursuant to the Energy Policy Act of 1992 ("1992 Energy Act"), the FERC required utilities under its jurisdiction to provide access to their electric transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. Municipal Utilities are subject to FERC orders requiring provision of wholesale transmission service to other utilities, qualifying cogeneration facilities, and independent power producers. Under FERC rules promulgated subsequent to the 1992 Energy Act, FERC further expanded open access wholesale transmission by requiring public utilities operating in interstate commerce to file open access non-discriminatory transmission tariffs. Because the interconnected ERCOT grid operates outside interstate commerce and because PURA95 and SB 7, State laws discussed below, provide comparable wholesale transmission authority to the PUCT for utilities in ERCOT pursuant to which the PUCT has required open access of transmission facilities in ERCOT, the exercise of FERC authority relating to open access transmission has not been a major factor

in the operation of the wholesale market in ERCOT. The 2005 Energy Act authorizes FERC to encourage and approve the voluntary formation of regional transmission organizations to promote fair and open access to electric transmission service and facilitate wholesale competition. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS - CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – THE ELECTRIC UTILITY INDUSTRY GENERALLY – Federal Energy Policy" herein. The ERCOT open access system is administered by an ISO conducting many of the functions that would be administered by a Regional Transmission Organization. Section 1211 of the 2005 Energy Act amended the Federal Power Act to include a new section, designated as Section 215, which directed FERC to certify an ERO and develop procedures for establishing, approving and enforcing electric reliability standards. As discussed herein under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System - Interconnected System", FERC designated NERC to serve as the ERO and to set and monitor through Regional Entities ("RE") implementation of electric reliability standards. A separate group within the ERCOT region, the Texas Reliability Entity, was selected to serve as the RE for the ERCOT service area, and CPS Energy has developed a comprehensive framework to ensure compliance with the electric reliability standards.

On November 16, 2016, FERC proposed to amend its regulations under the Federal Power Act to remove barriers to the participation of electric storage resources and distributed energy resource aggregations in the capacity, energy, and ancillary service markets operated by regional ISOs. Specifically, FERC proposed to require each ISO to revise its tariff to (1) establish a participation model consisting of market rules that, recognizing the physical and operational characteristics of electric storage resources, accommodates their participation in the organized wholesale electric markets and (2) define distributed energy resource aggregators as a type of market participant that can participate in the organized wholesale electric markets under the participation model that best accommodates the physical and operational characteristics of its distributed energy resource aggregation. In a per curiam opinion issued by the United States Court of Appeals for the District of Columbia on June 20, 2017, the court denied Advanced Energy Management Alliance's petition to vacate FERC's approval as to capacity performance program changes.

On February 22, 2021, FERC announced it would investigate whether any natural gas or electricity market violations occurred during the 2021 Winter Weather Event. FERC's announcement follows its earlier decision, in partnership with NERC, to investigate the mass outages across ERCOT.

CPS Energy and the STPNOC will continue to monitor and evaluate FERC developments with a potential to impact the gas and electric systems.

THE PUBLIC UTILITY COMMISSION OF TEXAS (PUCT)

The PUCT exercises regulatory authority over the retail and wholesale markets of Texas. The PUCT is comprised of two commissioners and a chair appointed by the Governor. The PUCT writes rules that determine the workings of the ERCOT market and has enforcement authority relating to violations of its rules and the ERCOT protocols. Beginning in 2021, as a result of legislation passed by the 84th Legislature in 2015, the PUCT will require MOUs to file certificates of convenience and necessity ("CCN") to build transmission outside its city limits. The PUCT adopted new rules, effective July 5, 2016, revising the process to obtain CCNs in accordance with the new legislation. These rules allow for MOUs to continue building transmission outside their service areas plus 10 miles until the 2021 effective date, without having to go to the PUCT for a CCN. Effective May 28, 2017, the PUCT issued a new rule allowing the PUCT, after notice and hearing, to revoke or amend any CCN if the PUCT finds that certain adverse conditions exist. The PUCT does not directly regulate retail rate cases of municipally owned electric utilities, but it does have limited appeal jurisdiction related to ratepayers outside of municipal jurisdiction.

On March 26, 2020, PUCT Commissioners approved a relief order establishing the COVID-19 Electricity Relief Program, which created a fund to enable a temporary exemption from disconnections for non-payment for eligible residential customers in competitive retail areas in ERCOT. The intention of this relief order was to protect affected residential customers and reduce the exposure of the competitive market from excessive COVID-19-related bad debt that could lead to industry upheaval and bankruptcies. On June 16, 2020, PUCT Commissioners directed PUCT Staff to make final modifications to the COVID-19 Electricity Relief Program as the PUCT ended self-enrollment in the program on August 31, 2020. The foregoing relief order does not apply to CPS Energy, but CPS Energy has taken steps to assist customers as further described under "OPERATIONAL IMPACT OF COVID-19 AND CPS ENERGY RESPONSE THERETO". Due to the 2021 Winter Weather Event, the PUCT halted power disconnections due to non-payments and restricted electric companies from sending "skyrocketing" invoices. The PUCT stated it is investigating the factors that, combined with the devastating winter weather in February 2021, that disrupted the flow of power to millions of Texas homes during the 2021 Winter Weather Event.

The funding mechanism created within the program was used for one month and was later revisited by the PUCT. The fund was established by a \$0.33 per MWh rider implemented by Transmission and Distribution Utilities ("TDUs") in competitive territories of the State, after an initial loan of \$15 million by ERCOT from its project funds. The rider was applied to all customer classes and implemented within ten days of the order being approved. Residential customers unable to pay bills due to unemployment were referred by their Retail Electric Provider to the relief program and were relieved from disconnection. Retail Electric Providers

("REPs") were compensated from the fund at \$0.04 per kWh for service to those customers. Also, for those customers, TDUs were compensated directly from the fund instead of compensated through the REPs collections. Commissioners acknowledged and commended the efforts taken by MOUs, Co-ops and other vertically-integrated utilities to provide these protections to their customers.

TEXAS RELIABILITY ENTITY, INC. (TEXAS RE)

Headquartered in Austin, Texas, Texas RE performs the regional entity functions described in the 2005 Energy Act, which created Section 215 of the Federal Power Act, for the ERCOT region, as mandated by the delegation agreement with the NERC. The delegation agreement was approved by FERC. Texas RE is authorized by NERC to develop, monitor, assess, and enforce compliance with NERC Reliability Standards within the geographic boundaries of the ERCOT region, as well as to assess and periodically report on the reliability and adequacy of the bulk power system. Texas RE is independent of all users, owners, and operators of the bulk power system. The regional entity functions and protocol compliance were previously performed by Texas Regional Entity, a functionally independent division of ERCOT. Texas RE took over all responsibilities of Texas Regional Entity on July 1, 2010. Effective November 16, 2020, Texas RE will no longer monitor protocol compliance.

ERCOT

ERCOT is one of eight Regional Reliability Councils in NERC. The ERCOT bulk electric system is located entirely within the State and serves approximately 26 million customers, representing approximately 90% of the State's electrical load. The ERCOT service region covers 75%, or 200,000 square miles, of the State and contains a total of 46,500 miles of transmission lines, including 9,249 miles at 345-kV.

In response to legislative directive, ERCOT amended its articles of incorporation to establish an ISO in 1996. Under ERCOT's organizational structure, the ISO reports to the ERCOT Board of Directors, but the PUCT has complete authority to oversee and investigate ERCOT's finances, budget, and operations as necessary to ensure that ERCOT is accountable. ISO responsibilities include security operations of the bulk system, facilitation and efficient use of the transmission system by all market participants, and coordination of regional transmission planning among transmission owning utilities and providers.

ERCOT's statutory functions include establishing and enforcing procedures relating to the reliability of the regional electrical network and accounting for the production and delivery of electricity among generators and all other market participants. The procedures are subject to PUCT oversight and review, and the PUCT chairman is an ex-officio member of the ERCOT Board. The PUCT may authorize ERCOT to charge a reasonable and competitively neutral rate to wholesale buyers and sellers to cover the independent organization's costs. Individual electric utilities own sections or components of the ERCOT transmission grid and are responsible for operating and maintaining their own transmission lines and equipment. The ISO coordinates the operation of the transmission grid to ensure its reliability, and ERCOT coordinates with the various transmission-owning electric utilities to make sure the transmission system will meet the needs of the electric market. The 1999-enacted SB 7 (described in greater detail below under "ELECTRIC UTILITY RESTRUCTURING IN TEXAS") provides that a retail electric provider, municipally owned utility, electric cooperative, power marketer, transmission and distribution utility, or Power Generation Company ("PGC") shall observe all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines and procedures established by the ISO.

Under the PUCT's transmission open access rules, each transmission service provider in ERCOT is required to provide transmission service to transmission customers in ERCOT. As compensation for this service, each transmission service provider annually recovers, through ERCOT-wide transmission charges, its Transmission Cost of Service ("TCOS"), which is set by the PUCT. The PUCT approved changes to the Substantive Rule 25.247 that establishes a filing schedule for non-investor-owned transmission service providers ("TSPs") operating within ERCOT effective November 28, 2018. A non-investor-owned TSP that has not had a commission-approved change to its transmission service rate since January 1, 2017 must submit a comprehensive or interim transmission cost of service within two years of the effective date of the rule. In compliance with the scheduling rule, CPS Energy submitted an interim TCOS filing on November 23, 2020. The PUCT approved CPS Energy's requested transmission access fee of ~\$3.08 per kW on January 15, 2021. The rule also requires periodic interim or comprehensive filings every 48 months for entities, including CPS Energy, with a wholesale transmission cost of service greater than one percent of the total ERCOT wholesale transmission costs. Therefore, CPS Energy must submit another interim or full filing on or before January 15, 2025. Smaller non-investor-owned TSPs with charges less than one percent of the total ERCOT wholesale transmission charges must file every 96 months. There is not an expectation for a mandated full filing in the near future. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein.

In September 2020, ERCOT released its final 2020 fall and preliminary 2020-21 Winter Seasonal Assessment of Resource Adequacy ("SARA") report. Also, in September 2020, ERCOT released its final 2020 fall SARA report, in which its peak load forecast was 60,966 MW which is unchanged from the preliminary fall forecast and is based on normal weather conditions during fall peak demand periods. The winter peak demand forecast was 57,699 MW and the total resource capacity expected to serve peak

demand of 65,915 MW. In May 2020, ERCOT also released an update to the Capacity Demand and Reserves ("CDR") report which calculates higher planning reserve margins for the summers of 2021 through 2025 (17.3%, 19.7%, 18.0%, 15.9%, 14.1% respectively). The CDR reflects pre-COVID-19 load forecasts due to the high level of uncertainty in how the pandemic will affect future years and did not account for the 2021 Winter Weather Event. ERCOT stated it will continue to monitor changes and make adjustments as needed, and a special tab was created in the report to show how COVID-19 could impact peak demands and planning reserve margins through 2024. CPS Energy proactively monitors the ERCOT market closely to ensure it is mitigating risk of exposure to high and volatile prices.

On June 14, 2017, the ERCOT board of directors endorsed a transmission project that includes two new 345-kV lines to address future reliability concerns in West Texas. ERCOT only has asynchronous ties to other reliability councils and is only connected through two direct current ("DC") ties to the eastern interconnect and three small DC ties to Mexico, providing only limited import / export capability.

ELECTRIC UTILITY RESTRUCTURING IN TEXAS

During the 1999 Legislative Session, the Texas Legislature enacted SB 7, providing for retail electric open competition. The enactment of SB 7 modified the PURA and required that retail and wholesale competition begin on January 1, 2002. SB 7 continues Texas electric transmission wholesale open access, which came into effect in 1997 and requires all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. SB 7 modifications to PURA also fundamentally redefined and restructured the Texas electric industry. The following discussion of SB 7 applies primarily to ERCOT.

SB 7 includes provisions that apply directly to Municipal Utilities, such as CPS Energy, as well as other provisions that govern investor owned utilities ("IOUs") and electric co-operatives ("Electric Co-ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy suppliers. SB 7 also allows retail customers of those Municipal Utilities and Electric Co-ops that elect to opt-in, on or after that date, to choose their electric energy suppliers. Provisions of SB 7 that apply to the CPS Energy electric system, as well as provisions that apply only to IOUs and Electric Co-ops, are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which CPS Energy and the City could choose to directly participate in the future.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000, and to unbundle their generation, transmission / distribution and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies and possibly operating divisions. If so, these new entities may be owned by a common holding company, but each must operate largely independent of the others. The services offered by such separate entities must be available to other parties on non-discriminatory bases. Municipal Utilities and Electric Co-ops which open their service territories ("opt-in") to retail electric competition are not required to, but may, unbundle their electric system components. *See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND GAS SALES – Retail Service Area" herein.*

ENTITIES THAT HAVE OPTED-IN TO COMPETITION

The following discussion relates to entities that are currently in electric competition in Texas and does not apply to CPS Energy, but could apply if CPS Energy and the City opt-in to electric competition. Generation assets of IOUs are owned by PGCs, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell electricity at market prices. IOU owners of Transmission and Distribution Utilities ("TDUs") are fully regulated by the PUCT. REPs which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas, or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from PGCs, power marketers, and / or other parties and may resell that electricity to retail customers at any location in ERCOT (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). TDUs, Municipal Utilities, and Electric Co-ops that have chosen to participate in competition are obligated to deliver electricity to retail customers and are also required to transport electricity to wholesale buyers.

The PUCT is required to approve the construction of TDUs' new transmission facilities and may order the construction of new facilities in Texas in order to relieve transmission congestion. TDUs are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Retail rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than that of the PUCT.

SB 7 also provides a number of consumer protection provisions. Each service area within the State that participates in retail competition has a designated Provider of Last Resort; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. CPS Energy has the option to be designated as a Provider of Last Resort for its service area if it chooses to opt-in. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each Municipal Utility and Electric Co-op that opts-in to retail competition may designate itself or another qualified entity as the Provider of Last Resort for its service territory. In such cases, the respective Municipal Utility or Electric Co-op, not the PUCT, will set the electric rates for such respective Provider of Last Resort.

Under SB 7, IOUs may recover a portion of their "stranded costs" (the net book value of certain "non-economic" assets less market value and certain "above market" purchased-power costs) and "regulatory assets", which is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market-based rates in the open competition market. SB 7 establishes the procedure to determine the amount of IOU stranded costs and regulatory assets. The PUCT has determined the stranded costs, which have been and will be collected through a non-bypassable competitive transition charge collected from the end retail electric users within the IOU's service territory as it existed on May 1, 1999. The charge is collected primarily as an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing, and refinancing such bonds is secured by a qualified rate order of the PUCT that creates the "competitive transition charge". Neither the State nor the PUCT may amend the qualified rate order in any manner that would impair the rights of the "securitized" bondholders.

The Texas Legislature continues to look at the impacts of SB 7. On May 1, 2018, the Senate Business & Commerce Committee took invited testimony on an interim charge to: examine the competitive nature of the Texas retail electric system and what government competitive intrusions in the free energy markets may have in distorting those markets; review the impact of competitive versus noncompetitive retail electricity markets across the State in terms of price and reliability; and consider the projected impact of establishing competitive electric retail markets statewide. CPS Energy President & CEO Paula Gold-Williams provided invited testimony on a panel of MOUs. The MOU panelists addressed the competitive nature of the retail electric market and the contributions offered by MOUs in the ERCOT market. No senators overtly advocated that MOUs and Electric Co-ops be forced to opt-in to retail competition, but a general preference for competitive markets was evident through all phases of the hearing. The 86th Texas Legislature did not consider legislation adversely impacting the MOU business model.

ADDITIONAL IMPACTS OF SENATE BILL 7 DEREGULATION

MOUs and Electric Co-ops are largely exempt from the requirements of SB 7 that apply to IOUs. While IOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of MOUs and Electric Co-ops have the sole discretion to determine whether and when to opt-in to retail competition. However, if a MOU or Electric Co-op has not voted to opt-in, it will not be able to compete for retail energy customers at unregulated rates outside its traditional electric service area or territory.

SB 7 preserves the PUCT's regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for an independent transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 (as amended by the Texas Legislature after 1999) directs the PUCT to determine electric wholesale transmission open access rates on a 100% "postage stamp" pricing methodology.

The greatest potential impact on CPS Energy's electric system from SB 7 could result from a decision by the Board and the City Council to participate in a fully competitive market, particularly in light of the fact that CPS Energy is among the lowest cost producers of electric energy in Texas. On April 26, 2001, the City Council passed a resolution stating that the City did not intend to opt-in to the deregulated electric market beginning January 1, 2002. However, CPS Energy currently believes that it is taking all steps necessary to prepare for possible competition in the unregulated energy market, should the Board and the City Council make a decision to opt-in, or if future legislation forces MOUs and Electric Co-ops into retail competition.

Any future decision of the Board and the City Council to participate in full retail competition would permit CPS Energy to offer electric energy service to customers located in areas participating in retail choice that are not presently within the certificated service area of CPS Energy. The Board and the City Council could likewise choose to open the CPS Energy service area to competition from other suppliers while choosing not to have CPS Energy compete for retail customers outside its certified service area.

As discussed above, MOUs and Electric Co-ops will also determine the rates for retail use of their distribution systems after they open their territories to retail competition, although the PUCT has established by rule the terms and conditions applicable to have

access to those systems. SB 7 also permits MOUs and Electric Co-ops to recover their stranded costs through collection of a non-bypassable transition charge from their customers if so determined by such entities through procedures that have the effect of procedures available to IOUs under SB 7. Unlike IOUs, the governing body of an MOU determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. MOUs and Electric Co-ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by CPS Energy as to the magnitude of its stranded costs, if any, would be made in conjunction with the decision as to whether or not to participate in retail competition.

An MOU that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate relationships and anti-competitive practices. The PUCT has established by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the distribution facilities of MOUs electing to compete in the retail market.

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants that may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities. The bill also improves the competitive position of MOUs by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of MOUs are made exempt from disclosure under the open meetings and open records acts and the right of Municipal Utilities to enter into risk management and hedging contracts for fuel and energy is clarified. *See* "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Fuel Supply", "– RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – WHOLESALE POWER" and "– FINANCIAL MANAGEMENT OF THE SYSTEMS – ENTERPRISE RISK MANAGEMENT & SOLUTIONS" herein for discussion of the Energy Price Risk Management Program in use at CPS Energy.

TEXAS LEGISLATIVE IMPACT ON THE ELECTRIC INDUSTRY

Current Legislative Session

The 87th Texas Legislature convened on January 12, 2021 with the regular session scheduled to end May 31, 2021. Legislators began filing legislation on November 12, 2020, and continued to do so until the filing deadline of March 12, 2021. During this time, the Texas Legislature may enact laws that materially change current laws as it relates to CPS Energy, and CPS Energy makes no representation regarding any actions the Texas Legislature may take but intends to monitor proposed legislation for any developments applicable to CPS Energy.

On February 16, 2021, Governor Greg Abbott expanded his emergency legislative items by declaring ERCOT reform an emergency item for the 87th Texas Legislature. On February 18, 2021, Governor Abbott announced additional emergency items, including mandating the winterization of power generation units and calling on the Texas Legislature to provide funding to ensure the winterization occurs.

On February 25 and 26, 2021, both the Texas Senate and House of Representatives held hearings examining extreme weather condition preparedness and circumstances that led to the power outages directed by ERCOT. In the Senate, the Business and Commerce Committee reviewed generator preparedness and performance, utility outage practices, natural gas supply, and the reliability of renewable generation, as well as overall ERCOT system resilience. The Texas House of Representatives Committees on State Affairs and Energy Resources held a joint public hearing on the statewide blackouts during the 2021 Winter Weather Event.

The factors that led to statewide electrical blackouts, the response by industry, suppliers, and grid operators, and changes necessary to avoid future power interruptions were discussed with ERCOT and PUCT leaders, with testimony lasting several hours for each.

Prior Legislative Sessions

From January 8, 2019 to May 27, 2019, the 86th Texas Legislature convened its regular session. The most notable proposal on which CPS Energy worked was HB 61 which adds its electric and gas utility vehicles to the protections of the Texas Move Over / Slow Down Law. The new law took effect on September 1, 2019.

An additional bill of direct operational impact on CPS Energy was HB 4150, adds comprehensive reporting regarding transmission line inspections and safety incidents for all electric utilities. All utilities (MOUs, IOUs and Electric Co-ops) are now required to report what percentage of transmission infrastructure, defined as over 60 KV, was inspected during the preceding five-year period, and what percentage is expected to be inspected in the upcoming five-year period. The bill also contains annual reporting requirements on safety education and training taking place or changed/appended, any known noncompliant maintenance issues and

incidents, fatalities, and injuries with a corrective action plan. Lastly, the bill requires utilities to inspect lines over public recreational lakes in their service territory for compliance with National Electric Safety Code height requirements. The rulemaking at the PUCT to implement HB 4150 was approved on February 14, 2020 and the first round of reports were due on May 1, 2020.

Other bills of impact to CPS Energy included HB 864 and HB 866, which pertain to gas infrastructure safety and reporting. The RRCT initiated a comprehensive rulemaking in July 2019 to implement these bills, as well as make other updates to Chapter 8 and Chapter 3.70 of Title 16 of the Texas Administrative Code, as amended, to bring the RRCT rules, definitions, and procedures in line with federal Pipeline and Hazardous Materials Safety Administration ("PHMSA") requirements and sections of State law that relate to the provisions. The RRCT adopted final amendments to its Pipeline Safety & Permit Renewal Rules on December 17, 2019. The amendments to Chapter 8 pertain to pipeline safety, maintenance, incident reporting and changes to the annual risk-based programs that operators like CPS Energy files annually to the RRCT. The proposed amendments to §3.70 pertain to required pipeline permits. The rulemaking also made changes to the annual schedule by which CPS Energy pays its permit fees.

Two additional bills of note are SB 1012 and SB 1938. SB 1012, filed at the request of the PUCT, clarifies and reaffirms the current ability of MOUs and Electric Co-ops to own battery storage without having to register as PGCs. SB 1938 codifies within State law certain ERCOT protocols as they pertain to transmission owners' ability to construct off existing transmission end-points.

Regarding cyber and grid security, three bills passed relevant to the electric utility industry. All these bills were implemented on May 14, 2020 by the PUCT with further action pending at ERCOT. SB 64 establishes a program for the PUCT to coordinate and share with utilities best practices on several cyber-related items, including guidance for cybersecurity controls for supply chain risk management. The bill also directs ERCOT to conduct an internal cybersecurity risk assessment and submit an annual confidential report to the PUCT. SB 475 creates the "Texas Electric Grid Security Council", an advisory body that will coordinate the sharing of information and implementation of best security practices in the electric industry. This council is comprised of representatives from the PUCT, ERCOT and the Governor's office, and coordinate with industry and specific State and federal entities. Lastly, SB 936 requires the PUCT and ERCOT to contract with an entity to act as PUCT's cybersecurity monitor. This bill was also filed at the request of the PUCT.

During its 83rd Legislative Session in 2013, the Texas Legislature reviewed and passed the mission and performance of the PUCT as required by the Texas Sunset Act. This act provides that the Sunset Advisory Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed, and what improvements are needed to ensure that tax dollars are appropriately utilized. Based on recommendations of the Sunset Advisory Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future. The 86th Texas Legislature passed SB 619, which groups the next Sunset review of the PUCT, Office of Public Utility Counsel, and ERCOT in 2024-2025.

During the 84th Legislative Session in 2015, the Texas Legislature passed SB 776, requiring an MOU to obtain a CCN from the PUCT for the construction of a transmission facility in certain circumstances. MOUs must get PUCT-approved CCNs outside of their service territory plus ten miles until September 2021; from that point forward, MOUs must get PUCT-approved CCNs to construct outside their city limits. MOUs can make payments in lieu of taxes on external transmission. An MOU required to apply for a CCN would be entitled to recover payments in lieu of property taxes through its wholesale transmission fees if the utility had a written agreement with the taxing entity, the payments in lieu of taxes were equivalent to the taxes it would have paid if it were a private entity, the governing body of the taxing entity was not the same as the governing body of the utility, and the utility provided the PUCT with a copy of the written agreement and any other information the PUCT deemed necessary. The PUCT rulemaking process on implementation of SB 776 was completed in June 2016. As of the spring of 2019, the PUCT has initiated workshops with MOUs in preparation for the September 2021 implementation date. *See* " SAN ANTONIO ELECTRIC AND GAS SYSTEMS - CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – THE ELECTRIC UTILITY INDUSTRY GENERALLY – The Public Utility Commission of Texas (PUCT)".

In 2017, the 85th Texas Legislature convened in general and special sessions. The most notable piece of legislation that passed during these sessions impacting CPS Energy was SB 758, which amends the utility's bill payment assistance program for low-income customers. The enactment of this legislation removed the statutory requirement for CPS Energy and SAWS to notify a low-income customer with disconnection before they could be enrolled in the program. The bill payment assistance program for utility system customers now only requires a determination by the municipality as to low-income status.

Another notable piece of legislation that passed during the 2017 session was the passage of HB 1818, the RRCT Sunset Bill. The passage of HB 1818 continued the functions of the RRCT until September 2029, with a focus on agency efficiencies and on pipeline safety. The legislation granted the RRCT the ability to create a pipeline safety & regulatory fee to fill a budget shortfall in its pipeline safety & damage prevention program. The RRCT initiated a rulemaking on this fee that was completed on June 5, 2018 and became effective June 25, 2018. Based on the definitions within the rulemaking, CPS Energy's fees are assessed at \$20 per mile of pipe plus an annual \$500 permit renewal. An internal assessment of the fee determined that it would be absorbed with CPS Energy's current operations.

ENVIRONMENTAL RESTRICTIONS OF SENATE BILL 7 AND OTHER RELATED REGULATIONS

SB 7, enacted in 1999, contains specified emissions reduction requirements for certain older electric generating units, which would otherwise be exempt from the TCEQ permitting program by "grandfathered" status. Under SB 7, annual emissions of NO_x from such units were reduced by 50% from 1997 levels, beginning May 1, 2003. These emissions have been reported on a yearly basis, and CPS Energy has met the requirements of its NO_x cap for the applicable units for the past compliance years. CPS Energy has final Electric Generating Facility ("EGF") state permits from the TCEQ for its remaining seven older electric generating gas-fired units. CPS Energy may require future additional expenditures for emission control technology. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Air Act" and "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – FINANCIAL MANAGEMENT OF THE SYSTEMS – Capital Program" herein for discussion of the cumulative economic effect of these requirements together with requirements under Federal Clean Air Act permits.

Although SB 7 instituted many of the changes to environmental emission controls which affect grandfathered electric generating plants, another TCEQ regulation, Chapter 117, is directed at all units in the State, including CPS Energy's coal plants. These regulations required a 50% reduction in NO_x emissions statewide beginning May 1, 2005, and system-wide on an annual basis. CPS Energy has met the Chapter 117 cap for each compliance period. Because of the Spruce2 air permitting process, CPS Energy committed to tighter NO_x emission limitations than what is required under Chapter 117 at the Calaveras Power Station upon the Spruce2 unit coming on line.

Changes to environmental emission controls may have the greatest effect on coal plants. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Environmental Matters – Federal Clean Air Act" herein. Further statutory changes and additional regulations may change existing cost assumptions for electric utilities. Such changes could have a material impact on the cost of power generated at affected electric generating units.

SB 7 established the State's goal for renewable energy in 1999 but made no special provisions for transmission to interconnect renewable resources. The rapid development of wind power in west Texas since 2001 has shown that wind farms can be built more quickly than traditional transmission facilities. This timing difference poses a dilemma for planning, as it is difficult to know whether a new line will be needed if the generation facilities do not yet exist. A wind farm is difficult to finance if there is no certainty that sufficient transmission will be available to deliver generated electricity. Senate Bill 20, enacted by the Texas Legislature in 2005 ("SB 20"), authorized the PUCT to regulate in this area, and specifically authorized the PUCT to identify areas with sufficient renewable energy potential, known as competitive renewable energy zones ("CREZs") and pre-designate the need for transmission facilities serving the area even if no specific renewable generation projects exist or are under construction. The designation of CREZs in regions with developable renewable resources would be partially based on financial commitments of wind project developers desirous of building in the CREZ. In July 2008, the PUCT voted to create five CREZs in west Texas and the Panhandle. In August 2008, the PUCT further decided that an additional 18,456 MW of wind energy from the five CREZs would be delivered into ERCOT via transmission lines estimated to cost ERCOT rate payers a minimum of \$4.93 billion. The PUCT awarded the construction of those transmission lines to transmission service providers ("TSPs") in whose service areas the lines will be located and new entrants seeking to become TSPs. The PUCT's decision was appealed by the City of Garland, and a State District Court has determined that the PUCT should have given municipally owned utilities consideration in the CREZ award process. The PUCT reconsidered and awarded a CREZ line for the City of Garland to construct. CPS Energy does not plan to renew its request for authority to construct any part of the CREZ lines. Under the statewide transmission costs allocation process, CPS Energy will pay approximately 7% of these construction costs. Payments will not start until the lines are constructed and placed into service. In the PUCT's January 2017 "Report to the 85th Texas Legislature – Scope of Competition in Electric Markets in Texas", the PUCT determined that the CREZ project established in 2008 was complete following the installation of a second circuit on a Sharyland line.

The Texas Legislature increased the State's renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUCT is directed to establish a target of 10,000 MW by January 1, 2025. The legislation includes a target of 500 MW from renewable resources other than wind power. In addition, on April 2, 2008, ERCOT filed a report with the PUCT concerning wind power and the transmission facilities that may be necessary to transfer the electric power across the State.

According to the ERCOT Demand and Energy Report, 19.8% of the electricity generated in Texas during calendar year 2019 came from wind energy resources, up from 18.6% for 2018. The total capacity of renewable facilities in Texas as of May 2020, is approximately 24,071 MW which exceeds the 5,256 MW January 1, 2013 goal specified in the PUCT Substantive Rule 25.173 – Goal for Renewable Energy and is above the January 1, 2025 "target" of 10,000 MW of wind generation. On January 8, 2020, wind generation in ERCOT produced a new record of 20,066 MW. ERCOT's wind penetration record was set on November 26, 2019, at 58% of load.

Looking to the future, CPS Energy plans to continue to focus on providing low-cost power from a variety of generation sources including sustainable and lower carbon emitting sources. CPS Energy will continue to focus on high levels of reliability to the communities it serves, while working on customer retention and loyalty.

WHOLESALE MARKET DESIGN DEVELOPMENTS

In May 2017, Calpine and NRG filed an informational report in PUCT Docket 40000 recommending changes to the energy markets with a goal of improving price formation. The report, "Priorities for the Evolution of an Energy-Only Market Design in ERCOT," which was written by Susan Pope and William Hogan of FTI Consulting and Harvard University respectively, critiques the performance of ERCOT's energy-only market and makes numerous suggestions for how the market might perform more efficiently. The PUCT responded by opening Docket 47199 in order to explore market changes including adjusting of the ORDC (defined below) parameters, implementation of Real Time Co-Optimization, and implementation of Marginal Line Losses. As of December 27, 2017, stakeholders have filed comments and advocated for various positions in Docket 47199. In October 2017, ERCOT received notice of multiple generator retirements totaling about 4,500 MW. In November 2017, ERCOT notified the market that the pending generator retirements would not impact the reliability of the electric system and would be allowed to retire on the schedule proposed in their initial retirement notices. The May 2018 CDR report reflected the impact of these generator retirements. In August 2018, the PUCT opened Dockets 48539, 48540, and 48551 to examine the Real-Time Co-Optimization proposal, Marginal Losses proposal, and review the market performance for summer 2018, respectively. Various dockets have since been opened related to renewable energy credit generator certifications.

To improve scarcity price signals, the PUCT instructed ERCOT to implement an Operating Reserve Demand Curve ("ORDC") in June 2014. In June 2018, because of arguments in PUCT Docket 47199 coupled with shrinking reserve margins, the PUCT instructed ERCOT to modify the ORDC to remove out-of-market capacity from the capacity used to calculate reserves. This was a minor adjustment prior to summer 2018. In early 2019, the PUCT endorsed the Real-Time Co-Optimization proposal as well as a two phase ORDC modification that would result in an increase in the reserve adder pricing. In April 2019, ERCOT formed the Real-Time Co-Optimization Task Force ("RTCTF"), reporting to the ERCOT Technical Advisory Committee ("TAC"), to formulate and vet the policies needed to implement the Real-Time Co-Optimization market change. In February 2020, the ERCOT Board of Directors voted to approve a list of Key Principles. These Key Principles were developed by the RTCTF and were the basis for the protocol changes adopted by the ERCOT Board of Directors in December 2020 with an estimated implementation in late 2024. Both phases of the ORDC modification were successfully implemented. The first in spring of 2019, and the second phase in the spring of 2020. The ORDC is currently operational as an energy price enhancement mechanism that adds to the energy price based on system conditions. ERCOT calculates the adder based on the probability of a loss of load and the cost of a loss of load. Therefore, as system reserves drop, the adder calculated by ERCOT increases and the price of energy increases. In August 2019, the ERCOT market experienced two scarcity events primarily attributed to high demand and low capacity reserves. On August 13, 2019 and August 15, 2019, ERCOT declared Level 1 Energy Emergency Alerts ("EEA1") when capacity reserves reached the trigger levels as described in the ERCOT Nodal Protocols. The EEA1 events resulted in deployment of contracted demand response also known as ERCOT Emergency Response Service ("ERS") and market clearing prices were administratively set to the system-wide cap of \$9,000 per MWh, as is also required by ERCOT protocols. On February 13, 2021, ERCOT issued an Emergency Notice for the extreme cold weather event impacting the ERCOT region. On February 15, 2021, ERCOT declared Levels 1, 2, and 3 Energy Emergency Alerts ("EEA1, EEA2, EEA3") and implemented rotating outages at 01:20. On February 17, 2021, at 23:55 ERCOT concluded rotating outages but remained in EEA3 due to the large number of customers who had yet to be reconnected. During the event, the PUCT convened an emergency meeting to address price inconsistencies observed in the market. PUCT Commissioners approved an order in Project 51617 that resulted in market clearing prices being set to the System Wide Offer Cap of \$9,000/MWh during load shed events. The basis for their decision was to reinforce the market design principle that anytime load is shed, prices should reflect the value of the load.

Texas Governor Greg Abbott declared the reform of ERCOT an emergency item for the 2021 Texas legislative session and called for investigations into and resignations at ERCOT. Board members were heavily criticized when it was publicly reported that some ERCOT board members lived out of the State. On February 23, 2021, ERCOT filed with the PUCT an announcement that ERCOT's board Chair Sally Talberg, Vice Chair Peter Cramton, Finance and Audit Committee Chairman Terry Bulger, Human Resources and Governance Committee Chair Raymond Hepper and Director for the Independent Retail Electric Provider Market Segment Vanessa Anesetti-Parra resigned from their respective positions. Subsequently, on February 26, 2021, Clifton Karnei, the representative from Brazos Electric Cooperative, also resigned. On March 3, 2021, the board overseeing ERCOT fired Bill Magness, ERCOT's CEO, by invoking his contract's sixty-day notice termination clause. A search for a new CEO and discussion of the transition plan at future meetings is expected. On March 4, 2021, the PUCT announced the new director of ERCOT, Inc. Accountability, Adrienne Brandt, and charged her with enhancing the PUCT's oversight of the grid operator and market manager. Several lawsuits have been filed against ERCOT (including a class action suit). On March 19, 2021, the Texas Supreme Court stated it did not have jurisdiction to determine whether ERCOT retained the ability to invoke sovereign immunity.

On March 4, 2021, Moody's downgraded ERCOT from "Aa3" to "A1" with outlook negative.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City, acting by and through the Board (who has accepted such responsibility by resolution of the Board adopted on May 27, 2020) made the agreement described below for the benefit of the owners and Beneficial Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Board, on behalf of the City, will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the MSRB through its EMMA System, where such information will be available to the general public, free of charge, through an internet website at www.emma.msrb.org.

ANNUAL REPORTS

Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, Texas Government Code Sections 1502.66, 1502.67 and 1502.68, as amended, and the City's Home Rule Charter, the Board must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by an independent certified public accountant, and must file each audit report with the Secretary of the Board, within 180 days after the close of the Board's fiscal year. The Board's financial statements and independent auditors' reports are available for public inspection to the extent information contained in them is not excepted from disclosure under the Texas Public Information Act, as amended, Texas Government Code, Chapter 552. Persons may obtain copies of the portions of these documents not excepted from disclosure under the Texas Public Information Act upon submission of a written request to the Secretary of the Board, and paying the reasonable copying, handling and delivery charges for providing this information.

The Ordinance obligates the City, acting by and through the Board, to provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the Board of the general type included in this Official Statement under the headings "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – RETAIL AND WHOLESALE ELECTRIC AND NATURAL GAS SALES – Retail Service Area – Customer Base as of January 31, 2020"; "TEN-YEAR ELECTRIC CUSTOMER STATISTICS", "FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY" and "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" Tables under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates"; "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System - Generating Capability"; "Five-Year South Texas Project Capacity Factor" Table under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources"; "Other Electric and Gas Systems Statistics" under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Gas System – Rule Relating to Replacement of Gas Distribution Facilities"; and APPENDIX B. The Board will update and provide this information within six months after the end of each fiscal year of the Board. See "CONTINUING DISCLOSURE OF INFORMATION – Availability of Information" below.

The Board may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the SEC Rule 15c2-12 ("Rule"). The updated information will include audited financial statements, if the Board commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Board will provide unaudited financial statements by the required time and audited financial statements when and if the audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B, or such other accounting principles as the Board may be required to employ from time to time pursuant to State law or regulation.

NOTICE OF CERTAIN EVENTS

The Board will also provide timely notices of certain events to the MSRB. The Board will provide notice in a timely manner (not in excess of ten business days after the occurrence of the event) of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of registered owners of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City or CPS Energy, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or CPS Energy or the sale of all or substantially all of the assets of the City or CPS Energy, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent / Registrar or change in the name of the Paying Agent / Registrar, if material; (15) incurrence

of a Financial Obligation of the City or CPS Energy (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City or CPS Energy, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the City or CPS Energy, any of which reflect financial difficulties. In the Ordinance, the City adopted policies and procedures to ensure timely compliance with its continuing disclosure undertakings. Neither the Bonds nor the Ordinance make any provision for liquidity enhancement or credit enhancement. In addition, the Board will provide timely notice of any failure by the Board to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City or CPS Energy in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City or CPS Energy, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City or CPS Energy, and (b) the City and CPS Energy intend the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

AVAILABILITY OF INFORMATION

Effective July 1, 2009 ("EMMA Effective Date"), the SEC implemented amendments to the Rule approving the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the Board in accordance with its undertakings, including its undertaking for the Bonds, will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB. To view CPS Energy's latest financial information, please visit CPS Energy's website at: <http://www.cpsenergy.com/About CPS Energy/Financial Information>.

With respect to debt of the City secured by revenues of the Systems and issued prior to the EMMA Effective Date, the City, acting by and through the Board, remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository ("SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas ("Texas MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the Texas MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the Texas MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the City receives notice of a change in this contractual agreement between the Texas MAC and EMMA or of a failure of either party to perform as specified thereunder, the City has determined, in reliance on guidance from the Texas MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

LIMITATIONS AND AMENDMENTS

The City, acting by and through the Board, has agreed to update information and to provide notices of specified events only as described above. The City, acting by and through the Board, has not agreed to provide other information that may be relevant or material to a complete presentation of the Board's financial results of operations, conditions, or prospects or agreed to update any information that is provided, except as described above. The City and the Board make no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City and the Board disclaim any contractual or tort liability for damages resulting in whole or in part from any breach of their continuing disclosure agreement or from any statement made pursuant to their agreement, although registered owners and Beneficial Owners of Bonds may seek a writ of mandamus to compel the City and the Board to comply with their agreements.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City or the Board, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule and either the registered owners of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Board (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Bonds. The City may also repeal or amend the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the City also may amend these provisions in its discretion in any other manner or circumstance, but in either case, only if and to the

extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the City amends its agreement, it has agreed that the Board, on behalf of the City, shall include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS

CPS Energy, during the past five years, has complied in all material respects with continuing disclosure agreements made by the City for which CPS Energy has agreed to comply on the City's behalf, in accordance with the Rule.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the unqualified approval of the Attorney General of the State of Texas and the approval of certain legal matters by Co-Bond Counsel. Though they represent the Co-Financial Advisors and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Co-Bond Counsel has been engaged by the Board and only represents the Board and the City in connection with the issuance of the Bonds. Co-Bond Counsel was not requested to participate and did not take part in the preparation of this Official Statement except as hereinafter noted, and such firms did not assume any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in their capacity as Co-Bond Counsel, such firms reviewed the information under the captions "THE BONDS" (except under the sub-captions "Purpose", "Sources and Uses of Funds", "Perfection of Security for the Bonds", "Registered Owners' Remedies", and "Book-Entry-Only System", as to which no opinions are expressed), "CONTINUING DISCLOSURE OF INFORMATION" (except matters discussed under the subcaption "Compliance with Prior Undertakings", as to which no opinion is expressed), "LEGAL MATTERS" (except for the last two sentences of the first paragraph thereof, as to which no opinion is expressed), "TAX MATTERS", "LEGAL INVESTMENTS IN TEXAS", "SECURITIES LAWS", "APPENDIX D – CERTAIN PROVISIONS OF THE ORDINANCE", and "APPENDIX E – FORM OF OPINION OF CO-BOND COUNSEL" in this Official Statement, and such firms are of the opinion that the information relating to the Bonds, the Ordinance and the legal issues contained under such captions and sub-captions are an accurate and fair description of the laws and the legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fees to be paid to Co-Bond Counsel in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their legal counsel, Locke Lord LLP, Austin, Texas, whose legal fees are contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for CPS Energy by its General Counsel and for the City by the City Attorney.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering legal opinions, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of opinions guarantee the outcome of any legal dispute that may arise out of the transaction.

UNDERWRITING

Barclays Capital Inc. ("Barclays"), as representative of the Underwriters, has agreed, subject to certain customary conditions to closing, to purchase the Bonds from the City at the initial prices indicated on page ii hereof, less an Underwriters' discount of \$1,333,734.32, and no accrued interest. The Underwriters have agreed, subject to certain customary conditions to closing, to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than the initial public offering prices set forth on page ii of this Official Statement, which may be changed, from time to time, by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to CPS Energy or the City and to persons and entities with relationships with CPS Energy or the City, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and / or instruments of CPS Energy or the City (directly, as collateral securing other obligations or otherwise) and / or persons and entities with relationships with CPS Energy or the

City. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and / or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and / or short positions in such assets, securities and instruments.

UBS Financial Services Inc. ("UBS FSI"), one of the Underwriters of the Bonds, has entered into a distribution and service agreement with its affiliate UBS Securities LLC ("UBS Securities") for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to such agreement, UBS FSI will share a portion of its underwriting compensation with respect to the Bonds with UBS Securities. UBS FSI and UBS Securities are each subsidiaries of UBS Group AG.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group ("WFBNA"), one of the underwriters of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

TAX MATTERS

OPINION

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P. and Kassahn & Ortiz, P.C., Co-Bond Counsel to the City, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Co-Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. *See* APPENDIX E – FORM OF OPINION OF CO – BOND COUNSEL.

In rendering its opinion, Co-Bond Counsel to the City will rely upon (a) the City's federal tax certificate, as well as the Certificate of Sufficiency, and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Co-Bond Counsel to the City is conditioned on compliance by the City with the covenants and the requirements described in the preceding paragraph, and Co-Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Co-Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Co-Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Co-Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Co-Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service

is likely to treat the City as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is

equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount Bonds" to the extent such gain does not exceed the accrued market discount of such Bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

STATE, LOCAL AND FOREIGN TAXES

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

FUTURE AND PROPOSED LEGISLATION

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

LEGAL INVESTMENTS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, as amended, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. *See* "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least one million dollars of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

SECURITIES LAWS

No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any such jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds must not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

It is the obligation of the Underwriters to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Underwriters' written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the City shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

RATINGS

Fitch, Moody's and S&P have each assigned long-term ratings of "AA-" (rating outlook negative), "Aa2" (rating outlook negative) and "A+" (rating watch negative), to the Junior Lien Obligations, including the Bonds. An explanation of the significance of such ratings may be obtained from Fitch, Moody's and S&P. The rating of the Bonds by Fitch, Moody's and S&P reflects only the view of said companies at the time the rating is given, and the City makes no representations as to the appropriateness of any rating. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Fitch, Moody's and S&P if in the judgment of Fitch, Moody's and S&P circumstances so warrant. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price of the Bonds. A securities' rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time.

CO-FINANCIAL ADVISORS

PFM Financial Advisors LLC and Estrada Hinojosa & Company, Inc. ("Co-Financial Advisors") are employed as Co-Financial Advisors to the Board in connection with the issuance of the Bonds. The Co-Financial Advisors' fee for services rendered with respect to the initial issuance of the Bonds is contingent upon the issuance and delivery of the Bonds. Although the Co-Financial Advisors have read and participated in the preparation of this Official Statement, they have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's and the Board's records and other sources which are believed to be reliable, including financial records of the Board and other entities, which may be subject to interpretation. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as implicit or explicit expression of opinions as to the completeness and accuracy of the information contained in this Official Statement. The Co-Financial Advisors have relied on the opinion of Co-Bond Counsel and have not verified and do not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

INDEPENDENT AUDITORS

This Official Statement includes the basic financial statements of CPS Energy for the fiscal years ended January 31, 2020 and 2019. These financial statements included in this Official Statement as APPENDIX B have been audited by Baker Tilly Virchow Krause, LLP, independent accountant, as stated in their report thereon, which also appears in APPENDIX B hereto.

As part of its external audit procurement process, CPS Energy issued a Request for Proposal for annual financial audits and related services in April 2018. In August 2018, CPS Energy selected Baker Tilly Virchow Krause, LLP, to serve as its external auditor. CPS Energy negotiated a new two-year term agreement with Baker Tilly Virchow Krause, LLP. The two-year agreement contract was scheduled to expire on August 25, 2020. On May 27, 2020, the Board approved a temporary extension to the contract with Baker Tilly Virchow Krause, LLP of one year to the current audit service engagement.

USE OF INFORMATION IN OFFICIAL STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Board. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, the Rule.

FORWARD-LOOKING STATEMENTS

This Official Statement, including the Appendices hereto, contains forward-looking statements within the meaning of the federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the power utility industry and general economic conditions. Such words as "expects", "intends", "plans", "believes", "estimates", "anticipates" or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. Factors which may cause a result different from those expected or anticipated include, among other things, new legislation, increases in suppliers' prices, particularly prices for fuel in connection with the operation of the Systems, changes in environmental compliance requirements, acquisitions, changes in customer power use patterns, natural disasters and the impact of weather on operating results.

Although CPS Energy believes in making any such forward-looking statement, and its expectations are based on assumptions considered reasonable by CPS Energy, any such forward-looking statement involves uncertainties and is qualified in its entirety by reference to factors both identified within this Official Statement and from publicly available resources about the electric and gas businesses, regulation and regulatory authorities for that business, and the City that could cause the actual results of CPS Energy to differ materially from those contemplated in such forward-looking statements.

Any forward-looking statement speaks only as of the date on which such statement is made, and CPS Energy undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for CPS Energy to predict all of such factors, nor can it assess the impact of each such factor or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

MISCELLANEOUS

The description of the Bonds contained in this Official Statement does not purport to be complete. All references to the Bonds are qualified by reference to the Ordinance and to the complete form of the Bonds. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects. So far as any statements made in this document involve budgeted amounts or other estimates or projections, whether or not so expressly stated, they should not be considered statements of fact or representations that the budgeted amount, estimate or projection will approximate actual results.

This Official Statement has been approved by the authorized representatives of the City Council and the Board.

CITY OF SAN ANTONIO, TEXAS

**CITY PUBLIC SERVICE BOARD OF
SAN ANTONIO, TEXAS**

By: /s/ Ron Nirenberg
Mayor, City of San Antonio, Texas

By: /s/ Dr. Willis Mackey
Chair, Board of Trustees
City Public Service Board of San Antonio, Texas

APPENDIX A



CPS ENERGY

GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

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APPENDIX A

CITY OF SAN ANTONIO, TEXAS GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

The entirety of this Appendix is qualified by the impact to the City’s operations and financial condition resultant from the effects of the COVID-19 pandemic. Within the Official Statement, under captions “INTRODUCTION – COVID-19” and “INITIAL IMPACTS OF COVID-19 TO CITY OPERATIONS AND CITY RESPONSES THERETO”, the City has described this event, its impact on City operations and financial condition, and the City’s initial responses to these impacts. The City has not attempted to update the descriptions included in this Appendix A to account for the effects of COVID-19, as the specific impacts of this event are evolving and their extent unknown; rather, the City makes reference to the aforementioned sections of the Official Statement and directs the reader thereto for a general discussion of the COVID-19 event and its impact to the City and its operations and financial condition as of the date of the Official Statement.

This Appendix contains a brief discussion of certain economic and demographic characteristics of the City of San Antonio, Texas (the “City” or “San Antonio”) and of the metropolitan area in which the City is located. Although the information in this Appendix has been provided by sources believed to be reliable, no investigation has been made by the City to verify the accuracy or completeness of such information.

Population and Location

The 2010 Decennial Census (“2010 Census”), prepared by the United States Census Bureau (“U.S. Census Bureau”), found a City population of 1,327,407. For the 2010 San Antonio population, it was determined that the U.S. Census Bureau had erroneously assigned 35 census blocks to the City that are actually outside of the City limits. The revised 2010 San Antonio population is 1,326,539.

The City’s Information Technology Services Department has estimated the City’s population to be 1,552,150 in 2021. The U.S. Census Bureau ranks the City as the second largest in the State of Texas (the “State” or “Texas”) and the seventh largest in the United States (“U.S.”).

The City is the county seat of Bexar County. Bexar County had a population of 1,714,773 according to the 2010 Census. The City’s Information Technology Services Department has estimated Bexar County’s population to be 2,007,938 and the San Antonio-New Braunfels Metropolitan Statistical Area (“MSA”) population to be 2,554,364 in 2021. The City is located in south central Texas approximately 80 miles south of the State capital of Austin, 165 miles northwest of the Gulf of Mexico, and approximately 150 miles from the U.S./Mexico border cities of Del Rio, Eagle Pass, and Laredo.

The following table provides the population of the City, Bexar County, and the San Antonio-New Braunfels MSA for the years shown:

Year	City of San Antonio	Bexar County	San Antonio- New Braunfels MSA ¹
1920	161,379	202,096	255,928
1930	231,542	292,533	351,048
1940	253,854	338,176	393,159
1950	408,442	500,460	556,881
1960	587,718	687,151	749,279
1970	654,153	830,460	901,220
1980	785,880	988,800	1,088,710
1990	935,933	1,185,394	1,324,749
2000	1,144,646	1,392,931	1,711,703 ²
2010	1,326,539	1,714,773	2,142,508 ³

¹ Data for 1920-1990 has been restated to the redefined eight-county MSA from the original four-county MSA.

² As of June 2003, the U.S. Office of Management and Budget redefined the MSA by increasing the number of counties from four to eight: Atascosa, Bandera, Kendall, and Medina Counties were added to its mainstays of Bexar, Comal, Guadalupe, and Wilson Counties. (The 2000 figure reflects the new 2003 redefined eight-county area.) As of December 2009, New Braunfels, Texas qualified as a new principal city of the San Antonio MSA, and the MSA was re-titled San Antonio-New Braunfels MSA.

³ Provided by the 2010 Decennial Census.

Sources: U.S. Census Bureau; Texas Association of Counties – County Information Project; and City of San Antonio, Information Technology Services Department.

Area and Topography

The area of the City has increased through numerous annexations and now contains approximately 518 square miles. The topography of San Antonio is generally hilly with heavy black to thin limestone soils. There are numerous streams fed with underground spring water. The average elevation is 788.68 feet above mean sea level.

Annexation Process

Like other large American cities, San Antonio experienced unprecedented population growth and suburbanization after World War II. San Antonio has historically been able to capture most of the growth in its Extraterritorial Jurisdiction (“ETJ”) through annexation. The City of San Antonio has grown from its 1940s area of 36 square miles to its current size of over 500 square miles. San Antonio has a net taxable assessed value of \$121.1 billion in tax year 2019.

Annexations and Municipal Boundary Adjustments

On December 10, 2020, San Antonio annexed approximately 392.3 acres (0.613 square miles) of land as consented to by way of development agreements between the City and each landowner. Previously in 2019 the City annexed approximately 2,194 acres (3.4 square miles). San Antonio’s corporate land remains at approximately 518 square miles.

In March 2017, the Cities of San Antonio and Converse mutually approved an interlocal agreement (“Agreement”) that established existing and future municipal and ETJ boundaries through a multi-phased schedule over the course of 17 years. San Antonio released the first ETJ phase and transferred corporate territory to Converse in 2017. The San Antonio-Converse Agreement (“Agreement”) was approved prior to the passage of Senate Bill (S.B.) 6 which was effective on December 1, 2017. The passage of the 2017 law curtailed the annexation powers of cities in counties with a population over 500,000. This law adversely affected the two cities’ ability to implement the actions in the Agreement. As a result, both cities agreed to renegotiate the Agreement terms and approved an amended Agreement in December 2019.

Through the amended Agreement, San Antonio released approximately 902 acres of ETJ (Phase 2 Area) to Converse and transferred approximately 625.48 acres (0.98 square mile) of municipal land to Converse in 2020. These actions adjusted San Antonio’s corporate area to approximately 517 square miles by July 1, 2020; only to be brought back up to 518 square miles by annexations, effective on December 31, 2020.

The City’s existing policy provides guidance and a process for annexation and issues in the City’s ETJ. The changes to State annexation law curtailed the annexation powers of Texas municipalities. The City has also seen an influx in the number of requests for special districts and development agreements in the City’s ETJ. The current Annexation Policy does not reflect these recent changes in the state law, nor does it provide the guidance necessary to evaluate requests for special districts and development agreements. Currently, the City is in the process of updating its Annexation and Growth Policy which will provide guidance on how to evaluate requests for special districts and development agreement in its ETJ. Approval of the policy update is scheduled to be completed in 2021.

Governmental Structure

The City is a “Home Rule Municipality” that operates pursuant to the City Charter, which was adopted on October 2, 1951, became effective on January 1, 1952, and was last amended pursuant to an election held on November 6, 2018, whereby, subject only to the limitations imposed by the Texas Constitution, Texas statutes, and the City Charter, all powers of the City are vested in an 11-member City Council which enacts legislation, adopts budgets, and determines policies. The City Charter provides for a Council-Manager form of government with ten council members elected from single-member districts, and the Mayor elected at-large, each serving two-year terms, limited to four full terms of office as required by the City Charter. The Office of the Mayor is considered a separate office. All members of the City Council stand for election at the same time in odd-numbered years. The City Council appoints a City Manager who administers the government of the City and serves as the City’s chief administrative officer. The City Manager serves at the pleasure of City Council, limited to a term of eight years.

City Charter

See “THE CITY-City Charter” in the Official Statement for a discussion regarding the City Charter, its amendment process, and recent developments with respect thereto.

Services

The full range of services provided to its constituents by the City includes ongoing programs to provide health, welfare, art, cultural, and recreational services; maintenance and construction of streets, highways, drainage, and sanitation systems; public safety through police and fire protection; and urban redevelopment and housing. The City also considers the promotion of convention and tourism and participation in economic development programs high priorities. The funding sources from which these services and capital programs are provided include ad valorem, sales and use, and hotel occupancy tax receipts, grants, user fees, debt proceeds, tax increment financing, and other sources.

In addition to the above-described general government services, the City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport and solid waste management.

Electric and gas services to the San Antonio area are provided by CPS Energy (“CPS”), an electric and gas utility owned by the City that maintains and operates certain utilities infrastructure. This infrastructure includes a 19-generating unit electric system and the gas system that serves the San Antonio area. CPS’ operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers. As specified in the City ordinances authorizing the issuance of its system debt, CPS is obligated to transfer a portion of its revenues to the City. CPS revenue transfers to the City for the City’s fiscal year ended September 30, 2019 were \$358,788,274. (See “San Antonio Electric and Gas Systems” herein.)

Water services to most of the City are provided by the San Antonio Water System (“SAWS”), San Antonio’s municipally-owned water supply, water delivery, and wastewater treatment utility. SAWS was founded in April 1992 as a separate, consolidated entity. SAWS’ operating and debt service requirements for capital improvements are paid from revenues received from charges to its customers. SAWS is obligated to transfer a portion of its revenues to the City. SAWS revenue transfers to the City for the City’s fiscal year ended September 30, 2020 were \$30,639,258. (See “San Antonio Water System” herein.)

Economic Factors

The City facilitates a favorable business environment that supports economic diversification and growth. San Antonio’s economic base is comprised of a variety of industries, including: healthcare and bioscience, aerospace, information technology, advanced manufacturing, new energy, and financial services; all with growing international trade. Support for these economic activities is demonstrated through the City’s commitment to ongoing infrastructure improvements and development, and investment in a growing and dedicated workforce. This commitment and the City’s continued status as one of the top leisure and convention destinations in the country support a strong and growing economy.

Traditional economic growth indicators are charting mostly positive for San Antonio. Population grew by 43,762 between 2017 and 2018 to 2.52 million. GDP also grew by \$9 billion to \$134 billion in 2019. San Antonio’s unemployment rate of 6.4% as of December 2020 is below average when compared to the State at 7.1% but below average when compared to the nation at 6.5%. San Antonio experienced a (3.4)% annual job growth rate between 2019 and 2020, with total nonfarm employment in the San Antonio-New Braunfels MSA for December 2020 increasing to 1,063,000.

The City’s Economic Development Department (“EDD”) seeks to promote inclusive growth through strategic investments and partnerships. All full-time employees associated with a project receiving an economic incentive from the City must earn at least \$12.60 per hour, which is considered the poverty level for a family of four by the U.S. Department of Health and Human Services. In addition, at least 70% of all full-time employees must meet the all-industry wage within one year of the execution of an incentive agreement with the City. The all-industry wage is currently \$17.37 and is determined by the Bureau of Labor Statistics by conducting an Occupational Employment Survey in the San Antonio – New Braunfels Metropolitan Statistical Area. The City obtains this data from the Texas Workforce Commission on an annual basis. These wage standards are intended to drive an incremental increase in wages in San Antonio.

The San Antonio Economic Development Corporation (“SAEDC”) was established by the City to foster the commercialization of intellectual property in San Antonio through direct equity investment in projects. This economic development strategy seeks to realize a direct return on investment back to the City. By making equity investments in later stage companies or key entrepreneurs with proven track records, the City supports commercialization of intellectual property in San Antonio, creating more jobs, investments, and entrepreneurs.

Major Initiative - Covid-19 Response and Workforce Development

The first appearance of the coronavirus occurred late 2019 in Wuhan, China. By March 11, 2020 the Novel Coronavirus Disease, COVID-19, was declared a pandemic by the World Health Organization. On March 13, 2020 a national emergency was

declared in the United States concerning the COVID-19 Outbreak. The pandemic has resulted in 26 million cases in the U.S. with a loss of over 400,000 lives. In addition to the human toll, the pandemic greatly negatively affected San Antonio's economy.

Recognizing the urgency of the situation, the City Council took quick action to assist those in need by funding programs for vulnerable and affected populations with both local and federal dollars. On April 23, 2020 Council approved the creation of the Emergency Housing Assistance Program which allocated \$25 million to provide rental or mortgage assistance to those impacted by COVID-19. This provided some immediate relief to those in need; however, the City Council provided the City Manager with direction to create a plan leveraging the available grant funding to address the immediate needs in our community and build a stronger San Antonio moving forward.

A proposed Recovery and Resiliency Plan for the ongoing COVID-19 pandemic was presented to City Council and approved on June 4, 2020. The plan was framed around four pillars, Workforce Development, Housing Security, Small Business Support, and Digital Inclusion.

As part of the Workforce Development Pillar efforts under the COVID-19 Recovery and Resiliency Plan, City Council authorized \$65 million for workforce development strategies, along with \$10 million for childcare assistance. The Train for Jobs SA program was established to provide eligible City residents with skills and career assessments followed by short-term, long-term and on-the-job training in career pathways that promote wage growth. This program will continue through September 2021.

In September 2021, the Train for Jobs program will transition into SA Ready to Work, the voter-approved ballot initiative that will support ongoing workforce recovery efforts. Approved with overwhelming support, SA Ready to Work will deploy approximately \$150 million to be collected through December 2025 for tuition assistance for workforce training and education programs to help residents re-enter the workforce into careers that provide financial security and wage growth.

The small business support pillar of the Recovery and Resiliency Plan included six distinct programs totaling \$38 Million: Micro Business Grants and Support for micro businesses; Business Outreach and Engagement which provides resource referral assistance to small and micro businesses; Virtual and Place-Based Hubs which supports the increased needs of small businesses; the purchase and provision of personal protective equipment to be distributed to local businesses and non-profits; On-the-Job Training Support for Small Businesses; and, Arts and Arts Non-Profit Grants. City Council took further action on November 4, 2020 and December 2, 2020 to add \$3.5 million and \$1.5 million, respectively, in funds to grant awards for Food & Beverage applicants representing a total commitment of over \$29 million in CARES funds for micro business grants and support for small businesses.

Healthcare and Bioscience

According to the Healthcare and Bioscience Economic Impact Study, a 2020 Economic Impact Study commissioned by the San Antonio Chamber of Commerce, the economic impact from this industry sector totaled approximately \$32.6 billion in 2019 measured conservatively, and \$42.4 billion by a more comprehensive estimate. The industry was composed of 187,825 jobs in 2019, meaning that more than one of every five employees in San Antonio works in the healthcare and bioscience industry. Since 2009, the healthcare and bioscience industry has added 46,602 net new jobs, an increase of 33%.

Central to the healthcare and bioscience industry is the University of Texas Health Science Center at San Antonio ("UT Health"), located on more than 100 acres in the heart of the medical center. A total of 4,290 students (including residents and fellows) are enrolled in UT Health's five schools. UT Health employs a total workforce of 7,100 people with an operating budget of nearly \$1 billion, supporting campuses in San Antonio, Laredo, and the Rio Grande Valley. UT Health leads the world's largest research group focused on combat-related PTSD and related conditions, with more than \$150 million dedicated to 60 related research projects.

Brooke Army Medical Center ("BAMC") contains the largest inpatient medical facility in the Department of Defense ("DoD"), the only DoD Burn Center, and the only DoD Level 1 Trauma Center in the U.S. Wilford Hall Ambulatory Surgical Center ("WHASC") at Joint Base San Antonio-Lackland is the largest outpatient ambulatory surgical center in the DoD with 37 graduate medical education programs. The facility provides primary and specialty care; outpatient surgery; a sleep center; a contingency aeromedical staging facility; and eye, hearing and diabetes centers of excellence. The San Antonio Military Health System ("SAMHS") oversees the healthcare delivery of 240,000 DoD beneficiaries in the San Antonio metropolitan region with a staff of approximately 12,000 people. Healthcare services are provided by the BAMC and the WHASC. The SAMHS treatment facilities manage a total combined budget of over \$1.2 billion.

In June 2014, the University of the Incarnate Word ("UIW") announced plans to build the City's first osteopathic medical school (the "School of Medicine") on the campus of Brooks City-Base ("Brooks"). Phase I of the medical school consisted of four buildings in the historic district of Brooks. The cost of building the School of Medicine was approximately \$50 million. UIW began leasing the buildings in 2014 and will take ownership after 25 years. The School of Medicine opened in July 2017 with their first class of 162 students planning to graduate in May 2021. In 2020, UIW announced plans to grow even further

with their purchase of seven buildings spanning 23.5 acres on the Brooks campus. This expansion will house its health professions programs.

The Texas Biomedical Research Institute (“Texas Biomed”) is one of the largest independent, non-profit, biomedical research institutions in the U.S. conducting internationally renowned fundamental and applied research in the medical sciences. With the nation’s only privately-owned biosafety level 4 laboratory, designed for maximum containment, Texas Biomed investigators can safely study deadly pathogens for which there currently are no treatments or vaccines, including potential bio-terror agents and emerging diseases. In August 2017, City Council approved a loan of \$250,000 to Texas Biomed to fund the design of a second state-of-the-art biosafety level 4 facility on its City Council District 6 campus. The \$49 million expansion project is anticipated to retain 43 jobs and create at least nine additional full-time jobs in the newly expanded facility.

The University of Texas at San Antonio (“UTSA”) houses a number of research institutes. The Neurosciences Research, previously Neuroscience Research Center, is tasked with training students in research skills while they perform basic neuroscience research on subjects such as aging and Alzheimer’s disease. In 2019, the Institute had 61 publications, received 6 new awards from various federal agencies, and had \$2.83 million in expenditures. UTSA is also a partner in Morris K. Udall Centers of Excellence for Parkinson’s Disease Research. A joint partnership between UTSA, the UT Health Science Center, and the participation of Texas Biomed and the Southwest National Primate Research Center, has resulted in the formation of the San Antonio Institute of Cellular and Molecular Primatology (“SAICMP”). The focus of the SAICMP is the study of primate stem cells and early embryos to develop nonhuman model systems for studies of primate stem cells and their applications to regenerative medicine. The South Texas Center for Emerging Infectious Diseases was established to focus State and national attention on UTSA in the fields of molecular microbiology, immunology, medical mycology, virology, microbial genomics, vaccine development, and biodefense. In 2020, SwRI, Center, and the Lovelace Respiratory Research Institute received an \$18 million from the U.S. Department of Defense to collaboratively develop a protective vaccine against a bacterium for the military.

The SAEDC has supported several projects within the healthcare and bioscience sphere. To date, the SAEDC has incentivized the following bioscience and healthcare companies, StemBioSys, Inc., InCube, Innovative Trauma Care, Inc., and BioAffinity Technologies. Throughout 2017 and 2018, EDD and the SAEDC facilitated an ongoing working group of local military, academic, and private life science industry leaders on a study and action plan for greater commercialization out of the military medical research missions in San Antonio. The final San Antonio Military Life Science Commercialization Action Plan and recommendation for a San Antonio Military Medical Innovation (“SAMMI”) Specialist were presented to the working group in July 2018. Based on the recommendation, the SAEDC hired a SAMMI Director in 2019 who facilitates the implementation of the San Antonio Military Life Science Charter and coordinates the development of a local alliance to provide long-term sustainability and funding. Additionally, the SAEDC Board approved the creation and guidelines for a SAMMI Fund with the goal of providing financial assistance to early-stage local companies that are engaged in the development of products and technologies that support military medicine with the potential application for broader civilian markets. This Fund has led to the investment of \$50,000 in 3 entrepreneurial start-up companies, Renovo Concepts, GaitIQ, and EmergenceMed.

In September 2017, City Council approved a grant of up to \$200,000 for Pelican Therapeutics to relocate its headquarters to San Antonio and create 22 new full-time jobs within five years. Pelican Therapeutics is a subsidiary of Heat Biologics, a Durham, North Carolina-based biopharmaceutical firm focused on developing anticancer drugs. Pelican Therapeutics will establish lab and office space in City Council District 8 to support efforts linked to a \$15.2 million Cancer Prevention Research Institute of Texas grant.

The Texas Research and Technology Foundation (“TRTF”) is a non-profit organization that focuses on life science and technology-based economic development in San Antonio. On August 2017, TRTF acquired the 4-acre Merchant’s Ice complex to establish a life science and technology focused Innovation District (the “Innovation District”) that will be managed by VelocityTX, the organization’s innovation, commercialization, and entrepreneurial development-focused subsidiary. The \$220 million Innovation District will include an incubator and innovation center to serve multiple target industries and provide a broad array of resources to entrepreneurs. TRTF estimates that when completed, the Innovation District will support over 700 jobs and produce \$736 million in increased economic activity between 2019-2023.

Financial Services

The largest private sector employer in the industry is United Services Automobile Association (“USAA”). The company has approximately 13 million customers, comprised of military members, veterans, and their families. The company currently employs over 35,000 people nationwide. While this sector is led by USAA, San Antonio is home to other insurance company headquarters and regional operations centers for many health care insurers. Insurers with substantial regional operations centers in San Antonio include: Nationwide Mutual Insurance Company, Caremark, United Health, and PacificCare.

San Antonio is also the home of many banking headquarters and regional operations centers such as Frost Bank, Broadway National Bank, and USAA Federal Savings Bank. In December 2014, Security Service Federal Credit Union, the largest credit union in Texas and seventh largest credit union in the United States, established its corporate headquarters in City

Council District 8. In October of 2017, San Antonio-based lending institution Credit Human announced plans to invest \$113 million to construct a new state-of-the-art corporate headquarters on the Broadway corridor in City Council District 1. The facility was completed and began operations in early 2021. The new headquarters will bring 485 jobs to the urban core. Other companies with large regional operations centers in San Antonio include: Bank of America, Wells Fargo, J.P. Morgan Chase, Citigroup, Pentagon Federal Credit Union, and Victory Capital Management.

Hospitality Industry

The City’s diversified economy includes a significant sector relating to the hospitality industry. Prior the COVID-19 pandemic, an Economic Impact Report of San Antonio’s Hospitality Industry (representing 2017 data) found that the hospitality industry has an economic impact of \$15.2 billion. The estimated annual payroll for the industry is \$3.2 billion, and the industry provided an average of 140,188 jobs.

In 2020 lodging statistics were significantly affected by the circumstances associated to COVID-19 pandemic. Additionally, due to ongoing health concerns and travel restrictions, Visit San Antonio purposely scaled back programming in FY 2020 that affected these outcomes. The City’s overall level of hotel occupancy was down (37.4)%; room supply decreased (4.2)%; total room nights sold decreased (40.0)%; the average daily room rate decreased (21.7)%; revenue per available room decreased (51.0)%; and overall revenue decreased (53.0)%.

Tourism. The list of attractions in the San Antonio area includes, among many others, the Alamo and other sites of historic significance, the River Walk, and two major theme parks, SeaWorld San Antonio and Six Flags Fiesta Texas. Prior to the COVID-19 pandemic, San Antonio would attract 41 million visitors a year. Of these, over 24.9 million are overnight visitors, historically placing San Antonio as one of the top U.S. destinations in Texas. Although Visit San Antonio scaled back on programming in FY 2020 due to the pandemic, it was able to achieve the following results: (1) obtained over 19.1 million in online engagement, showing consumer interest in San Antonio through the Visit San Antonio website and social-media channels, both important travel decision influencers and (2) reported an estimated \$25.9 million in earned media. This media value is the dollar value of the positive media coverage generated by the Visit San Antonio communications team, which represents the stories and articles in print (i.e., magazines, newspapers, etc.), TV, radio, and online media; the dollar figure aligns with what the advertising cost of that coverage would have been if Visit San Antonio had purchased the exposure.

Conventions. San Antonio has traditionally been one of the top convention cities in the country and normally hosts 7.0 million business visitors a year to the area for a convention, meeting or other business purpose. However, in FY 2020, Visit San Antonio experienced 245 group cancellations worth 586,318 room nights due to the COVID-19 pandemic. Total group sales production for FY 2020 resulted in 278 group and meeting events with 464,182 group room nights booked. This represents a decrease year over year of 47% to events booked and a decrease of 51% in group room nights. Important to highlight that Visit San Antonio implemented a digital engagement strategy in FY 2020 with the goal to continue to build on current customer relationships. These engagements will be vital during the recovery period of the pandemic and are meant to ensure San Antonio will be in a position for success when the time is appropriate for our group meeting clients to meet again.

The following table shows both overall performance as well as convention activity hosted by Visit San Antonio for the calendar years indicated:

Calendar Year	Hotel Occupancy ¹	Revenue per Available		Convention Attendance ²	Convention Room Nights ²
		Room (RevPAR) ¹	Room Nights Sold ¹		
2011	61.3	58.08	8,236,019	499,171	637,593
2012	63.5	60.79	8,651,826	449,202	635,829
2013	63.1	63.44	8,610,676	712,577	734,190
2014	64.9	67.32	8,817,338	652,443	725,333
2015	65.7	69.55	8,913,575	699,662	773,569
2016	65.9	71.12	9,116,363	637,658	676,501
2017	66.0	73.45	9,268,201	823,561	816,582
2018	67.1	77.88	9,568,119	672,288	882,650
2019	67.4	75.98	9,989,643	605,093	766,259
2020	42.1	37.10	5,986,600	218,957	181,737

¹ Data obtained from Smith Travel Research based on hotels in the San Antonio selected zip code reports dated January 2021 (reporting 2020 numbers), and historical annual reports for prior years.

² Reflects only those conventions hosted by Visit San Antonio.

Source: Visit San Antonio

Military Industry

The growth in new missions and significant construction activities brought about by Base Realignment and Closure (“BRAC 2005”) strengthened San Antonio’s role as a leading military research, training, and education center. One of the major outcomes of BRAC 2005 was the creation of Joint Base San Antonio (JBSA) which is the largest joint base in the Department of Defense (DoD). JBSA consolidates all the base support functions, real property, and land for JBSA-Lackland, JBSA-Randolph, and JBSA-Fort Sam Houston (including Camp Bullis) under the 502nd Air Base Wing. JBSA, (includes over 46,500 acres), supports over 80,000 personnel, has a plant replacement value of \$30 billion, and an annual budget of \$800 million. Over 138,000 personnel are trained at JBSA facilities every year. In addition, JBSA currently has approximately \$275 million in Military Construction (“MILCON”) projects underway making it the largest MILCON program in the Air Force.

JBSA and its 266 mission partners represent a significant component of the City’s economy providing an annual economic impact, when combined with other DoD contracts and contractors, military retirees, veterans, and direct and indirect jobs, of over \$16 billion for the City and approximately \$41 billion to the State of Texas. In addition, the property of the former Brooks Air Force Base (Brooks AFB), a fourth major military installation, was transferred from the U.S. Air Force to the City, who created Brooks Development Authority (BDA) in 2002 as part of the Brooks City-Base Project. Furthermore, the military is still leasing over 1.7 million square feet of space at Port San Antonio (the Port), which is the former Kelly Air Force Base that was closed in 2001.

One of the other significant events brought about by BRAC 2005 is the realignment of medical facilities resulting in a major positive impact on military medicine in San Antonio, with \$3.2 billion in construction and the addition of approximately 12,500 jobs at the JBSA complex. Currently, Brooke Army Medical City (BAMC), the DoD’s only Level I Trauma Center, continues to play a critical role in patient care, graduate medical education and research, as well as caring for wounded military service members, and civilian members of the community. Along with other institutions, BAMC provides support to 22 counties in Southwest Texas, covering over 26,000 square miles, including the City, and servicing over 2.2 million people.

Regarded as one of the top medical facilities in the DoD, BAMC benefits the community by serving as an additional tertiary referral center to care for the most complex and critically wounded civilian patients without concerns for payor status. The bulk of BAMC’s funding for civilian trauma patients comes from the United States Army’s Secretarial Designee Program. In addition, approximately \$2.5 million annually is funded through the Uncompensated Trauma Care Grant administered by the Texas Department of State Health Services. BAMC’s health professionals retain a high degree of medical/combat readiness by the experience they gain treating the large volume of complex trauma patients from the community. This experience replicates the same type of casualties encountered in combat.

In addition, BAMC trains future healthcare providers to go to war. Over 600 physicians are trained/educated through Graduate Medical Education programs. Nearly 900 medical students are trained at BAMC every year in the areas of trauma, orthopedics, ophthalmology, emergency medicine, and otolaryngology. In addition, over 1,200 participants graduate annually from various allied health programs at BAMC. This Center is the nation’s premier military training platform to prepare military healthcare professionals to provide life-saving combat medical care.

JBSA-Fort Sam Houston. JBSA-Fort Sam Houston is engaged in military-community partnership initiatives to help reduce infrastructure costs and pursue asset management opportunities using military facilities. In April 2000, the U.S. Army entered into a partnership with the private organization, Fort Sam Houston Redevelopment Partners, Ltd. (“FSHRP”), for the redevelopment of the former BAMC and two other buildings at Fort Sam Houston. These three buildings, totaling about 500,000 square feet in space and located in a designated historic district, had been vacant for several years and were in a deteriorating condition. On June 21, 2001, FSHRP signed a 50-year lease with the U.S. Army to redevelop and lease these three properties to commercial tenants.

Some of the major mission partner organizations on JBSA-Fort Sam Houston are: U.S. Army North, U.S. Army South, Army Installation Management Command, Army Medical Command, Army Medical Department and School, Regional Health Command-Central, BAMC, Medical Educational and Training Campus, Mission and Installation Contracting Command, Navy Medicine Education, Training & Logistics Command, three U.S. Army Reserve Depots, a Navy/Marine Reserve Operations Center, and a Texas Army National Guard armory.

The potential economic impact from JBSA-Fort Sam Houston due to the BRAC 2005 expansion, along with major growth from the Army Modular Force and Army Grow the Force programs, is estimated at nearly \$8.3 billion. The economic impact due to the amount of construction on post to accommodate the new mission accounts for approximately 80% of the impact (\$6.7 billion). While the major surge of construction from BRAC 2005 and the other major force programs are complete, the economic impact from JBSA-Fort Sam Houston will increase by nearly \$1.6 billion annually with additional annual sales tax revenue of \$4.9 million. Major personnel moves under BRAC 2005 were completed by September 15, 2011, and this increase in personnel and missions at JBSA-Fort Sam Houston supports the employment of over 15,000 in the community.

Various construction projects continue or have been completed at JBSA-Fort Sam Houston. The new Walters Street Gate and Entry Control Point and a new Medical Education and Training Campus Headquarters Building are now complete. A new Student Activity Center opened in November 2013 and construction was completed on a new BAMC Visitor Control Center and Entry Control Point in January 2014. A new 310-room hotel was completed in October 2014, and a new 192-room apartment style dormitory broke ground in 2016 and was completed in early 2018. A small addition to the hospital for a hyperbaric chamber was completed in June 2017, and a new two-story Army-Air Force Exchange Services Exchange Main Store was finished in Spring 2020. In 2016, the United Service Organization (USO) in partnership with JBSA, completed a new all-Service facility located in the Sam Houston Community Center. New construction includes a Combat Medic Lab Instructional Building (the "Lab") replacing a 1940's facility. The Lab trains combat medics a daily average of 180 students. Mission growth saw five new organizations whose cyber and medical missions brought approximately 305 new positions to the installation.

JBSA-Camp Bullis. Armed Forces medics and Corpsmen at JBSA-Fort Sam Houston receive additional field training at the 28,000-acre JBSA-Camp Bullis. JBSA-Camp Bullis is also used by the 37th Training Wing for Security Forces technical and professional development training. Additionally, JBSA-Camp Bullis is home to the United States Air Force (USAF) Medical Training Readiness Center, which encompasses four medical-related courses. It is also home to multiple Army Reserve and Army National Guard units of all types, to include Military Intelligence, Engineer, Medical, Infantry and Special Forces. The 470th Military Intelligence Brigade, headquartered at JBSA-Fort Sam Houston, operates the United States Army Intelligence and Security Command Detention Training Facility at JBSA-Camp Bullis, and the Defense Medical Readiness Training Institute operates the Combat Casualty Care Course. JBSA-Camp Bullis also supports regular use by local law enforcement agencies and Federal entities. An average of 500 people train at Camp Bullis every day for an average of about 180,000 man-days of training annually. Changes in current events around the world can cause surges in training that occurs at Camp Bullis. Because of its geographical size, numerous units and missions are continually looking at JBSA-Camp Bullis as a viable place to locate and train. An \$18.5 million-dollar MILCON project for a new 36,000 square foot dining facility, which will serve approximately 370,000 meals a year, was deferred as some of the funding was diverted from the DoD FY20 budget.

JBSA-Lackland. JBSA-Lackland is home to the 37th Training Wing, situated on 9,700 acres, all within the city limits of San Antonio. According to a recent Economic Impact Analysis, over 53,000 military personnel, civilians, students, contractors, and military dependents work, receive training, or utilize JBSA-Lackland services. JBSA-Lackland hosts the Air Force's only Basic Military Training ("BMT") function for all enlisted Airmen, which is known as the "Gateway to the Air Force", and currently provides BMT for the United States Space Force. Additionally, JBSA-Lackland hosts many of the technical training courses which the BMT graduates are routed to prior to their first assignment. On an annual basis, JBSA-Lackland is expected to graduate 86,000 Airmen and international students. The Air Force is in the middle of a \$900 million-dollar MILCON program to replace the BMT recruit housing and training buildings that have been in continuous operation since their construction in the late 1960s. Construction is now complete for four of the Airmen Training Complexes ("ATC") and the first two Dining/Classroom Facilities ("DCF") that support the ATCs. Construction is also complete for the Pfingston BMT Reception Center, every new recruit's entry into BMT. The beginning of the second half of the BMT Complex replacement program began in FY 2019 with the start of the fifth ATC and the third DCF. Each ATC will house up to 1,200 trainees and the DCF includes dining halls and classroom facilities for two ATCs. The BMT replacement program is estimated to be complete by late calendar year 2022. The City of San Antonio is supporting these efforts by building a third entry (deceleration) lane into JBSA-Lackland. This ongoing project will support over \$600 million in new construction over the next 10 years. The deceleration lane was JBSA's number one funding priority and will support the transit of approximately 100 heavy trucks a day for the duration of these projects. In addition, construction of the lane will reduce wear and tear on both City and JBSA streets while minimizing traffic congestion outside the base, enhancing overall safety for both military members and the community.

Projected growth could also come in the form of the previous merger of 24th Air Force (cyber focus) and the 25th Air Force (intelligence, surveillance, and reconnaissance focus) into the 16th Air Force. Previous projections included a 160,000 square foot expansion of the building housing personnel and operations of the former 24th Air Force and a potential increase of 1,500 students at the Defense Language Institute English Learning Center. The 16th Air Force continues to refine its "campus plan" with the desire to replace its complex of buildings constructed in the 1950s through the early 1970s. The "campus plan" will consider the consolidation of personnel and operations in the former 24th Air Forces building, on what is now former Kelly Air Force Base, into new MILCON facilities that will also replace the current 16th Air Force building complex. Finally, the Transportation Security Agency's Canine Academy headquarters opened in March 2016.

Adjacent and contiguous to JBSA-Lackland is Port San Antonio (the Port), where the Air Force maintains a significant presence. The Air Force and the Port jointly utilize the Kelly Field runway for military and commercial airfield operations. The Air Force continues to lease over 30 buildings, which consist of 1.75 million square feet of space and over 270 acres. The largest Air Force leaseback is at Building 171, a 460,000 square foot facility previously closed from the 1995 Base Realignment and Closure of Kelly AFB. Approximately 7,000 Air Force and other DoD employees work at this and other facilities on the Port in the post-BRAC 2005 era. Recently approved funding from the federal MILCON program and the state of Texas' Defense Economic Adjustment Assistance Grant will result in the replacement of the aging, non-compliant Kelly Air Traffic Control Tower, and upgrade and renovation of an aging hangar and operations facilities. These much-needed infrastructure improvements will support C-5 and F-16 training missions.

Much of the new BRAC 2005 growth which occurred on the Port property is at Building 171. The Air Force spent \$26.5 million to renovate the building, which houses 11 missions. Seven missions and approximately 800 personnel have relocated to the building from Brooks. These include the Air Force Civil Engineer Center, four medical missions including the Air Force Medical Operations Agency, and other support missions. Building 171 also houses the personnel and mission of the former 24th Air Force that is now conducted under the newly-created 16th Air Force consisting of approximately 450 personnel and the Air Force Real Property Agency.

In the near future, eight new organizations are expected to bring approximately 660 new positions to JBSA-Lackland. These new personnel will perform cyber, flight and technical, and training missions. Part of this growth has already taken place. In October of 2018 the Secretary of the Air Force announced that JBSA would be home to the Special Warfare Training Wing (“SWTW”) bringing 135 new jobs to the area and significantly enhancing the base’s military value. Part of the FY20 Defense Appropriations Bill included \$69 million for a new aquatics tank to support the SWTW mission.

JBSA-Randolph. JBSA-Randolph, which is known as “the Showplace of the Air Force” because of its consistent Spanish Colonial Revival architectural standard retained from when the installation was first constructed in the early 1930s, is on the northeast side of San Antonio and houses the Headquarters Air Education and Training Command (“AETC”) and the Air Force Personnel Center (“AFPC”). Other major tenant organizations include the Air Force Manpower Agency, 19th Air Force, the Air Force Recruiting Service, and the Air Force Office of Special Investigations (Region 4). The main operational mission is carried out by the 12th Flying Training Wing (the “Wing”) which equips and trains aviators and supports worldwide contingency operations. The Wing operates parallel runways on either side of the main installation facilities and conducts 24-hour-a-day flight training operations. In a related aviation mission, JBSA-Randolph, which in 2017 added 85 instructors and staff to its Remotely Piloted Aircraft (“RPA”) training unit, produces RPA pilots to man an Unmanned Aerial Systems (“UAS”) force which now encompasses 8.5% of total Air Force pilot manning. The UAS force grew by approximately 25% between FY 2013 and FY 2017. New construction includes a commercial vehicle gate which replaces a non-Anti-Terrorism/Force Protection compliant gate in the airfield clear zone. New organizations will see 30 new positions supporting the base’s flight training mission. The FY 20 Defense Appropriations Bill provides \$36 million in MILCON for a replacement AFPC B-Wing building, and a total of nearly \$20 million in MILCON for buildings to support T-X ground-based flight simulators and T-X aircraft maintenance training facilities. The T-X is also referred to by its nomenclature of T-7 Red Hawk; it is the Air Force’s next generation training aircraft that will replace the T-38 Talon.

The BRAC 2005 growth supported the City’s economic development strategy to promote development in targeted areas of the City, to leverage military installation economic assets to create jobs, and to assist the City’s military installations in reducing base support operating costs.

San Antonio is home to two large projects which serve all of the military branches. The Audie L. Murphy Veterans Administration Hospital, which includes a new \$67 million Level I Polytrauma Center, was completed in 2011. This hospital is designed to be the most advanced in the world and is capable of providing state-of-the art medical care to veterans with multiple serious injuries. San Antonio is also home to the National Trauma Institute (“NTI”), a collaborative military-civilian trauma institute involving BAMC, University Hospital, the UT Health Science Center, and the U.S. Army Institute of Surgical Research (“USAISR”). The NTI coordinates resources from the institutions to most effectively treat trauma victims and their families.

In 2005, the San Antonio community established communication/partnership forums to assist the military with BRAC 2005 and other military-related issues. The Military Transformation Task Force (“MTTF”) is a City, Bexar County, military mission partner, and business community organization which provide a single integrated forum where senior military commanders address their challenges and requirements to the community.

In January 2007, the City established the Office of Military Affairs (OMA) as the single point of contact for the City on military and veteran related issues. In 2018, OMA formally changed its name to the Office of Military and Veterans Affairs (OMVA). The mission of OMVA is to work with the military to sustain and enhance mission readiness, develop and institutionalize relations to strengthen a community-military partnership, and to provide an official formalized point of contact for the military and veteran community on issues of common concern. OMVA is working with the MTTF Tri-Chairs to refocus the MTTF by updating and codifying its mission, vision, membership, leadership, chain of command, branding and measures of effectiveness.

For the past three (3) years, OMVA has aggressively pursued partnerships with JBSA to preserve and increase military missions, protect military installations, and improve the City’s military-friendly environment for the military and veteran community. OMVA advocates on behalf of the military at the local, state and national level. Through advocacy and close relationships with JBSA leadership, OMVA has advocated for, and been successful in securing numerous infrastructure projects supporting JBSA. This tangible support, which has included funding through the City’s bond program, state funding, and other sources, has resulted in \$105 million dollars in both bond and City operating budget projects since 2007. These projects have been mutually beneficial for both the City and the military and added military value to the region’s installations---military value has been part of the scoring criteria in previous BRACs.

OMVA works closely with the military to address compatible land-use issues around the installations in order to enhance mission readiness. This includes testifying at committee hearings before the Texas Legislature during the year and at their biennial sessions. During the 85th Texas Legislative Session, OMVA, along with local and state elected officials, was successful in ensuring the establishment of a five-mile protection buffer against encroachment around all Texas military installations. This same team effort was applied during the 86th Texas Legislative Session to maintain this five-mile buffer. OMVA also assists the Mayor with the Commission on Veterans Affairs. Chartered in 2001, this eleven-member board serves the Mayor and ten City Council districts in an advisory capacity focused on all veteran issues within the community.

In 2008, then-OMA introduced the Growth Management Plan as one of the responses to the growth brought about by the BRAC 2005 actions, and it clearly laid out the partnership between the San Antonio community and the military. One example of the partnership is the City's effort to gather over \$105 million in resources and funding from bond proceeds, City funding, federal earmarks, and grants to provide significant infrastructure improvements around Fort Sam Houston.

The premier project was the reconstruction and widening of Walters Street, a primary entrance to Fort Sam Houston. This project was substantially completed in June of 2013. This project was complex, since it was the center segment of a cooperative effort joining the already completed Texas Department of Transportation ("TxDOT") improvements on IH-35 to a new, high security gate entrance that was completed at Fort Sam Houston. An even more unique project is the City's construction of a much-improved bridge over Salado Creek on Binz Engleman Road, which was actually built on federal property and was gifted to the military upon completion in June of 2012. Other key projects included intersection improvements on Harry Wurzbach Road between the JBSA-Fort Sam Houston Gate and Rittiman Road, and the construction of a new bridge on Rittman Road, west of IH-35. The City also expended significant funding to support development along Walters Street by improving utilities, installing a new water line, and improving numerous side streets in that area. These improvements are now complete. The City was also selected by the DoD's Office of Economic Adjustment to receive an award of \$25 million in federal funds to construct new ramp connectors between IH-35 and Loop 410 near BAMC. This initiative with TxDOT greatly improved traffic flow and safety for personnel seeking access to the medical facility area.

Finally, the City and JBSA entered into an Intergovernmental Support Agreement ("IGSA") in late 2018 through which JBSA can leverage the City's existing roadway facility contracts to provide pavement repair services across JBSA's installations. A pilot project was completed on JBSA-Ft. Sam Houston in 2019 and saved the government \$52 thousand dollars, and a second project on JBSA-Ft. Sam Houston was completed in the summer of 2020. This particular IGSA was amended in the spring of 2020 to allow the City to support more complex roadway repairs for JBSA. In September of 2020, the 502nd Civil Engineer Squadron made its first three purchases under the City of San Antonio-JBSA Bulk Purchase IGSA. This IGSA provides JBSA the opportunity to leverage the City's contracts to purchase bulk materials such as gravel and sand.

On March 24, 2017, the United States Patent and Trademark Office granted San Antonio the trademark Military City, USA. The trademark was a result of a year-long process to ensure that no other city had previously met the criteria. For over three hundred (300) years, San Antonio has had a rich military history. The moniker Military City USA became most prominent after World War II. During this time, five military installations operated in San Antonio and the surrounding areas. The trademark emphasizes San Antonio's rich military history and honors approximately 250,000 veterans.

Currently, DoD is the community's largest employer, supporting the employment of over 805,685 people, with an economic impact of approximately \$124 billion to the Texas economy. JBSA alone directly employs 282,995 people and has a total economic impact of \$47 billion in payroll, contract expenditures, and value of jobs created. Over 250,000 veterans reside in San Antonio and receive over \$1.5 billion in annual benefit payments. The BRAC 2005 program in San Antonio concluded in 2011 but the construction momentum continues.

Aerospace

According to the Economic Impact Study commissioned by the Greater San Antonio Chamber of Commerce in 2018, aerospace is a \$3.4 billion industry in San Antonio. This industry provides approximately 17,250 jobs, with employees earning total annual wages of over \$1 billion. The aerospace includes key aerospace assets, which include: San Antonio International Airport, Stinson Municipal Airport, the Port, JBSA-Randolph, JBSA-Lackland, and training institutions. Many of the major aerospace industry participants such as Boeing, StandardAero, STSA, FedEx, UPS, and others, have significant operations in San Antonio. The aerospace industry in San Antonio includes air passenger service, maintenance, repair, overhaul, and general aviation.

The Port is a logistics-based industrial platform on the former Kelly Air Force Base. It was created by the Texas Legislature in 2001 following the closure of the base and tasked with redeveloping and managing the property to ensure that it continues serving as an economic engine for the region and includes over 1,900 acres. Though created by the local government, the Port is self-sustaining and operates like a business, receiving its income from the properties it leases and services it provides, and reinvesting profits into further development of the property. The Port is the region's single largest real estate management and leasing firm, overseeing 12.9 million square feet of facilities and logistics assets that include an industrial airport, Kelly

Field, SKF, and a 350-acre railport, East Kelly Railport.

Fourteen of the Port's customers are aerospace-related firms, including industry leaders Boeing, StandardAero, Chromalloy, and GDC Technics. These Port customers operate within more than 3.5 million square feet of highly specialized facilities, including hangars that accommodate multiple wide-bodied aircraft, workshops and an array of engine test cells. The campus is also home to the nationally-acclaimed Alamo Academies, which prepares the region's youth for advanced technology careers, particularly in the aerospace industry.

In early 2012, Boeing announced that its San Antonio facility would gain 300 to 400 workers along with maintenance responsibilities for the nation's executive fleet due to a decision to close a Wichita, Kansas plant. The aircraft maintenance and support work, which moved to San Antonio, included improvements to the nation's fleet of executive jets, including Air Force One, the Boeing 747s that transport the President of the United States, and the jets that transport the Vice President, Cabinet members, and other government officials. In 2018, Boeing announced that it would be increasing its San Antonio workforce by around 900, effectively doubling its presence in the City.

In 2017, StandardAero was awarded a contract to overhaul engines that power military transport planes and other aircraft. In 2018, StandardAero also announced that it would be increasing its San Antonio workforce, creating 100 jobs.

Finally, in May 2020 the Department of the Air Force (DAF) announced it was reopening the competition for cities that wanted to become the home for the Headquarters of the new U.S. Space Command. All U.S. governors were provided with the basic qualification criteria required to receive gubernatorial endorsement and ultimately initial consideration by the DAF. San Antonio was one of three Texas cities receiving Governor Abbott's endorsement. The City was one of over 50 U.S. cities from 24 states initially evaluated by the DAF. In late July 2020, the City was notified it was selected to proceed in the evaluation phase, and in late November 2020 the City was notified it was one of six candidates for the DAF's selection phase. In early January, the DAF announced that another candidate location was selected as the location. This decision is being met with opposition from almost all of the other five candidate locations and with calls to review the decision scoring process. Regardless of the outcome, it was another opportunity to highlight and broaden the awareness (DoD and others, nationally) of the qualities of San Antonio and support from its military community.

IT and Cybersecurity

The information technology industry plays a major role in San Antonio. The San Antonio Information Technology industry had an economic impact in excess of \$10 billion in 2018. San Antonio boasts some of the most sophisticated uses of IT in the world, even though much of that advanced usage remains undisclosed for security reasons, as the community is home to a large concentration of military and intelligence agencies charged with the missions of intelligence, surveillance and reconnaissance, information operations and network defense, attack and exploitation. San Antonio possesses the second largest cluster of cyber and cybersecurity professionals in the nation outside the National Capital Region. There are numerous San Antonio examples of entities with missions in the cyber and cybersecurity sector. Two of the most prominent organizations representing the Department of Defense with cyber and cybersecurity missions in San Antonio (Military City USA™) are the 16th Air Force (24th Air Force and 25th Air Force were merged into the 16th Air Force in November 2019), and the National Security Agency-Texas. Other federal entities performing cyber missions are FBI-San Antonio, U.S. Secret Service, and the Department of Homeland Security. The City of San Antonio standout in the academic sector is the University of Texas at San Antonio (UTSA) which hosts the nation's top cybersecurity program. The cyber and cybersecurity industry in San Antonio is represented by nearly 40 companies headquartered in the city with approximately another 35 national employers operating in either the cyber or cybersecurity sector, according to the San Antonio Chamber of Commerce.

UTSA has two leading institutions in the field of IT and Cybersecurity, the Center for Infrastructure Assurance and Security ("CIAS") and the National Security Collaboration Center ("NSCC"). The CIAS at UTSA is one of the leading research and education institutions in the area of information security in the country. The CIAS has established partnerships with major influential governmental and non-governmental organizations such as the DoD, Department of Homeland Security, and the United States Secret Service. The CIAS has also been actively involved with sector-based Information Sharing and Analysis Centers' security preparedness exercises for organizations in critical infrastructures. To continue its growth, CIAS' K-12 Cybersecurity Program was launched nationally in order to spur student interest and involvement in cybersecurity. The NSCC is a Government-University-Industry ecosystem, attracting diverse thinkers and problem-solvers to join the national security conversation to uncover transdisciplinary solutions collectively. The NSCC will enhance the cybersecurity ecosystem in the region and provide state-of-the-art space housing computational capabilities, including a Sensitive Compartmented Information Facility and an Innovation Factory where academia, industry, and government can rapidly develop products for application in the national security enterprise. The NSCC will be housed downtown with the School of Data Science along with a proposed \$161.2 million Innovation, Entrepreneurship and Careers Building. These major initiatives will anchor UTSA to the downtown "high-tech" corridor and act as a catalyst for economic and community investments in the San Pedro Creek area.

The Alamo Regional Security Operations Center (“ARSOC”) is an initiative led by the City and its partners at SAWS and CPS. This initiative would create a centralized security operations facility for real-time, collaborative cybersecurity information sharing among municipally owned entities in the San Antonio Area. Expected to be completed in 2021, the ARSOC will become the model Urban Cyber Security Center of Excellence. In 2020, the San Antonio City Council approved \$2.5 million toward the effort to build a new state-of-the-art integrated facility at Port San Antonio. By consolidating members from both the City and CPS Energy security teams, San Antonio will be better positioned to coordinate against cyber threats.

Geekdom is a collaborative coworking space in San Antonio, and the heartbeat of the startup ecosystem along the City’s growing Tech District located in the Downtown area on Houston Street. At over 44,000 square feet, Geekdom is home to more than 1,700 members, and is one of the largest collaborative co-working spaces in Texas. Geekdom’s partners include USAA, Rackspace, Codeup, and Salesforce.

Following the success of the City of San Antonio’s CityTechSA program, which encourages entrepreneurs to solve civic challenges, the City and Geekdom partnered to establish the Geekdom Incubator Program. As part of this program, Geekdom will support six teams over a two-year period with business and product development and support, as well as access to entrepreneurial resources and mentorship in San Antonio. In addition, part of the mission of this program is to work with relevant City departments and potentially create products or solutions for the City to partner with and/or procure, if applicable. Since its official launch in early 2020, all six teams have been selected with 15 total individual participants. These teams are working on a variety of projects with scopes ranging from assisting local businesses promote their services and products to assisting potential pet adopters find their future pets.

Build Sec Foundry, located at Geekdom, is a cybersecurity accelerator made up of security professionals and entrepreneurs. The Foundry provides team space, mentorship, and access to the critical services a company needs as it prepares to launch into the market. Portfolio companies currently include Rectify, Coherent Cyber, Symmetry, and Level Effect, with Infocyte as the first graduate of the program.

In April 2017, City Council approved a grant of \$1.5 million to support infrastructure improvements at Port San Antonio associated with Project Tech, a new facility specifically designed to meet the growing needs of San Antonio’s cybersecurity ecosystem. Project Tech will enable the expansion of cybersecurity operations and personnel while growing a campus environment that supports closer collaboration between high-ranking experts in cybersecurity and their technical counterparts in aviation, advanced manufacturing, and other targeted industries. Phase I was completed in early 2018 and Project Tech officially opened its doors in May 2018. In 2019, the Port Board of Directors approved the construction of a second Project Tech building, a new five story, 174,000 square-foot office building. The second building is expected to open in early 2021. In addition, the Port is developing an innovation campus focused on supporting military and commercial solutions for applied technologies in critical infrastructure, manufacturing, transportation, and related sectors. Located in close proximity to the Air Force’s local cybersecurity and intelligence operations, as well as key industry partners, the campus will showcase capabilities and new technologies, offer education space, office and lab facilities, and serve as a hub for new and developing cybersecurity ideas and innovations. Total, there are over 14,000 people working across 80 companies at Port San Antonio.

The development and growth of the IT and cybersecurity industry has led to numerous global tech companies moving to San Antonio. Since 2017, companies such as Hulu, The Hut Group, LGS Innovations, Booz Allen Hamilton Inc., Parlevel, and Accenture, have announced plans to either locate or expand their current operations in San Antonio. Combined, those companies are expected to create at least 1,324 new jobs. Many of San Antonio’s companies have strong ties to the community which have in turn led to the creation of internships and support for community-based workforce development initiatives.

Advanced Manufacturing

Toyota Motor Corporation, one of the largest manufacturing employers in San Antonio with an estimated workforce of over 3,000, expanded its local production in 2010, adding the production of the Tacoma truck. Toyota shifted its Tacoma manufacturing from Fremont, California to San Antonio, creating an additional 1,000 jobs and investing \$100 million in new personal property, inventory, and supplies. Toyota and its 23 on-site suppliers, located on San Antonio’s south side, support Toyota’s production of Tundra and Tacoma vehicles, generating an estimated annual impact of \$1.7 billion. Since their announcement in 2019, the company has invested approximately \$230 million of a \$391.8 million project in the San Antonio plant, which will include new technology brought to the manufacturing line. This will allow the plant to be more flexible to meet market demand. This includes moving the production of the Sequoia SUV model to San Antonio beginning in 2022.

Navistar International Corporation, a publicly traded manufacturer of semi-trucks, construction trucks, school buses and diesel engines for several automobile manufacturers announced in October 2019, their intention to build a manufacturing plant in San Antonio. This project will help expand the manufacturing capacity of the company, as well as complement other manufacturing facilities and operation in the region. The company intends to invest \$235 million into the project and create 598 new full-time jobs over the next four years. It is estimated that the project will bring in over \$5 billion in economic impact to the

region over the next 10 years.

Brooks, a City designated Reinvestment Zone, continues to foster the development of its business and technology center on the south side of San Antonio through its aggressive business attraction and retention efforts. Recognized as one of the most innovative economic development projects in the United States, Brooks is a 1,308-acre community with approximately 350 acres available in undeveloped land. To further support advanced manufacturing in San Antonio, Bexar County announced at the end of 2020 that they will be moving forward with constructing a new \$13 million workforce training facility located at Brooks. In June 2018, Brooks began work on a 350,000-square foot light industrial facility to help attract developers of various goods. This new facility will help increase the appeal of Brooks as a hub for the advanced manufacturing industry, one of San Antonio’s prominent target industries. Total economic activity attributed to businesses located in the Brooks campus supported over 3,300 jobs in 2019. Brooks recently announced in 2020 that Amazon plans to open two new fulfillment centers and a new delivery station on their campus is a prime example of the attractiveness of the campus to future developers and companies. Amazon’s operations would create over 1,500 new full-time jobs.

Nissei Plastic Industrial manufacturers is a Japanese company that specializes in large scale injection molding machinery. During a trade mission to Japan in 2014, this company was engaged as they showed interest in expanding to the U.S. After a visit to San Antonio, the company acquired nine acres of land at Brooks to establish a manufacturing and assembly facility to serve the U.S. and Mexico markets. The grand opening of the new assembly plant took place on May 14, 2018.

Inner City Development

Development in the inner city has strengthened considerably in recent years, with many catalytic projects underway or recently completed. The new 24-story Frost Tower was completed as Frost Bank employees moved in June 2019. Extensive renovations are occurring at the Light and Print buildings, the new CPS headquarters, the Grant and Kress buildings, Travis Park Plaza, the Milam Building, and Historic City Hall. These projects will soon be joined by The Soto, a mass-timber office building under construction on lower Broadway, the new federal courthouse, and the expansion of UTSA’s downtown campus.

In December 2018, City Council approved a revisal to the Center City Housing Incentive Policy, creating the new City of San Antonio Fee Waiver program. This program prioritized projects involving affordable housing, owner-occupied rehabilitation, historic rehabilitation, and business development citywide. As part of the business development initiative, the City has awarded nearly \$300,000 in fee waivers to the San Antonio business community.

Sources: The San Antonio Chamber of Commerce; City of San Antonio; Forbes Bureau of Labor Statistics; San Antonio Economic Development Foundation; University of Incarnate Word; UT Health; UTSA; BAMC; SAMH; Geekdom; Build Sec Foundry; San Antonio Express News; U.S. Bureau of Economic Analysis; Port San Antonio; Brooks; U.S. Energy Information Administration.

Growth Indices

SAWS Average Customers per Fiscal Year

Fiscal Year Ended December 31	Water Customers ¹
2010	355,085
2011	358,656
2012	362,794
2013	367,388
2014	371,573
2015 ²	479,100
2016 ²	486,649
2017 ²	493,768
2018 ²	502,024
2019 ²	511,361

¹ Average number billed, excluding SAWS irrigation customers.

² Amounts reflect the merger with SAWS District Special Project (“DSP”) effective January 1, 2015.

Source: SAWS.

Construction Activity

Set forth below is a table showing building permits issued for construction within the City at December 31 for the years indicated:

Calendar <u>Year</u>	New Residential Single Family ¹		Residential Multi-Family ²		Other ³	
	<u>Permits</u>	<u>Valuation</u>	<u>Permits</u>	<u>Valuation</u>	<u>Permits</u>	<u>Valuation</u>
2011	1,650	\$245,542,976	270	\$205,177,825	10,290	\$1,594,888,560
2012	1,993	\$323,925,290	226	\$302,749,653	11,390	\$1,636,131,582
2013	1,902	\$336,790,668	268	\$320,007,487	9,888	\$1,664,008,739
2014	2,290	\$407,108,162	252	\$501,829,279	11,214	\$2,496,182,001
2015	2,161	\$408,047,290	263	\$500,853,131	11,580	\$2,096,065,163
2016	2,150	\$409,048,513	219	\$408,327,871	19,106	\$2,093,010,308
2017	2,421	\$453,152,457	196	\$505,855,511	18,172	\$2,707,666,910
2018	3,337	\$556,401,894	161	\$387,094,077	19,993	\$3,158,550,699
2019	4,034	\$414,277,872	227	\$469,523,112	20,104	\$2,507,754,861
2020	3,908	N/A	284	\$633,871,049	18,362	\$3,107,728,887

¹ Includes new single family attached and detached projects.

² Includes new two-, three- and four-family projects, townhomes, and multifamily apartment complexes. Apartment complexes are permitted per building.

³ Includes commercial building permits, commercial additions, improvements, extensions, and certain residential improvements.

Source: City of San Antonio, Development Services Department.

Total Municipal Sales Tax Collections – Ten Largest Texas Cities

Set forth below in alphabetical order is total municipal sales tax collections for the calendar years indicated:

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Amarillo ¹	N/A	N/A	N/A	\$74,177,530	\$74,412,781
Arlington	119,943,322	\$120,966,239	\$110,482,756	105,600,443	102,892,000
Austin	237,342,567	240,562,938	226,229,104	210,876,619	204,636,966
Dallas	307,328,803	315,186,746	304,963,822	294,218,052	284,659,887
El Paso	98,270,890	95,909,987	90,106,254	85,606,247	83,879,102
Fort Worth	165,429,875	165,687,273	157,699,811	148,352,207	139,042,987
Frisco	90,690,027	90,036,003	87,307,968	81,409,268	74,691,991
Houston	666,921,075	698,992,969	687,113,410	638,686,093	630,172,429
Plano	86,785,467	88,612,905	89,766,816	83,078,508	78,286,505
SAN ANTONIO	362,813,047	370,289,324	355,904,510	334,238,830	324,561,595
Round Rock ¹	86,389,824	87,293,806	82,944,806	N/A	N/A

¹ In 2018, the City of Round Rock replaced the City of Amarillo as the 10th largest city in the State.

Source: State of Texas, Comptroller's Office.

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Education

As of October 2019, there are 15 independent school districts within Bexar County with a combined enrollment of 319,542 encompassing 62 high schools, 83 middle/junior high schools, 298 early education/elementary schools, 23 magnet schools, and 24 alternative schools. There are an additional 23 charter school districts with 86 open enrollment charter schools at all grade levels. In addition, Bexar County has 99 accredited private and parochial schools at all education levels. Generally, students attend school in the districts in which they reside. There is currently no busing between school districts in effect. The seven largest accredited and degree-granting universities, which include a school of medicine, a school of nursing, a dental school, a law school, and five public community colleges, had combined enrollments of 123,618 for Fall 2019.

Sources: Texas Education Agency; Texas Higher Education Coordinating Board; and Texas Private School Accreditation Commission.

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Employment Statistics

The following table shows current non-agricultural employment estimates by industry in the San Antonio-New Braunfels MSA for the period of December 2020, as compared to the prior periods of November 2020 and December 2019, respectively.

Employment by Industry

<u>San Antonio-New Braunfels MSA ¹</u>	<u>December 2020</u>	<u>November 2020</u>	<u>December 2019</u>
Mining, Logging, and Construction ²	66,700	67,200	68,600
Manufacturing	51,800	51,300	53,100
Trade, Transportation, and Utilities	191,800	189,000	190,300
Information	19,300	19,200	19,900
Financial Activities	92,700	93,300	95,900
Professional and Business Services	140,300	137,600	144,000
Education and Health Services	159,900	160,700	171,500
Leisure and Hospitality	131,100	127,600	140,400
Other Services	37,400	37,800	39,700
Government	<u>172,000</u>	<u>171,600</u>	<u>176,800</u>
Total Nonfarm	1,063,000	1,055,300	1,100,200

¹Based on Labor Market Information Department, Texas Workforce Commission (model-based methodology). ² Mining, Logging, and Construction have been combined compared to previous years.

The following table shows civilian labor force estimates, the number of persons employed, the number of persons unemployed, and the unemployment rate in the San Antonio-New Braunfels MSA, Texas, and the United States for the period of December 2020, as compared to the prior periods of November 2020 and December 2019, respectively.

Unemployment Information (all estimates in thousands)

<u>San Antonio-New Braunfels MSA ¹</u>	<u>December 2020</u>	<u>November 2020</u>	<u>December 2019</u>
Civilian Labor Force	1,213.9	1,215.1	1,218.6
Number of Employed	1,136.1	1,125.9	1,184.4
Number of Unemployed	77.9	89.2	34.2
Unemployment Rate (%)	6.4	7.3	2.8
<u>Texas (Actual) ¹</u>	<u>December 2020</u>	<u>November 2020</u>	<u>December 2019</u>
Civilian Labor Force	14,170.5	14,200.3	14,192.2
Number of Employed	13,163.7	13,070.1	13,722.1
Number of Unemployed	1,006.7	1,130.2	470.1
Unemployment Rate (%)	7.1	8.0	3.3
<u>United States (Actual) ¹</u>	<u>December 2020</u>	<u>November 2020</u>	<u>December 2019</u>
Civilian Labor Force	160,017.0	160,468.0	164,007.0
Number of Employed	149,613.0	150,203.0	158,504.0
Number of Unemployed	10,404.0	10,264.0	5,503.0
Unemployment Rate (%)	6.5	6.4	3.4

¹Based on Labor Market Information Department, Texas Workforce Commission (model-based methodology).

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San Antonio Water System

History and Management

In 1992, the City Council consolidated all of the City's water-related systems, functions, agencies, and activities into one agency. This action was taken due to the myriad of issues confronting the City related to the development and protection of its water resources. The consolidation provided the City a singular voice of representation when promoting or defending the City's goals and objectives for water resource protection, planning, and development when dealing with local, regional, state, and federal water authorities and officials.

Final City Council approval for the consolidation was given on April 30, 1992 with the approval of Ordinance No. 75686 (the "System Ordinance"), which approved the creation of the City's water system into a single, unified system consisting of the former City departments: comprising the waterworks, wastewater, and water reuse systems; together with all future improvements and additions thereto, and all replacements thereof. In addition, the System Ordinance authorizes the City to incorporate into SAWS a stormwater system and any other water-related system to the extent permitted by law.

The City believes that establishing SAWS has allowed the City greater flexibility in meeting future financing requirements. More importantly, it has allowed the City to develop, implement, and plan for its water needs through a single agency.

The complete management and control of SAWS is vested in a board of trustees (the "SAWS Board") currently consisting of seven members, including the City's Mayor and six persons who are residents of the City or reside within the SAWS service area. With the exception of the Mayor, all SAWS Board members are appointed by the City Council for four-year staggered terms and are eligible for reappointment for one additional four-year term. Four SAWS Board members must be appointed from four different quadrants in the City, and two SAWS Board members are appointed from the City's north and south sides, respectively. SAWS Board membership specifications are subject to future change by City Council.

With the exception of fixing rates and charges for services rendered by SAWS, condemnation proceedings, and the issuance of debt, the SAWS Board has absolute and complete authority to control, manage, and operate SAWS, including the expenditure and application of gross revenues, the authority to make rules and regulations governing furnishing services to customers, and their subsequent payment for SAWS' services, along with the discontinuance of such services upon the customer's failure to pay for the same. The SAWS Board, to the extent authorized by law and subject to certain various exceptions, also has authority to make extensions, improvements, and additions to SAWS and to acquire, by purchase or otherwise, properties of every kind in connection therewith.

Service Area

SAWS provides water and wastewater service to the majority of the population within the corporate limits of the City and Bexar County, which totals approximately 1.7 million residents. SAWS employs approximately 1,700 personnel and maintains over 12,600 miles of water and sewer mains. The tables that follow show historical water consumption and water consumption by class for the fiscal years indicated.

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Historical Water Consumption (Million Gallons) ¹

Fiscal Year	Gallons of Water Production ^a	Gallons Water Usage	Gallons Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated ^b	Total Direct Rate			
						Water		Sewer	
						Base Rate ^c	Usage Rate ^d	Base Rate ^e	Usage Rate ^f
2019 ^g	80,271	65,665	14,616	18.21%	50,142	\$13.02	\$23.92	\$14.59	\$17.11
2018 ^g	78,665	63,660	15,005	19.07%	50,775	12.94	23.34	13.51	15.84
2017 ^g	79,256	65,381	13,938	17.59%	50,945	11.82	22.09	13.04	15.29
2016 ^g	76,857	63,934	12,923	16.81%	49,282	10.90	21.18	12.35	14.48
2015 ^g	76,227	62,896	13,331	17.49%	48,563	7.75	19.73	12.75	14.04
2014	68,265	57,261	11,004	16.12%	50,689	7.49	18.99	11.99	13.20
2013	66,391	55,108	11,283	16.99%	50,076	7.31	17.81	11.54	12.71
2012	66,596	55,320	11,276	16.93%	49,055	7.31	17.96	9.92	10.91
2011	70,699	59,133	11,566	16.36%	49,918	7.10	15.72	8.73	9.60
2010	61,272	52,578	8,694	14.19%	48,151	7.10	16.03	8.73	9.60

¹ Unaudited.

^a Pumpage is total potable water production less Aquifer Storage and Recovery recharge.

^b Represents amounts billed to customers. Residential Class customers are billed based on water usage during a consecutive three-month billing period from November through March. All other customer classes are billed for wastewater treatment based on actual water usage during each monthly billing period.

^c Rate shown is for 5/8" meters. Includes the State-Imposed Texas Commission on Environmental Quality ("TCEQ") fee.

^d Represents usage charge for monthly residential water usage of 7,092 gallons per month. Includes water supply and Edwards Aquifer Authority ("EAA") fees.

^e Minimum service availability charge (includes charge for first 1,496 gallons). Includes the State-Imposed TCEQ fee.

^f Represents usage charge for a residential customer based on winter average water consumption of 5,668 gallons per month.

^g Amounts reflect the merger with SAWS DSP effective January 1, 2015.

Source: SAWS.

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Water Consumption by Customer Class (Million Gallons) ¹

	2019 ^a	2018 ^a	2017 ^a	2016 ^a	2015 ^a	2014	2013	2012	2011	2010
Water Sales: ^b										
Residential Class	36,084	35,325	36,566	35,360	35,769	29,310	29,206	30,070	34,153	28,932
General Class	24,011	24,498	24,408	24,159	23,212	20,870	20,614	20,393	20,986	19,465
Wholesale Class	352	337	344	393	354	3,861	1,943	1,412	128	101
Irrigation Class	4,208	3,500	4,000	4,022	3,561	3,220	3,345	3,445	3,866	4,080
Total Water	65,655	63,600	65,381	63,934	62,896	57,261	55,108	55,320	59,133	52,578
Wastewater Sales:										
Residential Class	25,263	26,318	26,809	26,462	26,048	27,896	27,617	26,572	27,371	26,746
General Class	22,393	21,873	21,654	20,503	20,281	20,502	20,100	20,066	20,134	20,002
Wholesale Class	2,486	2,584	2,482	2,317	2,234	2,291	2,359	2,417	2,413	1,404
Total Wastewater	50,142	50,775	50,945	49,282	48,563	50,689	50,076	49,055	49,918	48,152
Conservation – Residential Class ^{c, d, e}	9,189	8,658	9,572	6,611	2,284	2,296	2,520	3,026	4,106	2,935
Recycled Water Sales	18,208	18,346	18,949	18,436	18,421	18,323	18,359	18,129	18,990	14,968

¹ Unaudited.

^a Amounts reflect the merger with SAWS DSP effective January 1, 2015.

^b Water Supply and EAA fees are billed based on the gallons billed for potable water sales.

^c Gallons billed for conservation are included in the gallons billed for potable water sales.

^d As part of a rate restructuring which took place on January 1, 2016, a portion of all monthly residential water sales in excess of 7,482 gallons is allocated to fund conservation related programs. Prior to 2016, this allocation was limited to monthly sales in excess of 17,205 gallons.

^e Gallons effective January 1, 2017, for District Special Project customers began paying for water service under the SAWS rate structure. As a result, a portion of the revenues from those customers was included in the revenue allocated to conservation. The increase in the gallons subject to the conservation allocation from 2016 to 2017 reflects this.

Source: SAWS.

SAWS System

SAWS includes all water resources, properties, facilities, and plants owned, operated, and maintained by the City relating to supply, storage, treatment, transmission, and distribution of treated potable water, and chilled water (collectively, the “waterworks system”), collection and treatment of wastewater (the “wastewater system”), and treatment and reuse of wastewater (the “water reuse system”) (the waterworks system, the wastewater system, and the water reuse system, collectively, the “System”). The System does not include any “Special Projects”, which are declared by the City, upon the recommendation of the SAWS Board, not to be part of the System and are financed with obligations payable from sources other than ad valorem taxes, certain specified revenues, or any water or water-related properties and facilities owned by the City as part of its electric and gas system.

In addition to the water-related utilities that the SAWS Board has under its control, on May 13, 1993, the City Council approved an ordinance establishing initial responsibilities over the stormwater quality program with the SAWS Board and adopted a schedule of rates to be charged for stormwater drainage services and programs. As of the date hereof, the stormwater program is not deemed to be a part of the System.

SAWS’ operating revenues are provided by its four core businesses: Water Delivery, Water Supply, Wastewater, and Chilled Water. The SAWS rate structure is designed to provide a balance between residential and business rates and strengthen conservation pricing for all water users. For detailed information on the current rates charged by SAWS, see www.saws.org/service/rates.

Waterworks System. The City originally acquired its waterworks system in 1925 through the acquisition of the San Antonio Water Supply Company, a privately-owned company. Since such time and until the creation of SAWS in 1992, management and operation of the waterworks system was under the control of the City Water Board. The SAWS’ waterworks system service area currently extends over approximately 934 square miles, making it the largest water purveyor in Bexar County. SAWS serves approximately 93% of the water utility customers in Bexar County. As of December 31, 2019, SAWS provided potable water service to approximately 460,000 customer connections, which includes residential, commercial, multifamily, industrial, and wholesale accounts. To service its customers, the waterworks system utilizes 57 elevated storage tanks and 68

ground storage reservoirs, of which 28 act as both, with combined storage capacities of 287.6 million gallons. As of December 31, 2019, the waterworks system had approximately 7,260 miles of distribution mains, ranging in size from four to 61 inches in diameter (the majority being between six and 12 inches).

Wastewater System. The City Council created the City Wastewater System in 1894. A major sewer system expansion program began in 1960 with bond proceeds that provided for new treatment facilities and an enlargement of the wastewater system. In 1970, the City became the Regional Agent of the Texas Commission on Environmental Quality (“TCEQ”) (formerly known as the Texas Water Commission and the Texas Water Quality Board). In 1992, the wastewater system was consolidated with the City’s waterworks and recycling systems to form the System.

SAWS serves a substantial portion of the residents of the City, 12 governmental entities, and other customers outside the corporate limits of the City. As Regional Agent, SAWS has certain prescribed boundaries that currently cover an area of approximately 630 square miles. SAWS also coordinates with the City for wastewater planning for the City’s total planning area, under the ETJ, of approximately 1,107 square miles. The population for this planning area is approximately 1.6 million people. As of December 31, 2019, SAWS provided wastewater services to approximately 461,555 customer connections.

In addition to the treatment facilities owned by SAWS, there are six privately owned and operated sewage and treatment plants within the City’s ETJ.

The wastewater system is composed of approximately 5,482 miles of mains and three major treatment plants, Steven M. Clouse (formerly Dos Rios), Leon Creek, and Medio Creek. All three plants are conventional activated sludge facilities. SAWS holds Texas Pollutant Discharge Elimination System wastewater discharge permits, issued by the TCEQ for 187 million gallons per day (“MGD”) in treatment capacity and 46 MGD in reserve permit capacity. The permitted flows from the wastewater system’s three regional treatment plants represent approximately 98% of the municipal discharge within the City’s ETJ.

Since 2006, the System has submitted 21 separate applications to the TCEQ to expand its Certificates of Convenience and Necessity (“CCN”) or service areas for water and sewer service to the ETJ boundary of the City. These applications have added 28,309 acres to the water service area and 276,849 acres to the sewer service area. When the TCEQ grants a CCN to a water or sewer purveyor, it provides that purveyor with a monopoly for retail service. By expanding the CCN to the ETJ, developments needing retail water and sewer service within the ETJ must apply to SAWS. Service can then be provided according to System standards, avoiding small, undersized systems servicing new development. The expansion of the CCN to the ETJ supports development regulations for the City. Within the ETJ, the City has certain standards for the development that ensure areas developed in the ETJ, and when annexed by the City, will already have some City development regulations in place.

Recycling Water System. SAWS is permitted to sell Type I (higher quality) recycled water from its water recycling centers located on the City’s south side and has been doing so since 2000. The water recycling program is designed to provide up to 35,000 acre-feet per year of recycled water to commercial and industrial businesses in the City. The original system was comprised of two major transmission lines, running east and west. In 2008, these two major transmission lines were interconnected at the northern end, providing additional flexibility to this valuable water resource. In 2013, an additional water recycling center and pipeline was connected to the western line, providing further recycled water system redundancy. Currently, approximately 130 miles of pipeline deliver highly treated effluent to over 60 customers. Recycled water is being delivered for industrial processes, cooling towers, and irrigation of golf courses and parks, all of which would otherwise rely on potable-quality water. Aside from supporting the local economy, this water recycling system also releases water into the upper San Antonio River and Salado Creek to sustain base flows. The result has been significant and lasting environmental improvements for the aquatic ecosystems in these streams.

SAWS also provides 50,000 acre-feet of recycled water to San Antonio’s municipally-owned electric and gas utility, CPS. This water is discharged into the San Antonio River from the Steven M. Clouse (formerly Dos Rios) wastewater treatment facility. CPS diverts the water downstream into Braunig and Calaveras Lakes to provide cooling water for its nearby power plants. The revenues derived from such agreement have been restricted in use to only recycling activities and are excluded from both the calculation of SAWS gross revenues and any transfers to the City’s General Fund. Revenues derived from this agreement are approximately \$3.4 million each year.

Chilled Water System. SAWS owns, operates, and maintains five thermal energy facilities providing chilled water services to governmental and private entities. Two of the facilities, located in the City’s downtown area, provide chilled water to 21 customers. They include various City facilities such as the Henry B. Gonzalez Convention Center and the Alamodome, which constitute a large percentage of the SAWS’ downtown chilled water annual production requirements. In addition to City facilities, the two central plants also provide chilled water service to a number of major hotels in the downtown area, including the Grand Hyatt, Marriott Riverwalk, and Hilton Palacio Del Rio. The other three thermal facilities, owned and operated by SAWS, are located at the Port and provide chilled water to large industrial customers that include Lockheed Martin and Boeing Aerospace. SAWS’ chilled water producing capacity places it as one of the largest producers of chilled water in south Texas. The chilled water system had gross revenues of \$10.6 million in FY 2019.

Stormwater System. In September 1997, the City created its Municipal Drainage Utility and established its Municipal Drainage Utility Fund to capture revenues and expenditures for services related to the management of the municipal drainage activity in response to Environmental Protection Agency (“EPA”) mandated stormwater runoff and treatment requirements under 40 CFR 122.26 Storm Water Discharge. The City, along with SAWS, has the responsibility, pursuant to the permit from the TCEQ, for water-quality monitoring and maintenance. The City and SAWS have entered into an interlocal agreement to set forth the specific responsibilities of each regarding the implementation of the requirements under the permit. The approved annual budget for the SAWS share of program responsibilities for SAWS FY 2020 is approximately \$5.2 million, for which SAWS anticipates being fully reimbursed from the stormwater utility fee imposed by the City.

Water Supply

The primary source of water for the City is the Edwards Aquifer. The Edwards Aquifer is also the primary source of water for the agricultural economy in the two counties west of San Antonio and is the source of water for Comal and San Marcos Springs in New Braunfels and San Marcos, respectively, which depend upon springflow for their tourist-based economy. Edwards Aquifer water from these springs provides the habitat for species listed as endangered by the United States Fish & Wildlife Service (the “USFWS”) under the federal Endangered Species Act and provides base flow for the Guadalupe River. Water levels in the Edwards Aquifer are affected by rainfall or lack thereof, water usage region-wide, and discharge from the aforementioned springs. One unique aspect of the Edwards Aquifer is its prolific rechargeability and the historical balance between recharge and discharge in the form of well withdrawals and spring discharges.

During the 1980s, increased demand on the Edwards Aquifer threatened to exceed average historical recharge, generating concerns by the areas dependent upon springflow for water and the local economy. Also, the fluctuations in Edwards Aquifer levels threatened to jeopardize flow from Comal and San Marcos Springs. Since groundwater, including the Edwards Aquifer, is subject to the rule of capture in Texas, meaningful management could not be accomplished in the absence of State legislation.

Regional planning efforts to address these issues were undertaken in the mid-1980s, resulting in recommendations for State legislation for management of the Edwards Aquifer. Failure to adopt this legislation in the 1989 Texas Legislative Session resulted in the initiation of various lawsuits and regulatory efforts by regional interests dependent upon springflow to force limitations on overall usage from the Edwards Aquifer. In addition to the litigation discussed below, litigation was initiated in State District Court to have the Edwards Aquifer declared an underground river under State law, and therefore owned by the State. This litigation was unsuccessful. In addition, efforts were undertaken to have the Texas Water Commission (now the TCEQ) regulate the Edwards Aquifer. In April 1992, the Texas Water Commission adopted emergency rules declaring the Edwards Aquifer to be an underground stream, and therefore State water subject to regulation by the State. After final adoption of permanent rules, litigation was initiated in State court challenging the Texas Water Commission’s determination. The Texas Water Commission’s permanent rules and the Texas Water Commission’s determination that the Edwards Aquifer was an underground stream, and, therefore, subject to regulation by the State, was declared invalid by the State courts.

The various litigations and regulatory efforts to manage withdrawals from the Edwards Aquifer resulted in passage of the Edwards Aquifer Authority Act in 1993 and its amendment in 1995 to allow its implementation. The Edwards Aquifer Authority (“EAA”) began operation on July 1, 1996, with a goal of implementing State regulatory legislation aimed at the elimination of uncertainties concerning access to and use of Edwards Aquifer water by the City and all other Edwards Aquifer users.

The Board of the EAA has adopted rules for: (1) drought management and (2) withdrawal permits governing the use of water from the Edwards Aquifer. Drought management rules mandate staged reductions in water supplies withdrawn from the Edwards Aquifer. The City currently has a series of accompanying demand restrictions targeting discretionary water use, such as use of decorative water features and landscape irrigation. Drought demand rules do not materially adversely affect revenues or SAWS’ ability to supply water to its customers for primary needs.

In 2007, the Texas Legislature passed Senate Bill 3 establishing a cap on annual pumping from the Edwards Aquifer of 572,000 acre-feet and placing restrictions into State statute regarding supply availability during drought periods, thus making these restrictions State law. SAWS currently has access to approximately 50% of the 572,000 acre-feet available. In connection with the EAA’s directive from the Texas Legislature to ensure that continuous minimum spring flows of the Comal Springs and the San Marcos Springs are maintained to protect endangered and threatened species, the Edwards Aquifer Recovery Implementation Program (“EARIP”) was established in 2007. The EARIP was developed through a consensus-based process that involved input from the USFWS, other appropriate federal agencies, and all interested stakeholders in the Edwards Aquifer region. Together, these entities, over a four-year period, developed and approved a springflow protection and habitat restoration plan, the Edwards Aquifer Habitat Conservation Plan (“EAHCP”).

The primary parties to the EAHCP include the EAA, SAWS, the City of New Braunfels, the City of San Marcos, and Texas State University. The EAHCP was used by the USFWS as the basis for issuing an Incidental Take Permit (“ITP”), which will protect San Antonio and the region from the threat of future environmental lawsuits and federal control of the aquifer over a 15-year term. This ITP was issued by the USFWS on March 18, 2013.

For additional information on the EAHCP, see the official statement for the **CITY OF SAN ANTONIO, TEXAS WATER SYSTEM JUNIOR LIEN REVENUE, SERIES 2020C (NO RESERVE FUND) and the section therein entitled EDWARDS AQUIFER RECOVERY IMPLEMENTATION PROGRAM AND THE EDWARDS AQUIFER HABITAT CONSERVATION PLAN** filed with the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access (“EMMA”) system.

Edwards Aquifer Authority

Pursuant to applicable Texas law, including the Edwards Aquifer Authority Act and legislation enrolled subsequent thereto serving to supplement and/or amend this legislation, the EAA has adopted rules that require a reduction in the amount of permitted Edwards Aquifer water rights that may be pumped annually for the duration of a drought event. During a period of drought management, water rights are impacted on a pro rata basis dependent upon the number of days of a calendar year that involves a particular category of drought (depending on severity) requiring a reduction in pumping. Reductions of permitted rights to withdraw water are generally applied to all permit holders, though there do exist some limited exceptions applicable to agriculture users. The various stages of reduction in permitted water rights are declared by the EAA Board of Directors and impact SAWS’ access to its permitted Edwards Aquifer water rights, without input or action by the City or SAWS. The EAA’s drought triggers and requisite reduction in pumping for the San Antonio and Uvalde Pools of the Edwards Aquifer are indicated in the following tables. All of SAWS’ Edwards Aquifer water rights are subject to the restrictions associated with the San Antonio Pool.

SAN ANTONIO POOL				
Comal Springs Flow ¹	San Marcos Springs Flow ¹	Index Well J-17 Level ²	Critical Period Stage ³	Withdrawal Reduction (%)
< 225	< 96	< 660	I	20
< 200	< 80	< 650	II	30
< 150	N/A	< 640	III	35
< 100	N/A	< 630	IV	40
< 45/40 ⁴	N/A	< 625	V ⁴	44

UVALDE POOL				
Comal Springs Flow ¹	San Marcos Springs Flow ¹	Index Well J-27 Level ²	Critical Period Stage ³	Withdrawal Reduction (%)
N/A	N/A	N/A	I	N/A
N/A	N/A	< 850	II	5
N/A	N/A	< 845	III	20
N/A	N/A	< 842	IV	35
N/A	N/A	< 840	V	44

¹ Measured in cubic feet per second.

² Measured in mean sea level.

³ A change to a critical period stage with higher withdrawal reduction percentages, including initially into Stage I for the San Antonio Pool and Stage II for the Uvalde Pool, is triggered if the ten-day average of daily springflows at the Comal Springs or the San Marcos Springs or the ten-day average of daily Aquifer levels at the J-17 or J-27 Index Wells, as applicable, drop below the lowest number of any of the trigger levels for that stage. A change from any critical period stage to a critical period stage with a lower withdrawal reduction percentage, including existing from Stage I for the San Antonio Pool and Stage II for the Uvalde Pool, is triggered only when the ten-day average of daily springflows at the Comal Springs and the San Marcos Springs and the ten-day average of daily Aquifer levels at the J-17 or J-27 Index Wells, as applicable, are all above the same stage trigger level.

⁴ In order to enter into Critical Period Stage V, the applicable springflow trigger is either less than 45 cubic feet per second based on a ten-day rolling average or less than 40 cubic feet per second based on a three-day rolling average. Expiration of Critical Period Stage V is based on a ten-day rolling average of 45 cubic feet per second or greater.

Due to varying weather patterns, the EAA has, from time to time, imposed various Critical Period Stage withdrawal reduction notices. For any current drought restrictions, as well as additional information on the various levels of drought restrictions imposed by the EAA and current level of the Edwards Aquifer, see www.edwardsaquifer.org.

City's Edwards Aquifer Management Plan

In addition, and separate and apart from the EAA's rules governing withdrawal of Edwards Aquifer water during drought, the City has established a proactive Aquifer Management Plan to manage the region's water resources during periods of drought. Established by City ordinance, the Aquifer Management Plan also restricts water use based on specific levels of the Edwards Aquifer. The City approved the following Edwards Aquifer level triggers in 2009 and updated certain revisions to the water use restrictions in 2014.

Year Round – Year-round restrictions are in effect when the Edwards Aquifer level is above 660 feet mean sea level at the monitored well (J-17 Index Well). During year-round watering restrictions, SAWS customers are permitted to water landscape with an irrigation system or sprinkler any day of the week before 11 a.m. or after 7 p.m. Hand watering with a hand-held hose, drip irrigation, soaker hose or bucket is permitted any time of day.

Stage One – Stage One restrictions begin when the ten-day rolling average of the Edwards Aquifer level drops to 660 feet mean sea level at the monitored well (J-17 Index Well). SAWS customers are limited to one-day-per week landscape watering with an irrigation system or sprinkler based on the last number of the customer's street address and are only allowed to water before 11 a.m. or after 7 p.m. Watering with a hand-held hose, drip irrigation, bucket, or watering can is permitted at any time and any day.

Stage Two – Stage Two restrictions begin when the ten-day rolling average of the Edwards Aquifer level drops to 650 feet mean sea level at the monitored well (J-17 Index Well). SAWS customers are limited to one-day-per week landscape watering with an irrigation system or sprinkler based on the last number of the customer's street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day. Watering with a hand-held hose is allowed any time on any day.

Stage Three – Stage Three restrictions may begin when the ten-day rolling average of the Edwards Aquifer level drops to 640 feet mean sea level at the monitored well (J-17 Index Well) and the total supply of water to SAWS from the Edwards Aquifer and other available sources is insufficient to meet customer demand while complying with applicable regulations governing water supply withdrawals. SAWS customers are limited to landscape watering with an irrigation system or sprinkler once every other week based on the last number of the customer's street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day. Watering with a hand-held hose is allowed any time on any day.

Stage Four – Stage Four restrictions may be declared if the total supply of water from the Edwards Aquifer and other available water sources to SAWS is insufficient to meet customer demand while complying with applicable regulations governing water supply withdrawals. Stage Four restrictions may be declared at the discretion of the City Manager upon completion of a 30- day monitoring period following Stage Three declaration. SAWS customers are limited to landscape watering with an irrigation system or sprinkler once every other week based on the last number of the customer's street address and are only allowed to water from 7 a.m. to 11 a.m. and from 7 p.m. to 11 p.m. on their assigned day. Also, during Stage Four, a drought surcharge is assessed on all accounts for water used or assumed to be used for landscape irrigation. The surcharge is the highest volumetric rate assessed by SAWS and is assessed on any residential and irrigation account with monthly water usage exceeding 12,717 and 5,236 gallons, respectively. The surcharge rate is assessed in addition to the regular water and wastewater rates. Watering with a hand-held hose is allowed any time on any day.

Due to varying weather patterns, the City has been in and out of drought restrictions based on the fluctuating mean sea level of the Edwards Aquifer at the J-17 monitoring well as well as changes in spring flow. For any current drought restrictions, as well as additional information on the various levels of drought restrictions and current level of the Edwards Aquifer, see www.saws.org.

WATER TRANSMISSION AND PURCHASE AGREEMENT FOR CARRIZO AND SIMSBORO AQUIFER WATER

In an effort to achieve significant diversification of the City's water supply, the SAWS Board, on January 14, 2011, solicited requests for competitive sealed proposals for the provision and delivery of alternative water supplies for the purpose of meeting the System's water supply needs (the "Solicitation"). In response to the Solicitation, the SAWS Board received nine responses, from which three finalists were eventually selected and reviewed prior to determining that a joint-venture proposal (such proposer, Abengoa Vista Ridge, LLC, hereafter referred to as "Abengoa VR") to deliver Carrizo and Simsboro aquifer water presented the most advantageous possibility for the City to obtain an alternative water source. On July 1, 2014, the SAWS Board formally selected the water supply proposal of Abengoa VR as the most advantageous to the System, subject to negotiation of an acceptable contract and City Council support.

On September 29, 2014 and October 15, 2014 the SAWS Board adopted resolutions, and on October 30, 2014 the City Council unanimously adopted an ordinance, approving the execution of a Water Transmission and Purchase Agreement (the "Agreement") between the City, acting by and through SAWS, and Abengoa VR, pursuant to which Abengoa VR committed to make available to SAWS, and SAWS agreed to pay for, up to 50,000 acre-feet of potable water ("Project Water") per year for

an initial period of 30 years plus a limited (20 year) extension period under certain events (hereinafter referred to as the “operational” phase). To produce and deliver the Project Water, Abengoa VR planned to develop well fields to withdraw water from the Carrizo and Simsboro aquifers in Burleson County, Texas pursuant to currently-held long-term leases with landowners and construct (or cause to be constructed) a 142-mile pipeline from this well field to northern Bexar County (the well fields, pumping and treatment facilities and the pipeline, together, the “Project”). The pipeline will ultimately be connected to SAWS’ distribution system at this delivery point in northern Bexar County (the “Connection Point”).

On November 19, 2015, the City Council approved a series of increases to the Water Supply Fee to finance the acquisition of new water supplies, including the Project. To date, SAWS has implemented five increases, with the fifth and final increase taking effect in January 2020. This final rate adjustment is anticipated to increase the average monthly SAWS residential bill by approximately 10%.

In early 2016, following commencement of pre-insolvency proceedings in Spain by Abengoa SA, the parent company of Abengoa VR (“Abengoa Parent”), Abengoa VR solicited proposals to sell up to 80% of the equity interest in Abengoa VR. On March 22, 2016, SAWS received notice that Garney P3 LLC (“Garney”, who is wholly owned by Garney Companies, Inc. and referred to herein as “Garney Company”, who is wholly owned by Garney Holding Company, and referred to herein as “Garney Parent”; Garney, Garney Company and Garney Parent are collectively referred to herein as the “Garney Parties”) had reached agreement with Abengoa Parent, Abengoa Water USA LLC (“Abengoa Water”) and Abengoa VR (Abengoa Parent, Abengoa Water and Abengoa VR collectively referred to herein as the “Abengoa Parties”), for the sale and purchase of an 80% equity interest in Abengoa VR (such agreement, the “Equity Purchase Agreement”; such transferred interest in Abengoa VR, the “Transferred Project Company Interest”). In May of 2016, the SAWS Board approved this agreement and the transfer was completed in June. Subsequently, the Board of Directors of Abengoa VR changed the company name to Vista Ridge LLC. During early 2017, Garney reached an agreement to sell a 29% equity stake in Vista Ridge LLC to Ridgewood Infrastructure. As this sale did not result in a change of control within Vista Ridge LLC, SAWS approval was not required as a condition to its effectiveness.

The Agreement is separated into three distinct phases. The “development” phase commenced on November 4, 2014, which was the date of complete execution and delivery of the Agreement. The “development” phase concluded on November 2, 2016 upon satisfaction of certain contractual requirements, referred to as “financial closure”, and conclusion of which commenced the “construction” phase of the Project. During the “construction” phase of the Project, SAWS also is constructing improvements to the System necessary to accept and integrate the Project Water. The capital cost of SAWS’ improvements is currently projected at approximately \$220 million of which approximately \$204 million had been expended as of June 30, 2020. The “construction” phase of the project was completed on April 15, 2020 (when the aforementioned 30-year “operational” phase commenced, also known as the “Commercial Operation Date”), during which period SAWS is obligated to pay for Project Water (up to 50,000 acre-feet annually) made available to it by Vista Ridge LLC at the Connection Point. At the end of the “operational” phase, ownership of the Project will be transferred to SAWS at no cost. SAWS has also entered into a separate agreement with Blue Water Vista Ridge, LLC, the lessee of the Project Water, to continue to acquire the 50,000 acre-feet of untreated groundwater, for an additional 30-year period upon the termination of the Agreement and transfer of the Project to SAWS. The cost of such water at the end of the Agreement will be tied to the costs of then-prevailing two-year Edwards Aquifer water leases.

Pursuant to the terms of the Agreement, SAWS will pay costs arising under the Agreement, as Maintenance and Operating Expenses of the System, only for Project Water made available at the Connection Point (which payment will include the costs of operating and maintaining the Project). SAWS will have no obligation to pay for any debt issued by Vista Ridge LLC, and any such debt will be non-recourse to SAWS.

On May 17, 2016, SAWS exercised its contractual right to fix the capital and “Raw Groundwater Unit Price” under the Agreement based on the methodology provided for therein. The cost of the Project Water component under this agreement has been established at \$1,606 per acre foot, which will remain capped for the entire 30-year term (and any extension of that term) of the Agreement. SAWS is also responsible for paying the Project operations and maintenance (as a direct pass through under the Agreement) and Project electricity. The initial total delivered costs for this water is approximately \$2,100 per acre foot.

In early 2018, Ridgewood Infrastructure, as lead agent for Vista Ridge LLC, began the process to select an operating service provider for the Project. Vista Ridge LLC ultimately selected EPCOR Services, Inc. (“EPCOR”), a wholly owned subsidiary of EPCOR USA, Inc., an entity ultimately owned by the Canadian City of Edmonton. On November 13, 2018, the SAWS Board approved the selection of EPCOR as operating service provider and the form of operating service agreement. The approved form of operating service agreement provides for a primary 30-year term contemporaneous with the term of the Agreement. The execution of the operating service agreement, along with a purchase by EPCOR of a 5% equity interest in Vista Ridge LLC (from the equity interest of Ridgewood Infrastructure in Vista Ridge LLC) occurred on November 21, 2018. The equity interest of Vista Ridge LLC is currently owned by the following: Garney with 51%, Ridgewood Infrastructure with 24%, Abengoa with 20%, and EPCOR with 5%. Garney has indicated its intent to transfer its remaining 51% equity interest in Vista Ridge LLC to Ridgewood Infrastructure now that the “construction” phase has been completed and the Commercial Operation Date has been achieved. Any such transfer will require the consent of SAWS, which may be provided at its sole discretion.

SAWS began the process for design and construction of the facilities necessary to integrate the Project Water into the SAWS' distribution system upon financial close by the Project Company with the intent to complete such improvements prior to the start of the operational phase of the Project on April 15, 2020. Due to some construction delays, all of the required integration improvements were not completed until early July 2020. As a result of this delayed completion, as well as additional steps being taken by SAWS to ensure the compatibility of the source water with its existing infrastructure, the System is not currently taking delivery of all of the water that Vista Ridge LLC is able to make available on a daily basis. Per the terms of the Agreement, SAWS is responsible for paying for such water that has been made available but that cannot be integrated into SAWS distribution system. The volumetric amount of such water paid for but not received is accounted for, and pursuant to the terms of the Agreement will be provided to SAWS at a future date at no additional cost. The dollar amount of any such "prepaid" water purchases is recorded as a prepaid asset of the System. From April 15, 2020 through December 31, 2020, SAWS has paid for approximately 7,769 acre-feet of water that it has been unable to receive. Based on this prepaid amount, SAWS has recorded a prepaid asset totaling approximately \$2.9 million. Given the priority of water deliveries and payments, it is currently estimated it will take more than two years to fully amortize this prepaid water amount.

The Vista Ridge pipeline route parallels the I-35 corridor, one of the highest growth regions in the country. Communities throughout the region have increasing water needs to sustain both growing populations and flourishing economies. While no immediate plans are in place, the Project may give the System the opportunity to wholesale up to 15,000 acre-feet per year from the Vista Ridge pipeline (or its other existing water supply projects), developing regional partnerships, providing communities a diversified water supply, and potentially reducing costs to System ratepayers.

The execution and implementation of the Agreement represents a significant diversification of the City's water source, as SAWS projects that Project Water, if delivered at the maximum amount (which is the expectation of both SAWS and Vista Ridge LLC beginning in September 2020), will account for approximately 20% of the System's current annual usage.

Sewer Management Program

In March 2007, SAWS was orally notified by Region 6 of the EPA of alleged failures to comply with the Clean Water Act due to the occurrence of sanitary sewer overflows ("SSOs"). The EPA subsequently referred the matter to the DOJ for enforcement action. SAWS engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. On June 4, 2013, the SAWS Board approved a Consent Decree between SAWS and the United States of America and the State to resolve this enforcement action. SAWS signed the Consent Decree on June 5, 2013 and the Consent Decree was subsequently executed by the United States of America and the State. On September 13, 2013, after consideration of the comments received, the United States of America filed its Motion for entry of the Consent Decree, requesting the Court to approve the Consent Decree by signing and entering it. The Consent Decree was signed and entered by the Court on October 15, 2013. During the ten to 12-year term of the Consent Decree, SAWS estimates the cost to perform the operating and maintenance requirements of the Consent Decree to be approximately \$250 million. SAWS initially estimated that capital investments of approximately \$850 million would be required over the Consent Decree term. During the last several years, through flow monitoring during significant rainfall events, physical inspection and televising, SAWS has accumulated additional information relative to the performance of its collection system. Based upon this additional information, as well as inflationary costs increases, SAWS currently estimates that capital expenditures associated with the requirements of the Consent Decree could range from \$1.2 billion to \$1.3 billion. As with any estimates, the actual amounts incurred could differ materially.

As SAWS moves from the planning phase of the Consent Decree to the capital phase of the Consent Decree, an increase in capital spending is expected. As mentioned above, capital requirements could range in total from \$1.2 billion to \$1.3 billion, with approximately \$633 million being projected to be spent from 2020 to 2024. Through December 31, 2019, capital expenditures related to the Consent Decree totaled approximately \$672 million. Since entry into the Consent Decree, SAWS has performed its obligations under the terms of the Consent Decree and management believes SAWS is in material compliance with such terms, conditions and requirements. Since 2010, SAWS has seen a significant reduction in SSOs from 538 in 2010 to 152 in 2020.

The Mitchell Lake Wastewater Treatment Facility ("Mitchell Lake") is regulated pursuant to a Texas Pollutant Discharge Elimination System ("TPDES") permit issued by the TCEQ under a delegation of authority from the EPA.

Mitchell Lake is not a standard brick and mortar wastewater treatment facility. The approximately 600-acre lake is a legacy remnant of 19th century wastewater reuse and disposal practices by irrigation of adjacent croplands. Today, Mitchell Lake is operated as an Audubon Nature Center. It is a unique and environmentally sensitive wildlife refuge and an active destination attraction for ecotourists and local residents. It provides essential habitat where more than 300 species of migrating birds can rest and feed. The lake discharges effluent to receiving streams after significant rainfall events and there are currently no treatment units or operational controls for managing effluent quality.

On August 18, 2016, SAWS received an Administrative Order from the EPA that alleged SAWS violated the TPDES permit by failing to meet effluent quality limitations as required by the permit. The Administrative Order required SAWS to

submit a plan for eliminating the alleged violations. Upon receiving the Administrative Order, SAWS began working with consulting experts and conducted preliminary feasibility evaluations of a potential solution that has two major components: (a) modifications to the existing dam with the construction of a new spillway and (b) constructing treatment wetlands of approximately 115 acres below Mitchell Lake.

By letter dated February 28, 2019, EPA delivered a second Administrative Order to SAWS that includes a Schedule of Activities, which requires completion of the wetlands project by September 30, 2024. To inform the design and operation of a full-scale constructed wetlands, SAWS commenced a pilot wetlands study in 2019 of approximately 1.3 acres. Operations began in the summer of 2019 and after a one-year operation period, a final report is expected to be produced by December of 2020. On January 9, 2018, SAWS purchased a 285-acre tract of land that is anticipated to be used to implement the water quality treatment wetlands project. After assessment of the actual amount and location of acreage needed for the proposed wetlands, on June 9, 2020, the SAWS Board declared approximately 128 acres of this 285-acre tract as surplus to the needs of the System and authorized its disposition. Negotiations are ongoing for the acquisition of an additional 234-acre tract that will be necessary for the implementation of the project. On June 4, 2020, the City Council of the City of San Antonio declared this project a public necessity and authorized the use of eminent domain to facilitate timely acquisition of this 234-acre tract. At this time, projected costs for the wetlands project are estimated to be \$67.5 million.

Political Action Committee Petition

Recently, a coalition of citizen groups formed a political action committee, known as SAWS Act PAC and announced a petition effort seeking to amend the City Charter to mandate certain action impacting SAWS (the “Petition”). Among other things, the Petition seeks to (a) create a new position—General Manager—which does not currently exist, and prescribe associated salary caps, replacement procedures, and term limits related thereto; (b) set term limits for Trustees of the SAWS Board requiring Trustees to abandon their positions under strict time limits despite a replacement having not been appointed; (c) reformulate how the SAWS Board manages its government relations function and impose detailed restrictions and guidelines on setting SAWS Board priorities; (d) alter the process by which the City Council can remove members of the SAWS Board; and (e) impose and implement a strict and targeted nondiscretionary auditing process.

Under State law, the City Charter may only be amended once every two years and was last amended on November 6, 2018. In order for SAWS Act PAC to trigger an election to amend the City Charter, a valid petition consisting of at least 20,000 signatures of registered City voters must be received by the City Clerk for review and certification of the requisite number of signatures. The City Council, upon receipt of a certified petition, is then required to hold a public hearing and has sixty days to submit the issue to the electorate by ordering an election on the next available uniform election date. Neither the City nor SAWS make any representation as to the potential outcome of the Petition, the results of any referendum concerning the effectiveness if valid, or the immediate, interim, and long-term effect if enacted.

Cause No. D-1-GN-20-007317; In re City of San Antonio, Texas, acting by and through the San Antonio Water System Board of Trustees, et al., in the 126th Judicial District Court, Travis County, Texas. On December 10, 2020, the City, acting by and through SAWS, filed an Original Petition for Expedited Declaratory and Injunctive Relief (the “Petition”) under Chapter 1205, Texas Government Code, as amended, in Travis County, Texas. In the Petition, the City, acting by and through SAWS, requested action to adjudicate and declare valid SAWS’ existing debt obligations. The requested relief includes confirmation that the covenants within the authorizing ordinances (as they relate to governance, management, and amendment) remain legal, valid, and effective. A trial on the merits was set for January 4, 2021 but was delayed at the request of intervenors. The Judge issued a new schedule moving the trial on the merits to March 1, 2021, to which SAWS has objected. SAWS cannot guarantee that this trial will proceed on this schedule, nor can it predict the results of the same.

Please refer to “Table 18 – Comparison of Selected Sources of Revenues” in the body of the Official Statement for historical transfers from SAWS to the City’s General Fund.

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SAWS Summary of Pledged Revenues for Debt Coverage (Dollars in Thousands) ¹

Year	Gross Revenues ^b	Operating Expenses ^c	Net		Revenue Bond Debt Service ^a			Annual Debt Service Requirements			
			Available Revenue	Principal	Interest ^d	Total	Coverage	Total Debt ^e	Coverage	Senior Lien Debt ^e	Coverage ^f
2019(*)	\$750,849	\$339,934	\$410,915	\$87,060	\$104,831	\$191,891	2.14	\$195,567	2.10	\$47,455	8.66
2018(**)	703,202	330,235	372,967	84,875	103,922	188,797	1.98	194,518	1.92	81,428	4.58
2017	668,998	318,442	350,556	82,840	102,236	185,076	1.89	185,076	1.89	84,440	4.30
2016	622,947	315,395	307,552	78,570	98,413	176,983	1.74	185,149	1.66	84,008	3.66
2015	555,712	291,246	264,466	71,355	106,281	177,636	1.49	175,209	1.51	117,126	2.26
2014	498,334	245,055	253,279	57,850	91,704	149,554	1.69	160,510	1.58	117,126	2.16
2013	460,776	244,348	216,428	47,315	86,058	133,373	1.62	152,496	1.42	117,126	1.85
2012	437,253	237,576	199,677	44,780	80,320	125,100	1.60	138,420	1.44	122,816	1.63
2011	417,077	209,058	208,019	39,730	79,534	119,264	1.74	132,226	1.57	112,715	1.85
2010	367,847	226,489	141,358	38,590	77,098	115,688	1.22	127,264	1.11	108,947	1.30

¹ Unaudited.

(*) The 2019 Maximum Annual Debt Service Senior Lien Debt reflects the 2019 senior lien debt.

(**) In 2018, the pledged revenue calculation began excluding non-cash revenue and expenses.

^a Represents respective year debt service payments. All bonded debt is secured by revenue and is included in these totals.

^b Gross Revenues are defined as operating revenues plus nonoperating revenues less revenues from the City Public Service contract, interest on Project Funds, and federal subsidy on Build America Bonds.

^c Operating Expenses reflect operating expenses before depreciation as shown on the Statement of Revenues, Expenses, and Changes in Net Position.

^d Interest reported net of the U.S. federal interest subsidy on the SAWS Series 2009B & 2010B revenue bonds.

^e Debt service requirements consist of principal and interest payments net of the U.S. federal interest subsidy on the SAWS Series 2009B & 2010B revenue bonds.

^f SAWS bond ordinance requires the maintenance of a debt coverage ratio of at least 1.25x the maximum annual debt service on outstanding senior lien debt in order to issue additional bonds.
Source: SAWS.

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THE AIRPORT SYSTEM

General

The San Antonio International Airport (the “Airport” or “SAT”), located on a 2,600-acre site that is adjacent to Loop 410 freeway and U.S. Highway 281, is eight miles north of the City’s downtown business district. The Airport consists of three runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two terminal buildings contain 24 second-level gates. Pre-pandemic, the Airport offered an average of 138 daily departures to 39 non-stop destinations. This service was provided by 11 airlines (eight domestic and three international carriers). In addition, the Airport had added 18 new flights over the past several years, six of which to new nonstop destinations, and 12 added flights to existing markets. At that time, the growth of new and existing carriers had increased total available seats by over 3,000 daily seats to over 16,000 departure seats daily and lowered fares to levels comparable to competing airports. During the pandemic, SAT was able to attract another Mexican airline, VivaAerobus, to the market who is offering nonstop service to both Monterrey and Mexico City, Mexico. The Airport does anticipate any markets that were temporarily eliminated due to pandemic to return as market conditions allow.

The Airport is classified as a medium hub facility by the FAA. A “medium hub facility” is defined as a facility that enplanes between 0.25% and 0.50% of all passengers enplaned on certificated route air carriers in all services in the 50 states, the District of Columbia, and other designated territorial possessions of the United States. According to Airports Council International North America (“ACI-NA”), an airport industry group, the Airport ranked 48th based on total U.S. passenger traffic for calendar year 2017. For the calendar year ended December 31, 2019, the Airport enplaned approximately 5.2 million passengers. Airport management has determined that approximately 98% of the Airport’s passenger traffic is origination and destination in nature, which is important because it demonstrates strong travel to and from the City independent from any one airline’s hubbing strategies. A variety of services are available to the traveling public from approximately 280 commercial businesses which lease facilities at the Airport and Stinson Municipal Airport (“Stinson”).

In 2018, the San Antonio Airport System initiated a two-phased Strategic Development Plan as part of its update to the Master Plan of the San Antonio International Airport. The focus of the first phase was to determine if the current location of the San Antonio International Airport could grow to accommodate the region’s long-term aviation needs in the next 20 to 50 years. This phase concluded that the current location could be adapted to meet the region’s needs which were approved by City Council on October 31, 2018. Phase 2 will identify and develop the plan the Airport System will follow for the next 20-year period by evaluating a range of potential policy and development alternatives, and by producing a preferred airport development plan for the airfield, terminal, and airport access. Phase 2 will also consider airspace and land use flexibility for the next 50 years.

Stinson, located on 300 acres approximately 5.2 miles southeast of the City’s downtown business district, was established in 1915, and is one of the country’s first municipally-owned airports. It is the second oldest continuously operating airport in the U.S. and is the FAA’s designated general aviation reliever airport to the Airport. On November 15, 2012, City Council authorized its more recent update to the Stinson Master Plan. This program informed the Department of Aviation (the “Department”) of projects to be undertaken on the airfield, terminal and support in the next 20 years to meet the demand of operations growth of 3.2% Annual Compound Growth Rate (“ACGR”) between 2011 and 2031. In December 2018, Stinson completed the construction of a new air traffic control tower on the south side of the airport campus. The new tower eliminates a potential line of sight issue that would have hindered tenant development. In 2019, the City Council authorized a new project that will design and construct a new parallel taxiway to Runway 14/32 which will enhance future development of adjacent land and promote airfield safety by reducing runway crossing once land is developed.

Capital Improvement Plan

The approved six-year (FY 2021 – FY 2026) Capital Improvement Plan (the “CIP”) totals approximately \$181.44 million and is comprised of certain projects for the design and construction of airfield improvements, road improvements, terminal expansions, IT upgrade projects and updates to the Master Plan for the San Antonio International Airport.

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The CIP consists of the following:

Terminal Facilities

- Terminal A Renovations and Refurbishments, Phase II: This project is for design and construction of the expansion of the customs facility in Terminal A which will be constructed in phases along with addressing building infrastructure not captured in the first phase.
- Terminal A Renovations Phase III: This project addresses various infrastructure needs in Terminal A, which includes installing Curbside Canopies, a backup Sewer Lift Station, improvements to roof and vaulted ceiling, an HVAC Unit replacement and rental car space repurposing.
- Terminal B Expansion: This project includes design and construction for the expansion and other requirements in Terminal “B” including a new airline gate, an additional passenger screening lane at the Transportation Security Administration (“TSA”) security screening checkpoint, additional concessions, airline lounge space at the central marketplace and additional office space at the ramp level.
- TA-Phase III-Front Door Modernization: This project installs new vestibule canopies at Terminal A Departures, provides shelter at the commercial sidewalk and drive, improves accessibility at Terminal A & B Departure curbs, improves accessibility at Terminal A & B Arrivals curbs, and improves accessibility at Terminal A & B Commercial curbs.

Airfield Improvements

- Taxiway H Reconstruction: This project provides for the design and construction of a portion of aircraft apron taxi-lane, installation of “No Taxi” islands and shoulders, installation of new connecting Taxiways and for the installation of guidance signage to allow the taxi-lane to be designated as Taxiway “H”.
- Runway 13R Decouple, Reconstruction and Rehabilitation: The project consists of the decoupling of Runway 13R from Runway 4/22, reconstruction of two separate sections of concrete runway pavement on Runway 13R, the rehabilitation of portions of adjacent taxiways, runway lighting improvements, the reconstruction of Runway 13R, in phases, beyond the current six-year capital program and includes an environmental assessment and Memorandum of Agreement (MOA) with the FAA.
- Taxiway E Reconstruction: This project will reconstruct Taxiway E to a new location, including associated grading, lighting, signage and markings.
- Airfield Package 6-7: Pkg 6 - Taxiway R Rehab Phases 2 & 3. Constructs a new taxiway bypass to connect to TW RC to TW R. Install new FAA communications duct bank in order to remove the in-ground bridge. Pkg 7 - Removes a bridge and Municipal Solid Waste (MSW) and constructs a new Taxiway R on grade.
- Electrification of Ground Support Equipment for Emission Reduction: Installs sixty (60) Ground Support Equipment (“GSE”) vehicle charging stations to reduce diesel GSE off of the Airport Terminal A and B apron areas to reduce ozone emissions.

Technology and Other Projects

- Master Plan Update, SAT: This project updates the Master Plan for the San Antonio International Airport. This update will be used as a planning and programming tool for future capital development up to the next 50 years. The project includes corresponding updates to the Part 150 NCP & Drainage Master Plan and includes an EALP (Electronic Airport Landing Plan).
- Multi-User Flight Information Display System (“MUFIDS”) Modernization: This project replaces the aged MUFIDS monitors in Terminal B and adds monitors in new locations throughout the campus.
- Paging Modernization: This project installs a new paging system to include all equipment across both terminals A and B.
- Airport Integrated Control Center (“AICC”): This project provides for the planning, design and construction of a new AICC for the Airport.
- Airside Security Program: This project is focused on improving airside security around the airside apron area with increased video surveillance and a limited Perimeter Intrusion Detection System rollout. This project will also provide airport vehicle gate access control improvements and will include limited airside operational wireless access.
- Maintenance Office Renovations: Renovation of a new location of a maintenance office that is closer proximity to the airfield.
- Rehabilitate West Cargo Facilities: The project installs a new roof of the building, new exterior metal siding of building including soffits and fascia, security camera and cabling upgrades, new overhead and pedestrian doors, plumbing improvements, electrical installation, ADA access ramps, and new interior walls between tenant areas.
- Parking, CCTV for Economy and Cell Lots: This project installs CCTV and emergency call boxes for the parking areas to provide safety and security. This project scope is to install 27 cameras, 16 blue emergency phones, and the required supporting infrastructure in the Red, Orange and Green surface parking lots at SAT.

- Other Capital Projects: Miscellaneous projects at the Airport and at Stinson.

The anticipated sources of funding for the CIP are as follows:

<u>Funding Sources</u>	<u>Projected Funding (\$)</u>
Federal Grants	
Entitlement Grants	19,102,813
Discretionary Grants	42,346,869
Noise Discretionary Grant	1,051,864
TxDOT Grant	8,510,900
FAA VALE Grant	1,525,523
Other Funding	
Airport Improvement & Contingency Fund	48,604,083
Stinson Revolving Fund	2,367,708
<u>Interim Airport Financing</u>	<u>57,933,720</u>
Total	181,443,480

The CIP includes capital improvements, which are generally described as follows:

<u>Improvement</u>	<u>Amount (\$)</u>
Airport	
Airfield	76,609,823
Common Use and IT Upgrade	44,654,885
Transit/Roadways	1,113,880
Parking	477,400
Terminal	27,146,706
Residential Acoustic Treatment Program	1,314,830
Other Projects	14,713,918
<u>Stinson</u>	<u>15,412,038</u>
Total	181,443,480

PFC Projects. Public agencies wishing to impose Passenger Facility Charge (“PFC”) are required to apply to the FAA for such authority and must meet certain requirements specified in the 49 USC § 40117, and the implementing regulations issued by the FAA.

The FAA issued a “Record of Decision” on August 29, 2001 approving the City’s initial PFC application. The City, as the owner and operator of the Airport, received authority to impose a \$3.00 PFC and to collect, in the aggregate, approximately \$102,500,000 in PFC Revenues. On February 15, 2005, the FAA approved an application amendment increasing the PFC funding by a net amount of \$13,893,537. On February 22, 2005, the FAA approved the City’s application for an additional \$50,682,244 in PFC collections to be used for 11 new projects. On June 26, 2007, the FAA approved two amendments to approved applications increasing the PFC funding by a net amount of \$121,611,491 for two projects and \$67,621,461 for four projects. Additionally, the FAA approved the increased collection rate from \$3.00 to \$4.50, effective October 1, 2007. In May 2010, the FAA approved amendments to the City’s PFC collection authorization to increase the scope of the PFC funding for certain PFC projects and permitted the addition of several elements. The May 28, 2010 FAA approvals increased the PFC funding amount from \$380,958,549 to \$574,569,629. On March 18, 2015, the City submitted an amendment to reduce the PFC Collection authority from the amount of approximately \$573.8 million to approximately \$463.7 million (a reduction of approximately \$110.1 million). This reduction was due to (i) estimated finance and interest costs that were overstated in the submittals compared to actual finance and interest costs and (ii) lower project costs in some cases. The FAA issued the Final Agency Decision on April 13, 2015, approving the proposed PFC amendment.

On October 1, 2007, the City began collecting a \$4.50 PFC (less a \$0.11 air carrier collection charge) per qualifying enplaned passenger. The City has received PFC “impose and use” authority, meaning that it may impose the PFC and use the resultant PFC Revenues for all projects, contemplated to be completed using proceeds of the Parity PFC Bonds. As of December 31, 2020, the City has collected \$267,132,544 (unaudited) in PFC Revenues since authority to impose and collect the PFC was received. The estimated PFC collection expiration date is June 1, 2028.

To date, the following projects have been approved as “impose and use” projects:

- Replace Remain Overnight Apron
- Implement Terminal Modifications
- Reconstruct Perimeter Road

- Construct New Terminal B
- Acoustical Treatment Program
- Construct Elevated Terminal Roadway
- Upgrade Central Utility Plant
- Construct Apron – Terminal Expansion
- Install Utilities – Terminal Expansion
- Replace Two Aircraft Rescue and Fire Fighting Vehicles
- Conduct Environmental Impact Statement
- Reconstruct Terminal Area Roadway
- Install Noise Monitoring Equipment
- Install Terminal and Airfield Security Improvements
- Install Airfield Electrical Improvements
- PFC Development and Administration Costs

CFC Projects. The City Council, by ordinance adopted on March 8, 2012, authorized the Airport to impose the collection of a \$4.50 per transaction day Customer Facility Charge (“CFC”) for rental car customers to pay for all costs and expenses associated with the planning, financing, and construction and certain other costs for a Consolidated Rental Car Facility (the “ConRAC”) to open in three to five years. The rental car companies began collecting the CFC on all car rentals at the Airport on April 1, 2012. The CFC was reapproved at a collection rate of \$5.00 per transaction day, effective July 1, 2015, pursuant to the ordinance adopted by the City Council on June 18, 2015. The CFC rate was further increased to \$5.50 per transaction day, effective October 1, 2018. The ConRAC project cost is estimated at \$167.8 million. As of December 31, 2020, the City has received \$90,047,627 (unaudited) in CFC Revenues since the April 1, 2012 inception of the CFC.

ConRAC Opening. ConRAC opened for business on January 17, 2018. This 1.8 million square foot state of the art facility houses up to 14 rental car companies, a quick turnaround area for fueling, vacuuming, washing and light maintenance and approximately 2,600 ready/return parking spaces. ConRAC is just a few steps away from the terminals, eliminating the need for shuttles to take passengers to their rental car locations, thus enabling the Airport to initiate significant improvements to traffic flow in the arrivals area.

Airport Operations

Direct supervision of airport operations is managed by the Department. The Department is responsible for: (1) managing, operating, and developing the Airport System and any other airfields which the City may control in the future; (2) negotiating leases, agreements, and contracts; (3) computing and supervising the collection of revenues generated by the Airport System under its management; and (4) coordinating aviation activities under the FAA.

The Department is an enterprise fund of the City. The operations and improvements at the Airport and Stinson are paid for by airport user charges, bond funds, and funds received from the FAA. No general tax fund revenues are used to operate or maintain the Airport System. The City Council appoints a 19-member Airport Advisory Commission (the “AAC” or the “Commission”). The Commission’s primary purpose is to advise the Department regarding policies, including any noise-related issues affecting the Airport System and air transportation initiatives.

On February 10, 2020, San Antonio Airport System welcomed Jesus Saenz, Jr. as the new Director of Airports with overall responsibility for the management, administration and planning of the Airport System. Mr. Saenz is a 24-year veteran of airport management. He arrived in San Antonio from Houston, Texas where he was the Chief Operating Officer for the Houston Airport System. Mr. Saenz has an experienced staff to aid him in carrying out the responsibilities of his position. The principal members of the Department’s staff include the Director, the Deputy Aviation Director, the Assistant Aviation Director of Operations, Assistant Aviation Director of Administration, and the Assistant Aviation Director of Asset and Planning.

The Airport System has police and fire departments on premises. The police and firefighters are assigned to duty at the Airport System from the City’s police and fire departments, but their salaries are paid by the Department as an operation and maintenance expense of the Airport System.

The FAA has regulatory authority over navigational aid equipment, air traffic control, and operating standards for the Airport System.

The passage of the Aviation and Transportation Security Act in November of 2001, created the TSA. The Department has worked closely with the TSA to forge a new higher level of security for the traveling public. TSA employs about 300 individuals at the Airport System to meet the federal security requirements.

As of October 1, 2020, the Airport System had approximately 499 authorized positions as follows:

Administration	109	Parking/GT	63
Police/Security	96	Airport Operations	48
Fire Rescue	33	Stinson Airport	8
Facilities Maintenance	142		

Comparative Statement of Gross Revenues and Expenses - San Antonio Airport System

The historical financial performance of the Airport System is shown below for the last five fiscal years:

	<u>Fiscal Year Ended September 30</u>				
	<u>2015</u> ¹	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Gross Revenues ²	\$91,617,612	\$96,847,128	\$94,686,702	\$106,952,588	\$116,003,603
Expenses	(56,198,508)	(58,913,011)	(60,674,648)	(65,071,241)	(66,246,817)
Net Revenues	<u>\$35,419,104</u>	<u>\$37,934,117</u>	<u>\$34,012,054</u>	<u>\$41,881,347</u>	<u>\$49,756,786</u>

¹ 2015 data has been restated to match CAFR amounts.

² As reported in the City's audited financial statements.

Source: City of San Antonio, Department of Finance.

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Total Domestic and International Enplaned Passengers - San Antonio Airport

The total domestic and international enplaned passengers on a calendar year basis, along with year-to-year percentage change are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
2011	4,071,781	49,711	1.24
2012	4,103,364	31,583	0.78
2013	4,119,039	15,675	0.38
2014	4,191,391	72,352	1.76
2015	4,257,688	66,297	1.58
2016	4,309,761	52,073	1.22
2017	4,521,611	211,850	4.92
2018	5,028,658	507,047	11.21
2019	5,192,990	164,332	3.27
2020	1,999,488	(4,993,502)	(61.5)

Source: City of San Antonio, Department of Aviation.

Total Enplaned and Deplaned International Passengers - San Antonio Airport

The total enplaned and deplaned for international passengers on a calendar year basis, along with year-to-year percentage change are shown below:

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
2011	182,031	45,061	32.90
2012 ¹	421,718	239,687	131.67
2013	474,609	52,891	12.54
2014	464,765	(9,844)	(2.07)
2015	511,076	46,311	9.96
2016 ²	400,061	(111,015)	(21.72)
2017	368,381	(31,680)	(7.92)
2018	415,018	46,637	12.66
2019	467,475	52,457	12.64
2020	207,684	(259,791)	(55.6)

¹The increase in total enplaned and deplaned international passengers from 2011 to 2012 is attributable to 3 new airlines operating in 2012. These airlines are AirTran, InterJet, and Viva AeroBus.

²The decline in international is in large part a result of capacity reductions by Southwest to Mexico City and Interjet to Toluca. In addition to capacity adjustments, the continuing devaluation of the Peso to the U.S. Dollar may be contributing to decreased leisure travel between the two countries. In December 2016, the Peso had 13.7% less value than the same time in 2015, and 47.0% less value than two years prior to that.

Source: City of San Antonio, Department of Aviation.

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Air Carrier Landed Weight - San Antonio Airport

The historical aircraft landed weight in 1,000-pound units on a calendar year basis is shown below. Landed weight is utilized in the computation of the Airport's landed fee.

<u>Calendar Year</u>	<u>Total</u>	<u>Increase/ (Decrease)</u>	<u>Percent (%) Change</u>
2011	5,707,294	75,091	1.33
2012	5,812,227	104,933	1.84
2013	5,784,738	(27,489)	(0.47)
2014	5,661,554	(123,184)	(2.13)
2015	5,719,952	58,398	1.03
2016	5,729,257	9,305	0.16
2017	6,024,433	295,176	5.15
2018	6,594,764	570,331	9.47
2019	6,754,689	159,925	2.42
2020	3,944,499	(2,810,190)	(41.6)

Source: City of San Antonio, Department of Aviation.

* * *



CPS ENERGY

**BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
JANUARY 31, 2020 AND 2019
AND INDEPENDENT AUDITOR'S REPORT**

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**CITY PUBLIC SERVICE
OF SAN ANTONIO, TEXAS**

BASIC FINANCIAL STATEMENTS

Years Ended January 31, 2020 and 2019

(With Independent Auditors' Report Thereon)



City Public Service of San Antonio, Texas

Basic Financial Statements
For the Fiscal Year Ended January 31, 2020 and 2019

Table of Contents

Management's Discussion and Analysis – Required Supplementary Information (Unaudited)	
Introduction	2
Basic Financial Statements Overview	2
Financial Highlights and Significant Accounting Policies	3
Results of Operations	8
Financial Position	13
Financing and Debt Covenants Compliance	17
Currently Known Facts	22
Requests for Information	25
Independent Auditors' Report	26
Basic Financial Statements	
Statements of Net Position	28
Statements of Revenues, Expenses and Changes in Net Position	29
Statements of Cash Flows	30
Statements of Fiduciary Net Position	31
Statements of Changes in Fiduciary Net Position	32
Notes to Basic Financial Statements	
Note 1: Summary of Significant Accounting Policies	33
Note 2: Cash, Cash Equivalents and Investments	43
Note 3: Fair Value Measurement	56
Note 4: Disaggregation of Current Accounts Receivable and Accounts Payable	62
Note 5: Capital Assets, Net	63
Note 6: Revenue Bond and Commercial Paper Ordinances Requirements	66
Note 7: Revenue Bonds	68
Note 8: Commercial Paper and Related Revolving Credit Agreements	73
Note 9: Employee Pension Plan	74
Note 10: Other Postemployment Benefits	78
Note 11: Other Obligations and Risk Management	85
Note 12: Other Financial Instruments	88
Note 13: South Texas Project	91
Note 14: Commitments and Contingencies	95
Note 15: Leases	98
Note 16: Pollution Remediation Obligation	100
Note 17: Asset Retirement Obligation	101
Required Supplementary Information (Unaudited)	
Schedules of Changes in CPS Energy Net Pension Liability and Related Ratios	103
Schedules of Employer Contributions to CPS Energy Pension Plan	104
Schedules of Changes in CPS Energy Net OPEB Liability and Related Ratios	105
Schedules of Employer Contributions to CPS Energy OPEB Plans	108
Schedules of Investment Returns for CPS Energy Fiduciary Funds	111
Glossary of Terms	112



MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") serves as an introduction to the financial statements of City Public Service Board of San Antonio (also referred to as "CPS Energy" or the "Company"). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the fiscal year ("FY") ended January 31, 2020, ("FY2020") compared to the fiscal year ended January 31, 2019 ("FY2019"). It also provides an overview of CPS Energy's general financial condition and results of operations for FY2019, compared to the previous fiscal year ended January 31, 2018 ("FY2018"). This MD&A has been prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and should be read in conjunction with the audited financial statements and accompanying notes that follow.

BASIC FINANCIAL STATEMENTS OVERVIEW

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Statements of Net Position present CPS Energy's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of the end of each fiscal year.

Assets are separated into current and noncurrent categories and are reported in the order of liquidity. Current assets include unrestricted cash and cash equivalents; investments; customer, interest and other accounts receivable; and inventories, as well as prepayments and other current assets. Noncurrent assets include cash and cash equivalents, investments, and interest and other accounts receivable that have been restricted by state laws, ordinances or contracts. Noncurrent assets also include the pension regulatory asset, other noncurrent assets and net capital assets.

Deferred outflows of resources include unrealized pension and other postemployment benefits ("OPEB") contributions made in the current year, unrealized losses related to pension and OPEB, unrealized losses on fuel hedges, unamortized debt reacquisition costs, and unamortized asset retirement obligation costs.

Consistent with the reporting of assets on the Statements of Net Position, liabilities are segregated into current and noncurrent categories. Current liabilities include the current maturities of debt, accounts payable and accrued liabilities. Noncurrent liabilities include net long-term debt, asset retirement obligations, decommissioning net costs refundable, net pension liability and other noncurrent liabilities.

Deferred inflows of resources include unrealized gains related to fuel hedges, unrealized gains related to pension and OPEB, and future revenues. The deferred inflows related to future revenues are associated with the FY2014 sale of certain assets and unrealized future recoveries related to the Joint Base San Antonio ("JBSA") agreement.

The Statements of Net Position report net position as the difference between (a) the sum of assets and deferred outflows of resources and (b) the sum of liabilities and deferred inflows of resources. The

components of net position are classified as net investment in capital assets, restricted or unrestricted. An unrestricted designation indicates the net funds are available for operations.

Within the Statements of Revenues, Expenses and Changes in Net Position, operating results are reported separately from nonoperating results, which primarily relate to financing and investing. Other payments to the City of San Antonio (“City”), contributed capital, impairment loss, and the effect of the South Texas Project’s (“STP”) defined-benefit plan funding obligations are also reported separately as components of the change in net position. These statements identify revenue generated from sales to cover operating and nonoperating expenses. Operating expenses are presented by major cost categories. Revenues remaining are available to service debt, fulfill City Payment commitments, finance capital expenditures and cover contingencies.

The Statements of Cash Flows present cash flows from operating activities, capital and related financing activities, noncapital financing activities, and investing activities. These statements are prepared using the direct method, which reports gross cash receipts and payments, and presents a reconciliation of operating income to net cash provided by operating activities. These statements also separately list the noncash financing activities.

The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position report the combined assets and liabilities and plan activity associated with the CPS Energy Pension Plan (“Pension Plan”) and the CPS Energy Group Health Plan, CPS Energy Group Life Insurance Plan and the CPS Energy Long-Term Disability Income Plan (collectively, “Employee Benefit Plans”). The Pension Plan and Employee Benefit Plans are reported using the economic resources measurement focus and are prepared on the accrual basis of accounting in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”). Contributions and income are recorded when earned and benefits and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. The Pension Plan and the Employee Benefit Plans apply all applicable GASB pronouncements.

FINANCIAL HIGHLIGHTS AND SIGNIFICANT ACCOUNTING POLICIES

Allowance for Funds Used During Construction (“AFUDC”) – To reflect funding methodology, the AFUDC rate includes both a debt and an equity component. The blended rate is composed of 50% equity and 50% debt based on construction funding. The rate is reviewed quarterly to determine if any adjustments are necessary. Alternate AFUDC rates are applied to projects costing more than \$100 million, reflecting the method by which they are funded.

Asset Retirement Obligations (“ARO”) – CPS Energy adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, during FY2019 and accounts for AROs by recognizing the obligations as a liability based on the best estimate of the current value of outlays expected to be incurred once the assets are retired. See Note 17 – Asset Retirement Obligations.

Battery Energy Storage Systems (“BESS”) – On September 20, 2016, CPS Energy accepted a \$3.0 million New Technology Implementation Grant from the Texas Commission on Environmental Quality (“TCEQ”). The grant proceeds subsidized the purchase of a lithium-ion 10MW battery installed near the Southwest Research Institute substation and adjacent to solar generation resources. The battery will allow generation produced during peak solar intervals to be made available later during peak demand intervals. Grant proceeds are recorded as contributed capital and are exempt from City Payments. As of January 31, 2020, and 2019, CPS Energy had incurred approximately \$13.2 million and \$6.8 million, respectively, on the project. At January 31, 2020 and 2019, CPS Energy had recorded \$3.0 million and \$2.7 million, respectively, as a receivable for reimbursable costs due from the TCEQ related to the BESS project. Limits on TCEQ funding require that costs reimbursable under the grant be incurred and paid by May 31, 2020.

See accompanying independent auditors’ report.

Build America Bonds (“BABs”) – The American Recovery and Reinvestment Act (“ARRA”) of 2009 provided authority for the issuance of BABs, which were issuable in calendar years 2009 and 2010 as taxable bonds. The ARRA permitted the issuer or the issuer’s paying agent to receive subsidy payments equal to 35% of the bond’s interest costs directly from the U.S. Department of the Treasury. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government reduced the BABs subsidy as noted below:

Subsidy Reduction	Period Covered
6.9%	October 1, 2016 through September 20, 2017
6.6%	October 1, 2017 through September 20, 2018
6.2%	October 1, 2018 through September 20, 2019
5.9%	October 1, 2019 through September 20, 2020

Transaction details for CPS Energy’s BABs issuances are provided in Note 7 – Revenue Bonds.

The City of San Antonio (“City”) – CPS Energy is considered an asset of the community through its legal ownership by the City. In turn, CPS Energy is treated as a component unit of the City, which has a September 30 fiscal year end.

Contributed Capital – Third-party contributions made for construction of capital assets flow through the Statements of Revenues, Expenses and Changes in Net Position and are shown on the Statements of Net Position as a component of net investment in capital assets. The amount reported for contributed capital was \$59.5 million at January 31, 2020, as compared with \$54.9 million at January 31, 2019. This included donated assets of \$4.0 million and \$5.1 million, respectively. The remaining portion of these balances, \$55.5 million for FY2020, and \$49.8 million for FY2019, represents contributions received from customers as payments for utility extensions and services, as well as funding for community initiatives and other local partnership projects.

Counterparty Risk – CPS Energy is exposed to counterparty risk associated with various transactions primarily related to debt, investments, fuel hedging and wholesale power. Counterparty risk is the risk that a counterparty will fail to meet its obligations in accordance with the terms and conditions of its contract with the Company. The Company has policies and practices in place to ensure the solvency of counterparties is assessed accurately, monitored regularly and managed actively through its Enterprise Risk Management & Solutions division.

CPS Energy Component Units – As required under GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, the assets and liabilities accumulated for CPS Energy’s two nuclear decommissioning trusts (“Decommissioning Trusts” or “Trusts”) for STP Units 1 and 2 are combined into the CPS Energy financial statements using the blended method of inclusion. Initially, CPS Energy owned a 28% interest in STP Units 1 and 2. In May 2005, CPS Energy purchased an additional 12% interest in these units. Assets from an associated decommissioning trust were also received with this purchase. CPS Energy reports the assets in both Trusts—the 28% interest and the 12% interest—as component units.

As required under GASB Statement No 84, *Fiduciary Activities*, the Pension Plan and Employee Benefit Plans are reported as fiduciary component units. The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position report the combined assets and liabilities and plan activities of these Plans. See Note 9 – Employee Pension Plan, Note 10 – Other Postemployment Benefits and in Required Supplementary Information for required disclosures of the Pension Plan and the Employee Benefit Plans.

Decommissioning – CPS Energy accounts for its legal obligation to decommission STP Units 1 and 2 in accordance with GASB Statement No. 83. The Company has recognized its pro rata share of an ARO based on the best estimate of the current values of outlays expected to be incurred to decommission the units, determined by the most recent cost study. A new cost study is performed every 5 years. In years subsequent the latest study, the GASB No. 83 requires the current value of the Company’s ARO be adjusted for the effects of inflation or deflation, at least annually. In addition to the ARO, the Company has recorded deferred outflows of resources that are being amortized over the remaining useful life of the plant. See Note 17 – Asset Retirement Obligations for the criteria for determining the timing and pattern of recognition for the decommissioning liability. See Note 13 – South Texas Project for additional details on the most recent cost study.

Additionally, due to requirements under the Code of Federal Regulations governing nuclear decommissioning trust funds, a zero-net position approach is applied in accounting for the Decommissioning Trusts. Accordingly, current year and prior year activity in the Trusts is reported in the nonoperating income (expense) section of the Statements of Revenues, Expenses and Changes in Net Position as Decommissioning net costs recoverable (refundable). The cumulative effect of activity in the Trusts is reported on the Statements of Net Position as a noncurrent liability referred to as decommissioning net costs refundable since any excess funds are payable to customers. Going forward, prolonged unfavorable economic conditions could result in the assets of the Trusts being less than the estimated decommissioning liability. In that case, instead of an excess as currently exists, there would be a deficit that would be reported as decommissioning net costs recoverable. This amount would be receivable from customers.

The Dry Cask Storage Project was recently completed at STP to provide for the storage of spent nuclear fuel after the spent fuel pool has reached capacity. CPS Energy’s Decommissioning Trusts have separate spent fuel management accounts that paid for those costs. By contract, spent fuel will eventually be removed to final storage by the Department of Energy (“DOE”). The DOE failed to meet the contractual start date to receive spent fuel, and STP and other utilities have reached settlement agreements with the DOE. In the most recent settlement agreement dated March 15, 2017, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through calendar year 2019. STP is currently working with the DOE to extend the settlement agreement for another three years.

Ongoing costs for the spent fuel management project are being funded by the STP owners (CPS Energy; the City of Austin; and NRG South Texas LP, a wholly owned subsidiary of NRG Energy, Inc.) as expenditures are incurred. CPS Energy is entitled to request reimbursement at its discretion from its Decommissioning Trusts for the Company’s portion of allowable costs. Annually, the South Texas Project Nuclear Operating Company (“STPNOC”) submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned to the owners by STPNOC upon receipt of funds from the DOE. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Trusts. Spent fuel management costs that do not qualify for reimbursement by the DOE or the Trusts are recorded as operation and maintenance (“O&M”) expense or capital costs.

Depreciation Study – CPS Energy engages an independent third-party consulting firm to conduct a depreciation study, which is performed every five years. The most recent study was completed in FY2018, and the resulting depreciation rates were applied beginning in that period.

Electric Reliability Council of (“ERCOT”) Nodal Market System – ERCOT is the independent system operator managing the flow of electric power for approximately 90% of the electric load for the state of Texas. ERCOT schedules power on the electric grid in a nodal market with more than 8,000 pricing nodes. In the nodal market system, generators are required to make their capacity and ancillary services available to ERCOT, and load-serving entities purchase their supply needs from ERCOT in the day-ahead market and true up in the real-time market. As both a generator and load-serving entity, CPS Energy is an

See accompanying independent auditors’ report.

active participant in the nodal market system and actively monitors and manages its exposure to the risks inherent in the retail and wholesale markets.

Federal and State Grant Programs – Periodically, federal and state grants are made available to CPS Energy as a subrecipient for a portion of grant funds allocated to the state of Texas or as a direct award. Grant receipts are recorded as nonoperating income and generally reimburse CPS Energy for costs, recorded as operating expenses, incurred in the administration of the program. Federal or state grants that subsidize in whole or a partial amount of capital assets are recognized as contributed capital. These accounting treatments result in no impact to the Company’s net position. Revenues associated with the grant-related programs are exempt from payments of a percentage of gross revenues made to the City. Grant funding received by the Company is subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Hedging Derivative Instruments – CPS Energy accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Currently, CPS Energy’s only derivative instruments are fuel hedges, which are used to reduce price risk for natural gas purchases. GASB Statement No. 53 requires that hedging derivative instruments be reported at fair value on the Statements of Net Position. In FY2020, 33% of distribution and 28% of generation natural gas volumes were hedged. In FY2019, 33% of distribution and 27% of generation natural gas volumes were hedged. See Note 12 – Other Financial Instruments.

Pension Plan – The financial statements of the Pension Plan are separately audited and reported as of December 31, 2019, with comparative totals as of December 31, 2018. The financial results of the Pension Plan are included as part of the basic financial statements and are presented in combination with the Employee Benefit Plans in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. Additionally, in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, required disclosures are provided in Note 9 – Employee Pension Plan and in Required Supplementary Information.

Postemployment Benefits Other Than Pension (“OPEB”) – The Employee Benefit Plans are separately audited and reported as of December 31, 2019, with comparative totals as of December 31, 2018. The financial results of the Employee Benefit Plans are included as part of the basic financial statements and are presented in combination with the Pension Plan in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. Additionally, in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, required disclosures are provided in Note 10 – Other Postemployment Benefits and in Required Supplementary Information.

Rate Increases – Rates are set by the CPS Energy Board of Trustees and approved by the San Antonio City Council. On November 7, 2013, the City Council approved a 4.25% increase in both CPS Energy’s electric and natural gas base rates, which were effective February 2014.

Reclassifications – Certain amounts in the prior years’ financial statements have been reclassified to conform to the current-year presentation.

SA Energy Acquisition Public Facility Corporation (“PFC”) – The PFC is a public, nonprofit corporation organized under the laws of the state of Texas pursuant to the Texas Public Facility Corporation Act, Chapter 303, Texas Local Government Code. The PFC was organized in FY2008 to assist its sponsor, the City, in the procurement of natural gas and in financing, refinancing or providing public facilities to be devoted to public use. The PFC is a component unit of the City.

On June 14, 2007, the PFC entered into a Natural Gas Supply Agreement with the City, acting by and through CPS Energy. This gas supply agreement provides for the sale to CPS Energy, on a pay-as-you-go basis, of all-natural gas to be delivered to the PFC under a Prepaid Natural Gas Sales Agreement. Under this prepaid gas agreement between the PFC and the gas supplier, the PFC prepaid the cost of a specified supply of natural gas to be delivered over 20 years. CPS Energy's net savings resulting from this transaction are passed on, in their entirety, to its distribution gas customers. The financial statements of the PFC are separately audited and reported.

Save for Tomorrow Energy Plan ("STEP") – In FY2009, CPS Energy was authorized by City ordinance to spend up to \$849 million to save 771 MW of customer demand through energy efficiency and conservation programs by calendar year 2020. Under STEP, CPS Energy launched an array of weatherization, energy efficiency, solar, and demand response programs. As of January 31, 2020, CPS Energy had achieved its STEP goal of reducing demand by an estimated 825 MW and approximately 15% below the original STEP budget. Due to the success of the STEP program, the City authorized Bridge STEP in January 2020, which allows for the existing customer programs to continue for an additional year through January 31, 2021.

Annually, approximately \$9.3 million of STEP expenses are funded through the electric base rate and reported as O&M expenses. STEP expenses in excess of this initial amount per year are recovered through the fuel adjustment factor over a period of 12 months, or longer for certain STEP expenses, beginning in the subsequent fiscal year after the costs are incurred and have been independently validated. These STEP recoveries are accrued as a regulatory asset referred to as STEP net costs recoverable.

Solar Prepayments – In November 2011, the Company entered into a prepaid agreement for purchased power from San Antonio-area solar energy facilities with a total of 30 MW of capacity. In FY2013, \$77.0 million in prepayments were made for approximately 60% of the anticipated annual output over a period of 25 years. At January 31, 2020, of the remaining prepayment balance, \$3.1 million was classified as current and \$50.7 million was classified as noncurrent. At January 31, 2019, of the remaining prepayment balance, \$3.1 million was classified as current and \$53.7 million was classified as noncurrent. The balance of the output is purchased on a pay-as-you-go basis.

STP Units 1 and 2 – Correlating to CPS Energy's 40% interest in STP Units 1 and 2 that have been in operation since 1988 and 1989, respectively, the applicable financial results of the nonprofit special-purpose operations project are combined within these financial statements. These units are licensed by the NRC to operate until 2047 and 2048, respectively. STP follows Financial Accounting Standards Board guidance. See Note 13 – South Texas Project.

RESULTS OF OPERATIONS**Summary of Revenues, Expenses and Changes in Net Position**
(Dollars in thousands)

	Fiscal Year Ended January 31,			Change			
	2020	2019	2018 Restated	2020 vs. 2019		2019 vs. 2018	
Revenues and nonoperating income							
Electric	\$ 2,426,396	\$ 2,576,715	\$ 2,439,858	\$ (150,319)	-5.8%	\$ 136,857	5.6%
Gas	142,782	167,444	180,411	(24,662)	-14.7%	(12,967)	-7.2%
Total operating revenues	2,569,178	2,744,159	2,620,269	(174,981)	-6.4%	123,890	4.7%
Nonoperating income, net	72,059	55,914	33,938	16,145	28.9%	21,976	64.8%
Total revenues and nonoperating income	2,641,237	2,800,073	2,654,207	(158,836)	-5.7%	145,866	5.5%
Expenses							
Operating expenses							
Fuel, purchased power and distribution gas	692,583	824,753	832,070	(132,170)	-16.0%	(7,317)	-0.9%
Operation and maintenance	567,456	573,491	540,104	(6,035)	-1.1%	33,387	6.2%
Annual OPEB and pension expense	79,635	33,402	41,180	46,233	138.4%	(7,778)	-18.9%
Energy efficiency and conservation (STEP)	72,815	69,124	80,731	3,691	5.3%	(11,607)	-14.4%
STEP net costs recoverable	235	19,912	7,813	(19,677)	-98.8%	12,099	154.9%
Regulatory assessments	82,622	86,202	84,083	(3,580)	-4.2%	2,119	2.5%
Decommissioning	18,000	16,525	16,525	1,475	8.9%	-	-
Depreciation and amortization	421,000	445,227	425,260	(24,227)	-5.4%	19,967	4.7%
Total operating expenses	1,934,346	2,068,636	2,027,766	(134,290)	-6.5%	40,870	2.0%
Nonoperating expenses							
Interest and debt-related	202,285	201,925	199,785	360	0.2%	2,140	1.1%
Payments to the City of San Antonio	342,988	361,351	338,455	(18,363)	-5.1%	22,896	6.8%
Total nonoperating expenses	545,273	563,276	538,240	(18,003)	-3.2%	25,036	4.7%
Total expenses	2,479,619	2,631,912	2,566,006	(152,293)	-5.8%	65,906	2.6%
Income before other changes in net position	161,618	168,161	88,201	(6,543)	-3.9%	79,960	90.7%
Other payments to the City of San Antonio	(11,979)	(11,766)	(11,720)	(213)	-1.8%	(46)	-0.4%
Contributed capital	59,507	54,936	43,868	4,571	8.3%	11,068	25.2%
Special item - plant impairment	-	(182,723)	-	182,723	100.0%	(182,723)	-100.0%
Effect of defined benefit plan funding obligations - STP	(18,668)	(8,145)	(10,610)	(10,523)	-129.2%	2,465	23.2%
Change in net position	190,478	20,463	109,739	170,015	830.8%	(89,276)	-81.4%
Net position - beginning	3,514,027	3,493,564	3,383,825	20,463	0.6%	109,739	3.2%
Net position - ending	\$ 3,704,505	\$ 3,514,027	\$ 3,493,564	\$ 190,478	5.4%	\$ 20,463	0.6%

Total Revenues and Nonoperating Income

FY2020 – Representing 97.3% of total revenues and nonoperating income, electric and gas revenues of \$2,569.2 million decreased by \$175.0 million, or 6.4%, compared to FY2019.

To meet its combined sales requirements for retail customers within the greater San Antonio certificated area and wholesale customers outside of this area, electric energy is primarily generated by CPS Energy from three sources—coal, nuclear and gas. Approximately 83.5% and 86.2% of its customers' electric energy needs in FY2020 and FY2019, respectively, were produced from CPS Energy's generating units. In addition to the energy produced from Company-owned facilities, CPS Energy also purchased power from third parties, including producers of renewable energy, such as solar-generated and wind-generated power.

Representing 91.9% of CPS Energy's total revenues and nonoperating income, electric operating revenue of \$2,426.4 million decreased by \$150.3 million from FY2019. Contributing to the decrease were lower wholesale recoveries resulting from lower sales volumes stemming from the J.T. Deely Units 1 and 2 retirement in FY2019, as well as lower retail fuel recoveries due to lower gas prices.

Representing 5.4% of total revenues and nonoperating income, gas revenue totaled \$142.8 million, a \$24.7 million decrease from FY2019. This decrease was primarily due to lower fuel recoveries as a result of lower natural gas prices.

See accompanying independent auditors' report.

Net nonoperating income of \$72.1 million increased \$16.1 million from FY2019, primarily due to improved investment results compared to last year.

FY2019 – Representing 98.0% of total revenues and nonoperating income, electric and gas revenues of \$2,744.2 million increased by \$123.9 million, or 4.7%, compared to FY2018.

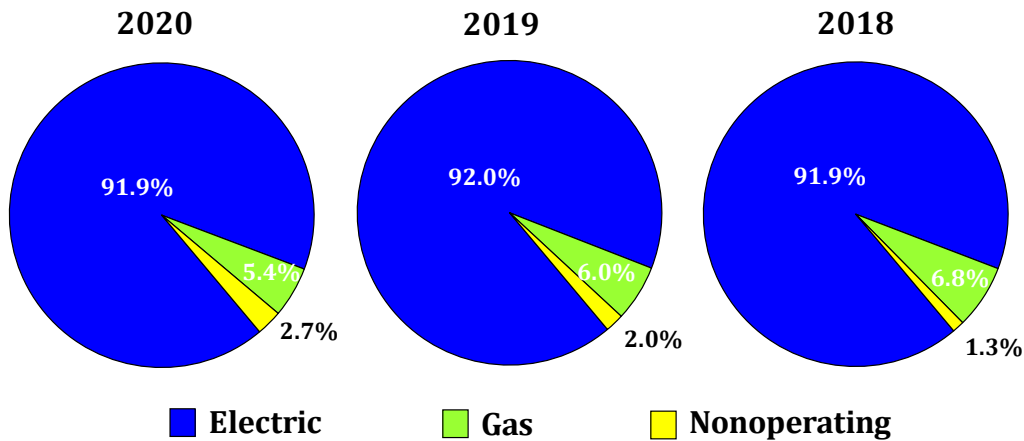
Approximately 86.2% and 83.3% of its customers’ electric energy needs in FY2019 and FY2018, respectively, were produced from CPS Energy’s generating units.

Representing 92.0% of CPS Energy’s total revenues and nonoperating income, electric operating revenue of \$2,576.7 million increased by \$136.9 million from FY2018. Contributing to the increase were higher wholesale revenues from higher sales volumes resulting from favorable market opportunities and available capacity during the year, as well as higher retail nonfuel recoveries.

Representing 6.0% of total revenues and nonoperating income, gas revenue totaled \$167.4 million, a \$13.0 million decrease from FY2018. This decrease was primarily due to lower fuel recoveries as a result of a lower average unit cost of fuel partially offset by higher volumes.

Net nonoperating income of \$55.9 million increased \$22.0 million from FY2018, primarily due to increased interest income from higher interest rates and improved investment results compared to FY2018.

**Total Revenues and Nonoperating Income
Fiscal Year Ended January 31,**



Operating Expenses

FY2020 – Operating expenses of \$1,934.3 million were \$134.3 million, or 6.5%, below last year’s total of \$2,068.6 million.

Combined electric and gas fuel costs, which are passed through to customers, totaled \$692.6 million and comprised 35.8% of total operating expenses. Electric fuel and purchased power costs of \$648.9 million decreased \$112.0 million, or 14.7%, below last year primarily due to lower wholesale volumes resulting from reduced capacity from the retirement of J.T. Deely Units 1 and 2 in FY2019. Distribution gas costs of \$43.7 million decreased by \$20.1 million, or 31.5%, from last year due to a lower natural gas prices.

Operation and maintenance expenses (including annual OPEB and pension expense and STP O&M) of \$647.1 million were \$40.2 million, or 6.6%, higher than last year primarily due to higher OPEB and

See accompanying independent auditors’ report.

pension expense resulting from the unfavorable benefit trusts' investment performance in calendar year 2018.

STEP expense of \$72.8 million was \$3.7 million more than last year's expense of \$69.1 million, primarily due to additional solar program funds awarded. These amounts represent costs incurred in the current year above the approximately \$9.3 million funded through the base rate and recorded as O&M expenses. The related contra expense account, STEP net costs recoverable, reflects the net change during the period in expenses delayed to future periods when they will be recognized concurrent with their recovery through rate adjustments. This contra expense was \$0.2 million compared to \$19.9 million last year. This operating statement item reflects the transfer of these costs to/from the Statements of Net Position as they are deferred or amortized.

Regulatory assessments, including those charged by the Public Utility Commission of Texas ("PUCT" and ERCOT), of \$82.6 million were \$3.6 million lower due to decreased transmission costs of service ("TCOS" expenses).

Decommissioning expense of \$18.0 million was comparable to last year's total of \$16.5 million.

Depreciation and amortization expense of \$421.0 million was \$24.2 million lower than last year's expense of \$445.2 million due to decreased plant-in-service balance in the first part of the year resulting from the J.T. Deely Units 1 and 2 retirement.

FY2019 – Operating expenses of \$2,068.6 million were \$40.9 million, or 2.0%, above FY2018.

Combined electric and gas fuel costs, which are passed through to customers, totaled \$824.8 million and comprised 39.9% of total operating expenses. Electric fuel and purchased power costs of \$761.0 million increased \$11.9 million, or 1.6%, above FY2018 mainly due to higher volumes, partially offset by lower average fuel costs. Distribution gas costs of \$63.8 million decreased by \$19.2 million, or 23.1%, from FY2018 due to a lower unit cost of fuel.

Operation and maintenance expenses (including annual OPEB and pension expense and STP O&M of \$606.9 million were \$25.6 million, or 4.4%, higher than FY2018 due to higher STP O&M expense due to two refueling outages in FY2019 and higher outside services, partially offset by lower OPEB and pension expense resulting from the favorable benefit trusts' investment performance.

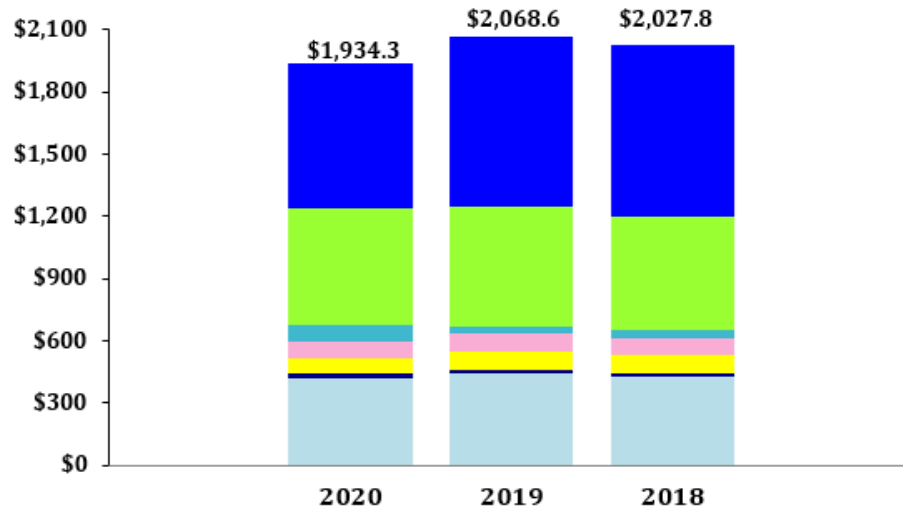
STEP expense of \$69.1 million was \$11.6 million less than FY2018's expense of \$80.7 million, primarily due to lower solar rebate amounts compared to the rebate program in FY2018. The related contra expense account was \$19.9 million compared to \$7.8 million in FY2018.

Regulatory assessments, including those charged by the PUCT and ERCOT, of \$86.2 million were \$2.1 million higher due to increased TCOS expenses.

Decommissioning expense of \$16.5 million was comparable to FY2018.

Depreciation and amortization expense of \$445.2 million was \$20.0 million higher than FY2018's expense of \$425.3 million due to the normal increase of plant-in-service before the J.T. Deely Units 1 and 2 impairment at year end.

Total Operating Expenses
 Fiscal Year Ended January 31,
 (In millions)



■ Fuel, purchased power and distribution gas	\$692.6	\$824.8	\$832.1
■ Operation and maintenance	567.5	573.5	540.1
■ Annual OPEB and pension expense	79.6	33.4	41.2
■ Regulatory assessments	82.6	86.2	84.1
■ Energy efficiency and conservation (STEP) and STEP net costs recoverable	73.0	89.0	88.5
■ Decommissioning	18.0	16.5	16.5
■ Depreciation and amortization	421.0	445.2	425.3

Nonoperating Expenses

FY2020 – Interest expense and other debt-related costs, including amortization of debt expense and AFUDC, totaled \$202.3 million and are comparable to prior year’s \$201.9 million.

The payments to the City totaled \$343.0 million and were \$18.4 million lower than last year due to lower operating revenues.

FY2019 – Interest expense and other debt-related costs, including amortization of debt expense and AFUDC, totaled \$201.9 million and were \$2.1 million, or 1.1%, higher than FY2018. The increase was due to higher interest expense related to bond issuances.

The payments to the City totaled \$361.4 million and were \$22.9 million higher than FY2018 due to higher electric revenues.

Other Changes in Net Position

FY2020 – Net income of \$161.6 million was \$6.6 million lower than last year’s net income of \$168.2 million, a decrease of 3.9%, primarily due to higher pension and OPEB expenses, partially offset by lower depreciation and favorable investment performance.

Other payments to the City totaled \$12.0 million in FY2020 and were comparable to FY2019.

See accompanying independent auditors’ report.

CPS Energy FY2020 Basic Financial Statements

Contributed capital of \$59.5 million was \$4.6 million higher than last year. Primarily contributing to the increase were greater reimbursed projects completed in the current year.

The effect of the STP defined benefit plan funding obligations, which represents 40% of the change in the unfunded pension and other post-retirement benefits liability at STP, was \$(18.7 million compared to \$(8.1 million last year, reflecting a net change of \$(10.6 million primarily due to the remeasurement of the STP defined benefit plan obligations.

CPS Energy's change in net position was \$190.5 million compared to \$20.5 million last year, a favorable change of \$170.0 million, primarily due to the prior year impairment of J.T. Deely Units 1 and 2.

FY2019 – Net income of \$168.2 million was \$80.0 million higher than FY2018's net income of \$88.2 million, an increase of 90.7%, primarily due to higher wholesale and retail nonfuel revenues, partially offset by higher O&M expenses.

Other payments to the City totaled \$11.8 million in FY2019 and were comparable to FY2018.

Contributed capital of \$54.9 million was \$11.1 million higher than FY2018. Primarily contributing to the increase were greater reimbursed projects completed in FY2019.

In FY2019, the Company recorded a special item loss of \$182.7 million related to the noncash impairment due to early retirement of J.T. Deely Units 1 and 2. See Note 5 – Capital Assets, Net.

The effect of the STP defined benefit plan funding obligations was \$(8.1 million compared to \$(10.6 million in FY2018. The \$2.5 million net change is primarily due to the remeasurement of the STP defined benefit plan obligations.

CPS Energy's change in net position was \$20.5 million compared to \$109.7 million in FY2018, an unfavorable change of \$89.3 million, due to the net income drivers explained previously and the FY2019 noncash impairment loss recorded as a special item.

FINANCIAL POSITION

Statements of Net Position Summary

(Dollars in thousands)

	January 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Assets			Restated				
Current assets	\$ 1,031,139	\$ 920,160	\$ 938,110	\$ 110,979	12.1%	\$ (17,950)	-1.9%
Noncurrent assets							
Restricted	1,244,334	1,347,313	1,289,952	(102,979)	-7.6%	57,361	4.4%
Other noncurrent assets	444,963	539,733	529,755	(94,770)	-17.6%	9,978	1.9%
Capital assets, net	8,500,046	8,154,670	8,190,356	345,376	4.2%	(35,686)	-0.4%
Total assets	11,220,482	10,961,876	10,948,173	258,606	2.4%	13,703	0.1%
Deferred outflows of resources	806,747	731,136	689,889	75,611	10.3%	41,247	6.0%
Total assets plus deferred outflows of resources	\$ 12,027,229	\$ 11,693,012	\$ 11,638,062	\$ 334,217	2.9%	\$ 54,950	0.5%
Liabilities							
Current liabilities	\$ 671,631	\$ 577,533	\$ 622,980	\$ 94,098	16.3%	\$ (45,447)	-7.3%
Long-term debt, net	5,776,840	5,895,297	5,833,768	(118,457)	-2.0%	61,529	1.1%
Other noncurrent liabilities	1,736,742	1,532,797	1,632,083	203,945	13.3%	(99,286)	-6.1%
Total liabilities	8,185,213	8,005,627	8,088,831	179,586	2.2%	(83,204)	-1.0%
Deferred inflows of resources	137,511	173,358	55,667	(35,847)	-20.7%	117,691	211.4%
Total liabilities plus deferred inflows of resources	8,322,724	8,178,985	8,144,498	143,739	1.8%	34,487	0.4%
Net position							
Net investment in capital assets	2,563,140	2,123,616	2,162,433	439,524	20.7%	(38,817)	-1.8%
Restricted	596,669	778,629	699,036	(181,961)	-23.4%	79,593	11.4%
Unrestricted	544,696	611,782	632,095	(67,085)	-11.0%	(20,313)	-3.2%
Total net position	3,704,505	3,514,027	3,493,564	190,478	5.4%	20,463	0.6%
Total liabilities plus deferred inflows of resources plus net position	\$ 12,027,229	\$ 11,693,012	\$ 11,638,062	\$ 334,217	2.9%	\$ 54,950	0.5%

Current Assets

FY2020 – Current assets at January 31, 2020, of \$1,031.1 million were \$111.0 million higher than the balance at January 31, 2019, due to increases of \$61.2 million in materials and supplies, \$24.9 million in prepayments, \$12.2 million in the General Fund, \$10.3 million in coal inventory, \$5.1 million in current interest and other accounts receivable, \$3.6 million in insurance reserves and \$2.4 million in solar farm deposits. These increases were partially offset by decreases of \$4.2 million in customer accounts receivable, \$3.3 million in gas inventory, and \$1.2 million in customer deposits.

FY2019 – Current assets at January 31, 2019, of \$920.2 million were \$18.0 million lower than the balance at January 31, 2018, due to decreases of \$69.7 million in customer accounts receivable and \$47.7 million in coal inventory, partially offset by increases of \$79.4 million in the General Fund, \$8.2 million in current prepayments, \$6.3 million in current interest and other accounts receivable, and \$5.4 million in solar farm deposits.

Noncurrent Restricted Assets

FY2020 – Noncurrent restricted assets totaled \$1,244.3 million at January 31, 2020, a decrease of \$103.0 million compared to January 31, 2019. The overall variance was largely attributable to decreases of \$171.4 million in the Repair and Replacement Account and \$11.0 million in the Debt Service Account. These decreases were partially offset by an increase of \$79.2 million in the Decommissioning Trusts balance.

See accompanying independent auditors' report.

FY2019 – Noncurrent restricted assets totaled \$1,347.3 million at January 31, 2019, an increase of \$57.4 million compared to January 31, 2018. The overall variance was largely attributable to an increase of \$85.6 million in the Repair and Replacement Account, partially offset by decreases of \$21.8 million in the Decommissioning Trusts balance, \$5.0 million in the Capital Projects Fund and \$1.5 million in the Debt Service Account.

Other Noncurrent Assets

FY2020 – Other noncurrent assets decreased to \$445.0 million at January 31, 2020, from \$539.7 million at January 31, 2019. The \$94.7 million change reflects decreases of \$58.1 million in the long-term service agreement inventory, \$37.1 million in the net OPEB asset and \$5.3 million in the pension regulatory asset, partially offset by increases of \$3.7 million STEP net costs recoverable and \$2.3 million in unamortized bond expense.

FY2019 – Other noncurrent assets increased to \$539.7 million at January 31, 2019, from \$529.8 million at January 31, 2018. The \$10.0 million change reflects increases of \$17.5 million in the net OPEB asset resulting from favorable investment performance, \$5.9 million in the long-term service agreement inventory and \$3.3 million in noncurrent prepayments, partially offset by decreases of \$11.6 million in STEP net costs recoverable due to reclassification of approved FY2018 costs to short-term accounts receivable and \$5.3 million in the pension regulatory asset.

Deferred Outflows of Resources

FY2020 – Deferred outflows of resources increased \$75.6 million, from \$731.1 million at January 31, 2019, to \$806.7 million at January 31, 2020, primarily due to increases of \$40.6 million in deferred outflows related to pension and OPEB to reflect updated actuarial valuations, \$29.0 million for unrealized losses on fuel hedges and \$6.8 million in unamortized asset retirement obligations costs.

FY2019 – Deferred outflows of resources increased \$41.2 million, from \$689.9 million at January 31, 2018, to \$731.1 million at January 31, 2019, primarily due to a \$77.9 million increase in deferred outflows related to pension and OPEB to reflect updated actuarial valuations, partially offset by decreases of \$18.5 million in unamortized reacquisition costs, \$16.8 million in unamortized asset retirement obligation costs and \$1.3 million for unrealized losses on fuel hedges.

Capital Assets, Net

Summary of Capital Assets
Net of Accumulated Depreciation and Amortization
(Dollars in thousands)

	January 31,			Change			
	2020	2019	2018	2020 vs. 2019		2019 vs. 2018	
Nondepreciable assets							
Land	\$ 104,517	\$ 104,991	\$ 97,125	\$ (474)	-0.5%	\$ 7,866	8.1%
Land easements	107,520	107,531	106,217	(11)	0.0%	1,314	1.2%
Construction-in-progress	702,054	580,984	521,471	121,070	20.8%	59,513	11.4%
Total nondepreciable assets	<u>914,091</u>	<u>793,506</u>	<u>724,813</u>	<u>120,585</u>	<u>15.2%</u>	<u>68,693</u>	<u>9.5%</u>
Depreciable/amortizable assets							
Electric plant							
Buildings and structures	517,970	531,183	536,021	(13,213)	-2.5%	(4,838)	-0.9%
Systems and improvements	5,599,931	5,414,331	5,543,289	185,600	3.4%	(128,958)	-2.3%
Total electric plant	<u>6,117,901</u>	<u>5,945,514</u>	<u>6,079,310</u>	<u>172,387</u>	<u>2.9%</u>	<u>(133,796)</u>	<u>-2.2%</u>
Gas plant							
Buildings and structures	84	86	89	(2)	-2.3%	(3)	-3.0%
Systems and improvements	670,136	625,783	595,411	44,353	7.1%	30,372	5.1%
Total gas plant	<u>670,220</u>	<u>625,869</u>	<u>595,500</u>	<u>44,351</u>	<u>7.1%</u>	<u>30,369</u>	<u>5.1%</u>
General plant							
Buildings and structures	169,786	177,979	182,309	(8,193)	-4.6%	(4,330)	-2.4%
Machinery and equipment	264,562	283,455	293,331	(18,893)	-6.7%	(9,876)	-3.4%
Other	2,535	2,967	5,336	(432)	-14.6%	(2,369)	-44.4%
Total general plant	<u>436,883</u>	<u>464,401</u>	<u>480,976</u>	<u>(27,518)</u>	<u>-5.9%</u>	<u>(16,575)</u>	<u>-3.4%</u>
Intangibles							
Software	194,196	186,937	155,657	7,259	3.9%	31,280	20.1%
Other	30,182	31,202	32,197	(1,020)	-3.3%	(995)	-3.1%
Total intangibles	<u>224,378</u>	<u>218,139</u>	<u>187,854</u>	<u>6,239</u>	<u>2.9%</u>	<u>30,285</u>	<u>16.1%</u>
Nuclear fuel	<u>136,573</u>	<u>107,241</u>	<u>121,903</u>	<u>29,332</u>	<u>27.4%</u>	<u>(14,662)</u>	<u>-12.0%</u>
Total depreciable/ amortizable assets	<u>7,585,955</u>	<u>7,361,164</u>	<u>7,465,543</u>	<u>224,791</u>	<u>3.1%</u>	<u>(104,379)</u>	<u>-1.4%</u>
Total capital assets, net	<u>\$ 8,500,046</u>	<u>\$ 8,154,670</u>	<u>\$ 8,190,356</u>	<u>\$ 345,376</u>	<u>4.2%</u>	<u>\$ (35,686)</u>	<u>-0.4%</u>

FY2020 – At January 31, 2020, net capital assets of \$8,500.0 million increased \$345.3 million from \$8,154.7 million at January 31, 2019. The increase was primarily due to a \$172.4 million increase in electric plant due to the \$87.1 million JBSA electric and gas infrastructure asset purchase, \$44.4 million increase in gas plant, and a \$6.2 million increase in intangible assets. The increase was partially offset by a \$18.9 million decrease in general machinery and equipment. Total depreciable/amortizable assets increased \$224.8 million.

In June 2016, the Board approved the purchase of an existing building and land in downtown San Antonio, which will become CPS Energy's new corporate headquarters. The two towers on the property are being redeveloped and the site is expected to be ready for employees in the fourth quarter of calendar year 2020. The building is currently recorded as construction-in-progress until renovations are complete.

Of the total plant-in-service and construction-in-progress additions, \$748.9 million was related to new construction and net removal costs. These additions included funding with \$317.3 million of debt, \$55.5 million from contributed capital and \$376.1 million from the Repair and Replacement Account. Included in capital assets is CPS Energy's 40% interest in STP Units 1 and 2.

See accompanying independent auditors' report.

FY2019 – At January 31, 2019, net capital assets of \$8,154.7 million decreased \$35.7 million from \$8,190.4 million at January 31, 2018. The decrease was primarily due to a \$133.8 million decrease in electric plant due to the early retirement of J.T. Deely Units 1 and 2, and \$16.6 million decrease in general plant. The decrease was partially offset by a \$30.3 million increase in intangible assets and a \$30.4 million increase in gas systems and improvements. Total depreciable/amortizable assets decreased \$104.4 million.

Of the total plant-in-service and construction-in-progress additions, \$605.6 million was related to new construction and net removal costs. These additions included funding with \$339.8 million of debt, \$49.8 million from contributed capital and \$216.0 million from the Repair and Replacement Account.

Current Liabilities

FY2020 – Excluding current maturities of debt of \$161.2 million, current liabilities increased \$69.7 million, from \$440.8 million at January 31, 2019, to \$510.5 million at January 31, 2020. The higher balance was primarily due to increases of \$44.9 million in accounts payable and accrued liabilities, \$22.2 million in STP operating, maintenance and construction payables, and \$4.1 million in current customer advances partially offset by a decrease of \$1.7 million payable to the City.

FY2019 – Excluding current maturities of debt of \$136.7 million, current liabilities increased \$12.9 million, from \$427.9 million at January 31, 2018, to \$440.8 million at January 31, 2019. The higher balance was primarily due to increases of \$29.0 million in accounts payable and accrued liabilities, \$6.5 million in current customer advances for construction and \$1.1 million in pollution remediation, partially offset by decreases of \$21.3 million in STP operating, maintenance and construction payables and \$2.6 million payable to the City.

Other Noncurrent Liabilities

FY2020 – Excluding the noncurrent portion of debt of \$5,776.8 million, noncurrent liabilities increased \$203.9 million to \$1,736.7 million at January 31, 2020, primarily due to increases of \$122.3 million in net pension liability, \$61.2 million in decommissioning net costs refundable, \$25.1 million in asset retirement obligations, \$7.4 million in other liabilities and \$2.9 million in operating reserves. These increases were partially offset by decreases of \$13.1 million in long-term service agreement liability and \$1.2 million in STP OPEB and pension liability.

FY2019 – Excluding the noncurrent portion of debt of \$5,895.3 million, noncurrent liabilities decreased \$99.3 million to \$1,532.8 million at January 31, 2019, primarily due to decreases of \$56.6 million in net pension liability, \$38.4 million in decommissioning net costs refundable, \$12.2 million in long-term service liability and \$2.6 million in STP OPEB and pension liability. These decreases were partially offset by increases of \$7.4 million in other liabilities and \$4.3 million in operating reserves.

Deferred Inflows of Resources

FY2020 – Deferred inflows of resources decreased \$35.9 million, from \$173.4 million at January 31, 2019, to \$137.5 million at January 31, 2020, primarily due to a \$118.6 million decrease in deferred inflows related to pension and OPEB partially offset by an increase of \$84.3 million in deferred inflows for unrealized future recoveries related to the JBSA agreement.

FY2019 – Deferred inflows of resources increased \$117.7 million, from \$55.7 million at January 31, 2018, to \$173.4 million at January 31, 2019, primarily due to a \$120.4 million increase in deferred inflows related to pension and OPEB to reflect updated actuarial valuations and favorable investment performance.

FINANCING AND DEBT COVENANTS COMPLIANCE

Long-Term Debt (Excluding Commercial Paper)

FY2020 – At January 31, 2020, CPS Energy’s total debt was \$5,447.0 million, excluding commercial paper, discounts and premiums. This long-term debt was composed of \$4,737.1 million in fixed-interest-rate instruments and \$709.9 million in variable-interest-rate instruments. Fixed-interest-rate long-term debt had an overall weighted-average yield of 4.1%. Separately, the variable-rate bonds had a weighted-average yield of 2.2%.

Issuances – On September 25, 2019, CPS Energy issued \$114.7 million of New Series 2019 Senior Lien Revenue Refunding Bonds. Bond proceeds, including the \$22.8 million premium associated with the bonds, were used to refund \$116.8 million par value of the New Series 2012 Revenue Bonds. The refunding transaction resulted in net present value debt service savings of \$3.1 million, or 2.7%, of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in FY2026 through FY2030, is 1.5%.

On November 21, 2019, CPS Energy issued \$252.6 million of Series 2019 Junior Lien Revenue Refunding Bonds. Bond proceeds, including \$52.8 million premium associated with the bonds, were used to partially refund \$100.0 million par value of the 2010A Senior Lien Revenue Bonds (Build America Bonds) and \$200.0 million of the 2010B Junior Lien Revenue Bonds (Build America Bonds). The refunding transaction resulted in net present value debt service savings of \$50.1 million, or 16.7%, of the par amount of the bonds being refunded. The true interest cost for this issuance, which has maturities in FY2033 through FY2041, is 2.9%.

On December 2, 2019, CPS Energy remarketed \$124.2 million of Series 2015A Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of \$0.9 million premium, in conjunction with the remarketing, resulted in a principal paydown for the remarketed bonds of approximately \$0.4 million. The bonds have maturities in FY2029 through FY2033. The coupon rate for these bonds is 1.75%, with a current yield of 1.6% and true interest cost of 4.3%, which reflects stepped interest rate provisions applicable to the bonds.

On December 2, 2019, CPS Energy remarketed \$99.7 million of Series 2015C Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of \$0.7 million premium, in conjunction with the remarketing, resulted in a principal paydown for the remarketed bonds of approximately \$0.3 million. The bonds have maturities in FY2039 through FY2046. The coupon rate for these bonds is 1.75%, with a current yield of 1.6% and true interest cost of 5.2%, which reflects stepped interest rate provisions applicable to the bonds.

On January 28, 2020, CPS Energy issued \$134.6 million of New Series 2020 Senior Lien Revenue Refunding Bonds. Proceeds, including the \$36.4 million premium associated with the bonds, were used to refund \$170.0 million par value of the Commercial Paper Series A. The true interest cost for this issue, which has maturities in FY2026 through FY2049, is 3.1%.

On January 28, 2020, CPS Energy issued \$127.8 million of Series 2020 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the \$3.1 million premium associated with the bonds, were used to refund \$50.0 million and \$80.0 million par value of the Commercial Paper Series A and Commercial Paper Series C, respectively. Reflecting stepped interest rate provisions applicable to the bonds, the true interest cost for this issue, which has maturities in FY2042 through FY2049, is 5.0%. The bonds were issued as multi-modal variable-rate instruments with initial term rates of 1.75% and a stepped rate of 7.0%, which is only applicable if the bonds are not remarketed before their expiration date.

Reductions – On January 28, 2020, \$108.0 million of New Series 2016 Senior Lien Revenue Refunding Bonds were legally defeased with cash. Under this defeasance, the debt obligations were technically voided as the cash was escrowed with a third party to service the debt. As a result, \$12.5 million was recorded as cost of defeasance representing the additional cash put into escrow for the interest that would have been incurred in FY2022 through FY2025.

CPS Energy made principal payments of \$136.7 million in FY2020. Additional principal paydowns related to refunding and defeasance transactions during the year totaled \$749.4 million.

Summary of Debt Rollforward¹

(In thousands)

Balance Outstanding February 1, 2019	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2020
<u>\$ 5,479,405</u>	<u>\$ 853,620</u>	<u>\$ (886,050)</u>	<u>\$ 5,446,975</u>

¹Excludes commercial paper, discounts and premiums.

FY2019 – At January 31, 2019, CPS Energy’s total debt was \$5,479.4 million, excluding commercial paper, discounts and premiums. This long-term debt was composed of \$4,896.7 million in fixed-interest-rate instruments and \$582.7 million in variable-interest-rate instruments. Fixed-interest-rate long-term debt had an overall weighted-average yield of 4.1%. Separately, the variable-rate bonds had a weighted-average yield of 2.6%.

Issuances – On November 15, 2018, CPS Energy issued \$218.3 million of New Series 2018 Senior Lien Revenue Refunding Bonds. Bond proceeds, including the \$25.3 million premium associated with the bonds, were used to refund \$99.1 million par value of the New Series 2009D Revenue Refunding Bonds and convert the outstanding \$142.3 million Series 2012A, Series 2012B and Series 2012C Variable-Rate Junior Lien Revenue Refunding Bonds from variable-interest-rate debt to fixed-interest-rate debt. The refunding transaction, resulted in net present value debt service savings of \$3.6 million, or 3.6% of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in FY2020, FY2021, FY2027, and FY2028, is 2.75%.

On December 20, 2018, CPS Energy issued \$130.2 million of New Series 2018A Senior Lien Revenue Refunding Bonds. Proceeds, including the \$20.9 million premium associated with the bonds, were used to refund \$60.0 million and \$90.0 million of the Commercial Paper Notes Series A and Series C, respectively. The true interest cost for this issue, which has maturities in FY2026 through FY2048, is 3.65%.

On December 20, 2018, CPS Energy issued \$134.9 million of Series 2018 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the \$1.2 million premium associated with the bonds, were used to refund \$135.0 million of the Commercial Paper Series C. Reflecting stepped interest rate provisions applicable to the bonds, the true interest cost for this issue, which has maturities in FY2043 through FY2048, is 6.53%. The bonds were issued as multi-modal variable-rate instruments with initial term rates of 2.75% and a stepped rate of 8.0%, which is only applicable if the bonds are not remarketed before their expiration date.

Reductions – On January 24, 2019, \$52.5 million of New Series 2015 Senior Lien Revenue Refunding Bonds and \$25.1 million of New Series 2016 Senior Lien Revenue Refunding Bonds were legally defeased with cash. Under the defeasance, the debt obligations were technically voided as the cash was escrowed with a third party to service the debt. As a result, \$3.1 million was recorded as cost of defeasance representing

the additional cash put into escrow for the interest that would have been incurred in FY2020 through FY2022.

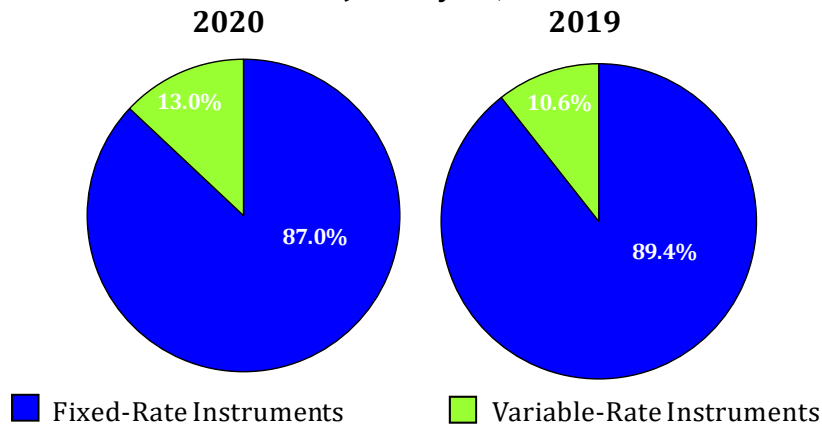
CPS Energy made principal payments of \$169.9 million in FY2019. Additional principal paydowns related to refunding and defeasance transactions during the year totaled \$319.1 million.

Summary of Debt Rollforward Activity¹
(In thousands)

Balance Outstanding February 1, 2018	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2019
\$ 5,484,975	\$ 483,375	\$ (488,945)	\$ 5,479,405

¹Excludes commercial paper, discounts and premiums.

**Allocation of Debt
at January 31,**



Note: Graphs exclude commercial paper.

Commercial Paper

CPS Energy maintains a commercial paper program to provide taxable and tax-exempt financing for various purposes. In 1988, the San Antonio City Council adopted an ordinance authorizing the issuance of up to \$300 million in tax-exempt commercial paper. The current ordinances allow for the issuance of three separate series of commercial paper to provide funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed \$700 million to the extent of support from liquidity facilities. As of January 31, 2020, there was a total of \$700 million in liquidity support. The ordinances allow for the issuance of taxable commercial paper, as well as tax-exempt commercial paper. Eligible projects include fuel acquisition, capital improvements to the electric and gas systems (“Systems”), and refinancing or refunding any outstanding obligations, which are secured by and payable from a lien and/or a pledge of net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing New Series Bonds (senior lien obligations) and Series Bonds (junior lien obligations). Scheduled maximum maturities cannot extend beyond April 11, 2049.

The commercial paper has been classified as long-term in accordance with the refinancing terms under three revolving credit agreements with a consortium of banks, which support the commercial paper program. The Series A agreement provides \$400 million in liquidity support for the Series A Notes and is effective through June 21, 2023. The Series B agreement provides \$200 million in liquidity support for

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the Series B Notes and the Series C agreement provides \$100 million in liquidity support for the Series C Notes. The Series B and Series C agreements are both effective through June 21, 2022. Under the terms of these revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed \$700 million for paying principal due under the commercial paper program. At January 31, 2020, there was no amount outstanding under the revolving credit agreements. Further, there have been no borrowings under the agreements since inception of the program. See Note 6 – Revenue Bond and Commercial Paper Ordinances Requirements and Note 8 – Commercial Paper and Related Revolving Credit Agreements.

FY2020 – Issuances – CPS Energy issued a total of \$320.0 million in commercial paper during the fiscal year ended January 31, 2020, to fund construction costs.

Reductions – CPS Energy made reductions of \$430.0 million related to the commercial paper refunding transactions in FY2020.

At January 31, 2020, the outstanding commercial paper balance was \$95.0 million, all of which was issued as tax-exempt.

Summary of Commercial Paper Rollforward Activity

(In thousands)

Balance Outstanding February 1, 2019	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2020
\$ 205,000	\$ 320,000	\$ (430,000)	\$ 95,000

FY2019 – Issuances – CPS Energy issued a total of \$330.0 million in commercial paper during the fiscal year ended January 31, 2019, to fund construction costs.

Reductions – CPS Energy made reductions of \$285.0 million related to the commercial paper refunding transactions in FY2019.

At January 31, 2019, the outstanding commercial paper balance was \$205.0 million, all of which was issued as tax-exempt.

Summary of Commercial Paper Rollforward Activity

(In thousands)

Balance Outstanding February 1, 2018	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2019
\$ 160,000	\$ 330,000	\$ (285,000)	\$ 205,000

The weighted-average interest rate on outstanding commercial paper was 1.4% at January 31, 2020, and 1.8% at January 31, 2019. The weighted-average maturity of commercial paper at January 31, 2020 and 2019, was 146 and 82 days, respectively.

Compliance

With respect to all New Series Bonds outstanding at January 31, 2020, the net revenues of the Systems are pledged to the payment of principal and interest thereon. All New Series Bonds are issued as senior lien

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obligations, and the principal and interest thereon have a first lien upon the net revenues of CPS Energy's Systems.

The Series 2010A and 2010B Junior Lien BABs; the Series 2013 and Series 2014 Junior Lien Revenue Bonds; the Series 2015A and 2015B Variable-Rate Junior Lien Revenue Refunding Bonds; the Series 2015C and 2015D Variable-Rate Junior Lien Revenue Bonds; the Series 2018 Variable-Rate Junior Lien Revenue Refunding Bonds; and the Series 2020 Variable-Rate Junior Lien Revenue Refunding Bonds were issued as junior lien obligations. The borrowings from the junior lien obligations are equally and ratably secured by and payable from the net revenues of CPS Energy's Systems. The pledge is subordinate and inferior to the pledge of net revenues securing the senior lien obligations, but prior and superior to the lien on, and pledge of, the net revenues securing the payment of the commercial paper notes.

The commercial paper revolving credit agreements permit CPS Energy to borrow up to an aggregate amount, not to exceed \$700 million, for paying amounts due under the commercial paper program. The commercial paper outstanding is also secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of senior lien and junior lien obligations.

At January 31, 2020 and 2019, CPS Energy was in compliance with the terms and provisions of the documents related to the senior and junior lien obligations, and the commercial paper programs.

Debt Service

CPS Energy has taken the position that the BABs direct subsidy should be deducted from debt service when calculating the debt service coverage ratio since the subsidy is received directly by the trustee and is to be used solely for debt service. Therefore, at January 31, 2020, the debt service coverage calculations included a BABs direct subsidy deduction of \$14.3 million for the senior lien debt and \$23.3 million for both the senior and junior lien debt. At January 31, 2019, the debt service coverage calculations included a BABs direct subsidy deduction of \$14.6 million for the senior lien debt and \$24.5 million for both the senior and junior lien debt.

BABs Subsidy Sequestration – Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government has reduced the BABs subsidy which resulted in an increase in CPS Energy's debt-related interest expense of approximately \$1.5 million and \$1.7 million in FY2020 and FY2019, respectively.

The following table illustrates the debt service coverage ratios in accordance with the bond ordinances and also provides the ratios without the direct subsidy deduction:

**Debt Service Coverage Ratios
at January 31, 2020**

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	4.95x	4.65x
Senior and junior lien debt	2.97x	2.79x

**Debt Service Coverage Ratios
at January 31, 2019**

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	4.62x	4.37x
Senior and junior lien debt	2.94x	2.78x

The ratio of debt to debt and net position was 59.9% and 61.8% at January 31, 2020 and 2019, respectively.

Summary of CPS Energy’s Bond and Commercial Paper Ratings

	Ratings at January 31, 2020		
	Senior Lien Debt	Junior Lien Debt	Commercial Paper
Fitch Ratings	AA+	AA+	F1+
Moody's Investors Service, Inc.	Aa1	Aa2	P-1
S&P Global Ratings	AA	AA-	A-1+

CURRENTLY KNOWN FACTS

GASB Implementations – The following guidance issued by the GASB will be effective for future periods:

- GASB Statement No. 87, *Leases*, requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the Company’s leasing activities. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2021. The Company has initiated an evaluation of the impact that adoption of this statement will have on its financial statements.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires that interest cost incurred before the end of a construction period be recognized

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as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2021. The Company has initiated an evaluation of the impact that adoption of this statement will have on its accounting for AFUDC.

- GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice for commitments extended by issuers and other arrangements with conduit debt obligations. The standard also clarifies the existing definition of conduit debt obligations and improves required note disclosures. This standard will become effective in CPS Energy's fiscal year ending January 31, 2022; however, because CPS Energy's debt instruments do not include conduit debt obligations, there is no expected impact on the Company's financial statements.
- GASB Statement No. 92, *Omnibus 2020*, addresses a variety of topics and practice issues that have been identified during implementation and application of certain GASB Statements. The new statement clarifies issues related to leases, intra-entity transfers, pension and postemployment benefits, asset retirement obligations, risk pools, fair value measurements, and derivative instruments. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2021. The Company has initiated an evaluation of the impact that adoption of this statement will have on its financial statements.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and financial reporting requirements related to the replacement of interbank offered rates such as the London Interbank Offered Rate which is expected to cease to exist in its current form at the end of calendar year 2021. This statement will provide exceptions to the existing provisions for hedge accounting termination and lease modifications. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2021. The Company has initiated an evaluation of the impact that adoption of this statement will have on its financial statements.

Legislation and Regulations – The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") was signed into law on July 21, 2010. Title VII of the Dodd-Frank Act, known as the "Wall Street Transparency and Accountability Act of 2010," substantially modified portions of the Commodity Exchange Act with respect to swap transactions. The law was designed to reduce risk, establish new business conduct rules, increase transparency and promote market integrity within the financial system. The Dodd-Frank Act gave the Commodity Futures Trading Commission ("CFTC") and the Securities and Exchange Commission ("SEC") statutory authority to regulate the over-the-counter derivatives market, including many of the commodities that are currently being traded or hedged by CPS Energy in accordance with its own policies and procedures. The CFTC and SEC, as well as U.S. prudential regulators charged with guarding against systemic risk to the banking and financial system, propose, finalize and implement rules pursuant to the legislation. CPS Energy is subject to some of the CFTC and SEC rules, including swap transaction reporting and recordkeeping, in addition to other administrative rules and regulations, such as the Independent Registered Municipal Advisor rule that impacts capital market participants. As an "end-user" CPS Energy is exempt from clearing and margining its over-the-counter positions and from capital requirements related to its commodities activities.

While there continues to be uncertainty regarding the future of the Patient Protection and Affordable Care Act, CPS Energy remains focused on its long-term strategy to address any potential cost increases associated with the health plan benefits it provides to its employees. The Company continues to monitor health care regulations as they evolve, as well as the status of the CPS Energy employee health plans, to

ensure compliance with all regulations, while maintaining manageable plan costs for the Company and its employees.

The Environmental Protection Agency (“EPA”) issued the final Affordable Clean Energy (“ACE”) rule on June 19, 2019. The rule establishes emission guidelines for states to develop plans to address greenhouse gas (“GHG”) emissions from existing coal-fired power plants. The proposed rule has several components:

- Defines the “best system of emission reduction” for GHG emissions from existing power plants as on-site, heat-rate efficiency improvements;
- Provides states with a list of “candidate technologies” that can be used to establish standards of performance and incorporated into their state plans;
- Aligns Clean Air Act section 111(d) general implementing regulations to give states adequate time and flexibility to develop their state plans.

The Texas Commission on Environmental Quality (“TCEQ”) is planning to implement the rule. They are preparing to send coal plant owners an Information Collection Request about each coal unit. The proposed response date is October 2020.

The Generation Sector Industrial Effluent Guidelines Rule for power plant wastewater was finalized in 2016, with the latest compliance date of December 31, 2023. The Phase 1 rule’s effective date was delayed for two years until November 2020. The EPA issued a proposed rule in November 2019. Extensions to existing compliance deadlines have been proposed. The rule is expected to be finalized later in calendar year 2020. CPS Energy is working with the TCEQ to reflect the rule requirements in our Texas Pollution Elimination Discharge System permit for the Calaveras Power Station.

In July 2018, the EPA completed area designations for the 2015 ozone standards by designating eight counties in the San Antonio, Texas metropolitan area. The rule was published in the Federal Register on July 25, 2018. The EPA designated Bexar County as an Ozone Nonattainment area and the remaining seven counties – Atascosa, Bandera, Comal, Guadalupe, Kendall, Medina, and Wilson – as Unclassifiable (insufficient data to classify). Bexar County is classified as Marginal Nonattainment which is the least stringent. The area has until the end of calendar year 2020 to come into compliance with the ozone standards. Bexar County exceeded the ozone standard in 2019. The City of San Antonio (“COSA”) has developed an Ozone Action Master Plan, and CPS Energy is working with COSA and the Alamo Area Council of Governments to identify mitigation actions.

The EPA’s Coal Combustion Residuals (“CCR”) rule became effective October 15, 2015 and allows for continued beneficial reuse of CCR materials. Proposed partial rule changes, finalized in July 2018, allow continued use of both bottom ash units until October 2020 instead of the original October 2018 date plus 6 months (April 2019). The EPA recently issued a final version of Part One of the CCR Phase One rule. The final rule adopts two alternative performance standards, revises groundwater protection standards (“GWPS”) for four constituents, and extends the deadline by which facilities must cease the placement of waste in CCR units closing for cause in two situations: (1) where the facility has detected a statistically significant increase above a GWPS from an unlined surface impoundment, and (2) where the unit is unable to comply with the aquifer location restriction. The deadline has been extended to October 31, 2020. The EPA issued a proposed rule in December 2019. Extensions to existing compliance deadlines have been proposed but must be requested and approved by the EPA or TCEQ. CPS Energy is designing a new impoundment and will be submitting an extension application request.

CPS Energy complies with all current regulatory requirements and continues to monitor, evaluate, and assess the impacts of new and pending regulations on CPS Energy’s strategies and operations.

Federal Budget Developments – In December 2017, Congress passed the Tax Cuts & Jobs Act (“Act”). The Act preserved tax-exempt financing for municipal bonds but eliminated the use of advanced refunding at the end of calendar year 2017. The Act also reduced the corporate tax rate from 35% to 21% effective in calendar year 2018. This 14-percentage point reduction represents a 40% drop, which could potentially make tax-exempt municipal bonds less attractive to some investors. Subsidy payments to BABs issuers will be reduced by 5.9% from October 1, 2019, through September 30, 2020.

As Congressional lawmakers continue to look for ways to manage the federal budget, future proposals affecting financing tools, such as the tax exemption on municipal bond interest and BABs, could be revisited. CPS Energy’s management continues to assess proposals to offer commentary and information to the national discussion. Uncertainty remains regarding the impact any resulting legislation might ultimately have on the tax-exempt status of CPS Energy’s bonds.

COVID-19 – Worldwide, national and local community transmission of novel coronavirus, COVID-19, subsequent to year end has resulted in economic uncertainties at the national, state and local level. Within CPS Energy’s service territory, state and local officials have implemented requirements for nonessential businesses to either temporarily close or take measures that will slow the spread of the virus. With the temporary closures CPS Energy expects revenues to be impacted, with usage in some customer classes increasing while other classes potentially decreasing. Additionally, CPS Energy has announced that it will suspend service disconnects during this time of uncertainty. As a result of this decision, outstanding customer accounts receivable may increase with additional customers participating in payment plans. The Company continues to evaluate the economic and financial impact that will result from these actions.

REQUESTS FOR INFORMATION

For more information about CPS Energy, contact Corporate Communications, Marketing & Smart City Outreach at (210) 353-2344 or at P.O. Box 1771, San Antonio, Texas 78296-1771.

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
City Public Service of San Antonio, Texas
San Antonio, Texas

We have audited the accompanying financial statements of the business-type activities and the fiduciary fund activities of the City Public Service of San Antonio, Texas ("CPS Energy"), a component unit of the City of San Antonio, Texas as of and for the years ended January 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise CPS Energy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the CPS Energy fiduciary funds as of and for the years ended December 31, 2019 and 2018. Those statements were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the amounts included for CPS Energy fiduciary funds, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CPS Energy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CPS Energy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary fund activities of CPS Energy as of January 31, 2020 and 2019, and the respective changes in financial position and cash flows (if applicable) thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, CPS Energy adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, effective February 1, 2019. The accounting change has been retrospectively applied to prior period presented. Our opinions are not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Baker Tilly Virchow Krause, LLP

Austin, Texas
April 27, 2020

STATEMENTS OF NET POSITION

	January 31,	
	2020	2019
	(In thousands)	
Assets		
Current assets		
Cash and cash equivalents	\$ 174,647	\$ 349,704
Investments	296,237	104,171
Interest and other accounts receivable	58,431	53,319
Customer accounts receivable, less allowance for doubtful accounts of \$15.5 million at January 31, 2020, and \$14.7 million at January 31, 2019	198,402	202,556
Inventories, at average costs		
Materials and supplies, net	161,707	100,542
Fossil fuels	61,341	54,345
Prepayments and other	80,374	55,523
Total current assets	<u>1,031,139</u>	<u>920,160</u>
Noncurrent assets		
Restricted		
Cash and cash equivalents	247,564	234,326
Investments	989,076	1,107,234
Interest and other accounts receivable	7,694	5,753
Pension regulatory asset	234,477	239,806
Other noncurrent assets	210,486	299,927
Capital assets, net	8,500,046	8,154,670
Total noncurrent assets	<u>10,189,343</u>	<u>10,041,716</u>
Total assets	<u>11,220,482</u>	<u>10,961,876</u>
Deferred outflows of resources		
Unrealized contributions and losses related to pension and OPEB	213,833	173,193
Unrealized losses on fuel hedges	33,564	4,606
Unamortized debt reacquisition costs	61,391	62,205
Unamortized costs for asset retirement obligations	497,959	491,132
Total deferred outflows of resources	<u>806,747</u>	<u>731,136</u>
Total assets plus deferred outflows of resources	<u>\$ 12,027,229</u>	<u>\$ 11,693,012</u>
Liabilities		
Current liabilities		
Current maturities of debt	\$ 161,160	\$ 136,720
Accounts payable and accrued liabilities	510,471	440,813
Total current liabilities	<u>671,631</u>	<u>577,533</u>
Noncurrent liabilities		
Long-term debt, net	5,776,840	5,895,297
Asset retirement obligations	1,029,485	1,004,350
Decommissioning net costs refundable	120,262	59,053
Net pension liability	378,128	255,869
Other noncurrent liabilities	208,867	213,525
Total noncurrent liabilities	<u>7,513,582</u>	<u>7,428,094</u>
Total liabilities	<u>8,185,213</u>	<u>8,005,627</u>
Deferred inflows of resources		
Unrealized gains on fuel hedges	-	273
Unrealized gains related to pension and OPEB	52,314	170,949
Unrealized future revenues	85,197	2,136
Total deferred inflows of resources	<u>137,511</u>	<u>173,358</u>
Total liabilities plus deferred inflows of resources	<u>8,322,724</u>	<u>8,178,985</u>
Net position		
Net investment in capital assets	2,563,140	2,123,616
Restricted		
Debt service	1,153	11,921
Ordinance	595,516	766,708
Unrestricted	544,696	611,782
Total net position	<u>3,704,505</u>	<u>3,514,027</u>
Total liabilities plus deferred inflows of resources plus net position	<u>\$ 12,027,229</u>	<u>\$ 11,693,012</u>

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended January 31,	
	2020	2019
	(In thousands)	
Operating revenues		
Electric		
Retail	\$ 2,208,571	\$ 2,250,538
Wholesale	<u>217,825</u>	<u>326,177</u>
Total electric operating revenues	<u>2,426,396</u>	<u>2,576,715</u>
Gas	<u>142,782</u>	<u>167,444</u>
Total operating revenues	<u>2,569,178</u>	<u>2,744,159</u>
Operating expenses		
Fuel, purchased power and distribution gas	692,583	824,753
Operation and maintenance	567,456	573,491
Annual OPEB and pension expense	79,635	33,402
Energy efficiency and conservation (STEP)	72,815	69,124
STEP net costs recoverable	235	19,912
Regulatory assessments	82,622	86,202
Decommissioning	18,000	16,525
Depreciation and amortization	421,000	445,227
Total operating expenses	<u>1,934,346</u>	<u>2,068,636</u>
Operating income	<u>634,832</u>	<u>675,523</u>
Nonoperating income (expense)		
Interest and other income, net	54,059	39,389
Decommissioning Trusts investment income and change in fair value	80,448	(19,122)
Decommissioning net costs recoverable (refundable)	(62,448)	35,647
Interest and other expense	(257,855)	(250,707)
Amortization of debt-related costs	40,697	36,010
Allowance for funds used during construction	14,873	12,772
Payments to the City of San Antonio	(342,988)	(361,351)
Total nonoperating income (expense)	<u>(473,214)</u>	<u>(507,362)</u>
Income before other changes in net position	161,618	168,161
Other payments to the City of San Antonio	(11,979)	(11,766)
Contributed capital	59,507	54,936
Special item - plant impairment	-	(182,723)
Effect of defined benefit plan funding obligations - STP	(18,668)	(8,145)
Change in net position	<u>190,478</u>	<u>20,463</u>
Net position - beginning	<u>3,514,027</u>	<u>3,493,564</u>
Net position - ending	<u>\$ 3,704,505</u>	<u>\$ 3,514,027</u>

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 31	
	2020	2019
	(In thousands)	
Cash flows from operating activities		
Cash received from customers	\$ 2,567,210	\$ 2,807,995
Cash received from City services billed	142,323	129,691
Cash payments to suppliers for goods and services	(1,204,456)	(1,141,425)
Cash payments to employees for service	(230,181)	(223,529)
Cash payments to the City for services billed	(142,284)	(128,471)
Net cash provided (used) by operating activities	<u>1,132,612</u>	<u>1,444,261</u>
Cash flows from capital and related financing activities		
Cash paid for additions to utility plant and net removal costs	(720,946)	(614,828)
Contributed capital	55,211	49,786
Proceeds from the sale of capital assets	14,020	-
Proceeds from issuance of revenue bonds and commercial paper	322,546	331,820
Principal payments on revenue bonds and cash defeasance of debt	(566,720)	(456,715)
Interest paid	(245,507)	(247,488)
Debt issue and cash defeasance costs paid	(18,107)	(6,418)
Net cash provided (used) by capital and related financing activities	<u>(1,159,503)</u>	<u>(943,843)</u>
Cash flows from noncapital financing activities		
Cash payments to the City of San Antonio	(356,704)	(375,857)
Cash flows from investing activities		
Purchases of investments	(568,675)	(402,707)
Proceeds from sales and maturities of investments	734,987	440,163
Interest and other income	55,464	49,926
Net cash provided (used) by investing activities	<u>221,776</u>	<u>87,382</u>
Net increase (decrease) in cash and cash equivalents	<u>(161,819)</u>	211,943
Cash and cash equivalents at beginning of period	584,030	372,087
Cash and cash equivalents at end of period	<u>\$ 422,211</u>	<u>\$ 584,030</u>
<u>Reconciliation of operating income to net cash provided by operating activities</u>		
Cash flows from operating activities		
Operating income	\$ 634,832	\$ 675,523
Noncash items included		
Depreciation and amortization	421,000	445,227
Nuclear fuel amortization	47,243	43,678
Provision for doubtful accounts	7,832	6,581
Changes in current assets and liabilities		
(Increase) decrease in customer accounts receivable, net	(3,679)	63,115
(Increase) decrease in other receivables	(5,595)	(5,753)
(Increase) decrease in materials and supplies	(61,165)	(559)
(Increase) decrease in fossil fuels	(6,996)	48,257
(Increase) decrease in prepayments and other	(24,837)	(8,834)
Increase (decrease) in accounts payable and accrued liabilities	47,936	194,357
Changes in noncurrent and other assets and liabilities		
(Increase) decrease in other noncurrent assets and prepaid costs	94,422	(14,869)
Increase (decrease) in customer service deposits payable	(526)	(107)
Increase (decrease) in asset retirement obligation	25,135	-
Increase (decrease) in noncurrent liabilities	97,977	(61,698)
Changes in deferred outflows of resources	(22,332)	(61,094)
Changes in deferred inflows of resources	(118,635)	120,437
Net cash provided (used) by operating activities	<u>\$ 1,132,612</u>	<u>\$ 1,444,261</u>
<u>Noncash financing activities</u>		
Bond proceeds deposited into an escrow account for purposes of refunding long-term debt	\$ 970,328	\$ 530,778
Donated assets received and recorded	\$ 4,035	\$ 5,150
Capital asset additions	\$ 87,054	\$ -
Impairment loss	\$ -	\$ (182,723)

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF FIDUCIARY NET POSITION

	December 31,	
	2019	2018
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 48,724	\$ 27,186
Cash and cash equivalents collateral from securities lending	36,751	73,572
Receivables		
Accrued interest and dividends receivable	3,690	3,640
Receivable from federal government under Medicare Part D	110	199
Investment trades pending receivable	357	208
Receivable from property managers and others	47	517
Total receivables	<u>4,204</u>	<u>4,564</u>
Investments		
U.S. Government securities, partially pledged in 2016	116,999	129,217
Corporate bonds	223,536	182,221
Global bond funds	81,869	74,381
Senior loan fund	84,724	78,505
Domestic equities	836,082	648,471
Low-volatility equities	176,021	145,300
International equities	224,538	161,729
Specialized funds	26,824	24,081
Master limited partnerships	129,464	115,229
Alternative investments	62,035	57,891
Real estate	95,918	146,608
Investment in partnership	54,000	67,769
Total investments	<u>2,112,010</u>	<u>1,831,402</u>
Prepayments and other	-	48
Total assets	<u>\$ 2,201,689</u>	<u>\$ 1,936,772</u>
Liabilities		
Accounts payable and other liabilities	\$ 782	\$ 1,407
Investment trades pending payable	552	1,835
Investment and administrative expenses payable	527	606
Securities lending obligation	36,751	73,572
Accrued health claims payable	4,745	5,552
Long-term debt	29,000	29,000
Total liabilities	<u>72,357</u>	<u>111,972</u>
Net position restricted for pension and other postemployment benefits	<u>2,129,332</u>	<u>1,824,800</u>
Total liabilities plus net position	<u>\$ 2,201,689</u>	<u>\$ 1,936,772</u>

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	December 31,	
	2019	2018
	(In thousands)	
Additions		
Contributions		
Employer	\$ 108,457	\$ 92,788
On-behalf payments from federal government	807	895
Participants	<u>26,623</u>	<u>25,625</u>
Total contributions	<u>135,887</u>	<u>119,308</u>
Investment income		
Interest and dividend income	24,790	22,397
Securities lending income	1,706	1,591
Real estate rental income	9,973	11,578
Net realized and unrealized gain (loss) on investments	304,693	(119,604)
Miscellaneous income	262	87
Total investment income (loss)	<u>341,424</u>	<u>(83,951)</u>
Investment expenses	<u>(13,226)</u>	<u>(13,455)</u>
Net investment income (loss)	<u>328,198</u>	<u>(97,406)</u>
Total additions	<u>464,085</u>	<u>21,902</u>
Deductions		
Benefits paid	154,749	158,975
Interest expense	1,135	975
Administrative expenses	3,669	3,874
Total deductions	<u>159,553</u>	<u>163,824</u>
Change in fiduciary net position	304,532	(141,922)
Fiduciary net position – beginning	<u>1,824,800</u>	<u>1,966,722</u>
Fiduciary net position – ending	<u>\$ 2,129,332</u>	<u>\$ 1,824,800</u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

January 31, 2020 and 2019

1. Summary of Significant Accounting Policies

Reporting Entity – City Public Service Board of San Antonio (also referred to as “CPS Energy” or the “Company”) has been owned by the City of San Antonio, Texas (“City”) since 1942. CPS Energy provides electricity and natural gas to San Antonio and surrounding areas. As a municipally owned utility, CPS Energy is exempt from the payment of income taxes, state franchise taxes, use taxes, and real and personal property taxes. CPS Energy provides certain payments and benefits to the City as permitted by bond ordinances. CPS Energy’s financial results are also included within the comprehensive annual financial report of the City.

The decision to include applicable component units in CPS Energy’s financial statements was made by applying the criteria set forth in Governmental Accounting Standards Board (“GASB”) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 84, *Fiduciary Activities*. The following legally separate entities, for which CPS Energy is financially accountable and with which a financial benefit/burden relationship exists, meet those criteria for inclusion in CPS Energy’s financial statements as component units; therefore, their financial statements are blended with those of CPS Energy:

- The City Public Service Restated Decommissioning Master Trust for the South Texas Project (“28% Decommissioning Trust”), and
- The City Public Service Decommissioning Master Trust (TCC Funded) (“12% Decommissioning Trust”).

These two component units are collectively referred to herein as the “Decommissioning Trusts” or the “Trusts.”

The fiduciary financial statements include four component units, fiduciary in nature, related to the CPS Energy Pension Plan (“Pension Plan”), the CPS Energy Group Health Plan, the CPS Energy Group Life Plan, and the CPS Energy Long-Term Disability Income Plan (collectively, “Employee Benefit Plans”). The financial results of the Pension Plan and the Employee Benefit Plans are reported on a calendar year basis and included in the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position. The Pension Plan and the Employee Benefit Plans are also separately audited. Additional disclosures in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – Amendment of GASB Statement No. 27*, are presented for the Pension Plan in Note 9 – Employee Pension Plan and in Required Supplementary Information (“RSI”). Additional disclosures, in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, are presented for the Employee Benefit Plans in Note 10 – Other Postemployment Benefits and RSI.

Included in CPS Energy’s financial statements are the applicable financial results for 40% of the South Texas Project (“STP”) Units 1 and 2.

STP is a nonprofit special-purpose entity that reports under the guidance issued by the Financial Accounting Standards Board (“FASB”), including Topic 958 of the FASB Accounting Standards Codification, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to STP’s financial information within CPS Energy’s financial statements for these differences.

Fiscal Year (“FY”) – The fiscal years ended January 31, 2020 and 2019, are referred to herein as “FY2020” and “FY2019,” respectively.

Basis of Accounting – The financial statements of CPS Energy are presented in accordance with U.S. generally accepted accounting principles (“GAAP”) for proprietary funds of governmental entities. CPS Energy, including the Decommissioning Trusts, complies with all applicable pronouncements of GASB.

The fiduciary financial statements of the Pension Plan and the Employee Benefit Plans are reported using the economic resources measurement focus and are prepared on the accrual basis of accounting in conformity with U.S. GAAP. Contributions and income are recorded when earned and benefits and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. The Pension Plan and the Employee Benefit Plans apply all applicable GASB pronouncements.

In accordance with the utility systems’ revenue bond ordinances, CPS Energy has adopted the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners (“NARUC”). The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

FY2019 GASB pronouncement implementations:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable asset retirement obligations (“AROs”) and requires that recognition occur when the liability is both incurred and reasonably estimable. With the adoption of this standard, the affected balances within the financial statements for the period ended January 31, 2018, were restated.
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, requires additional essential information related to debt disclosure in the notes to the financial statements. Required disclosures include unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements which are related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Under the Statement, direct borrowings and direct placement of debt are required to be reported separately from other debt. This Statement did not have a significant effect on CPS Energy’s financial reporting.

FY2020 GASB pronouncement implementations:

- GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. Evaluation of the Company’s fiduciary activities resulted in the identification of the Pension Plan and Employee Benefit Plans meeting the criteria to be reported under this guidance. Implementation of GASB Statement No. 84 resulted in the addition of the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position as part of the basic financial statements. The additional statements present the combined activity of the separately audited Pension Plan and Employee Benefit Plans as of December 31, 2019 and 2018.
- GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improves the relevance of financial statement

information for certain component units. CPS Energy does not have a majority equity interest in an organization, therefore, the guidance was not applicable and had no impact on the Company's financial statements.

Future GASB pronouncement implementations:

- GASB Statement No. 87, *Leases*, requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. The standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, which enhances the relevance and consistency of information about the Company's leasing activities. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2021. The Company has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.
- GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2021. The Company has initiated an evaluation of the impact that adoption of this statement will have on its accounting for allowance for funds used during construction ("AFUDC").
- GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice for commitments extended by issuers and other arrangements with conduit debt obligations. The standard also clarifies the existing definition of conduit debt obligations and improves required note disclosures. This standard will become effective in CPS Energy's fiscal year ending January 31, 2022; however, because CPS Energy's debt instruments do not include conduit debt obligations, there is no expected impact on the Company's financial statements.
- GASB Statement No. 92, *Omnibus 2020*, addresses a variety of topics and practice issues that have been identified during implementation and application of certain GASB Statements. The new statement clarifies issues related to leases, intra-entity transfers, pension and postemployment benefits, asset retirement obligations, risk pools, fair value measurements, and derivative instruments. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2021. The Company has initiated an evaluation of the impact that adoption of this statement will have on its financial statements.
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*, addresses accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR) as the notable, London Interbank Offered Rate, is expected to cease to exist in its current form at the end of calendar year 2021. This statement will provide exceptions to the existing provisions for hedge accounting termination and lease modifications. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2022. The Company has initiated an evaluation of the impact that adoption of this statement will have on its financial statements.

The following information is presented alphabetically:

Allowance for Funds Used During Construction (“AFUDC”) – To reflect funding methodology, the AFUDC rate includes both a debt and an equity component. The blended rate is composed of 50% equity and 50% debt based on construction funding forecasts. The investment rate is reviewed quarterly to determine if any adjustments are necessary. Alternate AFUDC rates are applied to projects costing more than \$100 million, reflecting the method by which they are funded.

Asset Retirement Obligations (“ARO”) – CPS Energy adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, during FY2019 and accounts for AROs by recognizing the obligations as a liability based on the best estimate of the current value of outlays expected to be incurred once the assets are retired. See Note 17 – Asset Retirement Obligations.

Build America Bonds (“BABs”) – The American Recovery and Reinvestment Act (“ARRA”) of 2009 provided authority for the issuance of BABs, which were issuable in calendar years 2009 and 2010 as taxable bonds. The ARRA permitted the issuer or the issuer’s paying agent to receive subsidy payments equal to 35% of the bond’s interest costs directly from the U.S. Department of the Treasury. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, the federal government reduced the BABs subsidy as noted below:

Subsidy Reduction	Period Covered
6.9%	October 1, 2016 through September 20, 2017
6.6%	October 1, 2017 through September 20, 2018
6.2%	October 1, 2018 through September 20, 2019
5.9%	October 1, 2019 through September 20, 2020

CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating debt service since the subsidy is received directly by a trustee to be used solely for BABs debt service payments. Transaction details for CPS Energy’s BABs issuances are provided in Note 7 – Revenue Bonds.

Capital Assets – The costs of additions and replacements of assets identified as major components or property units are capitalized. Maintenance and replacement of minor items are charged to operating expense. For depreciable assets that are retired due to circumstances other than impairment, the cost of the retired asset, plus removal costs and less salvage, is charged to accumulated depreciation. Per the financial reporting requirements of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, any losses associated with capital asset impairments will be charged to operations, not to accumulated depreciation.

A constructed utility plant is stated at the cost of construction, including expenditures for contracted services; equipment, material and labor; indirect costs, including general engineering, labor, equipment and material overheads; and AFUDC, or capitalized interest. AFUDC is applied to projects that require 30 days or more to complete.

Proceeds from customers to partially fund construction expenditures are reported as contributed capital in the Statements of Revenues, Expenses and Changes in Net Position as increases in net position in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The amount reported for contributed capital was \$59.5 million at January 31, 2020, as compared with \$54.9 million at January 31, 2019. This included donated assets of \$4.0 million and \$5.2 million, respectively. The remaining portion of these balances, \$55.5 million for FY2020 and \$49.7 million for FY2019, represents contributions received from customers as payments for utility extensions and services, as well as funding for community initiatives and other local partnership projects.

Except for nuclear fuel, which is amortized over units of production, CPS Energy computes depreciation using the straight-line method over the estimated service lives of the depreciable property according to asset type. Total depreciation as a percent of total depreciable assets, excluding nuclear fuel, was 3.1% for FY2020, and 3.4% for FY2019.

The estimated useful lives of depreciable capital assets for FY2020 and FY2019 were as follows:

<u>Depreciable Capital Asset</u>	<u>Estimated Useful Life</u>
Buildings and structures	20–45 years
Systems and improvements	
Generation	18–49 years
Transmission and distribution	15–60 years
Gas	35–65 years
Intangibles - software	10 years
Intangibles - other	20–30 years
Machinery and equipment	4–20 years
Mineral rights and other	20–40 years
Nuclear fuel	Units of Production

CPS Energy engages an independent third-party consulting firm to conduct a depreciation study, which is performed every five years. The most recent study was completed in FY2018, and the resulting depreciation rates were applied beginning in that period.

Thresholds contained in the Company's capitalization policy, procedures and guidelines for FY2020 and FY2019 were as follows:

<u>Asset Class</u>	<u>Threshold</u>
Land, land improvements and certain easements	Capitalize all
Buildings and building improvements	\$10,000
Computer software - purchased	50,000
Computer software - internally developed	50,000
Computer software - enhancements/upgrades	50,000
Computer hardware	3,000
All other assets	3,000

Cash Equivalents and Investments, Unrestricted and Restricted – CPS Energy's investments with a maturity date within one year of the purchase date are reported at amortized cost, which approximates fair value. Amortization of premium and accretion of discount are recorded over the terms of the investments. CPS Energy's investments with a maturity date longer than one year from the purchase date are accounted for at fair value. As available, fair values are determined by using generally accepted financial reporting services, publications and broker-dealer information. The specific identification method is used to determine costs in computing gains or losses on sales of securities. CPS Energy also reports all investments of the Decommissioning Trusts at fair value. The investments of the Pension Plan and the Employee Benefit Plans are also reported at fair value in the fiduciary financial statements. Refer to Note 3 – Fair Value Measurement for additional information.

Restricted funds are generally for uses other than current operations. They are designated by law, ordinance or contract and are often used to acquire or construct noncurrent assets. Restricted funds consist primarily of unspent bond or commercial paper proceeds, debt service required for the New Series Bonds (senior lien obligations), Series Bonds (junior lien obligations), commercial paper, and funds for

future construction or contingencies. Restricted funds also include customer assistance programs that receive proceeds from outside parties and the assets of the Decommissioning Trusts. Also included in the restricted funds classification is the Repair and Replacement Account, restricted in accordance with the Company's bond ordinances.

CPS Energy sets aside 1% of prior fiscal year electric base rate revenue, which is transferred to the City on an annual basis as an additional transfer. In accordance with bond ordinances, the combined total of all payments to the City may not exceed 14% of gross revenues.

For additional disclosures provided in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, see Note 2 – Cash, Cash Equivalents and Investments. These disclosures address investment exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, as applicable.

Compensated Absences – Employees earn vacation benefits based upon their employment status and years of service. At January 31, 2020 and 2019, the accrued liabilities for those vested benefits were \$22.3 million and \$21.8 million, respectively, which were recorded as accrued liabilities on the Statements of Net Position.

Decommissioning – CPS Energy accounts for its legal obligation to decommission STP Units 1 and 2 in accordance with GASB Statement No. 83. The Company has recognized its pro rata share of an ARO based on the best estimate of the current values of outlays expected to be incurred to decommission the units, determined by the most recent cost study. A new cost study is performed every 5 years; in years after the latest study, the Statement requires the current value of the Company's ARO be adjusted for the effects of inflation or deflation, at least annually. In addition to the ARO, the Company has recorded deferred outflows of resources that are being amortized over the remaining useful life of the plant. See Note 13 – South Texas Project for additional details on the most recent cost study.

Additionally, due to requirements under the Code of Federal Regulations governing nuclear decommissioning trust funds, a zero-net position approach is applied in accounting for the Decommissioning Trusts. Accordingly, current year and prior year activity in the Trusts is reported in the nonoperating income (expense) section of the Statements of Revenues, Expenses and Changes in Net Position as decommissioning net costs recoverable (refundable). The cumulative effect of activity in the Trusts is reported on the Statements of Net Position as a noncurrent liability referred to as Decommissioning net costs refundable since any excess funds are payable to customers. Going forward, prolonged unfavorable economic conditions could result in the assets of the Trusts being less than the estimated decommissioning liability. In that case, instead of an excess as currently exists, there would be a deficit that would be reported as decommissioning net costs recoverable and would be receivable from customers.

A project to develop an independent spent fuel storage installation (“Dry Cask Storage Project”) was recently completed at STP to provide for storage of spent nuclear fuel after the spent fuel pool has reached capacity. CPS Energy's Decommissioning Trusts have separate spent fuel management accounts that paid for these costs. By contract, spent fuel will eventually be removed to final storage by the Department of Energy (“DOE”). The DOE failed to meet the contractual start date to receive spent fuel, and STP and other utilities have reached settlement agreements with the DOE. In the most recent settlement agreement dated March 15, 2017, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through calendar year 2019. STP is currently working with the DOE to extend the settlement agreement for another three years.

Ongoing costs for the spent fuel management project are being funded by the STP owners (CPS Energy; the City of Austin; and NRG South Texas LP, a wholly owned subsidiary of NRG Energy, Inc.) as

expenditures are incurred. CPS Energy is entitled to request reimbursement at its discretion from its Decommissioning Trusts for the Company's portion of allowable costs. Annually, the South Texas Project Nuclear Operating Company ("STPNOC") submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned to the owners by STP upon receipt from the DOE. Qualifying spent fuel management costs not reimbursable by the DOE are funded by the Trusts. Spent fuel management costs that do not qualify for reimbursement by the DOE or the Trusts are recorded as operation and maintenance ("O&M") expense or capital costs.

Deferred Inflows of Resources – Deferred inflows of resources related to pension and OPEB amounted to \$52.3 million and \$170.9 million at January 31, 2020 and 2019, respectively. Deferred inflows of resources related to unrealized future revenue associated with the sale of the communication towers totaled \$0.9 million and \$2.1 million at January 31, 2020 and 2019, respectively. Deferred inflows of resources related to future recoveries associated with the FY2020 Joint Base San Antonio ("JBSA") agreement totaled \$84.3 million at January 31, 2020.

Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred outflows or deferred inflows of resources on the Statements of Net Position until the expiration of the contract underlying the hedged expected fuel purchase transaction. When fuel hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel expense. There were no deferred inflows of resources related to fuel hedges at January 31, 2020. Deferred inflows of resources related to fuel hedges totaled \$0.3 million at January 31, 2019.

Deferred Outflows of Resources – Deferred outflows of resources related to pension and OPEB amounted to \$213.8 million and \$173.2 million at January 31, 2020 and 2019, respectively.

Deferred outflows of resources related to fuel hedges totaled \$33.6 million and \$4.6 million at January 31, 2020 and 2019, respectively.

For current and advance refundings of debt, the difference between the reacquisition price and the net carrying amount of the old debt is recorded as unamortized reacquisition costs and reported as deferred outflows of resources. These amounts are amortized as components of interest expense over the shorter of the remaining life of the refunding or the refunded debt. At January 31, 2020 and 2019, reacquisition costs totaled \$61.4 million and \$62.2 million, respectively.

Deferred outflows of resources related to AROs associated with the decommissioning of STP Units 1 and 2, and the retirement of the fuel storage tanks, and vaults totaled \$498.0 million and \$491.1 million at January 31, 2020 and 2019, respectively.

Federal and State Grant Programs – Periodically, federal or state grants are made available to CPS Energy as a subrecipient for a portion of grant funds allocated to the state of Texas or as direct awards. Grant receipts are recorded as nonoperating income and generally reimburse CPS Energy for costs, recorded as operating expenses, incurred in the administration of the program. Federal or state grants that subsidize in whole or a partial amount of capital assets are recognized as contributed capital. These accounting treatments result in no impact to the Company's net position. Revenues associated with the grant-related programs are exempt from payments of a percentage of gross revenues made to the City. Grant funding received by the Company is subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

Generation Asset Purchase – In FY2013, CPS Energy purchased the Rio Nogales combined-cycle natural gas electric generating plant in Seguin, Texas. In conjunction with the purchase, CPS Energy entered into a Tax Exemption Settlement Agreement in which CPS Energy agreed to pay \$25.5 million to certain parties to compromise, terminate claims and settle any disputes relating to exemption of ad valorem taxes involving the parties to this agreement. The payment was recorded as an intangible asset that is being amortized over the life of the agreement, which runs through December 2041.

Inventories – CPS Energy maintains inventories for its materials and supplies and fossil fuels. In total, CPS Energy reported ending inventories of \$223.0 million and \$154.9 million at January 31, 2020 and 2019, respectively. Included in these amounts was CPS Energy’s portion of STP inventories, which are valued at the lower of average cost or net realizable value. CPS Energy’s directly managed inventories are valued using an average costing approach and are subject to write-off when deemed obsolete. CPS Energy has established a reserve for excess and obsolete inventory that is based on a combination of inventory aging and specific identification of items that can be written off. The reserve is intended to adjust the net realizable value of inventory CPS Energy may not be able to use due to obsolescence. The balance in the reserve amounted to \$5.9 million and \$6.0 million at January 31, 2020 and 2019, respectively. The reserve balance at January 31, 2019, included approximately \$2.9 million of inventory associated with the impairment of J.T. Deely Units 1 and 2.

Long-Term Debt – To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2020, and 2019, these included fixed-rate and variable-rate bonds, as well as commercial paper. Relative to the bond instruments, provisions may be included that allow for refunding after specified time periods during the bond term.

Subject to applicable timing restrictions that may prevent early payoff, CPS Energy also has the option to defease or extinguish debt. A defeasance occurs when funds are placed in an irrevocable trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, which fully discharges the bond issuer’s obligation. At the time of an extinguishment, since the issuer no longer has the legal obligation, the defeased debt is removed from the Statements of Net Position, the related unamortized costs are expensed, and the gain or loss is immediately recognized.

Current refundings involve issuing new debt (refunding bonds) to redeem existing debt (refunded bonds) that can be called within 90 days of the call date of the refunded bonds. Advance refunding of bonds involves issuing new debt to redeem existing debt that cannot be called within 90 days of issuing the refunding bonds. In these circumstances, the refunding bond proceeds are irrevocably escrowed with a third party. These proceeds, and income thereon, are used to pay the debt service on the refunded bonds until the refunded bonds can be called. Refunding bonds are generally issued to achieve debt service savings. In December 2017, Congress passed the Tax Cuts & Jobs Act (“Act”). The Act preserved tax-exempt financing for municipal bonds but eliminated the use of tax-exempt advanced refundings at the end of calendar year 2017. See Note 7 – Revenue Bonds for information on current-year debt refundings.

Bond premiums and discounts are amortized using the effective interest method over the life of the related debt.

Net Pension Liability – A net pension liability is recorded in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The liability is the difference between the actuarial total pension liability and the Pension Plan’s fiduciary net position as of the measurement date. The net pension liability was \$378.1 million at January 31, 2020, and \$255.9 million at January 31, 2019. For additional information, see Note 9 – Employee Pension Plan.

Other Noncurrent Assets – Other noncurrent assets include prepayments, Save for Tomorrow Energy Plan (“STEP”) net costs recoverable, inventory relating to long-term service agreements (“LTSA”) and net OPEB (asset) liability. This section also includes a pension regulatory asset and unamortized bond expense discussed within the Regulatory Accounting topic below.

Prepayments – Included in prepayments is the balance related to an agreement entered in November 2011 for purchased power from San Antonio-area solar energy facilities with a total of 30 megawatt (“MW”) of capacity. In FY2013, \$77.0 million in prepayments were made for approximately 60% of the anticipated annual output over a period of 25 years. At January 31, 2020, of the remaining prepayment balance, \$3.1 million was classified as current and \$50.7 million was classified as noncurrent. At January 31, 2019, of the remaining prepayment balance, \$3.1 million was classified as current and \$53.7 million was classified as noncurrent. The balance of the output is purchased on a pay-as-you-go basis.

Save for Tomorrow Energy Plan – In FY2009, CPS Energy was authorized by City ordinance to spend up to \$849 million to save 771 MW of customer demand through energy efficiency and conservation programs by calendar year 2020. Under STEP, CPS Energy launched an array of weatherization, energy efficiency, solar, and demand response programs. As of January 31, 2020, CPS Energy had achieved its STEP goal of reducing demand by an estimated 825 MW and approximately 15% below the original STEP budget. Due to the success of the STEP program, the City authorized Bridge STEP in January 2020, which allows for the existing customer programs to continue for an additional year (through FY2021).

Annually, approximately \$9.3 million of STEP expenses are funded through the electric base rate and reported as O&M expenses. STEP expenses in excess of this initial amount per year are recovered through the fuel adjustment factor over a period of 12 months, or longer for certain STEP expenses, beginning in the subsequent fiscal year after the costs are incurred and have been independently validated. These STEP recoveries are accrued as a regulatory asset referred to as STEP net costs recoverable.

Inventory relating to long-term service agreements – CPS Energy maintains LTSA arrangements with General Electric Inc. (“GE”) to provide maintenance services and select replacement parts for certain combined-cycle power plants in CPS Energy’s fleet. Per the maintenance schedules, Advanced Gas Path (“AGP”) parts are delivered to the facilities. AGP parts not immediately required for maintenance procedures are recorded as inventory until the installation process for each set of parts at the power plant is initiated, at which time the parts are reclassified to capital assets. The liability for the purchase of the parts, along with other LTSA payment obligations are recorded as a liability on the Statements of Net Position. For additional information related to the LTSAs, see Note 11 – Other Obligations and Risk Management.

Net OPEB (Asset) Liability – A net OPEB (asset) liability is recorded in accordance with GASB Statement No. 75. The asset or liability is the difference between the actuarial total OPEB liabilities and the Employee Benefit Plans’ fiduciary net positions as of the measurement date. The net OPEB (asset) liability was \$(6.6) million and \$(43.7) million at January 31, 2020 and 2019, respectively. For additional information, see Note 10 – Other Postemployment Benefits.

Other Noncurrent Liabilities – Other noncurrent liabilities include the obligation for Project Warm resources held by the Company, the unrealized change in fair value of fuel hedges, unearned communication shelter revenue, note payable, long-term LTSA obligations and other liabilities for balances payable and deposits received.

Rate Increases – Rates are set by the CPS Energy Board of Trustees (“Board”) and approved by the San Antonio City Council. On November 7, 2013, the City Council approved a 4.25% increase in both CPS Energy’s electric and natural gas base rates, which were effective February 2014.

Reclassifications – Certain amounts in the prior year’s financial statements have been reclassified to conform to the current-year presentation.

Regulatory Accounting – Regulatory accounting applies to governmental entities with rate-regulated operations, such as CPS Energy, that fall within the scope of GASB Statement No. 62. Regulatory accounting may be applied by entities, as approved by the governing body, to activities that have regulated operations that meet all required criteria. By establishing a regulatory asset, an entity seeks to recognize a cost over a future period and match recovery of those costs from its ratepayers to the amortization of the asset. An entity must demonstrate that adequate future revenue will result from inclusion of that cost in allowable costs for rate-making purposes.

Beginning in FY2014, with the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, CPS Energy adopted the use of regulatory accounting to account for debt issuance costs. Prior to FY2014, the Company had historically reported debt issuance costs as assets and amortized them over the life of the related debt. Under GASB Statement No. 65, debt issuance costs no longer meet the definition of an asset, nor do they meet the definition of a deferred outflow of resources; therefore, they must be expensed in the period incurred. CPS Energy establishes regulatory assets for the debt issuance costs that GASB Statement No. 65 would otherwise require be expensed. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt as the designated rate-recovery period. See Note 7 – Revenue Bonds for additional information.

The Company also elected to use regulatory accounting in conjunction with the implementation of GASB Statement No. 68 in FY2015, which required immediate recognition of the Company’s previously unrecognized net pension liability. For governmental entities other than those whose operations are rate regulated, the GASB Statement No. 68 adoption accounting required a charge to net position (equity) for the net effect of the restatements required to recognize the net pension liability. CPS Energy elected to use regulatory accounting, as allowed under GASB Statement No. 62, to create a regulatory asset representing the net effect of the prior period restatements, which totaled \$266.5 million and is being amortized over a rate-recovery period of 50 years. The amortization expense was \$5.3 million for FY2020 and FY2019 and is included in annual OPEB and pension expense on the Statements of Revenues, Expenses and Changes in Net Position. See Note 9 – Employee Pension Plan for additional information.

Revenues and Expenses – Revenues are recorded when earned. Customers’ meters are read, or periodically estimated, and bills are prepared monthly based on billing cycles. Beginning in 2014, CPS Energy began replacing existing electric and gas meters with new "smart meters" that allow two-way communication between the meters and CPS Energy. One of the benefits of the smart meters is that they allow each meter to be read electronically without having to send a meter reader out to manually read each meter to determine the current billing period’s electric or gas consumption. As system growth continues to increase, CPS Energy will continue to install and replace electric and gas meters with smart meters to optimize efficiencies.

Rate tariffs include adjustment clauses that permit recovery of electric and gas fuel costs. CPS Energy uses historical information from prior fiscal years as partial bases to estimate and record earned revenue not yet billed (unbilled revenue). This process involves an extrapolation of customer usage over the days since the last meter read through the last day of the monthly period. Also included in unbilled revenue are the over/under-recoveries of electric and gas fuel costs and regulatory assessments. Unbilled revenue receivable recorded at January 31, 2020 and 2019, including estimates for electric fuel and gas costs, was \$21.4 million and \$20.1 million, respectively.

An adjustment clause in CPS Energy’s rate tariffs also permits recovery of regulatory assessments. CPS Energy recovers assessments from the PUCT for transmission access charges and from the Texas Independent System Operator, also known as ERCOT, for its operating costs and other charges applicable

to CPS Energy as a wholesale provider of power to other utilities. Regulatory assessments as of January 31, 2020 and 2019, were \$82.6 million and \$86.2 million, respectively.

Operating revenues include receipts from energy sales, ancillary services and miscellaneous revenue, such as late payment fees and rental income, related to the operation of the Systems. Operating expenses are recorded as incurred and include those costs that result from the ongoing operations of the Systems.

Nonoperating income consists primarily of investment income, including fair value adjustments. Certain miscellaneous income amounts from renting general property, providing various services and rental income from the sale of communication towers are also recorded as nonoperating income when they are not directly identified with the Systems.

Service Concession Arrangement (“SCA”) – In accordance with GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, a service concession arrangement between CPS Energy, owner, and Thousand Trails Management Services, Inc. (“TTMSI”), provider, was signed on November 20, 2009. TTMSI provides labor, supervision, management, services and equipment for Braunig Lake Park and Calaveras Lake Park, which are owned by CPS Energy. Gross receipts are distributed based on the contract agreement, which expires on November 30, 2024. CPS Energy is to retain ownership of both parks upon expiration of the arrangement.

At January 31, 2020 and 2019, a receivable was recorded in the amount of \$1.2 million and \$1.1 million, respectively, related to the TTMSI SCA. This balance represents the net amount of gross receipts less expenditures as of January 31, 2020 and 2019, respectively, for both parks. The asset book values as of January 31, 2020, were \$0.8 million for each park. The asset book values as of January 31, 2019, for Braunig Lake Park and Calaveras Lake Park were \$0.9 million and \$0.8 million, respectively.

Statements of Cash Flows – For purposes of reporting cash flows, CPS Energy considers all highly liquid debt instruments purchased with an original maturity of 90 days or less to be cash equivalents. CPS Energy’s Statements of Cash Flows separately list the noncash transactions.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses reported during the fiscal periods. Accordingly, actual results could differ from those estimates.

2. Cash, Cash Equivalents and Investments

CPS Energy’s cash deposits at January 31, 2020 and 2019, were either insured by federal depository insurance or collateralized by banks. For deposits that were collateralized, the collateral included letters of credit and securities. The securities were U.S. Government, U.S. Government Agency or U.S. Government-guaranteed obligations held in book entry form by the Federal Reserve Bank of New York or other allowable banks in CPS Energy’s name.

Separation – CPS Energy’s cash, cash equivalents and investments can be separated in the following manner:

- Those directly managed by CPS Energy, and
- Those managed through the Decommissioning Trusts.

CPS Energy FY2020 Basic Financial Statements

For financial reporting purposes, cash, cash equivalents and investments managed directly by CPS Energy have been consistently measured as of the end of the applicable fiscal years. The Decommissioning Trusts are reported on a calendar year basis.

Cash and Cash Equivalents

(In thousands)

	January 31,	
	<u>2020</u>	<u>2019</u>
Cash		
Petty cash funds on hand (current)	\$ 50	\$ 49
Deposits with financial institutions		
Unrestricted CPS Energy deposits (current)	1,320	2,002
Restricted CPS Energy deposits (noncurrent)		
Capital projects	126	144
Debt service	796	938
Project Warm	335	314
Total cash	<u>2,627</u>	<u>3,447</u>
Cash equivalents		
Investments with original maturities of 90 days or less		
CPS Energy unrestricted (current)	173,277	347,653
CPS Energy restricted (noncurrent)	220,493	209,500
Decommissioning Trusts – restricted (noncurrent)	25,814	23,430
Total cash equivalents	<u>419,584</u>	<u>580,583</u>
Total cash and cash equivalents	<u>\$ 422,211</u>	<u>\$ 584,030</u>

Summary of Cash, Cash Equivalents and Investments

(In thousands)

	January 31,	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents		
CPS Energy – unrestricted and restricted	\$ 396,397	\$ 560,600
Decommissioning Trusts – restricted	25,814	23,430
Total cash and cash equivalents	<u>422,211</u>	<u>584,030</u>
Gross investments – current and noncurrent		
CPS Energy – unrestricted and restricted	1,062,823	1,228,094
Decommissioning Trusts – restricted	642,074	563,894
Total gross investments	<u>1,704,897</u>	<u>1,791,988</u>
Investments with original maturities of 90 days or less included in cash and cash equivalents		
CPS Energy – unrestricted and restricted	(393,770)	(557,153)
Decommissioning Trusts – restricted	(25,814)	(23,430)
Total cash equivalents	<u>(419,584)</u>	<u>(580,583)</u>
Total gross investments less cash equivalents	<u>1,285,313</u>	<u>1,211,405</u>
Total cash, cash equivalents and investments	<u>\$ 1,707,524</u>	<u>\$ 1,795,435</u>

Public Funds Investment Act (“PFIA”) – CPS Energy’s investments and the investments held in the Decommissioning Trusts are subject to the rules and regulations of the PFIA. The PFIA regulates what types of investments can be made, requires written investment policies, mandates training requirements of investment officers, requires internal management reports to be produced at least quarterly, and provides for the selection of authorized broker-dealers and investment managers.

Investments of CPS Energy – CPS Energy’s allowable investments are defined by Board resolution, CPS Energy Investment Policy, bond ordinances, commercial paper ordinances and state law. These investments are subject to market risk, and their fair value will vary as interest rates fluctuate. All CPS Energy investments are held in trust custodial funds by independent banks.

Investments of the Decommissioning Trusts – CPS Energy’s investments in the Decommissioning Trusts are held by an independent trustee. Investments are limited to those defined by Board resolution, the South Texas Project Decommissioning Trust Investment Policy, the Investment Committee, the Trust Agreements and state law, as well as PUCT and Nuclear Regulatory Commission (“NRC”) guidelines. Allowable investments for the Decommissioning Trusts include all types directly permissible for CPS Energy, except for investment pools. Additionally, permitted are investments in equities and corporate bonds (including international securities traded in U.S. dollars and on U.S. stock exchanges). In accordance with the Trusts’ Investment Policy, total investments can include a maximum of 60% equity securities. To further reduce the overall risk of the portfolio, the target allocations for both Trusts are 64.0% fixed income, 27.0% equities and 9.0% U.S. real estate investment trusts.

Permissible Investments

Investment Description	CPS Energy Investments	Decommissioning Trusts Investments
U.S. Government, U.S. Government Agency, or U.S. Government-guaranteed obligations	✓	✓
Collateralized mortgage obligations issued by the U.S. Government, or other obligations for which principal and interest are guaranteed by the U.S. or state of Texas	✓	✓
Fully secured certificates of deposit offered by a broker or issued by a depository institution that has its main office or branch office in the state of Texas	✓	✓
Direct repurchase agreements	✓	✓
Reverse repurchase agreements	✓	✓
Defined bankers’ acceptances and commercial paper	✓	✓
No-load money market mutual funds	✓	✓
Investment pools	✓	Not Permitted
Equities	Not Permitted	✓
Investment quality obligations of states, agencies, counties, cities and political subdivisions of any state	✓	✓
Corporate bonds	Not Permitted	✓
International securities	Not Permitted	✓
No-load commingled funds	Not Permitted	✓
Securities lending programs	✓	✓
Other specific types of secured or guaranteed investments	✓	✓

Cash, Cash Equivalents and Investments by Fund

(In thousands)

	January 31,	
	<u>2020</u>	<u>2019</u>
Unrestricted		
Cash and cash equivalents	\$ 174,647	\$ 349,704
Investments	<u>296,237</u>	<u>104,171</u>
Total unrestricted (current)	<u>470,884</u>	<u>453,875</u>
Restricted		
Debt service		
Cash and cash equivalents	<u>1,944</u>	<u>13,046</u>
Total debt service	<u>1,944</u>	<u>13,046</u>
Capital projects		
Cash and cash equivalents	<u>54,251</u>	<u>54,233</u>
Total capital projects	<u>54,251</u>	<u>54,233</u>
Ordinance		
Cash and cash equivalents	165,202	143,285
Investments	<u>365,315</u>	<u>559,375</u>
Total ordinance	<u>530,517</u>	<u>702,660</u>
Project Warm		
Cash and cash equivalents	353	332
Investments	<u>7,501</u>	<u>7,395</u>
Total Project Warm	<u>7,854</u>	<u>7,727</u>
Decommissioning Trusts		
Cash and cash equivalents	25,814	23,430
Investments	<u>616,260</u>	<u>540,464</u>
Total Decommissioning Trusts	<u>642,074</u>	<u>563,894</u>
Total restricted		
Cash and cash equivalents	247,564	234,326
Investments	<u>989,076</u>	<u>1,107,234</u>
Total restricted (noncurrent)	<u>1,236,640</u>	<u>1,341,560</u>
Total cash, cash equivalents and investments (unrestricted and restricted)	<u>\$ 1,707,524</u>	<u>\$ 1,795,435</u>

Risk Exposure – Cash equivalents, equity and fixed-income investments are exposed to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk) and foreign currency risk. Interest rate risk is the exposure to fair value losses resulting from rising interest rates. Credit risk is the risk that an issuer of an investment will not fulfill its obligations (will be unable to make timely principal and interest payments on the security). Foreign currency risk is the exposure to fair value losses arising from changes in exchange rates. Cash, cash equivalents and fixed-income investments are also exposed to inflation, liquidity, political, legal, event, reinvestment and timing (call) risks. Additionally, equity investments are exposed to political, legal, event, market and general economic risks. Due to market fluctuations, it is possible that substantial changes in the fair value of investments could occur after the end of the reporting period.

CPS Energy's investments and the investments in the Decommissioning Trusts are managed with a conservative focus. The Investment Policies are structured to ensure compliance with bond ordinances, the PFIA, the Public Funds Collateral Act, the NRC, the PUCT, other applicable state statutes and Board resolutions relating to investments. CPS Energy identifies and manages risks by following an appropriate investment oversight strategy, establishing and monitoring compliance with Investment Policies and procedures, and continually monitoring prudent controls over risks.

**Summary of Investments (Including Cash Equivalents)
by Organizational Structure and Type¹**

(In thousands)

	January 31,	
	2020	2019
CPS Energy investments		
U.S. Treasuries, U.S. Agencies, municipal bonds, CDs, commercial paper, investment pools and money market mutual funds	<u>\$ 1,062,823</u>	<u>\$ 1,228,094</u>
Decommissioning Trusts		
U.S. Treasuries, U.S. Agencies, municipal bonds and money market mutual funds	239,218	218,830
Corporate bonds	148,752	138,496
Foreign bonds	<u>13,186</u>	<u>12,579</u>
Subtotal	401,156	369,905
Common stock	179,629	144,473
Real estate investment trusts	60,538	48,802
Preferred stock	<u>751</u>	<u>714</u>
Total Decommissioning Trusts	<u>642,074</u>	<u>563,894</u>
Total investments	<u>\$ 1,704,897</u>	<u>\$ 1,791,988</u>

¹Excludes cash of \$2.6 million and \$3.4 million as of January 31, 2020 and 2019, respectively.

Investment Policies – In accordance with state law, the Trusts’ Investment Policy allows for investment in additional types of securities, such as corporate bonds and equity securities. The policy provides guidelines to ensure all funds are invested in authorized securities to earn a reasonable return. The primary emphasis is placed on long-term growth commensurate with the need to preserve the value of the assets and, at the time funds are needed for decommissioning costs, on liquidity. The Investment Policy continues to follow the “prudent person” concept.

GASB Statement No. 40 – In accordance with GASB Statement No. 40, additional disclosures have been provided in this note that address investment exposure to interest rate risk, credit risk (including custodial credit risk and concentration of credit risk), and foreign currency risk, as applicable. CPS Energy’s investments and those in the Decommissioning Trusts do not have custodial credit risk, as all investments are held either by an independent trustee or bank and are in CPS Energy’s or the Decommissioning Trusts’ names.

CPS Energy Investments

In accordance with GASB Statement No. 40, the following tables address concentration of credit risk and interest rate risk exposure by investment type using the weighted-average maturity (“WAM”) method. Since CPS Energy does not hold foreign instruments in its direct investments (those held by CPS Energy), foreign currency risk is not applicable.

Interest rate risk – In accordance with its Investment Policy, CPS Energy manages exposure to fair value losses resulting from rising interest rates by placing a limit on the portfolio’s WAM. The Investment Policy limits the WAM to three years or less, which allows for the management of risk while optimizing returns. CPS Energy invests in money market mutual funds that have no fixed maturities.

CPS Energy FY2020 Basic Financial Statements

Concentration of credit risk – In accordance with its Investment Policy, CPS Energy manages exposure to concentration of credit risk through diversification and by limiting investment in each federal agency to 35% and investment in any other issuer of debt securities to 5% of the total fixed-income portfolio. Additionally, negotiable certificates of deposit are limited to 35% of the total portfolio per issuer.

(Dollars in thousands)	January 31, 2020				January 31, 2019			
	Carrying Value	Fair Value	Allocation	WAM	Carrying Value	Fair Value	Allocation	WAM
Investment Type								
U.S. Treasuries	\$ 27,989	\$ 27,989	2.63%	1.0	\$ 27,574	\$ 27,574	2.24%	1.5
U.S. Agencies								
Federal Agriculture Mtg Corp	5,001	5,001	0.47%	0.2	24,891	24,891	2.03%	0.5
Federal Farm Credit Bank	163,578	163,578	15.39%	4.0	95,665	95,665	7.79%	3.3
Federal Home Loan Bank	62,226	62,226	5.85%	4.8	92,478	92,478	7.53%	4.4
Federal Home Loan Mortgage Corp	88,851	88,851	8.36%	3.4	137,067	137,067	11.16%	3.9
Federal National Mortgage Assn	146,707	146,707	13.80%	4.8	126,504	126,504	10.30%	4.6
Small Business Administration	22,678	22,678	2.13%	6.6	22,196	22,196	1.81%	5.7
Municipal bonds	152,024	152,024	14.30%	2.3	134,567	134,565	10.96%	1.9
Certificates of deposit	-	-	-	-	10,000	10,000	0.81%	0.6
Investment pools	297,415	297,415	28.00%	-	471,702	471,702	38.41%	-
Money market mutual funds	96,354	96,354	9.07%	-	85,450	85,450	6.96%	-
Total fixed-income portfolio	<u>\$ 1,062,823</u>	<u>\$ 1,062,823</u>	<u>100.00%</u>	2.3	<u>\$ 1,228,094</u>	<u>\$ 1,228,092</u>	<u>100.00%</u>	1.9

Credit risk – In accordance with its Investment Policy, CPS Energy manages exposure to credit risk by limiting long-term debt security investments to those with a credit rating of “A” or better. As of January 31, 2020, and 2019, CPS Energy held no debt securities with a long-term credit rating below “A-,” or equivalent, or a short-term credit rating below “A-1/P-1/F-1.”

(Dollars in thousands)	January 31, 2020			January 31, 2019		
	Carrying Value	Fair Value	Allocation	Carrying Value	Fair Value	Allocation
Credit Rating						
U.S. Treasuries (AA+)	\$ 27,989	\$ 27,989	2.63%	\$ 27,574	\$ 27,574	2.24%
AAA / Aaa	408,065	408,065	38.39%	565,293	565,293	46.03%
AA+ / Aa1	526,317	526,317	49.52%	532,328	532,328	43.35%
AA / Aa2	51,885	51,885	4.89%	47,017	47,015	3.83%
AA- / Aa3	19,423	19,423	1.83%	17,357	17,357	1.41%
A+ / A1	2,775	2,775	0.26%	2,680	2,680	0.22%
Not rated ¹	26,369	26,369	2.48%	35,845	35,845	2.92%
Total fixed-income portfolio	<u>\$ 1,062,823</u>	<u>\$ 1,062,823</u>	<u>100.00%</u>	<u>\$ 1,228,094</u>	<u>\$ 1,228,092</u>	<u>100.00%</u>

¹ Interest bearing deposit accounts & CDs which still meet PFIA/CPS Energy Investment Policy requirements.

Decommissioning Trusts Investments

As mentioned previously, the Decommissioning Trusts report their assets on a calendar year basis; therefore, information related to the Trusts is as of December 31, 2019 and 2018. The tables in this section address interest rate risk exposure by investment type, concentration of credit risk, credit risk and foreign currency risk. All investments held by the Decommissioning Trusts are long-term in nature and are recorded at fair value.

Interest rate risk – Generally, the long-term nature of the liabilities and the limited need for daily operating liquidity allow interim fluctuations in fair value to occur without jeopardizing the ultimate value of the assets. Where long-term securities are held, the interim fair value of assets can be sensitive to changes in interest rates. As the general level of interest rates moves up and down, the interim fair value of longer-maturity bonds may change substantially.

To mitigate interest rate risk, a limitation is placed on the weighted-average duration (“WAD”) of the fixed-income portfolio. The overall portfolio duration is limited by the Investment Policy to a deviation of no more than +/- 1.5 years from the WAD of the Investment Committee’s specified fixed-income index.

The specified fixed-income index for both the 28% Trust and the 12% Trust is Bloomberg Barclays US Aggregate, which was 5.87 and 5.86 for the period ending December 31, 2019 and 2018, respectively.

Concentration of credit risk – In accordance with the Investment Policy, exposure to concentration of credit risk is managed through diversification and by limiting investments in each federal agency to 30% and investments in any other single issuer of debt securities to 5% of the total fixed-income portfolio. Likewise, equity investments are limited to 5% of the total portfolio for any one issuer. Total other debt securities (corporate and foreign issuers) amounted to 39.3% and 40.7% of the fixed-income portfolio for the 28% Decommissioning Trust at December 31, 2019 and 2018, respectively. Total other debt securities (corporate and foreign issuers) amounted to 43.1% and 41.3% of the fixed-income portfolio for the 12% Decommissioning Trust at December 31, 2019 and 2018, respectively.

The following table lists the fixed-income investment holdings by type:

(Dollars in thousands)	December 31, 2019			December 31, 2018		
	Fair Value	Allocation	WAD	Fair Value	Allocation	WAD
Investment Type – 28% Trust						
U.S. Treasuries	\$ 56,964	19.64%	9.0	\$ 49,303	18.47%	9.8
U.S. Agencies						
Federal Home Loan Mortgage Corp	42,967	14.81%	3.9	41,657	15.61%	4.6
Federal National Mortgage Assn	40,062	13.81%	4.2	34,554	12.95%	5.5
Government National Mortgage Assn	3,732	1.29%	8.9	4,577	1.71%	6.8
Small Business Administration	4,737	1.63%	5.3	4,597	1.72%	5.3
Municipal bonds – Texas	1,188	0.41%	10.4	1,054	0.39%	9.1
Municipal bonds – other states	8,038	2.77%	10.0	6,200	2.32%	9.8
Corporate bonds	103,035	35.53%	6.4	98,313	36.84%	5.4
Foreign bonds	11,036	3.81%	5.0	10,264	3.85%	4.6
Money market mutual funds	18,272	6.30%	-	16,390	6.14%	-
Total 28% Trust fixed-income portfolio	<u>290,031</u>	100.00%	6.3	<u>266,909</u>	100.00%	6.3
Investment Type – 12% Trust						
U.S. Treasuries	19,480	17.53%	10.7	17,920	17.40%	12.2
U.S. Agencies						
Federal Farm Credit Bank	-	-	-	475	0.46%	0.3
Federal Home Loan Mortgage Corp	17,372	15.63%	3.5	16,299	15.82%	3.7
Federal National Mortgage Assn	11,405	10.26%	4.2	11,204	10.88%	5.2
Government National Mortgage Assn	1,468	1.32%	7.2	2,585	2.51%	6.9
Small Business Administration	1,993	1.79%	5.2	2,066	2.01%	5.4
Municipal bonds – Texas	551	0.50%	10.3	470	0.46%	8.8
Municipal bonds – other states	3,447	3.11%	10.0	2,439	2.37%	9.8
Corporate bonds	45,717	41.14%	6.2	40,183	39.00%	5.4
Foreign bonds	2,150	1.93%	4.5	2,315	2.25%	3.7
Money market mutual funds	7,542	6.79%	-	7,040	6.84%	-
Total 12% Trust fixed-income portfolio	<u>111,125</u>	100.00%	6.5	<u>102,996</u>	100.00%	6.4
Total Trusts fixed-income portfolio	<u>\$ 401,156</u>			<u>\$ 369,905</u>		

Credit risk – In accordance with the Investment Policy, exposure to credit risk is managed by limiting all fixed-income investments to a credit rating of “BBB-”, or equivalent, or better from at least two nationally recognized credit rating agencies. If a security’s rating falls below the minimum investment grade rating of “BBB-” after it has been purchased, the Investment Policy allows investment managers to continue to hold the security as long as the total fair value of securities rated below investment grade does not exceed 5% of the total fixed-income portfolio. As noted in the following tables, investments with a credit rating below “BBB-/Baa3” for the 28% Trust or 12% trust did not exceed 5% of total fixed-income portfolio at December 31, 2019 and 2018.

CPS Energy FY2020 Basic Financial Statements

The following table lists the fixed-income investment holdings by credit rating:

(Dollars in thousands)	December 31, 2019		December 31, 2018	
	Fair Value	Allocation	Fair Value	Allocation
Credit Rating – 28% Trust				
U.S. Treasuries (AA+)	\$ 56,964	19.64%	\$ 49,303	18.47%
AAA / Aaa	25,749	8.88%	32,636	12.23%
AA+ / Aa1	100,577	34.68%	88,153	33.03%
AA/Aa2	2,855	1.00%	3,961	1.48%
AA- / Aa3	1,862	0.64%	4,119	1.54%
A+ / A1	5,712	1.97%	8,502	3.19%
A/A2	10,608	3.66%	8,191	3.07%
A-/A3	24,429	8.42%	21,803	8.17%
BBB+/Baa1	30,060	10.36%	23,726	8.89%
BBB / Baa2	16,368	5.64%	14,268	5.35%
BBB-/Baa3	9,086	3.13%	8,170	3.06%
BB+/Ba1	552	0.19%	1,310	0.49%
BB/Ba2	529	0.18%	481	0.18%
BB-/Ba3	-	-	253	0.09%
Not Rated ¹	4,680	1.61%	2,033	0.76%
Total 28% Trust fixed-income portfolio	<u>290,031</u>	100.00%	<u>266,909</u>	100.00%
Credit Rating – 12% Trust				
U.S. Treasuries (AA+)	19,480	17.53%	17,920	17.40%
AAA / Aaa	11,969	10.78%	15,931	15.47%
AA+/Aa1	37,452	33.70%	34,809	33.80%
AA / Aa2	1,401	1.26%	1,093	1.06%
AA-/Aa3	501	0.45%	1,586	1.54%
A+/A1	2,770	2.49%	5,446	5.29%
A/A2	4,719	4.25%	2,901	2.82%
A-/A3	11,470	10.32%	9,263	8.99%
BBB+/Baa1	11,571	10.41%	7,553	7.33%
BBB/Baa2	4,957	4.46%	4,228	4.10%
BBB-/Baa3	2,002	1.80%	1,599	1.55%
BB/Ba2	29	0.03%	28	0.03%
Not Rated ¹	2,804	2.52%	639	0.62%
Total 12% Trust fixed-income portfolio	<u>111,125</u>	100.00%	<u>102,996</u>	100.00%
Total Trusts fixed-income portfolio	<u>\$ 401,156</u>		<u>\$ 369,905</u>	

¹ The NDT Investment Managers are given discretion to invest in unrated securities that are of suitable quality and in line with their investment strategy, as long as those do not exceed the 10% limit prescribed for the portfolio by the NDT Investment Policy.

Foreign currency risk – With the exception of dedicated foreign-equity portfolios, all investments authorized for purchase by the Decommissioning Trusts are in U.S. dollars. This reduces the potential foreign currency risk exposure of the portfolio. All foreign bonds outstanding were issued in the U.S. and amounted to \$13.2 million at December 31, 2019, and \$12.6 million December 31, 2018. In accordance with the Investment Policy, investments in international equity securities are limited to international commingled funds, American Depository Receipts and exchange-traded funds that are diversified across countries and industries. The international equity portfolio is limited to 20% of the total portfolio. Total foreign equity securities amounted to 13.5% and 12.6% of the 28% Trust’s total portfolio at December 31, 2019 and 2018, respectively. Total foreign equity securities held by the 12% Trust amounted to 12.2% and 11.4% of the Trust’s portfolio at December 31, 2019 and 2018, respectively.

Fiduciary Funds' Investments

As mentioned previously, the fiduciary financial statements include the CPS Energy Pension Plan and the CPS Energy Group Health Plan, CPS Energy Group Life Insurance Plan and the CPS Energy Long-Term Disability Income Plan, (collectively "the Plans"). The Plans report their assets on a calendar year basis; therefore, information related to the Plans is as of December 31, 2019 and 2018. The tables in this section address interest rate risk exposure by investment type, concentration of credit risk, credit risk and foreign currency risk. Investments held by the Plans are recorded at fair value and net asset value. All assets held by the Plans are held in irrevocable trusts.

The Plans' allowable investments are established and amended by the Employee Benefits Oversight Committee (the "EBOC") and are separately managed by the Administrative Committee. The Administrative Committee ensures the Plans' assets are invested in accordance with the investment policy of the Plans, engaging investment consultants and independent investment managers as needed.

Interest rate risk – In accordance with its investment policy, the Administrative Committee manages exposure to fair value losses arising from rising interest rates by limiting the effective duration of (a) each investment manager's portfolio as well as (b) the aggregate portfolio of debt securities of the trust to +/- 1.5 years from the WAD of the specified debt security index as used as a benchmark. Investments included on the following page, which include the global bond fund, that are managed through a fund are not subject to the investment manager limitation noted above. The specified debt security indices used as benchmarks are presented in the following table:

Debt Securities Indices Benchmarks

	December 31,	
	2019	2018
Barclays Aggregate	5.90	5.90
U.S. High-Yield	3.00	4.00
Credit Suisse Leveraged Loan Index	0.25	0.25
Bloomberg Barclays 60/40 Sovereign Credit Fund	7.55	6.96

CPS Energy FY2020 Basic Financial Statements

The following table presents the weighted-average effective duration of debt security asset classes:

(Dollars in thousands)

Investment Type – Pension Plan	December 31, 2019		December 31, 2018	
	Fair Value	WAD	Fair Value	WAD
U.S. Treasury and Agency:				
Notes and bonds	\$ 34,174	9.23	\$ 41,919	7.65
Collateralized mortgage obligations	23,514	3.24	26,226	3.93
Mortgage pass-through securities	27,882	3.85	26,099	5.27
Commercial mortgage-backed securities	7,324	4.70	6,651	4.73
Asset-backed securities	10,773	1.83	8,142	1.38
Corporate bonds	46,227	6.95	31,062	6.88
Municipal bonds	563	17.29	498	15.87
Total investment grade	150,457	5.88	140,597	5.87
Senior loan fund (floating rate)	69,991	0.44	64,746	0.65
Global bond fund	67,073	4.57	60,848	4.99
High-yield corporate bonds	129,609	2.69	112,530	3.88
Total Pension Plan investments in debt securities	417,130		378,721	
Investment Type – Health Plan				
U.S. Treasury and Agency:				
Notes and bonds	6,424	8.42	8,943	7.08
Collateralized mortgage obligations	4,695	2.60	5,614	3.66
Mortgage pass-through securities	7,365	3.82	7,259	5.76
Commercial mortgage-backed securities	301	3.10	637	2.05
Asset-backed securities	12	0.36	465	1.29
Total investment grade	18,797	5.71	22,918	6.11
Corporate bonds	9,737	6.93	4,936	8.63
Senior loan fund (floating rate)	12,383	0.44	11,455	0.65
High-yield corporate bonds	10,751	2.34	10,975	3.83
High-yield bond fund ¹	9,935	3.21	8,653	4.05
Global bond fund	12,403	4.57	11,252	4.99
Total Health Plan investments in debt securities	74,006		70,189	
Investment Type – Life Plan				
U.S. Treasury and Agency:				
Notes and bonds	1,566	8.42	1,981	7.31
Collateralized mortgage obligations	1,098	2.67	1,212	3.58
Mortgage pass-through securities	1,661	3.79	1,538	5.70
Commercial mortgage-backed securities	88	2.96	86	3.78
Asset-backed securities	2	0.36	87	1.27
Total investment grade	4,415	5.69	4,904	6.15
Corporate bonds	2,192	6.80	1,177	7.97
Senior loan fund (floating rate)	2,135	0.44	2,104	0.65
Global bond fund	2,169	4.57	2,078	4.99
High-yield corporate bonds	1,819	2.38	2,068	3.84
High-yield bond fund ¹	1,877	3.21	1,634	4.05
Total Life Plan investments in debt securities	14,607		13,965	
Investment Type – Disability Plan				
U.S. Treasury and Agency:				
Notes and bonds	112	9.39	222	7.27
Collateralized mortgage obligations	88	2.61	138	3.56
Mortgage pass-through securities	135	3.60	176	5.81
Commercial mortgage-backed securities	10	2.76	19	2.10
Asset-backed securities	-	0.37	10	1.44
Corporate bonds	193	6.84	125	8.13
Total investment grade	538	5.79	690	6.09
Senior loan fund (floating rate)	215	0.44	200	0.65
Global bond fund	224	4.57	203	4.99
High-yield bond fund ¹	408	3.21	356	4.05
Total Disability Plan investments in debt securities	1,385		1,449	
Total investments in debt securities for the Plans	\$ 507,128		\$ 464,324	

¹ The high-yield bond fund is a mutual fund and reports duration to worst in lieu of the weighted-average duration.

Credit Risk – In accordance with its investment policy, the Administrative Committee manages credit risk by (a) limiting high grade domestic debt investment managers to no more than 15% of their portfolio in below A rated bonds, (b) limiting high grade domestic debt investment managers to no more than 2.5% of their portfolio in below BBB rated bonds and (c) limiting investment in high-yield debt securities using high-yield investment managers to no more than 15% of total Plan investments. At December 31, 2019 and 2018, investments for all the Plans were held in accordance with the investment policy.

The following table summarizes the individual Plans' investment in debt securities by credit rating, with most securities rated by S&P Global Ratings, however some were rated by other agencies:

(Dollars in thousands)

Credit Rating – Pension Plan	December 31, 2019		December 31, 2018	
	Fair Value	Allocation	Fair Value	Allocation
AAA	\$ 37,922	9.09%	\$ 56,885	15.02%
AA	99,353	23.82%	80,913	21.36%
A	42,441	10.17%	39,171	10.34%
BBB	44,759	10.73%	26,455	6.99%
Less than BBB	190,750	45.73%	174,399	46.05%
Not Rated	1,905	0.46%	898	0.24%
Total Pension Plan investments in debt securities	417,130	100.00%	378,721	100.00%
Credit Rating – Health Plan				
AAA	6,008	8.12%	14,084	20.07%
AA	19,633	26.53%	13,794	19.65%
A	8,700	11.76%	7,199	10.26%
BBB	7,391	9.99%	4,252	6.06%
Less than BBB	31,961	43.19%	30,767	43.83%
Not Rated	313	0.41%	93	0.13%
Total Health Plan investments in debt securities	74,006	100.00%	70,189	100.00%
Credit Rating – Life Plan				
AAA	1,055	7.22%	2,944	21.08%
AA	4,571	31.29%	2,884	20.65%
A	1,901	13.01%	1,507	10.79%
BBB	1,349	9.24%	859	6.15%
Less than BBB	5,677	38.86%	5,754	41.20%
Not Rated	54	0.38%	17	0.13%
Total Life Plan investments in debt securities	14,607	100.00%	13,965	100.00%
Credit Rating – Disability Plan				
AAA	115	8.30%	315	21.74%
AA	358	25.85%	339	23.40%
A	163	11.77%	149	10.28%
BBB	140	10.11%	95	6.56%
Less than BBB	605	43.68%	550	37.96%
Not Rated	4	0.29%	1	0.06%
Total Disability Plan investments in debt securities	1,385	100.00%	1,449	100.00%
Total investment in debt securities for the Plans	\$ 507,128		\$ 464,324	

Concentration of credit risk – To help ensure diversification and to minimize the impact of a failure of any issuer, the investment policy of the Plans limits holdings of issuers, other than the federal government issuers to 5% of the fair value of (a) an investments manager's portfolio and (b) the aggregate portfolio of debt securities. There is no concentration restriction on debt issued by the U.S. federal government. Debt issued by other U.S. governmental entities may not exceed 50% by any one issuer. There were no corporate issues exceeding these limits at December 31, 2019 and 2018 for the Plans.

CPS Energy FY2020 Basic Financial Statements

The following table presents the fair value of investments by issuer, per individual Plan, representing 5% or more of any of the respective Plan's debt security portfolio:

(Dollars in thousands)

Issuer - Plan	December 31, 2019			December 31, 2018		
	Fair Value	% Debt Securities	Policy Limit %	Fair Value	% Debt Securities	Policy Limit %
Federal National Mortgage Assn. - Pension	\$ 31,933	7.66%	50%	\$ 38,660	10.21%	50%
Federal National Mortgage Assn. - Health	7,289	9.85%	50%	9,062	12.91%	50%
Federal National Mortgage Assn. - Life	1,509	10.33%	50%	1,897	13.58%	50%
Federal National Mortgage Assn. - Disability	114	8.20%	50%	212	14.61%	50%

As of December 31, 2019, and 2018, the Plans did not have an investment in any one organization whose fair value equaled 5% or more of the individual plan's net position restricted for the Plans.

Foreign currency risk – There were no nondollar foreign investments held directly as of December 31, 2019 and 2018. All nondollar denominated foreign investments are held through mutual funds or commingled funds with a similar mandate. These funds are not subject to investment policy constraints on nondollar denominated foreign investments.

Securities lending – Authority to engage in securities lending transactions is granted under the investment policies of the Plans. The Plans are authorized to loan up to 100% of the investments in securities lending transactions. The Plans' securities lending programs are managed through JPMorgan Chase Bank, N.A. Worldwide Securities Services ("JPMorgan") as lending agent.

In securities lending transactions, the Plans, through the lending agent, transfer securities to brokers/dealers in exchange for collateral and simultaneously agree to return the collateral for the same securities in the future. Both cash and noncash collateral is accepted. In 2017, the Disability Income Plan's securities lending program was suspended indefinitely by the Administrative Committee due to minimal activity.

Cash collateral received from the borrower is invested as defined by the Plans in U.S government and agency securities, corporate debt securities rated A-1/P-1 or equivalent, or AAA-rated money market mutual funds. The maturities of these investments do not necessarily match the term of the loans; however, the weighted-average maturity of the portfolio will not exceed 120 days.

Noncash collateral may be accepted from a limited set of borrowers and includes both U.S and certain international equities and government and agency debt securities that meet JPMorgan's credit criteria.

Lending income is earned if the returns on the cash collateral invested exceed the rebate paid to borrowers of the securities. The income is then shared with the lending agent to cover its fees based on a contractually negotiated rate split. However, if the investment of the cash collateral does not provide a return exceeding the rebate, part of the payment to the borrower would come from the Plans' resources and the lending agent based on the rate split. The Plans are responsible for losses, if any, related to the investment of cash collateral. No losses were incurred in 2019 or 2018.

Loans that are collateralized with noncash securities generate income when the borrower pays a loan premium for the securities loaned. This income is split at the same ratio as the earnings for cash collateral. The collateral pledged to the Plans for the loaned securities is held by the lending agent. These securities are not available to the Plans for selling or pledging unless the borrower is in default of the loan.

Securities are marked-to-market daily, and additional cash or securities are required from the borrower if the market value of the collateral falls below 100%. Cash collateral is reported on the Statements of Fiduciary Net Position as an asset, with a corresponding liability for the obligation to repay the cash collateral. Noncash collateral for the securities lending activities is not recorded as an asset because it remains under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, the Plans have authorized the lending agent to seize the collateral held. The collateral would then be used to replace the borrowed securities where possible. Due to some market conditions, it is possible the original securities may not be able to be replaced. The lending agent has indemnified the Plans from any loss due to borrower default in the event the collateral is not sufficient to replace the securities.

The Plans had no credit risk exposure to borrowers because the amount the Plans owed to borrowers exceeded the amounts the borrowers owed at December 31, 2019 and 2018.

The Plans received cash and noncash collateral for securities lending activity, as shown in the following table. The cash collateral is presented as an unclassified custodial credit risk.

(Dollars in thousands)

	December 31, 2019		
	Loan Fair Value	Collateral Value	Collateral %
Outstanding Loans - Pension Plan			
Cash loans	\$ 35,049	\$ 35,927	102.51%
Noncash loans	14,734	15,424	104.68%
Total Pension Plan outstanding loans	<u>\$ 49,783</u>	<u>\$ 51,351</u>	103.15%
Outstanding Loans - Health Plan			
Cash loans	\$ 714	\$ 730	102.22%
Noncash loans	3,455	3,553	102.82%
Total Health Plan outstanding loans	<u>\$ 4,169</u>	<u>\$ 4,283</u>	102.72%
Outstanding Loans - Life Plan			
Cash loans	\$ 92	\$ 94	102.11%
Noncash loans	897	918	102.40%
Total Life Plan outstanding loans	<u>\$ 989</u>	<u>\$ 1,012</u>	102.38%
December 31, 2018			
Outstanding Loans - Pension Plan			
Cash loans	\$ 57,765	\$ 59,156	102.41%
Noncash loans	9,659	10,043	103.97%
Total Pension Plan outstanding loans	<u>\$ 67,424</u>	<u>\$ 69,199</u>	102.63%
Outstanding Loans - Health Plan			
Cash loans	\$ 11,899	\$ 12,140	102.03%
Noncash loans	20,875	21,452	102.76%
Total Health Plan outstanding loans	<u>\$ 32,774</u>	<u>\$ 33,592</u>	102.50%
Outstanding Loans - Life Plan			
Cash loans	\$ 2,230	\$ 2,276	102.04%
Noncash loans	2,940	3,014	102.53%
Total Life Plan outstanding loans	<u>\$ 5,170</u>	<u>\$ 5,290</u>	102.32%

The following table reflects the income and fees from securities lending activity per individual Plan:

(In thousands)

Plan	December 31, 2019				
	Securities Lending Income	Rebates to Borrowers	Net Income	Lending Agent Fees	Securities Lending Net Income to the Plan
Pension	\$ 1,438	\$ 1,172	\$ 266	\$ 80	\$ 186
Health	242	212	30	9	21
Life	26	21	5	1	4
Total	<u>\$ 1,706</u>	<u>\$ 1,405</u>	<u>\$ 301</u>	<u>\$ 90</u>	<u>\$ 211</u>

Plan	December 31, 2018				
	Securities Lending Income	Rebates to Borrowers	Net Income	Lending Agent Fees	Securities Lending Net Income to the Plan
Pension	\$ 1,503	\$ 1,166	\$ 337	\$ 101	\$ 236
Health	79	61	18	5	13
Life	9	5	4	1	3
Total	<u>\$ 1,591</u>	<u>\$ 1,232</u>	<u>\$ 359</u>	<u>\$ 107</u>	<u>\$ 252</u>

3. Fair Value Measurement

CPS Energy records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Fair value is defined in GASB Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

As a basis for considering market participant assumptions in fair value measurements, GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities and U.S. Government Treasury securities are examples of Level 1 inputs.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Government agency and mortgage-backed securities are examples of Level 2 inputs.
- Level 3 inputs are unobservable inputs that reflect CPS Energy's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

Valuation methods of the primary fair value measurements disclosed below are as follows:

- The majority of investments in equity securities are valued using Level 1 measurements. Investments in equity securities are typically valued at the closing price in the principal active market. For equity securities, these markets include published exchanges such as the National Association of Securities Dealers Automated Quotations and the New York Stock Exchange. Foreign equity prices are translated from their trading currency using the currency exchange rate in effect at the close of the principal active market.
- Most investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.
- Commodity derivatives, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using Level 1 inputs. Options included in this category are those with an identical strike price quoted through a clearinghouse.
- Other commodity derivatives, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on internally developed pricing algorithms using observable market quotes for similar derivatives. Pricing inputs are derived from published exchange transactions and other observable data sources.
- The fair value of real estate held by the Employee Benefit Plans is evaluated annually according to the Plans' policy and is a multi-step process beginning with obtaining a broker's opinion of value. Additionally, independent appraisals and bids received on properties are also utilized to determine fair value.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

CPS Energy's fair value measurements are performed on a recurring basis. The table on the following page presents fair value balances and their levels within the fair value hierarchy for CPS Energy as of January 31, 2020 and 2019, and Decommissioning Trusts investment balances as of December 31, 2019 and 2018. The CPS Energy and Decommissioning Trusts investment balances presented exclude amounts related to money market mutual fund investments and short-term investments accounted for using amortized cost.

Fair Value Measurements as of January 31, 2020 and 2019

(In thousands)

	January 31, 2020				January 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Fair Value Investments								
<u>CPS Energy</u>								
U.S. Treasuries	\$ 27,989	\$ -	\$ -	\$ 27,989	\$ 27,574	\$ -	\$ -	\$ 27,574
U.S. Agencies								
Federal Agricultural Mortgage Corp	-	5,001	-	5,001	-	24,891	-	24,891
Federal Farm Credit Bank	-	163,578	-	163,578	-	95,665	-	95,665
Federal Home Loan Bank	-	62,226	-	62,226	-	92,478	-	92,478
Federal Home Loan Mortgage Corp	-	88,851	-	88,851	-	137,067	-	137,067
Federal National Mortgage Assn	-	146,707	-	146,707	-	126,504	-	126,504
Small Business Administration	-	22,678	-	22,678	-	22,196	-	22,196
Municipal bonds	-	152,024	-	152,024	-	134,567	-	134,567
Total CPS Energy fair value investments	<u>27,989</u>	<u>641,065</u>	<u>-</u>	<u>669,054</u>	<u>27,574</u>	<u>633,368</u>	<u>-</u>	<u>660,942</u>
<u>Decommissioning Trusts Investments</u>								
<u>28% Trust</u>								
U.S. Treasuries	56,964	-	-	56,964	49,303	-	-	49,303
U.S. Agencies								
Federal Home Loan Mortgage Corp	-	42,967	-	42,967	-	41,657	-	41,657
Federal National Mortgage Assn	-	40,062	-	40,062	-	34,554	-	34,554
Government National Mortgage Assn	-	3,732	-	3,732	-	4,577	-	4,577
Small Business Administration	-	4,737	-	4,737	-	4,597	-	4,597
Municipal bonds – Texas	-	1,188	-	1,188	-	1,054	-	1,054
Municipal bonds – other states	-	8,038	-	8,038	-	6,200	-	6,200
Corporate bonds	-	103,035	-	103,035	-	98,313	-	98,313
Foreign bonds	-	11,036	-	11,036	-	10,264	-	10,264
Total 28% Trust fair value fixed-income income portfolio	<u>56,964</u>	<u>214,795</u>	<u>-</u>	<u>271,759</u>	<u>49,303</u>	<u>201,216</u>	<u>-</u>	<u>250,519</u>
Equity securities								
Common stock	134,184	-	-	134,184	108,210	-	-	108,210
Real estate investment trusts	44,277	-	-	44,277	36,065	-	-	36,065
Preferred stock	-	751	-	751	-	714	-	714
Total 28% Trust fair value investments	<u>235,425</u>	<u>215,546</u>	<u>-</u>	<u>450,971</u>	<u>193,578</u>	<u>201,930</u>	<u>-</u>	<u>395,508</u>
<u>12% Trust</u>								
U.S. Treasuries	19,480	-	-	19,480	17,920	-	-	17,920
U.S. Agencies								
Federal Farm Credit Bank	-	-	-	-	-	475	-	475
Federal Home Loan Mortgage Corp	-	17,372	-	17,372	-	16,299	-	16,299
Federal National Mortgage Assn	-	11,405	-	11,405	-	11,204	-	11,204
Government National Mortgage Assn	-	1,468	-	1,468	-	2,585	-	2,585
Small Business Administration	-	1,993	-	1,993	-	2,066	-	2,066
Municipal bonds – Texas	-	551	-	551	-	470	-	470
Municipal bonds – other states	-	3,447	-	3,447	-	2,439	-	2,439
Corporate bonds	-	45,717	-	45,717	-	40,183	-	40,183
Foreign bonds	-	2,150	-	2,150	-	2,315	-	2,315
Total 12% Trust fair value fixed-income income portfolio	<u>19,480</u>	<u>84,103</u>	<u>-</u>	<u>103,583</u>	<u>17,920</u>	<u>78,036</u>	<u>-</u>	<u>95,956</u>
Equity securities								
Common stock	45,445	-	-	45,445	36,263	-	-	36,263
Real estate investment trusts	16,261	-	-	16,261	12,737	-	-	12,737
Total 12% Trust fair value investments	<u>81,186</u>	<u>84,103</u>	<u>-</u>	<u>165,289</u>	<u>66,920</u>	<u>78,036</u>	<u>-</u>	<u>144,956</u>
Total Trusts fair value investments	<u>316,611</u>	<u>299,649</u>	<u>-</u>	<u>616,260</u>	<u>260,498</u>	<u>279,966</u>	<u>-</u>	<u>540,464</u>
Total fair value investments	<u>\$ 344,600</u>	<u>\$ 940,714</u>	<u>\$ -</u>	<u>\$ 1,285,314</u>	<u>\$ 288,072</u>	<u>\$ 913,334</u>	<u>\$ -</u>	<u>\$ 1,201,406</u>
<u>January 31, 2020</u>								
<u>January 31, 2019</u>								
Assets								
Financial Instruments								
Current fuel hedges	\$ 947	\$ 153	\$ -	\$ 1,100	\$ 805	\$ 657	\$ -	\$ 1,462
Noncurrent fuel hedges	746	1,461	-	2,207	868	654	-	1,522
Total financial instruments - Assets	<u>\$ 1,693</u>	<u>\$ 1,614</u>	<u>\$ -</u>	<u>\$ 3,307</u>	<u>\$ 1,673</u>	<u>\$ 1,311</u>	<u>\$ -</u>	<u>\$ 2,984</u>
Liabilities								
Financial Instruments								
Current fuel hedges	\$ (22,432)	\$ (3,111)	\$ -	\$ (25,543)	\$ (1,032)	\$ (331)	\$ -	\$ (1,363)
Noncurrent fuel hedges	(8,492)	(1,353)	-	(9,845)	(2,679)	(506)	-	(3,185)
Total financial instruments - (Liabilities)	<u>\$ (30,924)</u>	<u>\$ (4,464)</u>	<u>\$ -</u>	<u>\$ (35,388)</u>	<u>\$ (3,711)</u>	<u>\$ (837)</u>	<u>\$ -</u>	<u>\$ (4,548)</u>
Total financial instruments	<u>\$ (29,231)</u>	<u>\$ (2,850)</u>	<u>\$ -</u>	<u>\$ (32,081)</u>	<u>\$ (2,038)</u>	<u>\$ 474</u>	<u>\$ -</u>	<u>\$ (1,564)</u>

Fiduciary Funds' Fair Value

The Plans' fair value measurements are performed on a recurring basis. The following table presents fair value balances and their levels within the fair value hierarchy for CPS Energy's Employee Benefit Plans as of December 31, 2019 and 2018. The Plans' investment balances presented exclude amounts related to cash collateral related to securities lending.

Fair Value Measurements as of December 31, 2019 and 2018 (In thousands)

	December 31, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Pension Plan								
U.S. Government securities	\$ -	\$ 93,457	\$ -	\$ 93,457	\$ -	\$ 101,393	\$ -	\$ 101,393
Corporate bonds	-	186,609	-	186,609	-	151,734	-	151,734
Global bond funds	-	67,073	-	67,073	-	60,848	-	60,848
Domestic equities	88,009	607,714	-	695,723	88,381	454,356	-	542,737
Low-volatility equities	-	75,351	-	75,351	-	61,980	-	61,980
International equities	116,425	-	-	116,425	79,030	-	-	79,030
Specialized funds	22,342	-	-	22,342	19,704	-	-	19,704
Alternative investments	-	11,728	-	11,728	-	11,386	220	11,606
Real estate - direct	-	-	-	-	-	-	47,125	47,125
Investment in partnership	-	-	54,000	54,000	-	-	67,769	67,769
Total Pension Plan investments by fair value level	226,776	1,041,932	54,000	1,322,708	187,115	841,697	115,114	1,143,926
Investments measured at net asset value (NAV):								
Senior loan fund				69,991				64,746
Low-volatility equity fund				72,026				59,327
International equities fund				72,587				54,297
Master limited partnership fund				107,022				95,255
Alternative investments - multi-strategy hedge fund				37,517				34,331
Real estate funds - open end				85,822				82,006
Total investments measured at NAV				444,965				389,962
Total Pension Plan fair value investments				1,767,673				1,533,888
Health Plan								
U.S. Government securities	-	18,785	-	18,785	-	22,453	-	22,453
Corporate bonds	9,935	20,500	-	30,435	8,653	16,376	-	25,029
Global bond fund	-	12,403	-	12,403	-	11,252	-	11,252
Domestic equities	78,573	39,162	-	117,735	57,483	29,790	-	87,273
Low volatility equities	-	24,118	-	24,118	-	19,864	-	19,864
International equities	11,073	-	-	11,073	8,786	-	-	8,786
Specialized funds	2,848	-	-	2,848	2,646	-	-	2,646
Alternative investments - funds	-	3,167	-	3,167	-	3,075	-	3,075
Real estate - direct	-	-	-	-	-	-	7,875	7,875
Total Health Plan investments by fair value level	102,429	118,135	-	220,564	77,568	102,810	7,875	188,253
Investments measured at NAV:								
Senior loan fund				12,383				11,455
International equities fund				18,660				14,990
Master limited partnerships				18,608				16,563
Alternative investments - multi-strategy hedge fund				8,321				7,614
Real estate fund - open end				7,040				6,695
Total investments measured at NAV				65,012				57,317
Total Health Plan fair value investments				285,576				245,570
Life Plan								
U.S. Government securities	-	4,413	-	4,413	-	4,817	-	4,817
Corporate bonds	1,877	4,013	-	5,890	1,634	3,332	-	4,966
Global bond fund	-	2,169	-	2,169	-	2,078	-	2,078
Senior loan fund	2,136	-	-	2,136	2,104	-	-	2,104
Domestic equities	14,253	5,970	-	20,223	11,918	4,721	-	16,639
Low volatility equities	-	4,044	-	4,044	-	3,721	-	3,721
International equities	2,039	-	-	2,039	1,615	-	-	1,615
Specialized funds	1,273	-	-	1,273	1,412	-	-	1,412
Alternative investments	-	1,302	-	1,302	-	1,264	-	1,264
Total Life Plan investments by fair value level	21,578	21,911	-	43,489	18,683	19,933	-	38,616
Investments measured at NAV:								
International equities fund				3,159				2,538
Master limited partnerships				3,471				3,089
Real estate fund - open end				2,773				2,638
Total investments measured at NAV				9,403				8,265
Total Life Plan fair value investments				52,892				46,881
Disability Plan								
U.S. Government securities	-	345	-	345	-	555	-	555
Corporate bonds	408	193	-	601	356	135	-	491
Global bond fund	-	224	-	224	-	203	-	203
Senior loan fund	215	-	-	215	200	-	-	200
Domestic equities	2,402	-	-	2,402	1,822	-	-	1,822
Low volatility equities	482	-	-	482	409	-	-	409
International equities	594	-	-	594	473	-	-	473
Specialized funds	361	-	-	361	319	-	-	319
Total Disability Plan investments by fair value level	4,462	762	-	5,224	3,579	893	-	4,472
Investments measured at NAV:								
Master limited partnerships				362				322
Real estate fund - open end				283				269
Total investments measured at NAV				645				591
Total Disability Plan fair value investments				5,869				5,063
Total investments at fair value for the Plans	\$ 355,245	\$ 1,182,740	\$ 54,000	\$ 2,112,010	\$ 286,945	\$ 965,333	\$ 122,989	\$ 1,831,402

CPS Energy FY2020 Basic Financial Statements

The following table summarizes changes in the Plan's Level 3 assets as of December 31, 2019 and 2018.

(In thousands)

	Level 3 Assets					Total
	Pension			Health		
	Real Estate Direct	Investment in Partnership	Alternative Investments	Domestic Equities	Real Estate	
Balance at December 31, 2017	\$ 42,325	\$ 71,101	\$ 4,285	\$ 72	\$ 7,875	\$ 125,658
Net realized and unrealized gains/(losses)	4,800	(4,301)	(2,059)	(72)	-	(1,632)
Dispositions/distribution	-	969	(2,006)	-	-	(1,037)
Balance at December 31, 2018	47,125	67,769	220	-	7,875	122,989
Net realized and unrealized gains/(losses)	(4,111)	(13,157)	(68)	-	(215)	(17,551)
Dispositions/distribution	(43,014)	(500)	(152)	-	(7,660)	(51,326)
Investments / contributions	-	(112)	-	-	-	(112)
Balance at December 31, 2019	\$ -	\$ 54,000	\$ -	\$ -	\$ -	\$ 54,000

The following table shows quantitative information about unobservable inputs related to the Level 3 fair value measurements used to derive values at December 31, 2019 and 2018. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurements respectively.

(Dollars in thousands)

December 31, 2019				
Type - Pension Plan	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Investment in partnership	\$ 54,000	Income Approach - Discounted Cash Flow	Discount Rate Terminal Capitalization Rate	9.75% 8.25%
Total Pension Plan	54,000			
Total Plans	\$ 54,000			
December 31, 2018				
Type - Pension Plan	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Real estate direct	\$ 47,125	Income Approach - Discounted Cash Flow	Discount Rate Terminal Capitalization Rate	8.33% 7.33%
Investment in partnership	67,769	Income Approach - Discounted Cash Flow	Discount Rate Terminal Capitalization Rate	8.00% 7.25%
Alternative investments	220			
Total Pension Plan	115,114			
Type - Health Plan	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Real estate direct	7,875	Income Approach - Discounted Cash Flow	Discount Rate Terminal Capitalization Rate	8.50% 7.50%
Total Health Plan	7,875			
Total Plans	\$ 122,989			

Certain assets are valued at NAV of units held. The NAV is used as a practical expedient to estimate fair value. The following table reflects key valuation information on investments measured at the NAV:

Investments Measured at the Net Asset Value at December 31, 2019

(In thousands)

<u>Type – Pension Plan</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if currently eligible)</u>	<u>Redemption Notice Period</u>
Senior loan fund	\$ 69,991	\$ -	Monthly	20 days
Low-volatility equity fund	72,026	-	Daily/Monthly	30 days
International equities fund	72,587	-	Monthly	30 days
Master limited partnerships	107,022	-	Monthly	30 days
Multi-strategy hedge fund	37,517	-	Quarterly	90 days
Real estate fund - open end	85,822	17,600	Quarterly	30–60 days
Total Pension Plan	444,965	17,600		
<u>Type – Health Plan</u>				
Senior loan fund	12,383	-	Monthly	20 days
International equities fund	18,660	-	Monthly	30 days
Master limited partnerships	18,608	-	Monthly	30 days
Multi-strategy hedge fund	8,321	-	Quarterly	90 days
Real estate fund - open end	7,040	4,400	Quarterly	45 days
Total Health Plan	65,012	4,400		
<u>Type – Life Plan</u>				
International equities fund	3,159	-	Monthly	30 days
Master limited partnerships	3,471	-	Monthly	30 days
Real estate fund – open end	2,773	-	Quarterly	45 days
Total Life Plan	9,403	-		
<u>Type – Disability Plan</u>				
Master limited partnerships	362	-	Monthly	30 days
Real estate fund – open end	283	-	Quarterly	45 days
Total Disability Plan	645	-		
Total Plans	\$ 520,025	\$ 22,000		

Investments Measured at the Net Asset Value at December 31, 2018

(In thousands)

Type – Pension Plan	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Senior loan fund	\$ 64,746	\$ -	Monthly	20 days
Low-volatility equity fund	59,327	-	Daily/Monthly	30 days
International equities fund	54,297	-	Monthly	30 days
Master limited partnerships	95,255	-	Monthly	30 days
Multi-strategy hedge fund	34,331	-	Quarterly	90 days
Real estate fund - open end	82,006	-	Quarterly	30–60 days
Total Pension Plan	389,962	-		
Type – Health Plan				
Senior loan fund	11,455	-	Monthly	20 days
International equities fund	14,990	-	Monthly	30 days
Master limited partnerships	16,563	-	Monthly	30 days
Multi-strategy hedge fund	7,614	-	Quarterly	90 days
Real estate fund - open end	6,695	-	Quarterly	45 days
Total Health Plan	57,317	-		
Type – Life Plan				
International equities fund	2,538	-	Monthly	30 days
Master limited partnerships	3,089	-	Monthly	30 days
Real estate fund – open end	2,638	-	Quarterly	45 days
Total Life Plan	8,265	-		
Type – Disability Plan				
Master limited partnerships	322	-	Monthly	30 days
Real estate fund – open end	269	-	Quarterly	45 days
Total Disability Plan	591	-		
Total Plans	\$ 456,135	\$ -		

4. Disaggregation of Current Accounts Receivable and Accounts Payable

Accounts Receivable – Net customer accounts receivable as of January 31, 2020, included \$21.4 million for unbilled revenue receivable and \$177.0 million for billed utility services. Interest and other accounts receivable included \$13.4 million for regulatory-related accounts receivable, \$0.2 million for interest receivable and \$44.8 million for other miscellaneous accounts receivable.

Net customer accounts receivable as of January 31, 2019, included \$20.1 million for unbilled revenue receivable and \$182.5 million for billed utility services. Interest and other accounts receivable included \$17.9 million for regulatory-related accounts receivable, \$0.7 million for interest receivable and \$34.7 million for other miscellaneous accounts receivable.

Accounts Payable – At January 31, 2020, accounts payable and accrued liabilities included \$273.5 million related to standard operating supplier and vendor accounts payable, including fuels payable; \$47.1 million for employee-related accounts payable; \$57.9 million for customer-related accounts payable; \$57.0 million for STP-related accounts payable; and \$74.7 million for other miscellaneous accounts payable and accrued liabilities.

At January 31, 2019, accounts payable and accrued liabilities included \$251.8 million related to standard operating supplier and vendor accounts payable, including fuels payable; \$51.5 million for

employee-related accounts payable; \$53.0 million for customer-related accounts payable; \$34.7 million for STP-related accounts payable; and \$51.1 million for other miscellaneous accounts payable and accrued liabilities.

5. Capital Assets, Net

General Description – CPS Energy’s plant-in-service includes four power stations that are solely owned and operated by the Company. In total, there are 17 generating units at these four power stations, two of which are coal-fired and 15 of which are gas-fired. Excluding STP (nuclear units), the following is a list of power stations and their respective generating units as of January 31, 2020:

<u>Power Station</u>	<u>Generating Units</u>	<u>Type</u>	<u>Power Station</u>	<u>Generating Units</u>	<u>Type</u>
Calaveras	4	Coal (2)/Gas (2)	Leon Creek	4	Gas
Braunig	8	Gas	Rio Nogales	1	Gas

Other notable capital assets in electric and gas plant include supporting coal yard assets, a fleet of railcars, a transmission network for the movement of electric power from the generating stations to substations, electric and gas distribution systems, and metering. Included in general plant are two data centers; the main office complex; the construction and customer service centers; the Villita Assembly Building; and a fleet of automobiles, trucks and work equipment.

Intangible assets consist of easements, software, a tax exemption settlement and other intangible items.

In conjunction with the Rio Nogales plant purchase, CPS Energy entered into a Tax Exemption Settlement Agreement in which CPS Energy agreed to pay \$25.5 million to certain parties to compromise, terminate claims and settle any disputes relating to exemption of ad valorem taxes involving the parties to this agreement. The payment was recorded as an intangible asset that is being amortized over the life of the agreement, which runs through December 2041.

In July 2019, CPS Energy executed a Bill of Sale with the Department of Defense (“DOD”) for \$87.1 million for the electric and gas systems at three JBSA installations: JBSA Randolph, JBSA Lackland and JBSA Lackland Training Annex. In addition to the fixed assets acquired, deferred inflows for the unrealized future recoveries associated with the JBSA agreement were recorded at the time of the purchase which are being amortized over the 50-year Utilities Privatization Contract that covers the JBSA systems.

As part of normal operations, CPS Energy evaluates whether surplus property exists within the capital asset portfolio and whether such property should be sold. On January 13, 2020, CPS Energy completed a transaction to sell excess office property for a sales price of \$14.5 million. Of the sales price, CPS Energy received cash proceeds of \$14.0 million, net of \$0.5 million in closing costs.

Impairments –There were no capital asset impairments identified for FY2020.

In FY2012, CPS Energy announced plans to mothball its J.T. Deely Units 1 and 2 coal-fired power plants in FY2019 instead of the originally projected dates of FY2032 and FY2033, respectively. Therefore, depreciation for these two units was accelerated beginning in FY2013. At the time of the original announcement, to continue operating the units past the announced mothball dates, the Company would have needed to install \$565 million in flue gas desulfurization equipment (commonly referred to as scrubbers) to cut SO₂ emissions in order to be compliant with more stringent environmental regulations that were expected to take effect in the future. In FY2019, a financial and operational efficiency analysis concluded it was not cost-effective to maintain the units even in a mothball status. Based on the analysis,

CPS Energy decided to early retire the units at the end of FY2019 as an impairment due to changes in the duration of use of the units. CPS Energy recorded the impairment loss of \$182.7 million as a special item on the Statements of Revenues, Expenses and Changes in Net Position for the year ended January 31, 2019.

During FY2019, an impairment loss of \$2.2 million was recorded related to the Customer Relationship Management (“CRM”) Project due to permanent stoppage of the second phase of the software development activities. In FY2018, part of the project was identified as impaired and a loss of \$2.5 million was written off. The CRM Project would have enabled scalability within the call center with advancements to the Salesforce software currently being utilized by CPS Energy.

Investment in STP Units 1 and 2 – STP is currently a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by STPNOC, a nonprofit Texas corporation special-purpose entity, which is financed and controlled by the owners. CPS Energy’s 40% interest in STP Units 1 and 2 is included in plant assets. See Note 13 – South Texas Project.

STP Capital Investment
(Dollars In thousands)

	January 31,	
	2020	2019
STP capital assets, net		
Land	\$ 5,701	\$ 5,701
Construction-in-progress	37,112	32,369
Electric and general plant	828,768	847,399
Intangibles	9,879	9,879
Nuclear fuel	136,573	107,240
Total STP capital assets, net	\$ 1,018,033	\$ 1,002,588
Total CPS Energy capital assets, net	\$ 8,500,046	\$ 8,154,670
STP capital investment as a percentage of total CPS Energy capital assets, net	12.0%	12.3%

Capital Asset Rollforward – The following tables provide more detailed information on the activity of CPS Energy’s net capital assets as presented on the Statements of Net Position, including capital asset activity for FY2020 and FY2019:

FY2020 Capital Asset Rollforward
(In thousands)

	February 1, 2019	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	January 31, 2020
Nondepreciable assets					
Land	\$ 104,991	\$ 1,536	\$ 3,278	\$ (5,288)	\$ 104,517
Land easements	107,531	-	(11)	-	107,520
Construction-in-progress	580,984	575,455	(454,849)	464	702,054
Total nondepreciable assets	<u>793,506</u>	<u>576,991</u>	<u>(451,582)</u>	<u>(4,824)</u>	<u>914,091</u>
Depreciable/amortizable assets					
Electric plant	11,077,814	139,682	339,107	(30,527)	11,526,076
Gas plant	1,021,214	11,728	54,342	(57)	1,087,227
General plant	726,142	7,867	24,602	(52,054)	706,557
Intangibles					
Software	259,520	-	33,531	(11,529)	281,522
Other	38,572	-	-	-	38,572
Nuclear fuel	1,001,284	76,575	-	-	1,077,859
Total depreciable/ amortizable assets	<u>14,124,546</u>	<u>235,852</u>	<u>451,582</u>	<u>(94,167)</u>	<u>14,717,813</u>
Accumulated depreciation and amortization					
Electric plant	(5,132,300)	(320,576)	-	44,701	(5,408,175)
Gas plant	(395,345)	(23,443)	-	1,781	(417,007)
General plant	(261,741)	(49,690)	-	41,757	(269,674)
Intangibles					
Software	(72,583)	(26,271)	-	11,528	(87,326)
Other	(7,370)	(1,020)	-	-	(8,390)
Nuclear fuel	(894,043)	(47,243)	-	-	(941,286)
Total accumulated depreciation and amortization	<u>(6,763,382)</u>	<u>(468,243)</u>	<u>-</u>	<u>99,767</u>	<u>(7,131,858)</u>
Capital assets, net	<u>\$ 8,154,670</u>	<u>\$ 344,600</u>	<u>\$ -</u>	<u>\$ 776</u>	<u>\$ 8,500,046</u>

Cash flow information – Cash paid for additions and net removal costs totaled \$630.3 million. This amount includes \$736.3 million in additions to construction-in-progress and electric, gas and general plant, net JBSA gas and electric systems acquisition of \$87.1 million, plus net salvage and removal costs of \$5.5 million, partially offset by \$14.9 million in AFUDC and \$4.0 million in donated assets. Net cash proceeds received from the sale of capital assets totaled \$14.0 million.

Other – Depreciation and amortization expense for the period totaled \$421.0 million, while amortization of nuclear fuel of \$47.2 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

FY2019 Capital Asset Rollforward

(In thousands)

	February 1, 2018	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	January 31, 2019
Nondepreciable assets					
Land	\$ 97,125	\$ 539	\$ 7,330	\$ (3)	\$ 104,991
Land easements	106,217	-	1,314	-	107,531
Construction-in-progress	521,471	522,375	(462,398)	(464)	580,984
Total nondepreciable assets	<u>724,813</u>	<u>522,914</u>	<u>(453,754)</u>	<u>(467)</u>	<u>793,506</u>
Depreciable/amortizable assets					
Electric plant	11,237,458	56,442	319,285	(535,371)	11,077,814
Gas plant	970,146	11,379	39,715	(26)	1,021,214
General plant	736,605	3,832	38,063	(52,358)	726,142
Intangibles					
Software	209,730	-	56,691	(6,901)	259,520
Other	38,548	24	-	-	38,572
Nuclear fuel	972,268	29,016	-	-	1,001,284
Total depreciable/ amortizable assets	<u>14,164,755</u>	<u>100,693</u>	<u>453,754</u>	<u>(594,656)</u>	<u>14,124,546</u>
Accumulated depreciation and amortization					
Electric plant	(5,158,148)	(340,363)	-	366,211	(5,132,300)
Gas plant	(374,646)	(22,280)	-	1,581	(395,345)
General plant	(255,629)	(56,154)	-	50,042	(261,741)
Intangibles					
Software	(54,073)	(25,411)	-	6,901	(72,583)
Other	(6,351)	(1,019)	-	-	(7,370)
Nuclear fuel	(850,365)	(43,678)	-	-	(894,043)
Total accumulated depreciation and amortization	<u>(6,699,212)</u>	<u>(488,905)</u>	<u>-</u>	<u>424,735</u>	<u>(6,763,382)</u>
Capital assets, net	<u>\$ 8,190,356</u>	<u>\$ 134,702</u>	<u>\$ -</u>	<u>\$ (170,388)</u>	<u>\$ 8,154,670</u>

Cash flow information – Cash paid for additions and net removal costs totaled \$585.8 million. This amount includes \$594.6 million in additions to construction-in-progress and electric, gas and general plant, plus net salvage and removal costs of \$9.6 million, partially offset by \$12.8 million in AFUDC and \$5.2 million in donated assets.

Other – Depreciation and amortization expense for the period totaled \$445.2 million, while amortization of nuclear fuel of \$43.7 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

6. Revenue Bond and Commercial Paper Ordinances Requirements

Senior Lien – As of January 31, 2020, the bond ordinances for New Series Bonds contained, among others, the following provisions:

Revenue deposited in CPS Energy's General Account shall be pledged and appropriated to be used in the following priority for:

- Maintenance and operating expenses of the Systems;
- Payment of the New Series Bonds;
- Payment of prior lien bonds, including junior lien obligations;
- Payment of the notes and the credit agreement (as defined in the ordinance authorizing commercial paper);

- Payment of any inferior lien obligations issued, which are inferior in lien to the New Series Bonds, the prior lien bonds and the notes and credit agreement;
- An annual amount equal to 6% of the gross revenues of the Systems to be deposited in the Repair and Replacement Account;
- Cash payments and benefits to the General Fund of the City not to exceed 14% of the gross revenues of the Systems; and
- Any remaining net revenues of the Systems in the General Account to the Repair and Replacement Account, which is used to partially fund construction costs.

The maximum amount in cash to be transferred or credited to the City's General Fund from the net revenues of the Systems during any fiscal year shall not exceed 14% of the gross revenues of the Systems, less the value of gas and electric services of the Systems used by the City for municipal purposes and the amounts expended during the fiscal year for additions to the street lighting system and other authorized exclusions. The percentage of gross revenues of the Systems to be paid over, or credited to, the City's General Fund each fiscal year shall be determined (within the 14% limitation) by the governing body of the City.

The net revenues of the Systems are pledged to the payment of principal and interest on the New Series Bonds, which are classified as senior lien obligations. All New Series Bonds and the interest thereon shall have a first lien upon the net revenues of the Systems.

Junior Lien – The Series Bonds are composed of two categories of debt: fixed-interest-rate and variable-interest-rate. The junior lien fixed-interest-rate Series Bonds are similar to the senior lien New Series Bonds, as they have fixed and set interest rates for the life of the bonds. The junior lien Variable-Rate Note bonds are variable-interest-rate debt instruments of the City. The junior lien obligations are payable solely from, and equally and ratably secured by, a junior lien on and pledge of the net revenues of the Systems, subject and subordinate to liens and pledges securing the outstanding senior lien obligations and any additional senior lien obligations hereafter issued, and superior to the pledge and lien securing the currently outstanding commercial paper obligations, all as fully set forth in the ordinances authorizing the issuance of the junior lien obligations as noted below:

The City agrees that it will maintain rates and charges for the sale of electric energy, gas or other services furnished, provided and supplied by the Systems to the City and all other consumers, which shall be reasonable and nondiscriminatory, and which will produce income and revenues sufficient to pay:

- All operation and maintenance expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502 of the Texas Government Code, as amended;
- The interest on, and principal of, all senior lien bonds, as defined in the New Series Bond ordinances, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the senior lien bonds;
- The interest on, and principal of, the prior lien bonds, including the junior lien obligations and any additional junior lien obligations hereafter issued (all as defined in the New Series Bond ordinances), as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the junior lien obligations and any additional junior lien obligations;
- To the extent the same are reasonably anticipated to be paid with available revenues (as defined in the ordinance authorizing the commercial paper), the interest on and principal of all notes (as defined in said ordinance), and the credit agreement (as defined in said ordinance); and
- Any inferior lien obligations or any other legal debt or obligation of the Systems as and when the same shall become due.

Commercial Paper – As of January 31, 2020, the commercial paper ordinances contain, among others, the following provisions: authorized capacity of \$700 million, ability to issue tax-exempt or taxable commercial paper, ability to issue multiple series notes and final maturity on April 11, 2049.

To secure the payment of commercial paper principal and interest, a pledge is made of:

- Proceeds from
 - The sale of bonds and additional notes issued for such purposes, and
 - The sale of Project Notes;
- Loans under and pursuant to a revolving credit agreement;
- Amounts held in funds used specifically for payment of commercial paper principal and interest balances and unspent proceeds from commercial paper; and
- The net revenues of the Systems, after payment on New Series Bond requirements and prior lien bond obligations.

CPS Energy's outstanding debt agreements specify certain events of default or breach of a financial covenant or failure to make debt service. Such an event would trigger a covenant requiring the City to charge rates sufficient to make debt service payments and satisfy debt service coverage. During the years ended January 31, 2020 and 2019, CPS Energy did not default on any terms of its debt agreements.

7. Revenue Bonds

On November 15, 2018, CPS Energy issued \$218.3 million of New Series 2018 Senior Lien Revenue Refunding Bonds. Bond proceeds, including the \$25.3 million premium associated with the bonds, were used to refund \$99.1 million par value of the New Series 2009D Revenue Refunding Bonds and convert the outstanding \$142.3 million Series 2012A, Series 2012B and Series 2012C Variable-Rate Junior Lien Revenue Refunding Bonds from variable-interest-rate debt to fixed-interest-rate debt. The refunding transaction resulted in net present value debt service savings of \$3.6 million, or 3.6%, of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in FY2020, FY2021, FY2027 and FY2028, is 2.75%.

On December 20, 2018, CPS Energy issued \$130.2 million of New Series 2018A Senior Lien Revenue Refunding Bonds. Proceeds, including the \$20.9 million premium associated with the bonds, were used to refund \$60.0 million and \$90.0 million of the Commercial Paper Notes Series A and Series C, respectively. The true interest cost for this issue, which has maturities in FY2026 through FY2048, is 3.65%.

On December 20, 2018, CPS Energy issued \$134.9 million of Series 2018 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the \$1.2 million premium associated with the bonds, were used to refund \$135.0 million of the Commercial Paper Series C. Reflecting stepped interest rate provisions applicable to the bonds, the true interest cost for this issue, which has maturities in FY2043 through FY2048, is 6.53%. The bonds were issued as multi-modal variable-rate instruments with initial term rates of 2.75% and a stepped rate of 8.0%, which is only applicable if the bonds are not remarketed before their expiration date.

On January 24, 2019, \$52.5 million of New Series 2015 Senior Lien Revenue Refunding Bonds and \$25.1 million of New Series 2016 Senior Lien Revenue Refunding Bonds were legally defeased with cash. Under the defeasance, the debt obligations were technically voided, as the cash was escrowed with a third party to service the debt. As a result, \$3.1 million was recorded as cost of defeasance representing the additional cash put into escrow for the interest that would have been incurred between FY2020 through FY2022.

On September 25, 2019, CPS Energy issued \$114.7 million of New Series 2019 Senior Lien Revenue Refunding Bonds. Bond proceeds, including the \$22.8 million premium associated with the bonds, were used to refund \$116.8 million par value of the New Series 2012 Revenue Bonds. The refunding transaction resulted in net present value debt service savings of \$3.1 million, or 2.7%, of the par amount of the bonds being refunded. The true interest cost for this issue, which has maturities in FY2026 through FY2030, is 1.5%.

On November 21, 2019, CPS Energy issued \$252.6 million of Series 2019 Junior Lien Revenue Refunding Bonds. Bond proceeds, including \$52.8 million premium associated with the bonds, were used to partially refund \$100.0 million par value of the 2010A Senior Lien Revenue Bonds (BABs) and \$200.0 million of the 2010B Junior Lien Revenue Bonds (BABs). The refunding transaction resulted in a net present value debt service savings of \$50.1 million, or 16.7%, of the par amount of the bonds being refunded. The true interest cost for this issuance, which has maturities in FY2033 through FY2041, is 2.9%.

On December 2, 2019, CPS Energy remarketed \$124.2 million of Series 2015A Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of \$0.9 million premium, in conjunction with the remarketing, resulted in a principal paydown for the remarketed bonds of approximately \$0.4 million. The bonds have maturities in FY2029 through FY2033. The coupon rate for these bonds is 1.75%, with a current yield of 1.6% and true interest cost of 4.3%, which reflects stepped interest rate provisions applicable to the bonds.

On December 2, 2019, CPS Energy remarketed \$99.7 million of Series 2015C Variable-Rate Junior Lien Revenue Refunding Bonds. The issuance of \$0.7 million premium, in conjunction with the remarketing, resulted in a principal paydown for the remarketed bonds of approximately \$0.3 million. The bonds have maturities in FY2039 through FY2046. The coupon rate for these bonds is 1.75%, with a current yield of 1.6% and true interest cost of 5.2%, which reflects stepped interest rate provisions applicable to the bonds.

On January 28, 2020, CPS Energy issued \$134.6 million of New Series 2020 Senior Lien Revenue Refunding Bonds. Proceeds, including the \$36.4 million premium associated with the bonds, were used to refund \$170.0 million par value of the Commercial Paper Series A. The true interest cost for this issue, which has maturities in FY2026 through FY2049, is 3.1%.

On January 28, 2020, CPS Energy issued \$127.8 million of Series 2020 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds, including the \$3.1 million premium associated with the bonds, were used to refund \$50.0 million and \$80.0 million par value of the Commercial Paper Series A and Commercial Paper Series C, respectively. Reflecting stepped interest rate provisions applicable to the bonds, the true interest cost for this issue, which has maturities in FY2042 through FY2049, is 5.0%. The bonds were issued as multi-modal variable-rate instruments with initial term rates of 1.75% and a stepped rate of 7.0%, which is only applicable if the bonds are not remarketed before their expiration date.

On January 28, 2020, \$108.0 million of New Series 2016 Senior Lien Revenue Refunding Bonds were legally defeased with cash. Under the defeasance, the debt obligations were technically voided, as the cash was escrowed with a third party to service the debt. As a result, \$12.5 million was recorded as cost of defeasance representing the additional cash put into escrow for the interest that would have been incurred in FY2022 through FY2025.

Revenue Bond Summary
(Dollars in thousands)

	Issues	Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2020	January 31,	
				2020	2019
Tax-exempt new series bonds	2012, 2015, 2016, 2017 2018, 2018A, 2019, and 2020	2021-2049	4.0%	\$ 2,550,250	\$ 2,464,500
Taxable new series bonds	2009C ¹ , 2010A ¹ and 2012	2031-2042	4.1%	1,059,225	1,276,000
Total new series bonds			4.0%	<u>3,609,475</u>	<u>3,740,500</u>
Taxable series bonds	2010A ¹	2038-2041	3.8%	300,000	500,000
Tax-exempt variable-rate series bonds	2015A, 2015B, 2015C 2015D, 2018, 2020	2029-2049	2.2%	709,860	582,700
Tax-exempt series bonds	2013, 2014, 2019	2026-2048	4.4%	827,640	656,205
Total series bonds			4.3%	<u>1,837,500</u>	<u>1,738,905</u>
Total long-term revenue bonds outstanding				5,446,975	5,479,405
Less: Current maturities of bonds				<u>161,160</u>	<u>136,720</u>
Total revenue bonds outstanding, net of current maturities				<u>\$ 5,285,815</u>	<u>\$ 5,342,685</u>

¹Direct Subsidy Build America Bonds

Build America Bonds Direct Subsidy – The ARRA of 2009 provided authority for the issuance of BABs, which were issuable in calendar years 2009 and 2010 as taxable bonds. The ARRA permitted the issuer or the issuer’s paying agent to receive a subsidy payment equal to 35% of the bond’s interest directly from the U.S. Department of the Treasury.

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the federal government has reduced the BABs subsidy through sequestration reduction. For the year ended January 31, 2020, after a sequestration reduction totaling \$1.5 million, the total subsidy received for the 2009C and 2010A Senior Lien BABs and the 2010A and 2010B Junior Lien BABs was \$23.3 million. For the year ended January 31, 2019, the total subsidy received for the 2009C and 2010A Senior Lien BABs and the 2010A and 2010B Junior Lien BABs was \$24.5 million, which included a reduction totaling \$1.7 million.

As of January 31, 2020, principal and interest amounts due for all revenue bonds outstanding for each of the next five years and thereafter to maturity are as follows:

(In thousands)

Fiscal Year	Principal	Interest	Direct Subsidy	Total
2021	\$ 161,160	\$ 250,091	\$ (18,404)	\$ 392,847
2022	164,495	247,344	(18,403)	393,436
2023	169,790	245,426	(18,403)	396,813
2024	172,780	243,267	(18,403)	397,644
2025	180,880	236,357	(18,403)	398,834
2026-2030	886,725	1,131,631	(92,594)	1,925,762
2031-2035	1,063,488	901,856	(94,805)	1,870,539
2036-2040	1,360,311	597,990	(55,542)	1,902,759
2041-2045	920,023	251,316	(2,768)	1,168,571
2046-2049	367,323	46,078	-	413,401
Totals	<u>\$ 5,446,975</u>	<u>\$ 4,151,356</u>	<u>\$ (337,725)</u>	<u>\$ 9,260,606</u>

The previous table includes senior lien and junior lien bonds. Interest on the senior lien bonds and the junior lien fixed-rate bonds is based upon the stated coupon rates of each series of bonds outstanding. The direct subsidy associated with the BABs has been presented in a separate column and includes the impact of sequestration. CPS Energy has taken the position that the BABs direct subsidy should be deducted when calculating total debt service since the subsidy is received directly by the trustee to be used solely for BABs debt service payments.

The Series 2015A and Series 2015B Junior Lien Bonds were issued as multi-modal variable-rate bonds. The Series 2015A Junior Lien Bonds were remarketed in FY2020 and utilize an interest rate of 1.75% through their term rate period's expiration in FY2025. A stepped rate of 7.0% is assumed in the previous table for this series thereafter through applicable final maturity. The Series 2015B Junior Lien Bonds were remarketed in FY2018 and utilize an interest rate of 2.0% through their term rate period's expiration in FY2022. A stepped rate of 7.0% is assumed in the previous table for this series thereafter through applicable final maturity.

The Series 2015C and Series 2015D Junior Lien Bonds were issued as multi-modal variable-rate bonds. The Series 2015C Junior Lien Bonds were remarketed in FY2020 and utilize an interest rate of 1.75% through their term rate period's expiration in FY2025. A stepped rate of 7.0% is assumed in the previous table for this series thereafter through applicable final maturity. The Series 2015D Junior Lien Bonds were initially issued in a term rate mode as variable-rate bonds that utilize an interest rate of 3.0% through their term rate period's expiration in FY2021. A stepped rate of 8.0% is assumed in the previous table for each series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

The Series 2018 Junior Lien Bonds were issued as multi-modal variable-rate bonds that utilize an interest rate of 2.75% through their term rate period's expiration in FY2023. A stepped rate of 8.0% is assumed in the previous table for each series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

The Series 2020 Junior Lien Bonds were issued as multi-modal variable-rate bonds that utilize an interest rate of 1.75% through their term rate period's expiration in FY2026. A stepped rate of 7.0% is assumed in the previous table for each series thereafter through applicable final maturity. The stepped rate is applicable only if the bonds are not remarketed by their respective expiration date.

Pursuant to guidance provided in GASB Statement No. 65, debt reacquisition costs meet neither the definition of an asset nor a liability and are therefore required to be classified as deferred outflows or inflows of resources on the Statements of Net Position. The debt refundings that occurred in FY2020 and FY2019 resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$29.5 million and \$(6.0) million, respectively. Debt reacquisition costs reported as deferred outflows of resources totaled \$61.4 million at January 31, 2020, and \$62.2 million at January 31, 2019. These amounts are amortized as components of interest expense using the effective interest method over the shorter of the remaining life of the refunding or the refunded debt.

CPS Energy, as a rate-regulated entity and in accordance with guidance found in GASB Statement No. 62, establishes regulatory assets for debt issuance costs that would otherwise be required to be expensed in accordance with GASB Statement No. 65. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt. Debt issuance costs, which are reported within other noncurrent assets on the Statements of Net Position, totaled \$37.8 million at January 31, 2020, and \$35.5 million at January 31, 2019.

CPS Energy FY2020 Basic Financial Statements

FY2020 Long-Term Debt Activity
(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding 2-1-19	Additions During Year	Decreases During Year	Balance Outstanding 1-31-20
Revenue and refunding bonds							
2009C taxable	\$ 375,000	2039	3.944	\$ 375,000	\$ -	\$ -	\$ 375,000
2010A taxable	380,000	2041	3.834	380,000	-	(100,000)	280,000
2010A taxable – Junior Lien	300,000	2041	3.806	300,000	-	-	300,000
2010B taxable – Junior Lien	200,000	2037	4.101	200,000	-	(200,000)	-
2012 taxable	521,000	2042	4.382	521,000	-	(116,775)	404,225
2012 tax-exempt	655,370	2025	2.552	655,370	-	-	655,370
2013 tax-exempt – Junior Lien	375,000	2048	4.753	375,000	-	-	375,000
2014 tax-exempt – Junior Lien	200,000	2044	4.142	200,000	-	-	200,000
2014 tax-exempt – Junior Lien	262,530	2020	1.220	81,205	-	(81,205)	-
2015A tax-exempt – Junior Lien	125,000	2033	Variable	124,555	124,205	(124,555)	124,205
2015B tax-exempt – Junior Lien	125,000	2033	Variable	123,275	-	-	123,275
2015 tax-exempt	320,530	2032	2.992	237,700	-	-	237,700
2015 tax-exempt	235,000	2039	3.476	235,000	-	-	235,000
2015C tax-exempt – Junior Lien	100,000	2046	Variable	100,000	99,740	(100,000)	99,740
2015D tax-exempt – Junior Lien	100,000	2046	Variable	100,000	-	-	100,000
2016 tax-exempt	544,260	2034	2.144	519,140	-	(108,000)	411,140
2017 tax-exempt	40,685	2021	1.126	6,485	-	(6,365)	120
2017 tax-exempt	267,320	2047	3.804	267,320	-	-	267,320
2017 tax-exempt	194,980	2047	3.619	194,980	-	-	194,980
2018 tax-exempt	218,285	2028	2.745	218,285	-	(49,150)	169,135
2018A tax-exempt	130,220	2048	3.654	130,220	-	-	130,220
2018 tax-exempt – Junior Lien	134,870	2048	Variable	134,870	-	-	134,870
2019 tax-exempt	114,685	2030	1.462	-	114,685	-	114,685
2019 tax-exempt – Junior Lien	252,640	2041	2.885	-	252,640	-	252,640
2020 tax-exempt	134,580	2049	3.132	-	134,580	-	134,580
2020 tax-exempt – Junior Lien	127,770	2049	Variable	-	127,770	-	127,770
Bonds outstanding				5,479,405	853,620	(886,050)	5,446,975
Current maturities				(136,720)	(24,440)	-	(161,160)
(Discount) premium				347,612	116,797	(68,384)	396,025
Revenue bonds, net				5,690,297	945,977	(954,434)	5,681,840
Commercial paper, tax-exempt			Variable	205,000	320,000	(430,000)	95,000
Long-term debt, net				<u>\$ 5,895,297</u>	<u>\$ 1,265,977</u>	<u>\$ (1,384,434)</u>	<u>\$ 5,776,840</u>

FY2019 Long-Term Debt Activity
(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding 2-1-18	Additions During Year	Decreases During Year	Balance Outstanding 1-31-19
Revenue and refunding bonds							
2009A tax-exempt	\$ 442,005	2034	4.863	\$ 16,120	\$ -	\$ (16,120)	\$ -
2009C taxable	375,000	2039	3.944	375,000	-	-	375,000
2009D tax-exempt	207,940	2021	3.720	147,450	-	(147,450)	-
2010A taxable	380,000	2041	3.834	380,000	-	-	380,000
2010A taxable – Junior Lien	300,000	2041	3.806	300,000	-	-	300,000
2010B taxable – Junior Lien	200,000	2037	4.101	200,000	-	-	200,000
2012 taxable	521,000	2042	4.382	521,000	-	-	521,000
2012 tax-exempt	655,370	2025	2.552	655,370	-	-	655,370
2012A tax-exempt – Junior Lien	48,170	2027	Variable	47,135	-	(47,135)	-
2012B tax-exempt – Junior Lien	47,815	2027	Variable	47,650	-	(47,650)	-
2012C tax-exempt – Junior Lien	47,660	2027	Variable	47,500	-	(47,500)	-
2013 tax-exempt – Junior Lien	375,000	2048	4.753	375,000	-	-	375,000
2014 tax-exempt – Junior Lien	200,000	2044	4.142	200,000	-	-	200,000
2014 tax-exempt – Junior Lien	262,530	2020	1.220	158,545	-	(77,340)	81,205
2015A tax-exempt – Junior Lien	125,000	2033	Variable	124,555	-	-	124,555
2015B tax-exempt – Junior Lien	125,000	2033	Variable	123,275	-	-	123,275
2015 tax-exempt	320,530	2032	2.992	306,080	-	(68,380)	237,700
2015 tax-exempt	235,000	2039	3.476	235,000	-	-	235,000
2015C tax-exempt – Junior Lien	100,000	2046	Variable	100,000	-	-	100,000
2015D tax-exempt – Junior Lien	100,000	2046	Variable	100,000	-	-	100,000
2016 tax-exempt	544,260	2034	2.144	544,260	-	(25,120)	519,140
2017 tax-exempt	40,685	2047	1.126	18,735	-	(12,250)	6,485
2017 tax-exempt	267,320	2047	3.804	267,320	-	-	267,320
2017 tax-exempt	194,980	2047	3.619	194,980	-	-	194,980
2018 tax-exempt	218,285	2028	2.745	-	218,285	-	218,285
2018A tax-exempt	130,220	2048	3.654	-	130,220	-	130,220
2018 tax-exempt – Junior Lien	134,870	2048	Variable	-	134,870	-	134,870
Bonds outstanding				5,484,975	483,375	(488,945)	5,479,405
Current maturities				(169,895)	-	33,175	(136,720)
(Discount) premium				358,688	47,350	(58,426)	347,612
Revenue bonds, net				5,673,768	530,725	(514,196)	5,690,297
Commercial paper, tax-exempt			Variable	160,000	330,000	(285,000)	205,000
Long-term debt, net				\$ 5,833,768	\$ 860,725	\$ (799,196)	\$ 5,895,297

8. Commercial Paper and Related Revolving Credit Agreements

In 1988, the San Antonio City Council adopted an ordinance authorizing the issuance of up to \$300 million in tax-exempt commercial paper. The current ordinances allow for the issuance of three separate series of commercial paper to provide funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed \$700 million to the extent of support from liquidity facilities. As of January 31, 2020, there was a total of \$700 million in liquidity support. The ordinances allow for the issuance of taxable, as well as tax-exempt commercial paper. Eligible projects include fuel acquisition, capital improvements to the Systems, and refinancing or refunding any outstanding obligations, which are secured by and payable from a lien and/or a pledge of net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of existing senior lien and junior lien obligations. Scheduled maximum maturities cannot extend beyond April 11, 2049.

The commercial paper has been classified as long-term in accordance with the refinancing terms under three revolving credit agreements with a consortium of banks, which support the commercial paper program. Each revolving credit agreement relates to a particular series of notes and provides liquidity support in the amount specified. The Series A agreement provides \$400 million in liquidity support for the Series A Notes and is effective through June 21, 2023. The Series B agreement provides \$200 million in liquidity support for the Series B Notes and the Series C agreement provides \$100 million in liquidity

support for Series C Notes. The Series B and Series C agreements are both effective through June 21, 2022. Under the terms of these revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed \$700 million for the purpose of paying principal due under the commercial paper program. At January 31, 2020, there was no amount outstanding under the revolving credit agreements. Further, there have been no borrowings under the agreements since inception of the program.

During FY2020, CPS Energy issued a total of \$320.0 million in commercial paper and \$430.0 million was refunded. As of January 31, 2020 and 2019, the outstanding commercial paper balance was \$95.0 million and \$205.0 million, respectively, all of which was tax exempt.

Commercial Paper Summary

(Dollars in thousands)

	January 31,	
	<u>2020</u>	<u>2019</u>
Commercial paper outstanding	\$ 95,000	\$ 205,000
New commercial paper issues	\$ 320,000	\$ 330,000
Weighted-average interest rate of outstanding	1.4%	1.8%
Average life outstanding (number of days)	146	82

9. Employee Pension Plan

Plan Description – The CPS Energy Pension Plan (the “Pension Plan”) is a self-administered, single-employer, defined-benefit contributory pension plan covering substantially all employees who have attained age 21 and completed one year of service. It is sponsored by and may be amended at any time by CPS Energy, acting by and through the Employee Benefits Oversight Committee (“EBOC”), which includes the President & CEO, the Chief Financial Officer, and the Audit & Finance Committee of the Board. Pension Plan assets are segregated from CPS Energy’s assets and are separately managed by the Administrative Committee, whose members are appointed by the EBOC. The Pension Plan reports results on a calendar year basis, and the separately audited financial statements, which contain historical trend information, may be obtained at www.cpsenergy.com or by contacting Benefit Trust Administration at CPS Energy. The Pension Plan’s financial statements include certain disclosures related to CPS Energy’s net pension liability. However, because the financial reporting and pension measurement dates for the Pension Plan and CPS Energy are not aligned, the Pension Plan’s disclosures will vary from information provided by CPS Energy in this footnote and in the accompanying RSI. The Pension Plan, along with the Employee Benefit Plans are included in the fiduciary financial statements.

In addition to the defined-benefit Pension Plan, CPS Energy has two Restoration Plans that were effective as of January 1, 1998, which supplement benefits paid from the Pension Plan due to Internal Revenue Code restrictions on benefit and compensation limits. The benefits due under those Restoration Plans have been paid annually by CPS Energy.

Benefits Provided – Participants become fully vested in the benefits of the Pension Plan upon attainment of age 40 or after completion of seven years of vesting service before age 40. Normal retirement age is 65; however, early retirement is available with 25 years of benefit service, as well as to those employees who are age 55 or older with at least ten years of benefit service. Pension Plan benefits consist of a normal retirement annuity calculated based primarily on length of service and compensation. Benefits are reduced for retirement before age 55 with 25 years or more of benefit service or before age 62 with less than 25 years of service. If early retirement occurs due to disability, the reductions in benefits normally associated with early retirement are modified.

Payments to retirees are adjusted each year by an amount equal to 50% of the change in the Consumer Price Index-U, limited to a maximum adjustment of 5% each year, with no reduction allowed below the retirees' initial benefit levels.

The following table presents information about Pension Plan participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate the net pension liability, as of the measurement dates, for the fiscal years ended January 31, 2020 and 2019, were:

	January 31,	
	<u>2020</u>	<u>2019</u>
Active participants	2,942	2,886
Participants currently receiving benefits	2,427	2,348
Participants entitled to deferred benefits	<u>205</u>	<u>218</u>
Total plan participants	<u>5,574</u>	<u>5,452</u>

Contributions – The current policy of CPS Energy is to use an actuarial valuation as the basis for determining employer contributions to the Pension Plan during the fiscal year beginning thirteen months after the valuation date. The January 1, 2018, valuation is the basis for contributions in FY2020. With recommendations from the Administrative Committee, composed of a cross-functional group of active and retired CPS Energy employees, the Company establishes funding levels, considering annual actuarial valuations. Generally, participating employees contribute 5.0% of their total compensation, commencing with the effective date of participation and continuing until normal or early retirement, completion of 44 years of benefit service, or termination of employment. Participants who leave CPS Energy service before becoming eligible for retirement benefits receive a return of the total amount they contributed to the Pension Plan, plus the vested portion of accumulated interest. Beginning January 1, 2015, through December 31, 2017, the employee contribution interest crediting rate was 5.50%. Beginning January 1, 2018, the employee contribution interest credit rating was 5.25%.

The balance of Pension Plan contributions is the responsibility of CPS Energy, giving consideration to actuarial information, budget controls, legal requirements, compliance, and industry and/or community norms. For FY2020 and FY2019, the amount to be funded was established using a general target near the 30-year funding contribution level as determined by the Pension Plan's actuary using the entry-age normal cost method. In December 2019, an additional contribution of \$20.0 million was made to the Pension Plan that will be included in the next actuarial valuation as of January 1, 2019, which will be reflected in the net pension liability for the fiscal year ended January 31, 2021.

Net Pension Liability – CPS Energy's net pension liability at January 31, 2020 and 2019, was measured as of January 31, 2019 and 2018, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2018 and 2017, rolled forward using generally accepted actuarial procedures to the January 31, 2019 and 2018, measurement dates, respectively.

Changes in Net Pension Liability

(In thousands)

	Fiscal Year Ended January 31,	
	2020	2019
<u>Total pension liability</u>		
Service cost	\$ 37,175	\$ 32,569
Interest cost	137,954	132,861
Changes in assumptions	(10,129)	77,574
Differences between expected and actual experience	(19,385)	6,025
Benefit payments	(96,969)	(93,550)
Net change in total pension liability	48,646	155,479
Total pension liability, beginning of period	1,940,317	1,784,838
Total pension liability, end of period	1,988,963	1,940,317
<u>Plan fiduciary net position</u>		
Employer contributions	(58,700)	(46,200)
Participant contributions	(13,363)	(13,039)
(Earnings) loss on Plan assets	48,316	(246,772)
Benefit payments	96,969	93,550
Administrative expense	391	389
Net change in Plan fiduciary net position	73,613	(212,072)
Plan fiduciary net position, beginning of period	(1,684,448)	(1,472,376)
Plan fiduciary net position, end of period	(1,610,835)	(1,684,448)
Net pension liability, end of period	\$ 378,128	\$ 255,869

CPS Energy recorded \$66.1 million and \$27.1 million in pension expense for the fiscal years ended January 31, 2020 and 2019, respectively.

Actuarial Assumptions – Significant actuarial assumptions used in the January 1, 2018, valuation include a rate of return on the investment of present and future assets of 7.25%, a discount rate on Pension Plan liabilities of 7.25%, annual projected salary increases averaging 5.36% per year and annual post-retirement cost-of-living increases of 1.5%. The projected salary increases include an inflation rate of 2.30%. Mortality rates were based on the RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2017. The actuarial methods and assumptions are the same as those used in the prior year except for the mortality table assumption that was updated to better reflect anticipated future Pension Plan experience.

The actuarial assumptions used in the January 1, 2018 and 2017, valuations for amounts reported in FY2020 and FY2019, respectively, were based on the results of an actuarial experience study completed in 2017 covering experience for the period January 1, 2012, through December 31, 2016.

The long-term expected rate of return on Pension Plan investments was determined based on a blend of historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions, developed on a geometric basis. An economic simulation method was used in which best-estimate ranges of expected future rates of return (expected returns net of Pension Plan investment expense) for each major asset class were combined using simulations that ensure the economic consistency of each individual trial, and then reduced by a factor representing inflation to

produce long-term expected real rates of return for each major asset class. The assumed allocation and expected real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Expected Real Rate of Return
Equities	52.5%	5.5%
Debt securities	25.5%	3.5%
Alternative investments	22.0%	5.2%
Total investments	100.0%	

Discount Rate – The discount rate used to measure the total pension liability for FY2020 and FY2019 was 7.25%. The projection of cash flows used to determine the discount rates assumed that future employee contributions will be made at the current contribution rate and that future CPS Energy contributions will be made in a manner consistent with the current contribution practices. Based on those assumptions, the Pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the sensitivity of net pension liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total pension liability:

Discount Rate Sensitivity
(In thousands)

Discount rate	Net Pension Liability at January 31,	
	2020	2019
1% decrease - 6.25%	\$ 629,018	\$ 496,332
Current discount rate - 7.25%	378,128	255,869
1% increase - 8.25%	169,246	52,973

Pension Plan Fiduciary Net Position – The financial results of the Pension Plan are included, in combination with the Employee Benefit Plans, in the Statements of Fiduciary Net Position. Detailed information about the Pension Plan’s fiduciary net position is available in the separately issued Pension Plan financial statements. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position for the Pension Plan and additions to/deductions from the Pension Plan’s fiduciary net position have been determined on the same basis as they are reported by the Pension Plan. Investments are stated at fair value. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the terms of the Pension Plan.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension – The following table presents information about the pension-related deferred outflows of resources and deferred inflows of resources for CPS Energy at January 31, 2020 and 2019:

(In thousands)	January 31,	
	<u>2020</u>	<u>2019</u>
<u>Deferred outflows of resources</u>		
Differences between projected and actual earnings on pension assets	\$ 39,624	\$ -
Changes in assumptions	66,352	82,905
Differences between expected and actual experience in the measurement of total pension liability	12,743	20,010
Employer’s contributions to the Plan subsequent to the measurement of total pension liability	<u>73,435</u>	<u>58,700</u>
Total deferred outflows of resources	<u>\$ 192,154</u>	<u>\$ 161,615</u>
<u>Deferred inflows of resources</u>		
Differences between projected and actual earnings on pension assets	\$ -	\$ (112,229)
Changes in assumptions	(8,394)	-
Differences between expected and actual experience in the measurement of total pension liability	<u>(40,389)</u>	<u>(35,566)</u>
Total deferred inflows of resources	<u>\$ (48,783)</u>	<u>\$ (147,795)</u>

The following table presents the future amortization of pension-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer’s contribution to the Pension Plan in the current fiscal year and subsequent to the net pension liability measurement date. The deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the net pension liability in the subsequent fiscal year.

Amortization of Pension-Related Deferred Outflows/Inflows of Resources

(In thousands)

Year ended January 31,	
2021	\$ 19,134
2022	(8,455)
2023	13,419
2024	38,131
2025	<u>7,707</u>
Total	<u>\$ 69,936</u>

10. Other Postemployment Benefits

Plan Descriptions – The Company provides certain health and welfare benefits for active and retired employees through the CPS Energy Group Health, Group Life Insurance and Long-Term Disability Income Plans (collectively, “Employee Benefit Plans”). CPS Energy employees and their dependents may elect to participate in the plans and most employees continue eligibility upon retirement from the Company. Disclosures included in this footnote are limited to information related only to those benefits provided on a postemployment basis. Assets of the postemployment benefit plans are held in three separate, single-employer contributory plans:

- CPS Energy Group Health Plan (“Health Plan”) – a defined-benefit contributory group health plan that provides health, dental and vision insurance benefits;
- CPS Energy Group Life Insurance Plan (“Life Plan”) – a defined-benefit contributory plan that provides life insurance benefits; and
- CPS Energy Long-Term Disability Income Plan (“Disability Plan”) – a defined-benefit contributory plan that provides disability income benefits.

The Employee Benefit Plans may be amended at any time by CPS Energy, acting by and through the EBOC, which includes the President & CEO, the Chief Financial Officer, and the Audit & Finance Committee of the Board.

The Employee Benefit Plans’ assets are segregated from CPS Energy’s assets and are separately managed by an Administrative Committee whose members are appointed by the EBOC. The Employee Benefit Plans report results on a calendar year basis and issue separately audited financial statements that may be obtained by contacting Benefit Trust Administration at CPS Energy. The Employee Benefit Plans’ financial statements include certain disclosures related to CPS Energy’s net OPEB (asset) liability. However, because the financial reporting and OPEB measurement dates for the Employee Benefit Plans and CPS Energy are not aligned, the Employee Benefit Plans’ disclosures will vary from information provided by CPS Energy in this footnote and in the accompanying RSI. The Employee Benefit Plans along with the Pension Plan are included in the fiduciary financial statements.

Benefits Provided – The Health Plan provides health, dental and vision benefits to eligible retirees, including their enrolled dependents, and the spouse and dependent children of deceased employees. The Life Plan provides life insurance benefits and death benefits to eligible retired employees and enrolled dependents. The Disability Plan provides disability income benefits to employees as of an employee’s date of hire; however, benefits under the Plan are reduced if the employee is receiving certain other disability, retirement or welfare benefits.

The following tables present information about the Employee Benefit Plans’ participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate the net OPEB liability, as of the measurement dates, for the fiscal years ended January 31, 2020 and 2019, were:

	<u>January 31, 2020</u>		
	<u>Health</u>	<u>Life</u>	<u>Disability</u>
Active participants	2,942	2,942	3,065
Non-active participants	<u>1,985</u>	<u>2,325</u>	<u>68</u>
Total plan participants	<u><u>4,927</u></u>	<u><u>5,267</u></u>	<u><u>3,133</u></u>
	<u>January 31, 2019</u>		
	<u>Health</u>	<u>Life</u>	<u>Disability</u>
Active participants	2,886	2,886	2,992
Non-active participants	<u>1,926</u>	<u>2,268</u>	<u>69</u>
Total plan participants	<u><u>4,812</u></u>	<u><u>5,154</u></u>	<u><u>3,061</u></u>

Contributions – The funding requirements for both the Plans participants and the employer are established by and may be amended by CPS Energy. Funding is based on projected pay-as-you-go

financing requirements, with an additional amount to prefund benefits as determined annually by the Company. The current policy of CPS Energy is to use each actuarial valuation as the basis for determining monthly employer contributions to the Employee Benefit Plans during the fiscal year beginning thirteen months after the valuation date. The January 1, 2018, valuation was the basis for contributions in FY2020.

Retired employees contribute to the Health Plan in varying amounts depending upon an equity formula that considers age and years of service. Individuals who retired before February 1, 1993, contribute a base rate plus 2.25% of the difference between that amount and the aggregate rate for each year that the sum of age and service is less than 95. Those who retired on or after February 1, 1993, contribute a base rate plus a percentage of the CPS Energy contribution, based on the number of years of service, if they retired with less than 35 years.

Based on the funded status of the Health Plan, the Company made no contributions in FY2020 and FY2019.

The Medicare Prescription Drug Improvement and Modernization Act of 2003, known as Medicare Part D, established prescription drug coverage for Medicare beneficiaries. One of the provisions of Medicare Part D entitled the Health Plan to receive retiree drug subsidy payments from the federal government to offset pharmacy claims paid by the Health Plan on behalf of certain plan participants. These payments totaled \$0.9 million and \$1.0 million for FY2020 and FY2019, respectively. In accordance with GASB Technical Bulletin 2006-01, *Accounting and Financial Reporting by Employers for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*, future projected payments from the federal government have not been used to lessen total projected obligations under the Company's Health Plan.

Active employees contribute to the Life Plan at a rate of \$0.13 per \$1,000 of insurance per month on amounts in excess of \$20,000. Individuals who retired prior to February 1, 1993, contribute at a rate of \$0.13 per \$1,000 of insurance per month on amounts in excess of \$20,000 plus 2.25% of the difference between that amount and the aggregate rate for retiree coverage for each year the sum of retirement age and service is less than 95. Those who retired on or after February 1, 1993, contribute \$0.13 per \$1,000 of insurance per month on amounts in excess of \$20,000 plus a percentage of the CPS Energy contribution, based on number of years of service, if they retired with less than 35 years. Based on the funded status of the Life Plan, the Company made no contributions in FY2020 and FY2019.

Beginning in FY2015, the Disability Plan has been funded by a combination of employee and employer contributions. Active employee contribution rates are determined by CPS Energy and may be adjusted on an annual basis. The Company's contributions are determined on a discretionary basis and are generally based on actuarial valuation calculations. Retired employees are not eligible to participate and therefore do not contribute to the Disability Plan. Prior to FY2015, the Disability Plan was funded completely by CPS Energy. The Company's average contribution rate was 0.3% of covered-employee payroll in FY2020 and 0.4% of covered-employee payroll in FY2019.

Net OPEB (Asset) Liability – CPS Energy's net OPEB (asset) liability at January 31, 2020 and 2019, was measured as of January 31, 2019 and 2018, respectively. The total OPEB liability used to calculate the net OPEB (asset) liability was determined by actuarial valuations as of January 1, 2018 and 2017, rolled forward using generally accepted actuarial procedures to the January 31, 2019 and 2018, measurement dates, respectively.

FY2020 Changes in Net OPEB (Asset) Liability
(In thousands)

	Health	Life	Disability	Total
Total OPEB liability				
Service cost	\$ 4,466	\$ 473	\$ 620	\$ 5,559
Interest cost	18,032	3,284	475	21,791
Changes in assumptions	(2,190)	594	189	(1,407)
Differences between expected and actual experience	1,763	(936)	(656)	171
Benefit payments	(11,390)	(4,028)	(880)	(16,298)
Net change in total OPEB liability	10,681	(613)	(252)	9,816
Total OPEB liability, beginning of period	253,241	46,800	6,366	306,407
Total OPEB liability, end of period	263,922	46,187	6,114	316,223
Plan fiduciary net position				
Employer contributions	-	-	(1,000)	(1,000)
Participant contributions	-	(1,030)	(274)	(1,304)
Medicare Part D payment	(872)	-	-	(872)
(Earnings) loss on Plan assets	10,571	2,135	205	12,911
Benefit payments	11,390	4,028	880	16,298
Administrative expense	1,223	28	19	1,270
Net change in Plan fiduciary net position	22,312	5,161	(170)	27,303
Plan fiduciary net position, beginning of period	(289,821)	(54,921)	(5,396)	(350,138)
Plan fiduciary net position, end of period	(267,509)	(49,760)	(5,566)	(322,835)
Net OPEB (asset) liability, end of period	\$ (3,587)	\$ (3,573)	\$ 548	\$ (6,612)

FY2019 Changes in Net OPEB (Asset) Liability
(In thousands)

	Health	Life	Disability	Total
Total OPEB liability				
Service cost	\$ 3,376	\$ 349	\$ 516	\$ 4,241
Interest cost	17,182	3,432	473	21,087
Changes in Plan benefits	415	-	-	415
Changes in assumptions	9,657	(457)	94	9,294
Benefit payments	(12,197)	(3,813)	(1,012)	(17,022)
Net change in total OPEB liability	18,433	(489)	71	18,015
Total OPEB liability, beginning of period	234,808	47,289	6,295	288,392
Total OPEB liability, end of period	253,241	46,800	6,366	306,407
Plan fiduciary net position				
Employer contributions	-	-	(1,300)	(1,300)
Participant contributions	-	(1,000)	(265)	(1,265)
Medicare Part D payment	(998)	-	-	(998)
(Earnings) loss on Plan assets	(41,718)	(8,066)	(627)	(50,411)
Benefit payments	12,197	3,813	1,012	17,022
Administrative expense	1,346	30	18	1,394
Net change in Plan fiduciary net position	(29,173)	(5,223)	(1,162)	(35,558)
Plan fiduciary net position, beginning of period	(260,648)	(49,698)	(4,234)	(314,580)
Plan fiduciary net position, end of period	(289,821)	(54,921)	(5,396)	(350,138)
Net OPEB (asset) liability, end of period	\$ (36,580)	\$ (8,121)	\$ 970	\$ (43,731)

CPS Energy FY2020 Basic Financial Statements

CPS Energy recorded \$8.2 million and \$1.0 million in OPEB expense for the years ended January 31, 2020 and 2019, respectively, as summarized in the following table:

(In thousands)	January 31,	
	2020	2019
Health	\$ 7,534	\$ 1,254
Life	76	(765)
Disability	553	473
Total	<u>\$ 8,163</u>	<u>\$ 962</u>

Actuarial Assumptions – Significant actuarial assumptions used in the calculations for the January 1, 2018, actuarial valuations for FY2020 included: (a) a rate of return on the investment of present and future assets of 7.25% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 2.3% per year for the Health, Life and Disability Plans, (c) projected annual base salary increases for the Health, Life and Disability Plan ranging from 3.1% to 11.6% depending on age, and (d) overall average medical and prescription cost increases projected at 6.45% for 2018, decreasing annually thereafter based on medical trend assumptions. Mortality rates for retirees were based on the RP-2014 Mortality Table adjusted backwards to 2006 with Mortality Improvement Scale MP-2014 and projected with Mortality Improvement Scale MP-2017, with employee rates before termination and healthy annuitant rates after termination. Mortality rates for disabled lives were based on the 1987 Commissioners Group Disabled Life Mortality Table.

Significant actuarial assumptions used in the calculations for the January 1, 2017, actuarial valuations for FY2019 included: (a) a rate of return on the investment of present and future assets of 7.25% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 3.0% per year for the Health, Life and Disability Plans, (c) projected annual base salary increases for the Health Plan ranging from 3.1% to 11.6% depending on age and projected average annual salary increases of 4.54% and 4.72% for the Life and Disability Plans, respectively, and (d) overall medical and prescription cost increases projected at 7.00% for 2017, decreasing annually to 5.0%, in 2022 and thereafter. Mortality rates for retirees were based on the RP-2016 Combined Healthy, with No Collar Adjustment, Male and Female tables; with MP-2016 Mortality Improvement Scale. Mortality rates for disabled lives were based on the 1987 Commissioners Group Disabled Life Mortality Table.

The actuarial assumptions used in the January 1, 2018 and 2017, valuations for amounts reported in FY2020 and FY2019, respectively, were based on the results of an actuarial experience study completed in 2017 covering experience for the period January 1, 2012, through December 31, 2016.

The long-term expected rate of return on Employee Benefit Plans investments was determined based on a blend of historical performance data and future expectations for each major asset class, while also reflecting current capital market conditions, developed on a geometric basis. An economic simulation method was used in which best-estimate ranges of expected future rates of return (expected returns on Employee Benefit Plans investment expense) for each major asset class were combined using simulations that ensure the economic consistency of each individual trial, then reduced by a factor representing inflation to produce long-term expected real rates of return for each major asset class. The assumed allocation and expected real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Expected Real Rate of Return
Equities	54.5%	5.4%
Debt securities	28.5%	3.4%
Alternative investments	17.0%	5.6%
Total investments	<u>100.0%</u>	

Discount Rate and Healthcare Cost Trend Rates – The discount rate used to measure the total OPEB liability for FY2020 and FY2019 was 7.25%. The projection of cash flows used to determine the discount rate assumed that CPS Energy contributions will be made in a manner consistent with the current contribution practices. Based on those assumptions, the Employee Benefit Plans’ fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on the Employee Benefit Plans’ investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following tables present the sensitivity of net OPEB (asset) liability calculation to a 1% increase and a 1% decrease in the discount rate used to measure the total OPEB liability:

Discount Rate Sensitivity				
(In thousands)				
Net OPEB (Asset) Liability at January 31, 2020				
	<u>Health</u>	<u>Life</u>	<u>Disability</u>	<u>Total</u>
<u>Discount rate</u>				
1% decrease - 6.25%	\$ 26,237	\$ 2,789	\$ 682	\$ 29,708
Current discount rate - 7.25%	(3,587)	(3,573)	548	(6,612)
1% increase - 8.25%	(29,017)	(8,754)	409	(37,362)
Net OPEB (Asset) Liability at January 31, 2019				
	<u>Health</u>	<u>Life</u>	<u>Disability</u>	<u>Total</u>
<u>Discount rate</u>				
1% decrease - 6.25%	\$ (6,335)	\$ (1,665)	\$ 1,131	\$ (6,869)
Current discount rate - 7.25%	(36,580)	(8,121)	970	(43,731)
1% increase - 8.25%	(66,824)	(14,303)	819	(80,308)

The following table presents the sensitivity of net Health Plan OPEB (asset) liability calculation to a 1% increase and a 1% decrease in the healthcare cost trend rates used to measure the total Health Plan OPEB liability:

Healthcare Cost Trend Rates Sensitivity		
(In thousands)		
	<u>Net Health Plan OPEB (Asset) Liability</u>	
	at January 31,	
	<u>2020</u>	<u>2019</u>
<u>Healthcare Cost Trend Rates</u>		
1% decrease	\$ (34,640)	\$ (63,986)
Current healthcare cost trend rates	(3,587)	(36,580)
1% increase	34,079	(3,849)

Employee Benefit Plans’ Fiduciary Net Position – The financial results of the Employee Benefit Plan are included, in combination with the Pension Plan, in the Statements of Fiduciary Net Position. Detailed information about the Employee Benefit Plans’ fiduciary net position is available in the separately issued Employee Benefit Plans financial statements. For purposes of measuring the net OPEB (asset) liability,

CPS Energy FY2020 Basic Financial Statements

deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position for the Employee Benefit Plans and additions to/deductions from the Employee Benefit Plans' fiduciary net position have been determined on the same basis as they are reported by the Employee Benefit Plans. Investments are stated at fair value. Benefit payments are recognized when due and payable in accordance with the terms of the Employee Benefit Plans.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – The following tables present information about the OPEB-related deferred outflows of resources and deferred inflows of resources for CPS Energy at January 31, 2020 and 2019:

(In thousands)

	January 31, 2020			
	<u>Health</u>	<u>Life</u>	<u>Disability</u>	<u>Total</u>
<u>Deferred outflows of resources</u>				
Changes in assumptions	\$ 6,898	\$ 503	\$ 226	\$ 7,627
Differences between projected and actual earnings on OPEB assets	7,853	1,838	319	10,010
Differences between expected and actual experience in the measurement of total OPEB liability	1,769	1,359	146	3,274
Employer's contributions to the Plan subsequent to the measurement of total OPEB liability	-	-	769	769
Total deferred outflows of resources	<u>\$ 16,520</u>	<u>\$ 3,700</u>	<u>\$ 1,460</u>	<u>\$ 21,680</u>
<u>Deferred inflows of resources</u>				
Differences between expected and actual experience in the measurement of total OPEB liability	\$ -	\$ (792)	\$ (553)	\$ (1,345)
Changes in assumptions	(1,860)	(326)	-	(2,186)
Total deferred inflows of resources	<u>\$ (1,860)</u>	<u>\$ (1,118)</u>	<u>\$ (553)</u>	<u>\$ (3,531)</u>
	January 31, 2019			
	<u>Health</u>	<u>Life</u>	<u>Disability</u>	<u>Total</u>
<u>Deferred outflows of resources</u>				
Changes in assumptions	\$ 8,278	\$ -	\$ 80	\$ 8,358
Differences between expected and actual experience in the measurement of total OPEB liability	340	1,698	182	2,220
Employer's contributions to the Plan subsequent to the measurement of total OPEB liability	-	-	1,000	1,000
Total deferred outflows of resources	<u>\$ 8,618</u>	<u>\$ 1,698</u>	<u>\$ 1,262</u>	<u>\$ 11,578</u>
<u>Deferred inflows of resources</u>				
Differences between projected and actual earnings on OPEB assets	\$ (19,416)	\$ (3,197)	\$ (149)	\$ (22,762)
Changes in assumptions	-	(392)	-	(392)
Total deferred inflows of resources	<u>\$ (19,416)</u>	<u>\$ (3,589)</u>	<u>\$ (149)</u>	<u>\$ (23,154)</u>

The following table presents the future amortization of OPEB-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the Employee Benefit Plans in the current fiscal year and subsequent to the net OPEB (asset) liability measurement date. The deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the net OPEB (asset) liability in the subsequent fiscal year.

Amortization of OPEB-Related Deferred Outflows/Inflows of Resources
(In thousands)

	Health	Life	Disability	Total
Year ended January 31,				
2021	\$ 4,156	\$ 959	\$ 90	\$ 5,205
2022	(1,417)	(192)	(3)	(1,612)
2023	3,058	535	41	3,634
2024	7,588	1,424	99	9,111
2025	1,315	(118)	(60)	1,137
Thereafter	(40)	(26)	(29)	(95)
Total	<u>\$ 14,660</u>	<u>\$ 2,582</u>	<u>\$ 138</u>	<u>\$ 17,380</u>

11. Other Obligations and Risk Management

Other Liabilities – CPS Energy maintains other obligations as noted on the following tables. The relative long-term portion of these obligations compared to the total was 70.7% as of January 31, 2020, and 80.7% as of January 31, 2019.

FY2020 Other Liabilities Rollforward
(In thousands)

	Balance Outstanding 2-1-2019	Additions During Year	Decreases During Year	Balance Outstanding 1-31-2020	Amounts Due within One Year	Noncurrent Balance Outstanding
Customer deposits	\$ 39,275	\$ 23,152	\$ (24,319)	\$ 38,108	\$ 22,984	\$ 15,124
Operating reserves	35,700	18,165	(15,521)	38,344	3,830	34,514
STP pension and OPEBs	88,819	28,633	(29,830)	87,622	-	87,622
Pollution remediation liability	2,662	1,890	(878)	3,674	3,187	487
Project Warm	7,860	249	(239)	7,870	-	7,870
Notes payable	2,231	129	(243)	2,117	-	2,117
Fuel hedges	5,225	36,903	(7,422)	34,706	25,098	9,608
Long-term service agreement liability	58,131	65,415	(66,192)	57,354	31,322	26,032
Other	24,689	100,953	(99,911)	25,731	238	25,493
Total other long-term liabilities	<u>\$ 264,592</u>	<u>\$ 275,489</u>	<u>\$ (244,555)</u>	<u>\$ 295,526</u>	<u>\$ 86,659</u>	<u>\$ 208,867</u>

FY2019 Other Liabilities Rollforward
(In thousands)

	Balance Outstanding 2-1-2018	Additions During Year	Decreases During Year	Balance Outstanding 1-31-2019	Amounts Due within One Year	Noncurrent Balance Outstanding
Customer deposits	\$ 39,066	\$ 24,302	\$ (24,093)	\$ 39,275	\$ 23,625	\$ 15,650
Operating reserves	31,520	11,302	(7,122)	35,700	4,040	31,660
STP pension and OPEBs	91,436	12,308	(14,925)	88,819	-	88,819
Pollution remediation liability	2,616	2,139	(2,093)	2,662	2,004	658
Project Warm	7,797	186	(123)	7,860	-	7,860
Notes payable	2,360	7	(136)	2,231	129	2,102
Fuel hedges	6,861	20,904	(22,540)	5,225	2,220	3,005
Long-term service agreement liability	65,942	31,972	(39,783)	58,131	19,049	39,082
Other	16,187	74,463	(65,961)	24,689	-	24,689
Total other long-term liabilities	<u>\$ 263,785</u>	<u>\$ 177,583</u>	<u>\$ (176,776)</u>	<u>\$ 264,592</u>	<u>\$ 51,067</u>	<u>\$ 213,525</u>

Long-Term Service Agreements (“LTSA”) – CPS Energy has two LTSAs with General Electric, Inc. (“GE”) for two of its combined-cycle power plants, Arthur Von Rosenberg (“AVR”) and Rio Nogales.

AVR – In 2007, CPS Energy entered a 20-year LTSA with GE to provide maintenance services and select replacement parts for the AVR power plant. In September 2015, the contract was amended primarily to add a provision for the advance purchase from GE of three new sets of Advanced Gas Path (“AGP”) parts to eventually be installed at the AVR plant.

In FY2017, delivery was completed and title was transferred to CPS Energy for all three sets of AGP parts. AGP parts not immediately required for maintenance procedures are recorded to inventory until the installation process for each set of parts at the power plant is initiated, at which time the costs are reclassified to capital assets. At January 31, 2020, one AGP part was reported in inventory and the liability for the purchase, along with other LTSA payment obligations, was recorded as a liability on the Statements of Net Position.

The balance of the AVR LTSA obligation at January 31, 2020, totaled \$31.1 million, of which \$16.6 million and \$14.5 million were reported as a current and noncurrent liability, respectively, on the Statements of Net Position. The balance of the AVR LTSA obligation at January 31, 2019, totaled \$33.0 million of which \$2.0 million and \$31.0 million was reported as a current and noncurrent liability, respectively.

Rio Nogales – In March 2017, the existing Rio Nogales power plant LTSA contract was amended primarily to add a provision for the advance purchase from GE of four new sets of AGP parts to eventually be installed at the power plant. At January 31, 2020, one set had been put into service and two sets were reported as inventory.

The balance of the Rio Nogales LTSA obligation at January 31, 2020, totaled \$26.3 million, of which \$14.8 million and \$11.5 million were reported as a current and noncurrent liability, respectively, on the Statements of Net Position. The balance of the Rio Nogales LTSA obligation at January 31, 2019, totaled \$25.1 million of which \$17.0 million and \$8.0 million were reported as a current and noncurrent liability, respectively.

Insurance and Reserves – CPS Energy is exposed to various risks of loss including, but not limited to, those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS Energy maintains property and liability insurance programs that combine self-insurance with commercial insurance policies to cover major risks. The property insurance program provides \$3.5 billion of replacement-value coverage for property and boiler machinery loss, including comprehensive automobile coverage, and fire damage coverage for construction equipment and valuable

papers. The deductible for the property insurance policy is \$1.0 million for nonpower plant/nonsubstation locations, \$2.5 million for substations and \$5.0 million for power plant locations.

The liability insurance program includes:

- \$100 million of excess general liability coverage over a retention amount of \$3 million;
- \$25 million of fiduciary liability coverage;
- \$100 million of employment practices liability coverage; and
- Other property and liability insurance coverage, which includes directors & officers, cyber insurance, commercial crime, employee travel and event insurance.

CPS Energy also manages its own workers' compensation program. To support this program, \$35 million of excess workers' compensation coverage over a retention amount of \$3 million is maintained. No claims exceeded insurance coverage and there were no decreases in coverage in FY2020 or FY2019.

Actuarial studies are performed periodically to assess the adequacy of CPS Energy insurance reserve retentions. Actuarial valuations include nonincremental claims expenses. An actuarial study was last completed in the fourth quarter of FY2020.

A property insurance reserve was established on January 31, 2020 at an \$8.5 million reserve level to address insurable CPS Energy property damage losses. The \$8.5 million level represents the aggregated total of the tiered deductible levels applicable for losses under CPS Energy's blanket property insurance policy. Since the property insurance reserve was not established until January 31, 2020, it was not included in the FY2020 actuarial study. Until an actuarial study can be performed, the property insurance reserve will be set at these deductible levels. CPS Energy intends to include the analysis of the property insurance reserve in the FY2021 actuarial study scope of services.

The remaining balance under the Property Reserves column at January 31, 2020, relates to estimated obligations for the cleanup, closure and post-closure care requirements of the Company's landfills. CPS Energy has seven landfill sites, four of which are at full capacity. The estimates for landfills, surface impoundment and ash ponds liability are based upon capacity to date and are subject to change due to inflation or deflation, as well as new developments in technology, applicable laws or regulations.

Under CPS Energy's reserve program, all claims are recorded against the reserve, which is a component of operating reserves presented on the preceding tables describing Other Liabilities.

FY2020 and FY2019 Reserve Rollforward

(In thousands)

	Employee & Public Liability Claims	Property Reserves (Insurance)	Property Reserves (Environmental)	Total
Balance – FY 2018	\$ 20,817	\$ -	\$ 8,608	\$ 29,425
Payments	(6,383)	-	-	(6,383)
Other claims adjustments	6,369	-	2,915	9,284
Balance – FY 2019	20,803	-	11,523	32,326
Payments	(3,083)	-	-	(3,083)
Other claims adjustments	(1,781)	8,500	329	7,048
Balance – FY 2020	\$ 15,939	\$ 8,500	\$ 11,852	\$ 36,291

Counterparty Risk – CPS Energy is exposed to counterparty risk associated with various transactions primarily related to debt, investments, fuel hedging, suppliers and wholesale power. Counterparty risk is the risk that a counterparty will fail to meet its obligations in accordance with the terms and conditions of its contract with CPS Energy. CPS Energy has policies and practices in place to ensure the solvency of counterparties is assessed accurately, monitored regularly and managed actively through its Enterprise Risk Management & Solutions Division.

12. Other Financial Instruments

Fuel Hedging – The 1999 Texas utility deregulation legislation, Senate Bill 7, contains provisions modifying the PFIA to allow municipal utilities the ability to purchase and sell energy-related derivative instruments in order to hedge or mitigate the effect of market price fluctuations of natural gas, fuel oil and electric energy. In 2002, CPS Energy began hedging its exposure to changes in natural gas prices, with the goal of controlling fuel costs to native load customers and stabilizing the expected cash flows associated with wholesale power transactions.

CPS Energy reports its derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses recognition, measurement and disclosures related to derivative instruments. CPS Energy does not use derivative instruments for speculative purposes. The only derivative instruments entered are for the purposes of risk mitigation; therefore, these instruments are considered potential hedging derivative instruments under GASB Statement No. 53.

On October 28, 2019, the Board reaffirmed the Energy Price Risk Management Policy, which sets forth the guidelines for the purchase and sale of certain financial instruments and certain physical products, collectively defined as hedge instruments. The essential goal of the Energy Price Risk Management Policy is to provide a framework for the operation of a fuel and energy price hedging program to better manage CPS Energy's risk exposure in order to stabilize pricing and costs for the benefit of CPS Energy and its customers.

In accordance with the requirements of GASB Statement No. 53, all fuel hedges are reported on the Statements of Net Position at fair value. The fair value of option contracts is determined using a Black Scholes pricing model based on the New York Mercantile Exchange ("NYMEX") closing futures prices as of the last day of the reporting period. For fixed-price contracts, the fair value is calculated by deriving the difference between the closing futures prices on the last day of the reporting period and the futures or basis swap purchase prices at the time the positions were established. See additional disclosures regarding fuel hedge fair values at Note 3 – Fair Value Measurement.

As of January 31, 2020, the total fair value of outstanding hedge instruments was a net liability of \$32.1 million. Fuel hedging instruments with a fair value of \$1.0 million and \$(25.5) million are classified on the Statements of Net Position as a component of current assets and current accounts payable and accrued liabilities, respectively. Long-term fuel hedging instruments with a fair value of \$2.0 million and \$(9.6) million are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

As of January 31, 2019, the total fair value of outstanding hedge instruments was a net liability of \$1.6 million. Fuel hedging instruments with a fair value of \$1.7 million and \$(1.7) million are classified on the Statements of Net Position as a component of current assets and current accounts payable and accrued liabilities, respectively. Long-term fuel hedging instruments with a fair value of \$1.3 million and \$(2.9) million are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

All hedging derivative instruments were evaluated for effectiveness at January 31, 2020 and 2019. Consistent with hedge accounting treatment required for derivative instruments that are determined to be effective in offsetting changes in the cash flows of the hedged item, changes in fair value are reported as deferred outflows or deferred inflows of resources on the statements of net position until the contract expiration that occurs in conjunction with the hedged expected fuel purchase transaction. When fuel hedging contracts expire, at the time the purchase transactions occur, the deferred balance is recorded as an adjustment to fuel expense. The deferred outflows of resources related to fuel hedges totaled \$33.6 million and \$4.6 million at January 31, 2020 and 2019, respectively. There were no deferred inflows of resources related to fuel hedges at January 31, 2020. The deferred inflows of resources related to fuel hedges totaled \$0.3 million at January 31, 2019.

In FY2020, as a result of revisions to the expected volumes of some underlying physical transactions, it was determined that a group of existing financial hedge positions were no longer effective. Offsetting financial positions were executed, and fair value of the ineffective hedges resulted in a loss totaling \$0.3 million, which was recognized as a reduction to investment income.

Following is information related to CPS Energy's outstanding fuel hedging derivative instruments:

Fuel Derivative Transactions as of January 31, 2020
(Dollars in thousands)

Type of Transaction		Referenced Index	Duration	Volumes (MMBtu)	Fair Value	FY2020 Change in Fair Value
Long	Natural Gas Swap	Henry Hub	Feb 2020 through Feb 2023	39,242,075	\$ (15,386)	\$ (13,231)
Short	Natural Gas Swap	Henry Hub	Feb 2020 through Dec 2022	2,893,913	1,385	1,200
Long	Natural Gas Call Option	Henry Hub	Feb 2020 through Jan 2023	30,584,576	1,615	1,657
Short	Natural Gas Call Option	Henry Hub	Apr 2020 through Mar 2021	440,914	(1)	(1)
Short	Natural Gas Put Option	Henry Hub	Feb 2020 through Jan 2023	30,584,576	(4,464)	(4,278)
Long	HSC Basis Swap	Henry Hub	Feb 2020 through Feb 2023	21,878,324	(561)	(1,280)
Short	HSC Basis Swap	Henry Hub	Feb 2020 through Dec 2022	753,913	(27)	80
Long	HSC Gas Daily Swap	Henry Hub	Feb 2020	4,495	-	27
Long	WAHA Basis Swap	Henry Hub	Feb 2020 through Jan 2023	25,487,722	(14,636)	(14,033)
Short	WAHA Basis Swap	Henry Hub	Apr 2020	402,977	(40)	(40)
Long	WAHA Gas Daily Swap	Henry Hub	Feb 2020	901,871	34	48
					<u>\$ (32,081)</u>	<u>\$ (29,851)</u>

Fuel Derivative Transactions as of January 31, 2019
(Dollars in thousands)

Type of Transaction		Referenced Index	Duration	Volumes (MMBtu)	Fair Value	FY2019 Change in Fair Value
Long	Natural Gas Swap	Henry Hub	Feb 2019 through Dec 2022	26,702,285	\$ (2,155)	\$ (1,937)
Short	Natural Gas Swap	Henry Hub	Feb 2019 through Dec 2022	3,279,023	185	363
Long	Natural Gas Call Option	Henry Hub	Feb 2019 through Jan 2022	30,961,179	1,253	(2,532)
Short	Natural Gas Call Option	Henry Hub	Jan 2020	1,000	-	2
Long	Natural Gas Put Option	Henry Hub	Jan 2020	1,000	-	(1)
Short	Natural Gas Put Option	Henry Hub	Feb 2019 through Jan 2022	30,961,179	(815)	1,892
Long	HSC Basis Swap	Henry Hub	Feb 2019 through Dec 2022	24,808,285	719	2,625
Short	HSC Basis Swap	Henry Hub	Feb 2019 through Dec 2022	1,009,023	(107)	(165)
Long	HSC Gas Daily Swap	Henry Hub	Feb 2019	784,000	(27)	-
Long	WAHA Basis Swap	Henry Hub	Mar 2019 through Jan 2022	23,506,317	(603)	(502)
Long	WAHA Gas Daily Swap	Henry Hub	Feb 2019	378,000	(14)	4
					<u>\$ (1,564)</u>	<u>\$ (251)</u>

In the event purchased options are allowed to expire, the related premiums paid to acquire those options will be lost. When a short position is established, and options are sold, premiums are received and an

obligation to honor the terms of the option contract, if exercised, is created. The decision to exercise the options or let them expire rests with the purchasing party.

Futures contracts represent a firm obligation to buy or sell the underlying asset. If held to expiration, the contract holder must take delivery of, or deliver, the underlying asset at the established contract price. Basis swap contracts represent a financial obligation to buy or sell the underlying delivery point basis. If held to expiration, the financial difference determined by mark-to-market valuation must be settled on a cash basis. Only if expressly requested in advance, may an exchange for physical assets take place.

Credit Risk – CPS Energy executes over-the-counter hedge transactions directly with approved counterparties. These counterparties are generally highly rated entities that are leaders in their respective industries. CPS Energy monitors the creditworthiness of these entities on a daily basis and manages the resulting financial exposure via a third-party, vertically integrated risk system. Contractual terms with each existing counterparty vary, but each is structured so that, should the counterparty's credit rating fall below investment grade, no unsecured credit would be granted, and the counterparty would be required to post collateral for any calculated credit exposure. In the event of default or nonperformance by counterparties, brokers or NYMEX, the operations of CPS Energy could be materially affected. However, CPS Energy does not expect these entities to fail to meet their obligations given the level of their credit ratings and the monitoring procedures in place with which to manage this risk. As of January 31, 2020, the exposure to all hedge-related counterparties was such that no material counterparty credit risk existed.

Termination Risk – For CPS Energy's fuel hedges that are executed over the counter directly with approved counterparties, the possibility exists that one or more of these derivative instruments may end earlier than expected, thereby depriving CPS Energy of the protection from the underlying risk that was being hedged or potentially requiring CPS Energy to make a significant termination payment. This termination payment between CPS Energy and its counterparty is determined based on current market prices. In the event a transaction is terminated early, CPS Energy would likely be able to replace the transaction at current market prices with similar, although not exact, terms with one of its other approved counterparties.

Basis Risk – The Company is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will be priced based on a pricing point (Houston Ship Channel "HSC" or Western Area Hub Association "WAHA") different than which the contracts are expected to settle (Henry Hub). For January 2020, the HSC price was \$2.06 per MMBtu, the WAHA price was \$1.09 per MMBtu and the Henry Hub price was \$2.16 per MMBtu.

Congestion Revenue Rights – In the normal course of business, CPS Energy acquires Preassigned Congestion Revenue Rights ("PCRRs") and Congestion Revenue Rights ("CRRs") as a hedge against congestion costs. The CRRs are purchased at semi-annual and monthly auctions at market value. Non-Opt-In Entities are granted the right to purchase PCRRs annually at a percentage of the cost of CRRs. While PCRRs exhibit the three characteristics of derivatives as defined in GASB Statement No. 53, they are generally used by CPS Energy as factors in the cost of transmission. Therefore, these PCRRs meet the normal purchases and sales scope exception and are thus reported on the Statements of Net Position at cost and classified as prepayments. From time to time, the Company purchases PCRRs and sells them at the same auction at market price. In this case, the PCRRs are considered investments and the proceeds are reported as either investment gains or losses. There were no investment gains or losses on the sale of PCRRs and CRRs for FY2020 and FY2019.

13. South Texas Project

Units 1 and 2 – CPS Energy is one of three participant owners of STP, a two-unit nuclear power plant with each unit having a nominal output of approximately 1,330 MW. The other owners in STP Units 1 and 2 are NRG and the City of Austin. The units, along with their support facilities and administrative offices, are located on a 12,220-acre site in Matagorda County, Texas. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS Energy's 40% ownership in STP Units 1 and 2 represents approximately 1,064 MW of total plant capacity.

Effective November 17, 1997, the Participation Agreement among the owners of STP was amended and restated. At that time, STPNOC, a Texas nonprofit, nonmember corporation created by the owners, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STPNOC. STPNOC is financed and controlled by the owners pursuant to an operating agreement among the owners and STPNOC. Currently, a four-member board of directors governs STPNOC, with each owner appointing one member to serve with STPNOC's chief executive officer.

Units 1 and 2 Licenses Renewed – In September 2017, the NRC approved STPNOC's license renewal applications for STP Units 1 and 2, which extends the operating licenses to 2047 and 2048, respectively.

Suspension of Used Nuclear Fuel Fee – Under the Nuclear Waste Policy Act ("NWSA"), the DOE has an obligation to provide for the permanent disposal of high-level radioactive waste, which includes used nuclear fuel at U.S. commercial nuclear power plants such as STP. To fund that obligation, all owners or operators of commercial nuclear power plants entered into a standard contract under which the owners paid a fee to the DOE based on the amount of electricity generated and sold from the power plant, along with additional assessments. In exchange for collecting this fee and the assessments, the DOE undertook the obligation to develop a high-level waste repository for safe, long-term storage of the fuel and, no later than January 31, 1998, to transport and dispose of the used fuel. The NARUC challenged further collection of this fee; and on November 19, 2013, the Court ruled in favor of NARUC and ordered the DOE to submit to the U.S. Congress a proposal to reduce the fee to zero until certain conditions are met. While the reporting to the DOE of used nuclear fuel volumes will continue, effective May 16, 2014, the rate was reduced to zero.

DOE Settlement and Dry Cask Storage Project ("ISFSI" or the "Dry Cask Storage Project") – Multiple cases have been filed in the U.S. Court of Federal Claims by the existing owners or operators of nuclear facilities against the DOE related to its failure to meet its obligations under the NWSA. The owners/operators were seeking damages related to ongoing used nuclear fuel storage costs incurred because the DOE did not meet its obligation. On August 31, 2000, in *Maine Yankee Atomic Power Company, et al. v. United States*, the U.S. Court of Appeals for the Federal Circuit affirmed that the DOE had breached its obligations to commercial nuclear power plant owners for failing to live up to its obligations to dispose of used nuclear fuel. STPNOC, on behalf of the owners of STP, and other utilities have reached settlement agreements with the DOE. In the most recent settlement agreement dated March 15, 2017, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through calendar year 2019. STP is currently working with the DOE to extend the settlement agreement for another three years. Pursuant to STPNOC's analysis of NRC guidance, the first dry cask storage campaign was recently completed, with 12 dry casks now stored at the ISFSI.

Ongoing costs for the spent fuel management project are being funded by the STP owners as expenditures are incurred. CPS Energy is entitled to request reimbursement at its discretion from its Decommissioning Trusts for the Company's portion of allowable costs. Annually, STPNOC submits claims to the DOE for the reimbursement of allowable costs for spent fuel management. Allowable costs are returned to the owners by STP to the owners upon receipt of funds from the DOE. Qualifying spent fuel management costs not

reimbursable by the DOE are funded by the Trusts. Any costs not reimbursable by the DOE or the Trusts are recorded as an O&M expense or capital costs.

Texas Commission on Environmental Quality (“TCEQ”) Violations – On January 11, 2018, STPNOC received a draft notice of enforcement letter from the TCEQ for three violations, which all occurred in 2016. The violations were identified and reported by STPNOC to TCEQ and are related to STP’s air quality permit. These deviations were included in STP’s 2017 semi-annual report submitted to the TCEQ in February 2017.

On February 15, 2018, the TCEQ transmitted a proposed agreed order assessing a nominal administrative penalty regarding the Notice of Enforcement issued on January 11, 2018, for late reporting of the air quality permit deviation in 2016. The order acknowledges that STP submitted the report in February 2017 and did not require any additional corrective action. On June 26, 2018, the TCEQ issued a letter approving closure of the enforcement action received in January 2018 related to an air quality permit violation that occurred in 2016. The TCEQ acknowledged that corrective action was complete, and the administrative penalty had been paid. No further action is required.

Units 3 and 4 Development – In September 2007, NRG and CPS Energy signed the South Texas Project Supplemental Agreement (“Supplemental Agreement”) under which CPS Energy elected to participate in the development of two new nuclear units at the STP site, STP Units 3 and 4, pursuant to the terms of the participation agreement among the STP owners and agreed to potentially own up to 50% of STP Units 3 and 4. Also in September 2007, STPNOC, on behalf of CPS Energy and NRG, filed with the NRC a combined construction and operating license application (“COLA”) to build and operate STP Units 3 and 4. This COLA was the first complete application for new commercial nuclear units to be filed with the NRC in nearly 30 years. On November 29, 2007, the NRC announced it had accepted the COLA for review.

Despite the project having secured the NRC's authorization for issuance of the construction and operating license (“COL”), in January 2016 the Company concluded that, as a result of sustained changes in a number of environmental and economic factors directly affecting the projected economic feasibility of completing construction of STP Units 3 and 4, the project had experienced a permanent impairment. The Company determined it was appropriate to write off the entire \$391.4 million investment in STP Units 3 and 4. The impairment loss was reported as an extraordinary item on CPS Energy's Statements of Revenues, Expenses, and Changes in Net Position for the period ending January 31, 2016.

In FY2019, a request to terminate the STP Units 3 and 4 COLs was submitted and approved by the NRC. Additionally, an Assignment Agreement and Mutual Release was executed with the owners of STP Units 1 and 2 and STP Units 3 and 4. This agreement returns ownership of the STP Units 3 and 4 assets, including rights for future expansion, to the STP Units 1 and 2 owners and essentially restores the site ownership arrangement to pre-2006 terms.

See Note 5 – Capital Assets, Net for more information about CPS Energy’s capital investment in STP.

Nuclear Insurance – STP maintains required insurance coverage pursuant to the Price-Anderson Act, providing limitations on liability and governmental indemnities with respect to nuclear incidents. Pursuant to the Price-Anderson Act, effective November 1, 2018, the maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is \$138 million, taking into account a 5% adjustment for administrative fees and subject to adjustment for inflation every 5 years, for the number of operating nuclear units and for each licensed reactor, payable at \$20 million per year per reactor for each nuclear incident. CPS Energy and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests. For purposes of these assessments, STP currently has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification

agreements with the NRC in accordance with the financial protection requirements of the Price-Anderson Act. A nuclear liability policy, with a maximum limit of \$450 million for the nuclear industry, provides protection from nuclear-related claims. A Master Worker Certificate policy, also with a maximum limit of \$450 million for the nuclear industry, provides protection from radiation tort claims of workers at nuclear facilities.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of approximately \$1.1 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP Units 1 and 2 currently maintain nuclear property insurance at or above the legally required amount. The nuclear property insurance consists of primary property damage insurance and excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited ("NEIL"). A retrospective assessment could occur if property losses, as a result of an accident at any nuclear plant insured by NEIL, exceed the accumulated funds available to NEIL. CPS Energy also maintains accidental outage insurance through STP's NEIL membership that provides weekly indemnity payments for an insured property loss subject to an applied deductible period.

Nuclear Decommissioning – In 1991, CPS Energy started accumulating funds for decommissioning of its 28% ownership in STP Units 1 and 2 in an external trust in accordance with NRC regulations. The 28% Decommissioning Trust's assets and related liabilities are included in CPS Energy's financial statements as a component unit. Excess or deficient funds related to the 28% Trust will be distributed to or received from CPS Energy's ratepayers after decommissioning is complete.

In conjunction with the acquisition of the additional 12% interest in STP Units 1 and 2 in May 2005, the Company also assumed control of a relative portion of the decommissioning trust previously established by the prior owner, American Electric Power ("AEP"). The 12% Decommissioning Trust's assets and related liabilities are also included in CPS Energy's financial statements as a component unit. Subject to PUCT approval as may be requested in the future, excess or deficient funds related to the 12% Trust will be distributed to or received from AEP's ratepayers after decommissioning is complete.

CPS Energy, together with the other owners of STP Units 1 and 2, files a certificate of financial assurance with the NRC for the decommissioning of the nuclear power plant every two years or upon transfer of ownership. The certificate assures that CPS Energy and the other owners meet the minimum decommissioning funding requirements mandated by the NRC. The owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically.

In FY2009, CPS Energy determined that some pre-shutdown decommissioning and spent fuel management activities would be required prior to shutdown of STP Units 1 and 2. As a result, separate trust accounts were created to pay for pre-shutdown decommissioning activities. Additionally, funds in the Trusts applicable to spent fuel management were transferred to separate spent fuel management accounts so that they were not commingled with funds allocable to pre-shutdown or post-shutdown decommissioning costs. Based on projected costs, the spent fuel management accounts are currently fully funded; therefore, no contributions were made to these accounts in FY2020 or FY2019. In FY2020 and FY2019, no contributions were made to fund pre-shutdown decommissioning costs for CPS Energy's 28% ownership in STP. No pre-shutdown decommissioning expenses were incurred for the 28% ownership in calendar years 2019 or 2018. For the 12% Trust, pre-shutdown costs were funded by AEP's ratepayers. The 12% Trust incurred no pre-shutdown decommissioning expenses in the calendar years 2019 or 2018.

The most recent cost study, which was finalized in May 2018, estimated decommissioning costs for the 28% ownership in STP Units 1 and 2 at \$694.1 million and \$297.5 million for the 12% ownership in STP Units 1 and 2 in 2018 dollars. Included in the cost study was a 10% contingency component as required to comply with the PUCT. Based on the level of funds accumulated in the 28% Trust and an analysis of this cost study, the Company determined that no further decommissioning contributions would be required to be deposited into the Trust.

As of December 31, 2019, and 2018, CPS Energy had accumulated \$473.0 million and \$414.8 million, respectively, in the 28% Trust. Total funds are allocated to decommissioning costs, pre-shutdown decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC as of December 31, 2018, the 28% Trust funds allocated to decommissioning costs totaled \$264.1 million, which exceeded the calculated financial assurance amount of \$111.2 million.

As of December 31, 2019, and 2018, \$173.4 million and \$152.9 million, respectively, had been accumulated in the 12% Trust. Total funds are allocated to decommissioning costs, pre-shutdown decommissioning costs, spent fuel management and site restoration. Based on the most recent annual calculation of financial assurance required by the NRC as of December 31, 2018, the 12% Trust funds allocated to decommissioning costs totaled \$105.5 million, which exceeded the calculated financial assurance amount of \$47.7 million.

CPS Energy adopted GASB Statement No. 83 during FY2019 and accounts for decommissioning by recognizing its pro rata share of an ARO based on the best estimate of the current values of outlays expected to be incurred, determined by the most recent cost study. A new cost study is performed every 5 years; in years subsequent to the latest study, the Statement requires the current value of the Company's ARO be adjusted for the effects of inflation or deflation, at least annually. In addition to the ARO, the Company has recorded a deferred outflow of resources that is being amortized over the remaining useful life of the plant. Restatement for the ARO resulted in a change in the calculation of decommissioning expense reflected in the Statements of Revenues, Expenses and Changes in Net Position, which is now based on the amortization of the deferred outflow.

Both Decommissioning Trusts also have separate calendar year financial statements, which are separately audited and can be obtained by contacting the Controller at CPS Energy.

STP Pension Plans and Other Post-Retirement Benefits – STPNOC maintains several pension and other post-retirement benefit plans covering most employees, including a noncontributory defined-benefit pension plan, defined-benefit post-retirement plan, supplementary nonqualified unfunded pension plan, supplemental retirement plan, deferred compensation program and a contributory savings plan. The owners of STPNOC, including CPS Energy, although not sponsors to the STPNOC plans, share in all plan costs in the same proportion as their respective ownership percentages.

The noncontributory defined-benefit pension plan covers certain employees. Effective January 1, 2007, STPNOC approved a change to the pension plan to preclude the eligibility of employees hired after December 31, 2006, in the plan. Employees hired after this date receive enhanced matching contributions under the STP Nuclear Operating Company Savings Plan.

On June 4, 2019, STP's Board of Directors approved freezing the Retirement Plan for non-bargaining participants, effective December 31, 2021.

STPNOC also maintains a defined-benefit postretirement plan that provides postretirement health and welfare benefits. As of May 1, 2014, certain STPNOC employees voted to transition STPNOC's medical plan to a Taft-Hartley multi-employer health and welfare plan. During calendar 2018, there were

additional plan design changes related to the STPNOC postretirement health and welfare benefits resulting in additional employees transitioning to the Taft-Hartley multi-employer plan, therefore, reducing STPNOC's OPEB liability as of December 31, 2018. STPNOC pays monthly premiums for the benefits, to be partially funded by participating employees.

Employees whose eligible compensation exceeds the limitations established under the 1974 Employee Retirement Income Security Act, \$280 thousand for calendar 2019 and \$275 thousand for calendar 2018, are covered by a supplementary nonqualified, unfunded pension plan, which is provided for by charges to operations sufficient to meet the projected benefit obligations. The accruals for the costs of that plan are based on substantially the same actuarial methods and economics as the noncontributory defined-benefit pension plan.

An unfunded supplemental retirement plan and other unfunded deferred compensation programs are maintained by STPNOC for certain key individuals.

The effect to CPS Energy of funding obligations related to the defined-benefit plans sponsored by STPNOC was \$18.7 million and \$8.1 million for FY2020 and FY2019, respectively, and was reflected as a decrease in Other Changes in Net Position on the Statements of Revenues, Expenses and Changes in Net Position.

14. Commitments and Contingencies

Purchase and construction commitments were approximately \$6,412.3 million at January 31, 2020. This amount includes construction commitments, provisions for coal purchases through December 2021 and natural gas purchases through June 2027; the actual amount to be paid will depend upon CPS Energy's actual requirements during the contract period and the price of gas. Also included are provisions for wind power through 2038, solar power through 2044, landfill power through 2029, and raw uranium associated with STP fabrication and conversion services needed for refueling through 2026.

On January 20, 2009, the Board approved a policy statement affirming that CPS Energy's strategic direction centers on transforming from a company focused on providing low-cost power from traditional generation sources to a company providing competitively priced power from a variety of sources, including low and noncarbon emitting sources. As a community owned provider and as part of our *Flexible Path* strategy, CPS Energy has a balanced approach of leveraging our community-owned assets with the emergence of new technology. Our strategy is focused around energy considerations of security, safety, resiliency, reliability, environment, and customer affordability. To be sustainable, CPS Energy needs to balance its financial viability, environmental commitments and social responsibility as a community-owned provider.

In FY2008, CPS Energy entered into a Natural Gas Supply Agreement with the SA Energy Acquisition Public Facility Corporation ("PFC"), a component unit of the City, to purchase, to the extent of its gas utility requirements, all-natural gas to be delivered under a Prepaid Natural Gas Sales Agreement. Under the Prepaid Natural Gas Sales Agreement between the PFC and a third-party gas supplier, the PFC prepaid the cost of a specified supply of natural gas to be delivered over 20 years.

In FY2003, CPS Energy entered into a 20-year agreement with Brooks Development Authority ("BDA") to upgrade the electric and gas utility systems located within Brooks City-Base. CPS Energy and BDA each committed to invest \$6.3 million (\$4.2 million in year 2002 dollars, which accumulates interest at the rate of 3.7% compounded annually) to upgrade the infrastructure at that location. Annual reductions to BDA's obligation were made from incremental revenues to the City for electric and gas sales to customers that reside on the BDA-developed property. Annual reductions to BDA's obligation were also made in accordance with contract terms for economic development at Brooks City-Base that benefited CPS Energy's Systems. At January 31, 2020, capital renewals and upgrades of \$14.7 million have

surpassed the \$12.6 million commitment. BDA has met its obligation, net of annual interest, of \$4.2 million.

In September 2010, CPS Energy and the University of Texas at San Antonio (“UTSA”) entered into an agreement (“Strategic Alliance”) whereby UTSA agreed to perform services for CPS Energy in support of its function as a provider of electric and gas utility services while supporting the progress of the City of San Antonio in renewable energy technologies and energy research. The Strategic Alliance calls for CPS Energy to invest up to but not exceeding \$50 million over 10 years. Investment committed through January 31, 2020, was approximately \$9.8 million from funds currently allocated to research and development. Future funding will be determined by the scope of the projects defined by the partnership and is subject to annual approval by the CPS Energy Board of Trustees. Projects will be designed to produce clear value to CPS Energy and its customers.

CPS Energy sells excess power into the wholesale market with a balanced portfolio that includes a mix of short-term (less than a month) and mid-term (one month to a year) transactions with market participants and long-term (one to five years) and super long-term (5 years or more) wholesale power agreements with other public power entities and cities. In addition to a long-standing wholesale power relationship with the city of Floresville, the Company currently has agreements to provide either full or partial requirements to six other public power entities. These agreements have varying terms expiring between December 2021 and December 2025. The volumes committed under these agreements represent approximately 5% of current capacity. The Company regularly monitors the market values of these transactions to manage contract provisions with the counterparties.

On June 20, 2011, CPS Energy announced its New Energy Economy initiative. The program is designed to focus on more clean energy sources rather than traditional energy sources and includes several major initiatives to which the Company has committed:

- CPS Energy offers customers the opportunity to better manage their home’s energy use through the Wi-Fi Thermostat Rewards program. The program gives customers access to a wide choice of programmable thermostat options. Customers benefit from better control of their home’s air conditioning use and the visibility to program settings from their mobile devices. Customers in Wi-Fi Thermostat Rewards can choose to have a CPS Energy contractor install a free programmable thermostat in their place of residence. Alternatively, they can purchase and self-install their own thermostat from a list of qualifying devices and receive a rebate from CPS Energy. In exchange for the rebate, customers allow CPS Energy to periodically control and interrupt service to manage peak energy periods. The program is funded through STEP. As of January 31, 2020, there were 154,364 CPS Energy customers enrolled in Wi-Fi Thermostat Rewards.
- The Company completed the replacement of approximately 23,500 high pressure sodium vapor streetlights with 250-Watt equivalent Light Emitting Diode (“LED”) streetlights for the City. The streetlights use 60% less energy than standard sodium lights and are designed to last 12 to 15 years, thereby reducing maintenance costs. Approximately \$2.2 million of the deployment costs were funded through STEP, with the remainder being funded by the City. The installation of an additional 1,500 LED streetlights is currently on hold pending direction from the City on lighting for the downtown area.

The City also requested the replacement of 30,000 residential streetlights with 100-Watt equivalent LED streetlights. The Company began this project in City Districts 2 and 5 where a total of 5,100 replacement LED lights were installed in FY2017. A total of 4,275 were installed in FY2018. This project has been placed on hold at the request of the City until further notice. At

this time, any new lights installed or replaced are done so on an exception basis upon request by the City.

LED street lights have become the standard for ongoing city-wide streetlight maintenance. As older sodium lights fail, they will be replaced with LED equivalents.

- In November 2011, the Company entered into a \$77.0 million prepaid agreement for purchased power equal to approximately 60% of the anticipated output from 30 MW of solar energy facilities in the San Antonio area. The unamortized balance of the prepayment was \$53.7 million and \$56.8 million at January 31, 2020, and 2019, respectively. The agreement expires in 2037, and the purchase of the balance of the output is on a pay-as-you-go basis.
- In July 2012, CPS Energy executed a Master Agreement with OCI Solar Power (“OCI”) for approximately 400 MW from seven facilities. All seven facilities became operational by the end of 2017. In March 2017, CPS Energy and OCI executed an Amended and Restated Master Power Purchase and Economic Development Agreement. The original Master Agreement was replaced in order to simplify the agreement and reflect pertinent terms going forward. In addition, CPS Energy also executed two separate 25-year Purchase Power Agreements for Project Pearl and Project Ivory for 50 MW each.

The table below represents a total capacity of approximately 500 MW for all solar farm facilities included in 25-year power purchase agreements mentioned above:

<u>Facility</u>	<u>Capacity in MW</u>	<u>Achieved Commercial Operations</u>
Alamo 1	40.7	December 2013
St. Hedwig (Alamo 2)	4.4	March 2014
Walzem (Alamo 3)	5.5	January 2015
Eclipse (Alamo 4)	39.6	August 2014
Helios (Alamo 5)	95.0	December 2015
Sirius 1 (Alamo 6)	110.2	March 2017
Solara (Alamo 7)	106.4	September 2016
Sirius 2 (Pearl)	50.0	October 2017
Lamesa 2 (Ivory)	50.0	December 2018
Total 25-year power purchase capacity	501.8	

- Simply Solar is the trademarked name for CPS Energy’s pilot solar initiatives – Roofless Solar and SolarHostSA. Roofless Solar is being offered by CPS Energy in partnership with Clean Energy Collective (“CEC”). CEC built and maintains a 1 MW community solar farm in the CPS Energy service territory and sold 107.5-Watt panels in the array to customers who wanted to enjoy the benefits of solar power without having to install their own system. On June 18, 2015, CPS Energy entered into an agreement to purchase the output from the solar farm for 25 years. On December 17, 2018, CPS Energy entered into a 25-year agreement with Big Sun SA 1 (“Big Sun”) to expand the Roofless Solar program by an additional 5 MW. Big Sun will be installing community solar panels on carports at commercial businesses across San Antonio. The panels will be sold to customers who will receive bill credits from CPS Energy for their share of the solar production. For the SolarHostSA program, CPS Energy partnered with PowerFin Partners to install up to 5 MW of rooftop systems on customer homes and businesses. The program provides participating customers a monthly credit for hosting the systems on their rooftops. The program makes solar accessible to more customers by eliminating the significant upfront cost of traditional rooftop systems. On August 12, 2015, CPS Energy entered into an agreement to purchase the output from the rooftop systems for an initial term of 20 years.

In June 2017, the Company awarded a construction contract to renovate the new corporate headquarters to Sundt Construction. The Board approved a guaranteed maximum price of \$145 million. CPS Energy also made provisions for a \$5 million contingency fund which may be used to fund additional requirements related to the headquarters project. The Company expects to move its employees into the renovated headquarters during the fourth quarter of calendar year 2020.

In FY2018, CPS Energy entered into a 50-year Utilities Privatization Contract (“Contract”) with the Defense Logistics Agency to operate and maintain the natural gas and the electric utility systems at three JBSA installations: JBSA Randolph, JBSA Lackland and JBSA Lackland Training Annex. On July 1, 2019, CPS Energy and the Department of Defense (“DOD”) executed the Bill of Sale for the systems covered by the Contract, valued at \$87.1 million and, in doing so, the DOD transferred ownership of these systems to CPS Energy. The DOD will reimburse CPS Energy for the costs to operate, maintain and upgrade these systems throughout the contract term.

15. Leases

Capital Leases

CPS Energy was not a contracted party to any capital leases during FY2020 or FY2019, either as a lessee or lessor.

Operating Leases

Leases Related to Communication Towers Sale – In FY2014, the Company entered into an agreement to sell 69 of its communication towers to an independent third party. Title to 62 of the towers was conveyed to the purchaser in January 2014. Resolution of easement issues related to the remaining sites was concluded in early FY2017, resulting in the transfer of title to the purchaser for five additional towers for a total of 67 towers. CPS Energy retained title to the remaining two towers. Additionally, new licensing agreements were entered into between CPS Energy and the purchaser for CPS Energy’s ongoing use of the towers and the purchaser’s use of CPS Energy’s communication buildings for a period of 40 years, with three five-year options by the purchaser to extend the agreement. See Note 5 – Capital Assets, Net for additional information related to the sale.

In accordance with lease guidance provided in GASB Statement No. 62, leases related to the communication towers sale, both with CPS Energy as lessor and as lessee, have been classified as operating leases. Future minimum lease payment information provided in this footnote includes lease revenue and lease expense to be recognized as a result of the following lease components of the communication towers sale:

- **Lease of Tower Space for CPS Energy Communication Equipment** – The parties to the sale transaction agreed that no cash would be paid by CPS Energy for the space it leased on the communication towers for the 40-year term of the lease agreement. As a result, the total sale transaction proceeds received from the purchaser were reduced by an amount representing an advance payment to the purchaser of the net present value of the estimated total lease obligation. This value represents a prepaid lease expense to the Company, benefitting a period of time equal to the 40-year term of the leases. In accordance with GASB Statement No. 62, the value of this prepaid lease obligation for space on the 67 towers was recorded at fair value and totaled \$20.2 million, which is being amortized to lease expense over the 40-year term.
- **Lease of Communication Building Space** – The parties agreed that no cash would be paid by the purchaser for the space it leased in CPS Energy’s communication buildings for the term of the

lease agreement. As a result, the total sale transaction proceeds received from the purchaser included an additional amount representing an advance payment by the purchaser of the net present value of the estimated total lease obligation. This value represents unearned lease revenue to CPS Energy to be generated over a period of time equal to the 40-year term of the leases. In accordance with GASB Statement No. 62, the value of this unearned lease revenue for space in the 67 communication buildings was recorded at fair value and totaled \$6.8 million, which is being amortized to nonoperating income over the 40-year term.

Additionally, the communication towers sale transaction included an assignment of existing operating lease agreements with tenants who had equipment located on the towers. At the time of sale, there were approximately 127 lease agreements outstanding, with CPS Energy as lessor for space on the towers and in the Company's communication buildings, having remaining terms varying from fewer than two years to ten years. In FY2014, these leases provided approximately \$2.8 million in proceeds to the Company, which was recognized as nonoperating income. With the sale of the towers, these leases were assigned to the purchaser, and the right to collect future cash flows from the leases was conveyed. The estimated net present value of these cash flows, including annual escalations based on estimated future Consumer Price Indices, totaled approximately \$6.5 million for the 62 towers conveyed in the initial closing plus an additional \$0.5 million for the five towers subsequently conveyed. Proceeds to the Company from the towers sale transaction included a purchase price for these leases, which was recorded as a deferred inflow of resources totaling \$6.5 million in accordance with guidance provided in GASB Statement No. 65. As of January 31, 2020, and January 31, 2019, the balance of unearned revenue reported as a deferred inflow of resources was \$0.9 million and \$2.1 million, respectively. Revenue from the sale of future revenues related to these leases will be recognized over the term of the original leases in accordance with guidance provided in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*.

Following is a brief description of CPS Energy's current leases, as well as future minimum payments and receipts related to those leases.

CPS Energy as Lessee – CPS Energy has entered into operating lease agreements to secure the usage of communication towers space, railroad cars, natural gas storage facilities, land, office space, parking lot space and engineering equipment. The lease for the parking lot space and several of the leases for office space, as well as the lease of communication towers space, include an escalation in the monthly payment amount after the first year of each lease.

CPS Energy's projected future minimum lease payments for noncancelable operating leases with terms in excess of one year are as follows:

(In thousands)	
<u>Year Ended January 31,</u>	<u>Operating Lease Payments</u>
2021	\$ 6,700
2022	3,019
2023	1,786
2024	1,755
2025	1,710
Thereafter	<u>69,853</u>
Total future minimum lease payments	<u>\$ 84,823</u>

CPS Energy’s minimum lease payments for all operating leases for which the Company was the lessee amounted to \$8.8 million in FY2020 compared to \$9.1 million in FY2019. Contingent lease payments amounted to \$0.05 million in FY2020 and FY2019.

CPS Energy as Lessor – CPS Energy has entered into operating lease agreements allowing cable and telecommunication companies to attach telephone, cable and fiber-optic lines to CPS Energy’s electric poles. Operating leases also exist between CPS Energy and telecommunication companies allowing the companies to attach communication equipment to CPS Energy’s communication and transmission towers. As described previously, CPS Energy sold 67 of its communication towers to a third party.

CPS Energy has three operating leases for the use of land that the Company owns, and it has entered multiple agricultural leases allowing the lessees to use CPS Energy’s land for sheep and cattle grazing. The three land leases contain provisions for contingent lease receipts based on the Consumer Price Index. Additionally, the majority of the operating leases pertaining to the use of CPS Energy’s transmission towers contain provisions for contingent lease receipts that will equal the lesser of a 15% increase in the prior five-year lease payment or the percentage increase in the Consumer Price Index over the same five-year period.

Projected future minimum lease receipts to CPS Energy for noncancelable operating leases with terms in excess of one year are as follows:

(In thousands)	
<u>Year Ended January 31,</u>	<u>Operating Lease Receipts</u>
2021	\$ 1,137
2022	1,152
2023	987
2024	589
2025	597
Thereafter	<u>22,884</u>
Total future minimum lease receipts	<u>\$ 27,346</u>

CPS Energy’s minimum lease receipts for all operating leases for which the Company was the lessor amounted to \$8.5 million in FY2020 and \$8.4 million in FY2019. Contingent lease receipts amounted to \$0.03 million in FY2020 and FY2019. There were no sublease receipts in FY2020 or FY2019.

16. Pollution Remediation Obligations

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, requires that a liability be recognized for expected outlays for remediating existing pollution when certain triggering events occur. The general nature of existing pollution that has been identified at CPS Energy sites is consistent with that experienced within the electric and gas utilities industry. Under most circumstances, the triggering event most relevant to the Company is the voluntary commencement of activities to clean up pollution.

Under Federal Energy Regulatory Commission guidance, reserves have been established for dismantling and closure costs. In FY2008, in preparation for implementation of GASB Statement No. 49, a portion of those reserves were reclassified to remediation and dismantling reserve accounts reported on the Statements of Net Position within other liabilities. When a triggering event occurs, those reserves will be reclassified as a pollution remediation liability also reported within other liabilities.

The pollution remediation liability was \$3.7 million and \$2.7 million as of January 31, 2020 and 2019, respectively. Costs were estimated using the expected cash flow technique prescribed under GASB Statement No. 49, utilizing information provided by the Company's environmental staff and consultants.

CPS Energy adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, in FY2019. Certain pollution remediation obligations presented and accounted for under GASB Statement No. 49 were not affected by implementation of GASB Statement No. 83.

17. Asset Retirement Obligations ("ARO")

CPS Energy adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*, during FY2019 and accounts for AROs by recognizing the obligations as a liability based on the best estimate of the current value of outlays expected to be incurred once the assets are retired. Asset retirement obligations recognized under GASB statement No. 83 were estimated utilizing information provided by the Company's environmental and engineering staff, external consultants, and costs based on an external cost study for decommissioning.

The Statement requires the AROs be adjusted for the effects of inflation or deflation at least annually. In addition to the AROs, the Company has recorded associated deferred outflows of resources that are being amortized over the remaining useful life of the respective asset groups. The following asset groups have been included in the ARO reflected on the Statements of Net Position:

- **STP Units 1 and 2** – CPS Energy is one of three participants in STP, currently a two-unit nuclear power plant located in Matagorda County, Texas. The Code of Federal Regulations provides the main decommissioning requirements mandated by the Nuclear Regulatory Commission ("NRC") that issues the operational license of the site. The asset retirement obligation is based on an external cost study performed every five years. The most recent study was finalized in May 2018 and estimates costs in 2018 dollars. The associated costs are being amortized utilizing a straight-line method over the estimated remaining useful lives of the units. Total asset lives for the units are 60 years based on the operating license extensions. The deferred outflows of resources are based on the estimated remaining useful life of the assets at the time of implementation. CPS Energy has established two decommissioning trusts that are reported as blended component units combined into the CPS Energy financial statements to cover the eventual decommissioning associated with STP Units 1 and 2. At January 31, 2020 and 2019, the ARO related to STP Units 1 and 2 was \$1,016.6 million and \$991.5 million, respectively.
- **Vaults** – CPS Energy has approximately 200 underground vaults with useful lives of 46 years. The vaults have regulatory requirements to be met prior to removal and after retirement under the Code of Federal Regulations and the Texas Commission on Environmental Quality ("TCEQ"). Methods and assumptions to determine the associated liability were based on an internal calculation of cost per square foot of each tank which includes assessment, remediation, transportation and disposal costs. The associated costs are being amortized utilizing a straight-line method over the average estimated remaining useful life of the vaults. At January 31, 2020 and 2019, the ARO related to the vaults was \$9.2 million.

- **Fuel Storage Tanks** – CPS Energy has 14 underground fuel storage tanks with useful lives of 30 years. The storage tanks have regulatory requirements to be met for removal or permanent closure after retirement under the Texas Administrative Code. The methods and assumptions used to determine the liability associated with the tanks were based on a cost analysis performed by an outside engineering consulting firm in July 2018. The associated retirement costs are being amortized utilizing a straight-line method over the average estimated remaining useful life of the storage tanks. At January 31, 2020 and 2019, the ARO related to the storage tanks was \$3.7 million.

REQUIRED SUPPLEMENTARY INFORMATION (“RSI”)

January 31, 2020 and 2019 (Unaudited)

Schedules of Changes in CPS Energy Net Pension Liability and Related Ratios – The following schedules present multiyear trend information that demonstrates the components of change in the net pension liability from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts are presented on a net pension liability measurement date basis for the following periods:

(Dollars in thousands)

	Measurement Period Ended January 31,							
	2019	2018	2017	2016	2015	2014	2013	2012
Total pension liability								
Service cost	\$ 37,175	\$ 32,569	\$ 31,547	\$ 30,183	\$ 32,591	\$ 33,417	\$ 33,470	\$ 31,420
Interest cost	137,954	132,861	128,991	122,800	117,802	116,155	112,356	105,013
Changes in assumptions	(10,129)	77,574	-	-	38,296	-	-	-
Differences between expected and actual experience	(19,385)	6,025	(18,647)	19,691	(35,634)	(24,410)	25,158	(13,581)
Benefit payments	(96,969)	(93,550)	(91,230)	(91,293)	(84,319)	(74,352)	(70,677)	(66,147)
Net change in total pension liability	48,646	155,479	50,661	81,381	68,736	50,810	100,307	56,705
Total pension liability, beginning of period	1,940,317	1,784,838	1,734,177	1,652,796	1,584,060	1,533,250	1,432,943	1,376,238
Total pension liability, end of period	1,988,963	1,940,317	1,784,838	1,734,177	1,652,796	1,584,060	1,533,250	1,432,943
Plan fiduciary net position								
Employer contributions	(58,700)	(46,200)	(44,500)	(46,000)	(55,800)	(44,400)	(39,016)	(37,687)
Participant contributions	(13,363)	(13,039)	(12,144)	(11,563)	(12,140)	(12,569)	(12,332)	(11,745)
(Earnings) loss on Plan assets	48,316	(246,772)	(207,196)	52,945	(85,520)	(145,883)	(110,529)	(22,510)
Benefit payments	96,969	93,550	91,230	91,293	84,319	74,352	70,677	66,147
Administrative expenses	391	389	-	-	-	-	-	-
Net change in Plan fiduciary net position	73,613	(212,072)	(172,610)	86,675	(69,141)	(128,500)	(91,200)	(5,795)
Plan fiduciary net position, beginning of period	(1,684,448)	(1,472,376)	(1,299,766)	(1,386,441)	(1,317,300)	(1,188,800)	(1,097,600)	(1,091,805)
Plan fiduciary net position, end of period	(1,610,835)	(1,684,448)	(1,472,376)	(1,299,766)	(1,386,441)	(1,317,300)	(1,188,800)	(1,097,600)
Net pension liability, end of period	\$ 378,128	\$ 255,869	\$ 312,462	\$ 434,411	\$ 266,355	\$ 266,760	\$ 344,450	\$ 335,343
Plan fiduciary net position as a percentage of the total pension liability	81.0%	86.8%	82.5%	74.9%	83.9%	83.2%	77.5%	76.6%
Covered payroll	\$ 254,241	\$ 242,477	\$ 235,360	\$ 256,236	\$ 261,085	\$ 260,730	\$ 251,136	\$ 241,318
Net pension liability as a percentage of covered payroll	148.7%	105.5%	132.8%	169.5%	102.0%	102.3%	137.2%	139.0%

Notes to Schedule

For FY 2020 and FY 2019, the annual investment rate of return underlying the calculation of total pension liability was assumed to be 7.25%. For FY 2018 and FY 2017, the annual investment rate of return was assumed to be 7.50%. For the previous years presented, the rate used was 7.75%. Based on an experience study completed in 2017, the FY 2019 valuation results include the impact of other revised actuarial assumptions including salary increases and the use of updated mortality tables. No other actuarial assumptions were modified in FY 2018. Other actuarial assumptions were modified in FY 2016 without significantly affecting trends in the amounts reported above. There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, or other factors that significantly affected trends from year to year in the amounts reported above.

CPS Energy FY2020 Basic Financial Statements

Schedules of Employer Contributions to CPS Energy Pension Plan – The following schedules, present multiyear trend information regarding employer contributions to the Pension Plan. Information is presented related to all periods for which the required data is available. The amounts presented are determined as of the fiscal years ending:

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 53,435	\$ 58,657	\$ 46,234	\$ 44,532	\$ 46,001	\$ 48,696	\$ 44,362	\$ 39,016
Contributions in relation to the actuarially determined contribution	<u>73,435</u>	<u>58,700</u>	<u>46,200</u>	<u>44,500</u>	<u>46,000</u>	<u>55,800</u>	<u>44,400</u>	<u>39,016</u>
Contribution deficiency (excess)	<u>\$ (20,000)</u>	<u>\$ (43)</u>	<u>\$ 34</u>	<u>\$ 32</u>	<u>\$ 1</u>	<u>\$ (7,104)</u>	<u>\$ (38)</u>	<u>\$ -</u>
Covered payroll	\$ 271,449	\$ 254,241	\$ 242,477	\$ 235,360	\$ 256,236	\$ 261,085	\$ 260,730	\$ 251,136
Contributions as a percentage of covered payroll	27.1%	23.1%	19.1%	18.9%	18.0%	21.4%	17.0%	15.5%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal cost
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years, beginning with calendar year 2014; expected value adjusted market value method for all prior periods
Inflation	3.0% for FY 2020 and for previous years presented per year, compounded annually
Salary increases	Average, including inflation: 5.36% for FY 2020 4.72% for FY 2019, 4.66% for FY 2018, 4.78% for FY 2017, 5.01% for FY 2016, 5.03% for FY 2015, 5.07% for FY 2014, 5.18% for FY 2013
Investment rate of return	7.25% per year, compounded annually, for FY 2020 and FY 2019, 7.50% for FY 2018 and FY 2017; 7.75% for prior years
Mortality	Based on RP-2014 Mortality Table adjusted backwards to 2006 with Mortality Improvement Scale MP-2014 and projected (fully generational) with MP-2017 for FY2020; RP-2016 Combined Healthy, with No Collar Adjustment, Male and Female Tables; with MP-2016 Mortality Improvement Scale for FY2019; RP-2000 Combined Healthy Annuitant Mortality Table for Males or Females, projected using Scale BB for 2017 and 2016; RP-2000 Combined Healthy Annuitant Mortality Table for Males or Females, projected using Scale AA for prior years.
Cost-of-living increases	1.50% per year

Other information: In FY 2020, an additional \$20.0 million was contributed to the pension plan in excess of the actuarially determined contribution. For FY 2020 and FY 2019, the annual investment rate of return underlying the calculation of total pension liability was assumed to be 7.25%. For FY 2018 and FY 2017, the annual investment rate of return was assumed to be 7.50%. For the previous years presented, the rate used was 7.75%. Based on an experience study completed in 2017, the FY 2019 valuation results include the impact of other revised actuarial assumptions including salary increases and the use of updated mortality tables. No other actuarial assumptions were modified in FY 2018. Other actuarial assumptions were modified in FY 2016 without significantly affecting trends in the amounts reported above. There were no changes in benefit terms, in the size or composition of the population covered by the benefit terms, or other factors that significantly affected trends from year to year in the amounts reported above.

Schedules of Changes in CPS Energy Net OPEB Liability and Related Ratios – The following schedules present multi-year trend information that demonstrates the components of change in the net OPEB (asset) liability from year to year, as well as trends in related statistical information. Information is presented related to all periods for which the required data is available. Amounts are presented on a net OPEB (asset) liability measurement date basis for the following periods:

Health Plan

(Dollars in thousands)

	Measurement Period Ended January 31,				
	2019	2018	2017	2016	2015
Total OPEB liability					
Service cost	\$ 4,466	\$ 3,376	\$ 3,435	\$ 3,319	\$ 3,207
Interest cost	18,032	17,182	18,176	17,601	17,050
Changes in Plan benefits	-	415	(19,185)	-	-
Changes in assumptions	(2,190)	9,657	-	-	-
Differences between expected and actual experience	1,763	-	475	-	-
Benefit payments	(11,390)	(12,197)	(14,001)	(12,756)	(13,275)
Net change in total OPEB liability	10,681	18,433	(11,100)	8,164	6,982
Total OPEB liability, beginning of period	253,241	234,808	245,908	237,744	230,762
Total OPEB liability, end of period	263,922	253,241	234,808	245,908	237,744
Plan fiduciary net position					
Employer contributions	-	-	(8,500)	(8,806)	(3,200)
Medicare Part D payment	(872)	(998)	(933)	(976)	(933)
(Earnings) loss on Plan assets	10,571	(41,718)	(38,949)	9,765	(12,536)
Benefit payments	11,390	12,197	14,001	12,756	13,275
Administrative expense	1,223	1,346	1,622	1,456	1,137
Net change in Plan fiduciary net position	22,312	(29,173)	(32,759)	14,195	(2,257)
Plan fiduciary net position, beginning of period	(289,821)	(260,648)	(227,889)	(242,084)	(239,827)
Plan fiduciary net position, end of period	(267,509)	(289,821)	(260,648)	(227,889)	(242,084)
Net OPEB (asset) liability, end of period	\$ (3,587)	\$ (36,580)	\$ (25,840)	\$ 18,019	\$ (4,340)
Plan fiduciary net position as a percentage of the total OPEB liability	101.4%	114.4%	111.0%	92.7%	101.8%
Covered-employee payroll	\$ 228,240	\$ 220,522	\$ 223,523	\$ 215,964	\$ 242,652
Net OPEB (asset) liability as a percentage of covered-employee payroll	-1.6%	-16.6%	-11.6%	8.3%	-1.8%

Notes to Schedule

The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.25% for FY 2020 and FY 2019. A rate of 7.50% was assumed for the previous years presented. The Plan was amended to eliminate the CPS Energy contribution to participants' Health Reimbursement Account and the actuary valuation used for FY 2019 reflects the impact of this change. In FY 2019 and FY 2018, claim costs were updated to reflect plan changes and to reflect recent experience. Medical and prescription trend was reset in all years presented.

CPS Energy FY2020 Basic Financial Statements

Life Plan

(Dollars in thousands)

	Measurement Period Ended January 31,				
	2019	2018	2017	2016	2015
Total OPEB liability					
Service cost	\$ 473	\$ 349	\$ 336	\$ 325	\$ 313
Interest cost	3,284	3,432	3,256	3,244	3,228
Changes in assumptions	594	(457)	-	-	-
Differences between expected and actual experience	(936)	-	2,378	-	-
Benefit payments	(4,028)	(3,813)	(3,469)	(3,358)	(3,313)
Net change in total OPEB liability	(613)	(489)	2,501	211	228
Total OPEB liability, beginning of period	46,800	47,289	44,788	44,577	44,349
Total OPEB liability, end of period	46,187	46,800	47,289	44,788	44,577
Plan fiduciary net position					
Employer contributions	-	-	-	-	-
Participant contributions	(1,030)	(1,000)	(972)	(930)	(911)
(Earnings) loss on Plan assets	2,135	(8,066)	(6,936)	2,102	(2,460)
Benefit payments	4,028	3,813	3,469	3,358	3,313
Administrative expenses	28	30	27	21	16
Net change in Plan fiduciary net position	5,161	(5,223)	(4,412)	4,551	(42)
Plan fiduciary net position, beginning of period	(54,921)	(49,698)	(45,286)	(49,837)	(49,795)
Plan fiduciary net position, end of period	(49,760)	(54,921)	(49,698)	(45,286)	(49,837)
Net OPEB (asset) liability, end of period	\$ (3,573)	\$ (8,121)	\$ (2,409)	\$ (498)	\$ (5,260)
Plan fiduciary net position as a percentage of the total OPEB liability	107.7%	117.4%	105.1%	101.1%	111.8%
Covered-employee payroll	\$ 218,003	\$ 210,631	\$ 198,704	\$ 191,984	\$ 218,939
Net OPEB (asset) liability as a percentage of covered-employee payroll	-1.6%	-3.9%	-1.2%	-0.3%	-2.4%

Notes to Schedule

The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.25% for FY 2020 and FY 2019. A rate of 7.50% was assumed for the previous years presented. In FY 2019, the salary scale and mortality assumptions were also changed to more properly reflect actual experience. There were no other changes in benefit terms, in the size or composition of the population covered by the benefit terms that significantly affected trends from year to year in the amounts reported above.

Disability Plan

(Dollars in thousands)	Measurement Period Ended January 31,				
	2019	2018	2017	2016	2015
Total OPEB liability					
Service cost	\$ 620	\$ 516	\$ 527	\$ 509	\$ 492
Interest cost	475	473	455	448	426
Changes in assumptions	189	94	-	-	-
Differences between expected and actual experience	(656)	-	255	-	-
Benefit payments	(880)	(1,012)	(974)	(775)	(559)
Net change in total OPEB liability	(252)	71	263	182	359
Total OPEB liability, beginning of period	6,366	6,295	6,032	5,850	5,491
Total OPEB liability, end of period	6,114	6,366	6,295	6,032	5,850
Plan fiduciary net position					
Employer contributions	(1,000)	(1,300)	(700)	(175)	(175)
Participant contributions	(274)	(265)	(260)	(248)	(211)
(Earnings) loss on Plan assets	205	(627)	(501)	158	(177)
Benefit payments	880	1,012	974	775	559
Administrative expense	19	18	15	14	18
Net change in Plan fiduciary net position	(170)	(1,162)	(472)	524	14
Plan fiduciary net position, beginning of period	(5,396)	(4,234)	(3,762)	(4,286)	(4,300)
Plan fiduciary net position, end of period	(5,566)	(5,396)	(4,234)	(3,762)	(4,286)
Net OPEB liability, end of period	\$ 548	\$ 970	\$ 2,061	\$ 2,270	\$ 1,564
Plan fiduciary net position as a percentage of the total OPEB liability	91.0%	84.8%	67.2%	62.4%	73.3%
Covered-employee payroll	\$ 224,137	\$ 216,558	\$ 212,904	\$ 205,704	\$ 218,939
Net OPEB liability as a percentage of covered-employee payroll	0.2%	0.4%	1.0%	1.1%	0.7%

Notes to Schedule

The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.25% for FY 2020 and FY 2019. A rate of 7.50% was assumed for the previous years presented. In FY 2019, the salary scale and mortality assumptions were also changed to more properly reflect actual experience. There were no other changes in benefit terms, in the size or composition of the population covered by the benefit terms that significantly affected trends from year to year in the amounts reported above.

CPS Energy FY2020 Basic Financial Statements

Schedules of Employer Contributions to CPS Energy OPEB Plans – The following schedules present multi-year trend information regarding employer contributions to the OPEB Plans. Information is presented related to all periods for which the required data is available. The amounts presented are determined as of the fiscal years ending:

Health Plan

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	-	-	-	8,500	8,806
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,500)</u>	<u>\$ (8,806)</u>
Covered-employee payroll	\$ 244,010	\$ 228,240	\$ 220,522	\$ 223,523	\$ 215,964
Contributions as a percentage of covered-employee payroll	0.0%	0.0%	0.0%	3.8%	4.1%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal cost
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years
Healthcare cost trend rates	8.7% initial, decreasing to an ultimate rate of 4.1% for FY 2020; 7.0% initial, decreasing to an ultimate rate of 5.0% for FY 2019 and FY 2018, 7.5% initial, decreasing to an ultimate of 5.0% for FY 2017 and FY 2016
Prescription cost trend rates	8.7% initial, decreasing to an ultimate rate of 4.1% for FY 2020; 7.0% initial, decreasing to an ultimate rate of 5.0% for FY 2019 and FY 2018, 8.5% initial, decreasing to an ultimate of 5.0% for FY 2017 and FY 2016
Salary increases	Projected average annual base salary increases from 3.1% to 11.6% for FY 2020 and FY 2019; ranging from 4.0% to 9.5% for previous years
Investment rate of return	7.25% per year, compounded annually for FY 2020 and FY 2019, 7.50% for previous years
Mortality	Based on RP-2014 Mortality Table adjusted backwards to 2006 with Mortality Scale MP-2014 and projected with Mortality Improvement Scale MP-2017 (seperate tables for males/females); Based on RP-2000 Combined Healthy, with No Collar Adjustment, Projected to 2020 using Scale BB, Male and Female Tables for Active and Retirees; Based on 1987 Commissioners Group Disabled Life Mortality Table for Disabled

Other information: The Plan was amended to eliminate the CPS Energy contribution to participants' Health Reimbursement Account and the actuary valuation used for FY 2019 reflects the impact of this change. For FY 2019 and FY 2018 claim costs were updated to reflect plan changes and to reflect recent experience. The medical and prescription trend was reset in FY 2018. For FY 2017 and FY 2016 claim costs were updated to reflect recent experience, and the medical and prescription trend was reset.

Life Plan

(Dollars in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ -	\$ 435	\$ 515	\$ 145	\$ 561
Contributions in relation to the actuarially determined contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 435</u>	<u>\$ 515</u>	<u>\$ 145</u>	<u>\$ 561</u>
Covered-employee payroll	\$ 244,010	\$ 218,003	\$ 210,631	\$ 198,704	\$ 191,984
Contributions as a percentage of covered-employee payroll	0.0%	0.0%	0.0%	0.0%	0.0%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal cost
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years
Inflation	2.30% for FY 2020 and 3.0% for previous years presented per year, compounded annually
Salary increases	Projected average annual base salary increases from 3.1% to 11.6% for FY 2020; 4.54% average, including inflation for FY 2019; 4.78% average, including inflation, in prior years
Investment rate of return	7.25% per year, compounded annually, for FY 2020 and FY 2019, 7.50% for previous years
Mortality	Based on RP-2000 Combined Healthy, with No Collar Adjustment, Projected to 2020 using Scale BB, Male and Female Tables for Active and Retirees; Based on 1987 Commissioners Group Disabled Life Mortality Table for Disabled

Other information: The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.25% for FY 2020 and FY 2019. A rate of 7.50% was assumed for the previous years presented. In FY 2020 and FY 2019, the salary scale and mortality assumptions were also changed to more properly reflect actual experience. There were no other changes in benefit terms, in the size or composition of the population covered by the benefit terms that significantly affected trends from year to year in the amounts reported above.

CPS Energy FY2020 Basic Financial Statements

Disability Plan

(Dollars in thousands)	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined contribution	\$ 769	\$ 1,045	\$ 1,035	\$ 886	\$ 793
Contributions in relation to the actuarially determined contribution	<u>769</u>	<u>1,000</u>	<u>1,300</u>	<u>700</u>	<u>175</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 45</u>	<u>\$ (265)</u>	<u>\$ 186</u>	<u>\$ 618</u>
Covered-employee payroll	\$ 251,482	\$ 224,137	\$ 216,558	\$ 212,904	\$ 205,704
Contributions as a percentage of covered-employee payroll	0.3%	0.4%	0.6%	0.3%	0.1%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of January 1, two years and one month prior to the end of the fiscal year in which contributions are made.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal cost
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	Market value gains/losses recognized over 5 years
Inflation	2.30% for FY 2020 and 3.0% for previous years presented per year, compounded annually
Salary increases	Projected average annual base salary increases from 3.1% to 11.6% for FY 2020; 4.72% average, including inflation for FY 2019; 4.78% average, including inflation for previous years
Investment rate of return	7.25% per year, compounded annually for FY 2020 and FY 2019, 7.50% for previous years
Mortality	Based on 1987 Commissioners Group Disabled Life Mortality table

Other information: The annual investment rate of return underlying the calculation of total OPEB liability was assumed to be 7.25% for FY 2020 and FY 2019. A rate of 7.50% was assumed for the previous years presented. In FY 2020 and FY 2019, the salary scale and mortality assumptions were also changed to more properly reflect actual experience. During FY 2016, plan changes to provide employees with immediate coverage and an option to increase the benefit from 50% of pay to 70% of pay, less Social Security Disability Benefits and other offsets were reflected in the valuation.

Schedules of Investment Returns for CPS Energy Fiduciary Funds – The following schedules present the annual money-weighted rate of return, net of investment expense for the investments held by the Plans.

(Dollars in thousands)

	Fiscal Year Ended December 31,						
	2019	2018	2017	2016	2015	2014	2013
<u>Plan</u>							
Pension Plan	17.9%	-4.5%	14.6%	10.2%	-1.1%	5.7%	19.9%
Health Plan	16.7%	-5.5%	14.0%	11.1%	-	-	-
Life Plan	18.9%	-5.5%	14.1%	9.7%	-	-	-
Disability Plan	18.5%	-5.8%	13.8%	8.9%	-	-	-

GLOSSARY OF TERMS

Advance Refunding: A bond issuance in which new bonds are sold at a lower interest rate than outstanding ones. The proceeds are then invested in an irrevocable escrow; when the older bonds become callable, they are paid off with the invested proceeds.

Allowance for Funds Used During Construction (“AFUDC”): A cost accounting procedure whereby interest charges on borrowed funds and a return on equity for capital used to finance construction are added to the cost of utility plant being constructed (i.e., capitalized interest).

Amortize: To reduce an original amount or an account balance on an installment basis.

Assets: Resources with present service capacity that a governmental entity presently controls.

Asset Retirement Obligation (“ARO”): A legally enforceable liability associated with the retirement of a tangible capital asset.

Build America Bonds (“BABs”): Taxable municipal bonds created under the American Recovery and Reinvestment Act of 2009 that carry special federal subsidies for either the bondholder or the bond issuer.

Call Option: An option contract giving the owner the right (but not the obligation) to buy a specified amount of an underlying asset at a specified price within a specified time.

Capital Asset: An asset with a life of more than one year that is not bought and sold in the ordinary course of business.

Cash and Cash Equivalents: The value of assets that can be converted into cash immediately. Usually includes bank accounts and marketable securities, such as government bonds. Cash equivalents on the Statements of Net Position include securities with an original maturity of 90 days or less.

Commercial Paper: A short-term note with a maximum maturity of 270 days. Maturities for commercial paper notes, however, can be extended indefinitely for the life of the program that supports the commercial paper notes.

Component Unit: A legally separate entity for which the elected officials of the primary government are financially accountable and with which a financial benefit/burden relationship exists. The nature and significance of its relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Decommissioning: The process related to permanently taking a nuclear plant out of service, including decontaminating and removing buildings or other structures.

Defeasance: A provision that legally discharges a borrower for debt incurred when the borrower sets aside cash or bonds sufficient to service the outstanding debt.

Deferred Inflows of Resources: Acquisition of net assets applicable to a future reporting period.

Deferred Outflows of Resources: Consumption of net assets applicable to a future reporting period.

Depreciation: Amount allocated during the period to expense the cost of acquiring a capital asset over the useful life of the asset.

Derivative: In finance, a security for which price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Examples of derivatives include futures and options.

Electric Reliability Council of Texas (“ERCOT”): An organization whose mission is to direct and ensure reliable and cost-effective operation of the electric transmission grid in Texas and to enable fair and efficient market-driven solutions to meet customers’ electric service needs.

Fair Value: The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Federal Energy Regulatory Commission ("FERC"): Independent federal agency created within the U.S. Department of Energy. FERC is vested with broad regulatory authority over wholesale electric, natural gas and oil production, and the licensing of hydroelectric facilities.

Financial Accounting Standards Board ("FASB"): Board composed of independent members who create and interpret generally accepted accounting principles ("GAAP") applicable to private sector entities in the United States.

Fiscal Year ("FY"): The 12-month period covered by the income statement. A fiscal year may or may not coincide with a calendar year. For CPS Energy, the fiscal year is from February 1 through January 31.

Futures: Financial contracts obligating the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price. Futures contracts detail the quality and quantity of the underlying asset; they are standardized to facilitate trading on a futures exchange.

Generally Accepted Accounting Principles ("GAAP"): Conventions, rules and procedures that serve as the norm for the fair presentation of financial statements. The Governmental Accounting Standards Board is responsible for setting GAAP for state and local governments.

Governmental Accounting Standards Board ("GASB"): The authoritative standard-setting body for accounting and financial reporting for governmental entities in the United States.

Hedging: The process of buying and selling fuel oil; natural gas; diesel fuel; and electric energy futures, options or similar contracts to limit risk of loss caused by price fluctuations.

Lease: A legal agreement to pay rent to the lessor for a stated period of time. Sometimes the lease is in substance a purchase of an asset and a financing arrangement (i.e., a capital lease).

Liabilities: Present obligations to sacrifice resources that a governmental entity has little or no discretion to avoid.

MMBtu: 1,000,000 British Thermal Units ("BTU"). A BTU is the standard unit for measuring the quantity of heat energy, such as the heat content of fuel. It is the amount of heat energy necessary to raise the temperature of one pound of water one-degree Fahrenheit at sea level pressure.

Management's Discussion & Analysis ("MD&A"): A section of the basic financial statements that contains objective and easily readable analysis from management about the company's financial condition and its operations to assist users in assessing the company's financial position.

Megawatt ("MW"): A measure of electric power. A megawatt equals 1,000 kilowatts or 1,000,000 watts.

Mothballed: A generation resource that is placed in an inactive state so that it can neither be brought into operation immediately nor counted towards the electric transmission grid's reserve margin.

National Association of Regulatory Utility Commissioners ("NARUC"): A nonprofit organization whose members include the governmental agencies that are engaged in the regulation of utilities and carriers in the 50 United States, the District of Columbia, Puerto Rico and the Virgin Islands. NARUC's member agencies regulate the activities of energy, water and telecommunications utilities.

Natural Gas Basis Swap: A financial contract that allows the purchaser to lock in the price difference between two natural gas delivery points or hubs, such as the Houston Ship Channel and Henry Hub, Louisiana.

Net Costs Recoverable/Refundable: Certain costs that are required to be accrued as a regulatory asset or a regulatory liability under GASB Statement No. 62 if regulation provides assurance that these costs can be recovered or refunded through rates in the future.

Net OPEB (Asset) Liability: The difference between the actuarial total OPEB liability and an OPEB plan's fiduciary net position of as the measurement date.

Net Pension Liability: The difference between the actuarial total pension liability and a pension plan's fiduciary net position of as the measurement date.

Net Revenue: Per the New Series Bond Ordinance, all income and revenues from the operation of the Company's electric and gas systems after the deduction of maintenance and operating expenses.

New Series Bonds: A CPS Energy term used to distinguish bonds that have a first lien on the net revenues of CPS Energy's Systems.

Other Postemployment Benefits ("OPEBs"): Postemployment benefits other than pension benefits. OPEBs include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination benefits.

Public Utility Commission of Texas ("PUCT"): The governmental commission that regulates the rates and services of telephone utilities; investor-owned electric, water and sewer utilities; electric, water and sewer utilities in unincorporated areas; and radio companies statewide. The PUCT does not have authority to regulate retail activities of municipally owned utilities.

Refunding: Retiring all or a portion of an outstanding bond issue after the first call date by using money from the sale of a new offering.

Regulatory Asset/Liability: Specific costs, revenues or gains that a government with qualifying rate-regulated operations is allowed to defer, until recovered through future rates, that would otherwise be immediately recognized in the statement of revenues, expenses and changes in net position.

Required Supplementary Information ("RSI"): Schedules, statistical data and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.

Retail Sales: Retail electric sales within a utility's certificated service area. (Also see "Wholesale Sales.")

Revenue Bonds: Bonds issued by a municipality in which the issuer pledges to the bondholders its revenues as security for the bonds.

SA Energy Acquisition Public Facility Corporation ("PFC"): A public nonprofit corporation organized under the laws of the state of Texas pursuant to the Texas Public Facility Corporation Act, Chapter 303, Texas Local Government Code. The PFC was organized to assist the City of San Antonio in financing, refinancing or providing public facilities, including natural gas, to be devoted to public use.

South Texas Project ("STP"): A two-unit nuclear plant with a capacity of 2,700 MW of electricity, enough to provide service for more than one million homes and businesses.

South Texas Project Nuclear Operating Company ("STPNOC"): A not-for-profit entity that provides for the licensing, construction, operation and maintenance of the jointly owned and operated electric generation facilities of STP.

Tax-Exempt Bond: A bond usually issued by a municipal, county or state government for which interest payments are not subject to the bondholders' federal income tax and, in some cases, state and local income tax.

Transmission Costs of Service ("TCOS"): A functional classification of expenses and capital expenditures relating to the operation and maintenance of the transmission plant. The transmission function is that portion of the utility system used for the purpose of transmitting electrical energy in bulk to other principal parts of the system or to other utility systems.

True Interest Cost: The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds.

Weighted-Average Duration ("WAD"): The weighted-average time to return a dollar of principal and interest and incorporates potential changes in the timing of principal and interest return that may occur as a result of changes in interest rates. It makes assumptions regarding the most likely timing and amounts of variable cash flows and is used as an estimate of the interest rate risk of a fixed-income investment—especially those with payment terms dependent on market interest rates.

Weighted-Average Maturity ("WAM"): The weighted-average time to return a dollar of principal based on an investment's stated final maturity. It is used as an estimate of the interest rate risk of a fixed-income investment.

Wholesale Sales: Wholesale electric sales outside a utility's certificated service area. (Also see "Retail Sales.")

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APPENDIX C



CPS ENERGY

UNAUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED OCTOBER 31, 2020

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Summary of Statements of Net Position Information - Unaudited

For more information regarding October 31, 2020 Interim Report, please visit:

<https://www.cpsenergy.com/content/dam/corporate/en/Documents/Finance/FY%202021%20Third%20Quarter%20Interim%20Financial%20Report.pdf>

	October 31,	
	<u>2020</u>	<u>2019</u>
	<i>(In thousands)</i>	
Assets		
Current assets.	\$ 1,081,433	\$ 914,360
Noncurrent assets.	1,871,943	2,204,379
Capital assets, net.	<u>8,644,110</u>	<u>8,402,643</u>
Total assets.	11,597,486	11,521,382
Deferred outflows of resources.	<u>703,395</u>	<u>770,786</u>
Total assets plus deferred outflows of resources.	<u>\$ 12,300,881</u>	<u>\$ 12,292,168</u>
Liabilities		
Current liabilities.	\$ 618,404	\$ 603,853
Long-term debt, net.	5,949,271	6,093,257
Other noncurrent liabilities.	<u>1,714,886</u>	<u>1,724,092</u>
Total liabilities.	8,282,561	8,421,202
Deferred inflows of resources.	<u>171,433</u>	<u>133,845</u>
Total liabilities plus deferred inflows of resources.	<u>8,453,994</u>	<u>8,555,047</u>
Net position		
Net investment in capital assets.	2,536,480	2,173,264
Restricted.	719,860	1,058,199
Unrestricted.	<u>590,547</u>	<u>505,658</u>
Total net position.	<u>3,846,887</u>	<u>3,737,121</u>
Total liabilities plus deferred inflows of resources plus net position.	<u>\$ 12,300,881</u>	<u>\$ 12,292,168</u>

Summary of Revenues, Expenses and Changes in Net Position Information - Unaudited

For more information regarding October 31, 2020 Interim Report, please visit:

<https://www.cpsenergy.com/content/dam/corporate/en/Documents/Finance/FY%202021%20Third%20Quarter%20Interim%20Financial%20Report.pdf>.

	Quarter Ended		Twelve Months Ended	
	October 2020	October 2019	October 2020	October 2019
	<i>(In thousands)</i>			
Revenues				
Electric	\$ 668,289	\$ 768,207	\$ 2,339,337	\$ 2,472,975
Gas	31,184	29,459	147,968	155,918
Total operating revenues	699,473	797,666	2,487,305	2,628,893
Nonoperating income, net.	5,805	17,999	47,077	78,412
Total revenues and nonoperating income.	705,278	815,665	2,534,382	2,707,305
Expenses				
Fuel, purchased power and distribution gas	198,964	195,786	699,669	720,408
Operation and maintenance ¹	168,845	181,367	725,648	703,502
Decommissioning.	4,902	4,500	19,207	17,632
Regulatory assessments	25,574	21,266	92,882	81,309
Depreciation and amortization.	107,770	105,852	429,626	426,812
Interest and debt-related.	49,082	50,253	195,295	201,195
Payments to the City of San Antonio.	95,512	111,182	328,301	349,364
Total expenses.	650,649	670,206	2,490,628	2,500,222
Income before other changes in net position				
	54,629	145,459	43,754	207,083
Other payments to the City of San Antonio	-	-	(11,979)	(11,766)
Contributed capital.	21,408	13,657	67,956	59,833
Special item - plant impairment ²	-	-	-	(182,723)
Effect of defined benefit plan funding obligations - STP	-	(28,703)	10,035	(36,848)
Change in net position	76,037	130,413	109,766	35,579
Net position – beginning	3,770,850	3,606,708	3,737,121	3,701,542
Net position – ending	\$ 3,846,887	\$ 3,737,121	\$ 3,846,887	\$ 3,737,121

¹ Includes South Texas Project (STP) O&M costs, Other Post Employment Benefits (OPEB) costs, pension costs and Save for Tomorrow Energy Plan (STEP) expenses.

² Noncash impairment due to early retirement of JT Deely Units 1 and 2.

APPENDIX D



CPS ENERGY

CERTAIN PROVISIONS OF THE ORDINANCE

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APPENDIX D

CERTAIN PROVISIONS OF THE ORDINANCE

The following constitutes a summary of certain selected provisions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

SECTION 6: Definitions. Unless the context shall indicate contrary meaning or intent, the terms below defined, for all purposes of this Ordinance or any ordinance amendatory or supplemental hereto, shall be construed, are used, and are intended to have meanings as follows:

A. *Additional Inferior Lien Obligations* - (i) any bonds, notes, warrants, certificates of obligation, or other Debt (other than the currently authorized Inferior Lien Obligations) hereafter issued by the City that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues that is subordinate and inferior to the lien on and pledge of the Net Revenues that have or will be granted as security for the currently outstanding Senior Lien Obligations, Junior Lien Obligations, and Commercial Paper Obligations and any Additional Senior Lien Obligations and Additional Junior Lien Obligations hereafter issued by the City, on a parity with the lien on and pledge of the Net Revenues that have been or are being granted as security for the currently authorized Inferior Lien Obligations, including certificates of obligation as described in Section 271.052, as amended, Texas Government Code, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by such a subordinate and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

B. *Additional Junior Lien Obligations* - (i) any bonds, notes, warrants, certificates of obligation, or other Debt (other than the Bonds and the currently outstanding Junior Lien Obligations) hereafter issued by the City that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues that is junior and inferior to the lien on and pledge of the Net Revenues that has or will be granted as security for the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, on a parity with the lien on and pledge of the Net Revenues that have been or are being granted as security for the currently outstanding Junior Lien Obligations and the Bonds, and prior and superior to the lien on and pledge of the Net Revenues that have or will be granted as security for the Commercial Paper Obligations, the Inferior Lien Obligations, and any Additional Inferior Lien Obligations hereafter issued by the City and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by such a junior and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

C. *Additional Senior Lien Obligations* - (i) any bonds, notes, warrants, certificates of obligation, or other evidences of indebtedness which the City reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 18 and

which are equally and ratably secured solely by a prior and first lien on and pledge of the Net Revenues of the Systems and (ii) any obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and secured by a prior and first lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

D. *Board of Trustees, Board, or City Public Service Board* - the City Public Service Board of San Antonio, Texas, existing and functioning pursuant to the ordinances authorizing the issuance of the Senior Lien Obligations and this Ordinance.

E. *Bonds* - the bonds authorized by this Ordinance.

F. *City or Issuer* - the City of San Antonio, Texas.

G. *Closing Date* - the date of physical delivery of the Initial Bond in exchange for the payment in full by the Purchasers.

H. *Commercial Paper* - the currently authorized obligations of the City from time to time outstanding and unpaid that are payable wholly or in part from a lien on and pledge of the Net Revenues that is subordinate and inferior to the pledge thereof securing payment of the currently outstanding Senior Lien Obligations and the Junior Lien Obligations and any Additional Senior Lien Obligations and Additional Junior Lien Obligations hereafter issued by the City, identified as follows:

(i) “City of San Antonio, Texas Electric and Gas Systems Commercial Paper Notes, Series A”, “City of San Antonio, Texas Electric and Gas Systems Commercial Paper Notes, Series B”, and “City of San Antonio, Texas Electric and Gas Systems Commercial Paper Notes, Series C”, originally authorized in the combined aggregate principal amount of \$700,000,000, including the Credit Agreement (as defined in the ordinance authorizing the issuance of the Commercial Paper Obligations) pertaining to each series of Commercial Paper (providing liquidity support for the Commercial Paper Notes in the aggregate amount of \$700,000,000); and

(ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding obligations are payable from and equally and ratably secured, in whole or in part, by such a subordinate and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

I. *Debt* - (1) all indebtedness payable from Net Revenues incurred or assumed by the City for borrowed money (including indebtedness payable from Net Revenues arising under any Credit Agreement (as such term is defined in the ordinances of the City authorizing the issuances of the Outstanding Junior Lien Obligations that bear interest at variable rates)) and all other financing obligations of the Systems payable from Net Revenues that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet; and (2) all other indebtedness payable from Net Revenues (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations pertaining to the Systems that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through

an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise. For the purpose of determining Debt, there shall be excluded any particular Debt if, upon or prior to the maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements of the Systems in prior Fiscal Years.

J. *Debt Service Requirements* - as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on or other payments due under such obligation, (i) assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest or other payment obligations calculated by assuming (1) that such non-fixed interest rate for every future 12-month period is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the most recently reported yield, as of the time of calculation, at which United States Treasury obligations of like maturity have been sold and (2) that, in the case of bonds not subject to fixed scheduled mandatory sinking fund redemptions, that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds, and in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity according to a fixed schedule, the principal amounts thereof will be redeemed prior to stated maturity in accordance with the mandatory redemption provisions applicable thereto (in each case notwithstanding any contingent obligation to redeem bonds more rapidly); and (ii) after giving effect as an offset to regularly-scheduled debt service on a series of obligations the receipt or anticipated receipt of a refundable tax credit or similar payment from the United States Department of the Treasury to which the City is entitled as a result of the City's irrevocable designation of such series of obligations as "build America bonds" and "qualified bonds" under the Code (or such similar designations that results in the City's receipt of a similar payment from the United States Department of the Treasury). For the term of any interest rate hedge agreement entered into in connection with any such obligations, Debt Service Requirements shall be computed by netting the amounts payable to the City under such hedge agreement from the amounts payable by the City under such hedge agreement and such obligations.

K. *Depository* - such bank or banks at any time selected by the Board of Trustees to serve as depository of the funds hereinafter provided for with relation to the Bonds.

L. *Designated Financial Officer* – the President and Chief Executive Officer of the Board, the Chair or Vice Chair of the Board, the Secretary or Assistant Secretary of the Board, Chief Financial Officer of the Systems, any Treasurer or Assistant Treasurer of the Board, any party succeeding to substantially all or part of the responsibilities and duties of either of the foregoing regardless of title, or otherwise serving in an interim or acting position, or such other officer or employee of the City authorized by the City Council to act as an authorized representative, or such other financial or accounting official of the Board so designated by the City Council.

M. *Fiscal Year* - the twelve-month operational period of the Systems commencing on February 1 of each year and ending on the following January 31.

N. *Government Securities* - (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; or (iv) any additional securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds.

O. *Inferior Lien Obligations* - (i) any bonds, notes, warrants, certificates of obligation, or other similar debt currently outstanding or hereafter issued by the City that are payable from and equally and ratably secured by a lien on and pledge of the Net Revenues that is subordinate and inferior to the pledges thereof securing payment of the currently outstanding Senior Lien Obligations, the Junior Lien Obligations, the Commercial Paper Obligations, and any Additional Senior Lien Obligations and Additional Junior Lien Obligations hereafter issued by the City, including the “City of San Antonio, Texas Electric and Gas Systems Tax Exempt Flexible Rate Revolving Notes, Series A” and the “City of San Antonio, Texas Electric and Gas Systems Taxable Flexible Rate Revolving Notes, Series A”, authorized in an aggregate principal amount at any one time outstanding not to exceed \$100,000,000, (ii) any obligations that are issued subject to the limitations in Section 1502.052, as amended, Texas Government Code, and obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by such an inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

P. *Junior Lien Obligations* - (i) the currently authorized obligations of the City from time to time outstanding and unpaid that are payable wholly or in part from a lien on and pledge of the Net Revenues that is junior and inferior to the pledge thereof securing payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, identified as follows:

(1) “City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Taxable Series 2010A (Direct Subsidy - Build America Bonds)”, originally authorized in the aggregate principal amount of \$300,000,000.00;

(2) “City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2014”, originally authorized in the aggregate principal amount of \$200,000,000.00;

(3) “City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015A”, originally authorized in the aggregate principal amount of \$125,000,000.00;

(4) “City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015B”, originally authorized in the aggregate principal amount of \$125,000,000.00;

(5) “City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015C”, originally authorized in the aggregate principal amount of \$100,000,000.00;

(6) “City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015D”, originally authorized in the aggregate principal amount of \$100,000,000.00;

(7) “City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2018”, originally authorized in the aggregate principal amount of \$134,870,000.00;

(8) “City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2019”, originally authorized in the aggregate principal amount of \$252,640,000.00;

(9) “City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2020”, originally authorized in the aggregate principal amount of \$127,770,000.00;

(10) upon issuance, the Bonds; and

(ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by such a junior and inferior lien on and pledge of the Net Revenues as determined by the City Council in accordance with applicable law.

Q. *Maintenance and Operating Expenses* - those expenses (not paid from the proceeds of any Debt) required by law (Section 1502.056, as amended, Texas Government Code) to be a first lien on and charge against the income of the Systems, including the cost of insurance; the purchase and carrying of stores, materials, and supplies; the purchase, manufacture, and production of gas and electricity for distribution and resale; the payment of salaries; and the payment of all

other expenses properly incurred in operating and maintaining the Systems and keeping them in good repair and operating condition (classed as a maintenance and operating expense as opposed to a capital expenditure under the Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners). Depreciation on the properties of the Systems shall not be considered or included as Maintenance and Operating Expenses in the determination of Net Revenues of the Systems.

R. *Net Revenues* - all income and revenues from the operation of the Systems after the deduction of Maintenance and Operating Expenses. The term *Net Revenues* shall also include any additional and further security for the payment of the Bonds as may be pledged therefor consistent with the then applicable laws of the State of Texas, provided that any such additional and further security is made equally and ratably applicable as security for all Parity Bonds.

S. *Outstanding* - as of the date of determination, all Bonds theretofore issued and delivered except:

(1) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Bonds for which payment has been duly provided by the City by the irrevocable deposit with the Paying Agent/Registrar, or an authorized escrow agent, of money or Government Securities, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption; provided that, if such Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to this Ordinance or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and

(3) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof.

T. *Parity Bonds* - the Junior Lien Obligations, any Additional Junior Lien Obligations.

U. *Paying Agent/Registrar* - the financial institution named in Section 3 of this Ordinance, or any successor thereto named in accordance with the provisions of Section 3 of this Ordinance.

V. *Refunding Candidates* – shall mean:

1. “City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2012”, in the aggregate, currently outstanding principal amount of \$404,225,000;
2. “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2012”, in the aggregate, currently outstanding principal amount of \$655,370,000;
3. “City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2013”, in the aggregate, currently outstanding principal

amount of \$375,000,000;

4. "City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2014", in the aggregate, currently outstanding principal amount of \$200,000,000;
5. Any "City of San Antonio, Texas Electric and Gas Systems Commercial Paper Notes, Series A, Series B or Series C" or any Inferior Lien Obligations, authorized to be issued and at any one time outstanding in the aggregate principal amounts of \$700,000,000 and \$100,000,000, respectively; and
6. Any other Previously Issued Senior Lien Obligations or Junior Lien Obligations hereinafter identified and selected by a Designated Financial Officer as a candidate presenting an opportunity advantageous to the Systems and its ratepayers.

W. *Registered Bonds* - any Bonds issued as fully-registered bonds, without coupons.

X. *Senior Lien Obligations* - (i) the outstanding and unpaid obligations of the City that are payable solely from and equally and ratably secured by a prior and first lien on and pledge of the Net Revenues of the Systems, identified as follows: "City of San Antonio, Texas, Electric and Gas Systems Revenue Bonds, Taxable New Series 2009C (Direct Subsidy-Build America Bonds)", dated May 1, 2009 and originally issued in the principal amount of \$375,000,000; "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable Series 2010A (Direct Subsidy - Build America Bonds)", dated February 1, 2010 and originally issued in the principal amount of \$380,000,000; "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2012", dated March 1, 2012 and originally authorized in the aggregate principal amount of \$521,000,000.00; "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2012", dated June 1, 2012 and originally authorized in the aggregate principal amount of \$655,370,000.00; "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2015", dated November 1, 2011 and originally authorized in the aggregate principal amount of \$235,000,000.00; "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2015", dated August 1, 2015 and originally authorized in the aggregate principal amount of \$320,530,000.00; "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2016", dated July 1, 2016 and originally authorized in the aggregate principal amount of \$544,260,000.00; "City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2017", dated April 1, 2017 and originally authorized in the aggregate principal amount of \$308,005,000.00; "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2017", dated August 1, 2017 and originally authorized in the aggregate principal amount of \$194,980,000.00; "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2018", dated November 1, 2018 and originally authorized in the aggregate principal amount of \$218,285,000.00; "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2019", dated September 1, 2019 and originally authorized in the aggregate principal amount of \$114,685,000; "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2020 dated January 1, 2020 and originally

authorized in the aggregate principal amount of \$134,580,000.00; and “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020 dated November 1, 2020 and originally authorized in the aggregate principal amount of \$418,255,000.00; and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and equally and ratably secured by a first lien on and pledge of the Net Revenues of the Systems as determined by the City Council in accordance with any applicable law.

Y. *Systems* - the entire electric light and power plants and systems and gas distribution system and all property of every kind appurtenant to and used or acquired in connection with said electric light and power plants and systems and gas distribution system owned by the City, together with all property of every kind now and hereafter owned or acquired by the City as a part of or for use in the operation of the City’s electric light and power plants and systems and gas distribution system; provided, however, the term *Systems* shall not mean or include facilities of any kind which are declared not to be a part of the *Systems* and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of *Special Facilities Bonds*, which are hereby defined as being special revenue obligations of the City which are not payable from Net Revenues but which are payable from and equally and ratably secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of the Senior Lien Obligations including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION 7: Pledge.

A. Payment of the principal of and interest on the Bonds are and shall be secured by and payable solely from, and the City hereby grants a junior lien on and pledge of, the Net Revenues, *subject* and *subordinate* to the liens on and pledges of Net Revenues heretofore or hereafter made to secure payment of the Senior Lien Obligations and the Additional Senior Lien Obligations (and equally and ratably with the lien on and pledge of Net Revenues heretofore or hereafter made to secure payment of the Junior Lien Obligations and Additional Junior Lien Obligations, as well as with respect to any payment obligation arising under a “credit agreement”, as such term is defined in Chapter 1371, relating to any series of Parity Bonds. The Bonds are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, constituting the *Systems*. The Bonds are being issued as Additional Junior Lien Obligations. As such, the Bonds are special limited obligations of the City payable solely from the Net Revenues, and the holders thereof shall never have the right to demand payment out of funds raised or to be raised by taxation.

Subject to making the deposits required by this Ordinance or any other ordinance of the City Council, the excess Net Revenues of the *Systems* may be used by the Board for any lawful purpose.

B. Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of Net Revenues granted by the City under subsection (a) of this Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Parity Bonds are outstanding and unpaid such that the pledge of the Net Revenues granted by the City is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Parity Bonds the perfection of the security

interest in this pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code and enable a filing to perfect the security interest in this pledge to occur.

SECTION 8: Rates and Charges. While any of the Bonds authorized hereby are Outstanding, the City shall establish and maintain rates and charges for facilities and services afforded by the Systems that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce income and revenues in each Fiscal Year sufficient:

A. *Prior Lien Expenses.* to pay all Maintenance and Operating Expenses, depreciation, replacement and betterment expenses, and other costs as may be required by Chapter 1502, as amended, Texas Government Code; *Senior Lien Expenses.* to produce Net Revenues, together with any other lawfully available funds, sufficient to satisfy the rate covenant contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations and to pay the interest on and principal of all Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Senior Lien Obligations;

B. *Junior Lien Expenses.* to produce Net Revenues, together with any other lawfully available funds, to pay the interest on and principal of all Junior Lien Obligations, the Bonds, and any Additional Junior Lien Obligations hereafter issued, as well as any “credit agreement” authorized under Chapter 1371 relating to any of the foregoing, as and when the same shall become due, and for the establishment and maintenance of the funds and accounts created for the payment and security of the Bonds;

C. *Commercial Paper Expenses.* to the extent the same are reasonably anticipated to be paid with Available Revenues (as defined in the ordinance authorizing the Commercial Paper Obligations), the interest on and principal of all Notes (as defined in said ordinance) and the Agreement (as defined in said ordinance); and

D. *Inferior Lien Expenses.* to pay the Inferior Lien Obligations, any Additional Inferior Lien Obligations, or any other legal debt or obligation of the Systems as and when the same shall become due.

For the purpose of satisfying the covenants specified above, the City may consider debt service on any obligations secured by and payable from revenues of the Systems after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to any such obligations’ having been irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Senior Lien Obligations and Junior Lien Obligations designated as “build America bonds” and “qualified bonds” under the Code).

SECTION 9: General Account. The City, acting through the Board of Trustees, hereby covenants with respect to the holders of the Bonds that all revenues of every nature received through the operation of the Systems shall be deposited as received in the “City of San Antonio

Electric and Gas Systems General Account” (the *General Account*), which shall be kept separate and apart from all other funds of the City. Revenues received for the General Account shall be deposited from time to time as received in such Depository as may be selected by the Board of Trustees in accordance with applicable laws relating to the selection of City depositories.

SECTION 10: Flow of Funds. The City, acting through the Board of Trustees, hereby agrees and reaffirms its covenant to the holders of the Parity Bonds that funds in the General Account shall be pledged and appropriated to the following uses and in the order of priority shown below:

FIRST: to the payment of reasonable and proper Maintenance and Operating Expenses of the Systems upon approval by the Board of Trustees;

SECOND: to the payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, including the establishment and maintenance of the reserve therefor;

THIRD: to the payment of the Junior Lien Obligations, the Bonds, and any Additional Junior Lien Obligations hereafter issued by the City or any other Prior Lien Bonds (as defined in the ordinance authorizing the Commercial Paper Obligations), as well as any “credit agreement” authorized under Chapter 1371 relating to any of the foregoing and the establishment and maintenance of a reserve therefor;

FOURTH: to the payment and security of the Commercial Paper Notes and any Credit Agreement (as defined in the ordinance authorizing the Commercial Paper);

FIFTH: to the payment and security of the Inferior Lien Obligations and any Additional Inferior Lien Obligations hereafter issued, including obligations hereinafter issued which are inferior in lien to the Senior Lien Obligations, any Additional Senior Lien Obligations, the Junior Lien Obligations, the Bonds, any Additional Junior Lien Obligations, and the Commercial Paper Notes, as well as any “credit agreement” authorized under Chapter 1371 relating to any of the foregoing;

SIXTH: to the payment of an annual amount equal to six percent (6%) of the gross revenues of the Systems to be deposited in the Repair and Replacement Account provided for in Section 12 of this Ordinance;

SEVENTH: to the payment of the annual amount due the General Fund of the City of San Antonio, as provided in Section 13 of this Ordinance; and

EIGHTH: any remaining Net Revenues of the Systems in the General Account, to the Repair and Replacement Account in accordance with Section 12 of this Ordinance.

Any Net Revenues remaining in the General Account after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other Board purpose now or hereafter permitted by law and the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, subject to Section 12.

SECTION 11: Bond Fund; Excess Bond Proceeds. For purposes of providing funds to pay the principal of and interest on, and other amounts payable under, the Bonds and the Paying Agent/Registrar Agreement, as the same become due and payable, and for so long as any Bonds remain Outstanding or the City remains obligated under any other such agreement, the City agrees to maintain, at the Depository, a separate and special Fund or account relating to the Bonds to be created and known as the “City of San Antonio, Texas, Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2021A Interest and Sinking Fund” (the *Bond Fund*). The City covenants that there shall be deposited into the Bond Fund prior to each payment date from the available Net Revenues an amount equal to one hundred percent (100%) of the amount required to fully make such payments when due and payable, such deposits to be made in monthly installments that are substantially equal. If the Net Revenues in any month are insufficient to make the required payments into the Bond Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Net Revenues of the Systems, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these funds or accounts during such month or months.

Accrued interest, if any, received from the initial purchasers of the Bonds which is deposited in the interest and sinking fund portion of the Retirement account and any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Net Revenues of the Systems:

SECTION 12: Repair and Replacement Account. The City reaffirms its covenant with the holders of Parity Bonds that a special fund or account shall be created and established to be known as the “City of San Antonio Electric and Gas Systems Repair and Replacement Account” (the *Repair and Replacement Account*) at such Depository as may be designated by the Board of Trustees. Money on deposit in the Repair and Replacement Account shall be used for the following purposes: providing extensions, additions, and improvements to the Systems; meeting contingencies of any nature in connection with the operations, maintenance, improvement, replacement, or restoration of properties of the Systems; and paying bonds or other obligations for which other funds are not available, or for any or all of such purposes, as, from time to time, may be determined by the Board of Trustees.

From the Net Revenues remaining in the General Account after payments in accordance with *Clauses First through Fifth* of Section 10 of this Ordinance and after payment and provisions for payments and additions to the Bond Fund in accordance with the provisions of Section 11, there shall be paid into the Repair and Replacement Account an annual sum equal to six percent (6%) of the gross revenues of the Systems for the then current Fiscal Year. This annual payment to the Repair and Replacement Account shall be accumulated each Fiscal Year by monthly installments, such monthly installments to be based on each month’s gross revenues to the extent funds in the General Account are available each month; provided, however, should the total annual payment to the Repair and Replacement Account in any Fiscal Year exceed six percent (6%) of the gross revenues of the Systems, as shown by the Systems’ audited annual financial statement, proper year-end adjustments shall be made (on or before March 1 after the close of each Fiscal Year) by causing any excess amount deposited therein to be transferred to the General Account.

No deposit in excess of six percent (6%) of the annual gross revenues of the Systems shall be made to the Repair and Replacement Account (as provided in the preceding paragraph) unless and until complete and full payments, or provisions for such payments, shall have been paid over or credited to the General Fund of the City in accordance with Section 13 of this Ordinance. After complete and full payments, or provisions for such payments, shall have been paid over or credited to the General Fund of the City to the full extent required in Section 13 hereof, additional deposits may be made to the Repair and Replacement Account; and at the close of each Fiscal Year, all Net Revenues of the Systems remaining in the General Account after full and complete payment to the General Fund of the City has been made (except such amounts as may be required to meet unpaid accounts and obligations which have accrued or are payable during the year to insure continued operation of the Systems), shall be deposited in the Repair and Replacement Account.

SECTION 13: Payments or Credits to the General Fund of the City. In accordance with the provisions of the ordinances authorizing the issuance of the Senior Lien Ordinance and this Ordinance, and after the payments specified in *Clauses First through Fifth* of Section 10 and the Repair and Replacement Account (for purposes of accumulating therein an amount equal to six percent (6%) of the annual gross revenues of the Systems) have been made in full in accordance with the provisions of Sections 10, 11, and 12 of this Ordinance, there shall be paid over or credited to the General Fund of the City (for general purposes of the City), to the extent Net Revenues of the Systems are available in the General Account and in monthly installments, an amount in cash not to exceed 14% of the gross revenues of the Systems for the month next preceding the month in which the monthly deposit is made, less the value of gas and electric services of the Systems used by the City for municipal purposes and the amount expended for additions to the street lighting system for the month for which such payment is being made. The maximum amount in cash to be transferred or credited to the General Fund of the City from the Net Revenues of the Systems during any Fiscal Year shall not exceed 14% of the gross revenues of the Systems less the value of gas and electric services of the Systems used by the City for municipal purposes and the amounts expended during the Fiscal Year for additions to the street lighting system. The percentage of gross revenues of the Systems to be paid over or credited to the General Fund of the City each Fiscal Year shall be determined (within the 14% limitation) by the governing body of the City.

SECTION 14: Investments. Funds on deposit in the General Account, the Construction Account (hereinafter defined), the Bond Fund and the Repair and Replacement Account may be, at the option of the Board of Trustees, invested in any investment permitted by the provisions of the Board of Trustees' Investment Policy and the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, or in any other investment authorized under applicable laws of the State of Texas from time to time, including time deposits, certificates of deposit, guaranteed investment contracts or similar contractual agreements. Any obligations, or evidences of ownership of said obligations, in which funds on deposit in the aforementioned Accounts are so invested shall be kept in escrow in the respective Depositories for such Accounts, and such investments shall be promptly sold when required and the proceeds of the sale applied to the making of payments required to be made from the Account from which the investment was made whenever such payments are necessary to be made. All income and profits received from the investment of funds in the Repair and Replacement Account shall be transferred and credited to the General Account. Income and profits received from investments of funds on deposit in the

Bond Fund shall be used only for the purposes of paying the principal of and interest on the Bonds, as and when the same shall become due.

SECTION 15: Transfer of Funds to the Paying Agent/Registrar. On or before an interest or principal payment date of any Bonds, the Treasurer of the Board shall make transfer of funds on deposit in the Bond Fund to the Paying Agent/Registrar in the amounts calculated as fully sufficient to pay and discharge promptly, as due, each installment of interest and principal pertaining to the Bonds then Outstanding. In making such transfers, the Treasurer shall take into account any money on deposit with the Paying Agent/Registrar relating to the Bonds. In the event Bonds may be called for redemption prior to stated maturity, the Treasurer of the Board shall cause amounts calculated as sufficient to pay and discharge the Bonds (including accrued interest) so called for redemption to be transferred to the paying agent or paying agents (including the Paying Agent/Registrar) on or before the date fixed for the redemption of such bonds.

SECTION 16: Security of Funds. All money on deposit in the special Accounts for which this Ordinance makes provision (except any portions thereof as may be at any time properly invested) shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds.

SECTION 17: Application of Covenants and Agreements of the Senior Lien Obligations. It is the intention of the City Council and accordingly hereby recognized and stipulated that the provisions, agreements, and covenants contained herein bearing upon the management and operations of the Systems, and the administration and application of gross revenues derived from the operation thereof, shall to the extent possible be harmonized with like provisions, agreements, and covenants contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, and to the extent of any irreconcilable conflict between the provisions contained herein and in the ordinance authorizing the issuance of the currently outstanding Senior Lien Obligations, the provisions, agreements and covenants contained therein shall prevail to the extent of such conflict and be applicable to this Ordinance, especially the priority of rights and benefits conferred thereby to the holders of the currently outstanding Senior Lien Obligations. It is expressly recognized that, prior to the issuance of any Additional Senior Lien Obligations or Additional Junior Lien Obligations, the City must comply with each of the conditions precedent contained in this Ordinance and the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations and any other Junior Lien Obligations, as appropriate.

SECTION 18: Issuance of Additional Senior Lien Obligations, Additional Junior Lien Obligations, Commercial Paper Obligations, and Additional Inferior Lien Obligations. The City hereby expressly reserves the right to hereafter issue bonds, notes, warrants, certificates of obligation, or similar obligations payable wholly or in part from and secured by a pledge of and lien on the Net Revenues of the Systems with the following priorities, without limitation as to principal amount, but subject to any terms, conditions, or restrictions applicable thereto under existing ordinances, laws, or otherwise:

A. *Senior Lien.* Additional Senior Lien Obligations payable from and equally and ratably secured by a first and prior lien on and pledge of the Net Revenues of the Systems upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations or, in the event no Senior Lien Obligations are

outstanding, the conditions precedent contained in the most recently adopted ordinance authorizing Senior Lien Obligations and (2) execution by a Designated Financial Officer of the certificates described in Subsections B(1) and B(2) of this Section, taking into account the Senior Lien Obligations then proposed to be issued;

B. *Junior Lien.* Additional Junior Lien Obligations payable from and equally and ratably secured by a junior lien on and pledge of the Net Revenues that is subordinate and inferior to the liens and pledges made to secure payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued, upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations and upon satisfying each of the following conditions precedent:

(1) *No Default Certificate:* a Designated Financial Officer (or other official of the City having primary responsibility for the fiscal affairs of the City) shall have executed a certificate stating that (a) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Junior Lien Obligations to satisfy the City's obligations under this Ordinance, the City is not then in default as to any covenant, obligation, or agreement contained in any ordinance or other proceedings relating to any obligations of the City payable from and secured by a lien on and pledge of the Net Revenues of the Systems and (b) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems have been duly made and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein;

(2) *Coverage Certificate:* a Designated Financial Officer shall have executed a certificate to the effect that, according to the books and records of the Systems, the Net Revenues of the Systems for the preceding Fiscal Year or for any 12 consecutive months out of the 18 months immediately preceding the month the ordinance authorizing the Additional Junior Lien Obligations is adopted (determined without regard to revenue received by the City under any interest rate hedge agreement entered into in connection with any Senior Lien Obligations, Additional Senior Lien Obligations, or Parity Bonds) are at least equal to 100% of the average annual Debt Service Requirements for all Senior Lien Obligations, Junior Lien Obligations, Bonds, Additional Senior Lien Obligations, and Additional Junior Lien Obligations in any future Fiscal Year while the Additional Junior Lien Obligations then proposed to be issued are to be outstanding, after giving effect to such Additional Junior Lien Obligations (and, in making a determination of the Net Revenues, such Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the Systems that became effective at least 60 days prior to the last day of the period for which Net Revenues are to be determined and, for purposes of satisfying the above Net Revenues test, make a proforma determination of the Net Revenues for the period of time covered by the certification based on such change in rates and charges being in effect for the entire period covered by such Designated Financial Officer's certificate); and

(3) Debt Service Deposits: the ordinance authorizing the issuance of the Additional Junior Lien Obligations provides for monthly deposits to be made to a debt service fund for such obligations in amounts sufficient to pay the Additional Junior Lien Obligations when due; and

C. Inferior Lien. Commercial Paper Obligations, Inferior Lien Obligations, and Additional Inferior Lien Obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems that is inferior and subordinate to the liens and pledges made to secure payment of the Senior Lien Obligations, Additional Senior Lien Obligations, the Bonds, and Additional Junior Lien Obligations, upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, the ordinances authorizing the issuance of the currently outstanding Junior Lien Obligations, this Ordinance, the ordinance authorizing the issuance of the Commercial Paper Obligations, and, to the extent applicable, the ordinance authorizing the issuance of the Inferior Lien Obligations.

SECTION 19: Management of the Systems. In accordance with the provisions of the ordinances authorizing the currently outstanding Senior Lien Obligations, the currently outstanding Junior Lien Obligations, and this Ordinance, the City hereby agrees, covenants, and reaffirms that during such time as any Bonds issued hereunder are Outstanding and unpaid, the complete management and control of the Systems, pursuant to the authority contained in Section 1502.070, as amended, Texas Government Code, shall be vested in a Board of Trustees consisting of five citizens (one of whom shall be the Mayor of the City) of the United States of America permanently residing in Bexar County, Texas, to be known as the “City Public Service Board of San Antonio, Texas”. The Mayor of the City shall be a voting member of the Board, shall represent the City Council thereon, and shall be charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations and decisions of the Board and its conduct of the management of the Systems.

All vacancies in membership on the Board (excluding the Mayor of the City), whether occasioned by failure or refusal of any person previously named to accept appointment or by expiration of term of office or otherwise, shall be filled in the following manner: a nominee to fill such vacancy shall be elected by the majority vote of the remaining members of the Board of Trustees, such majority vote to include the vote of the Mayor. The name of such nominee shall then be submitted by the Mayor to the vote of the City Council, which by a majority vote of the members thereof then in office shall, as evidenced by ordinance or resolution, either confirm or reject such nominee; provided, however, if the City Council fails to act upon such nominee, such failure to do so shall be considered as a rejection of such nominee and another nominee shall be selected by the Board. If a vacancy occurs and the remaining members of the Board (including the Mayor) fail to elect a nominee to fill such vacancy within sixty (60) days after the vacancy occurs (or fail to select another nominee within sixty (60) days after rejection of a nominee by the City Council), the City Council, by a majority vote of the members thereof then in office, shall elect a person to fill such vacancy and shall appoint such Trustee by resolution or ordinance. In the event the City rejects or fails to confirm three (3) consecutive nominees of the Board to fill a vacancy on the Board, the City Council shall, within thirty (30) days after the third rejection, appoint a temporary Trustee to fill such vacancy pending the appointment of a permanent Trustee to fill such vacancy. The appointment of a temporary Trustee by the City Council shall constitute the nomination of such appointee as the permanent Trustee to fill such vacancy. Unless the

remaining members of the Board, by a majority vote, reject the nominee selected by the City Council within thirty (30) days after his appointment as a temporary Trustee, the appointment shall become final and the temporary Trustee shall automatically become the permanent Trustee to fill such vacancy. In such vote, the vote of the Mayor shall automatically be cast as a vote in favor of the confirmation of such Trustee, whether cast by the Mayor or not.

If the nominee of the City Council is rejected by a majority vote of the remaining Trustees, the remaining Trustees shall within thirty (30) days after such rejection elect another nominee to fill such vacancy. Such nominee shall be considered by the City Council and if approved shall become the permanent Trustee. If such nominee is rejected by a majority vote of the members of the City Council then in office, or in the event the City Council fails to act upon such nomination within thirty (30) days after the nomination is presented to the City Council, the temporary Trustee theretofore appointed by the City Council shall automatically become the permanent Trustee to fill such vacancy. The term of office of each member appointed to the Board shall be five (5) years. A person who has served as an appointed member of the Board for a single five-year term shall be eligible for reappointment for one additional five-year term and one only. A member who is appointed to the Board to serve out an unexpired portion of a retired member's term shall not be considered to have served a "term" unless the unexpired portion of the term so served is three (3) years or more. Permanent removal of residence from Bexar County by any appointed member of the Board shall vacate his office as a member of the Board, or any member (other than the Mayor of the City) who shall be continuously absent from all meetings held by the Board for a period of four (4) consecutive months shall, unless he shall have been granted leave of absence by the unanimous vote of the remaining members of the Board, be considered to have vacated his office as a member of the Board. Any member of the Board, other than the Mayor of the City, may, by unanimous vote of the remaining members of the Board, be removed from office, but only for adequate cause.

Notwithstanding any of the foregoing provisions as contained in this Section or in any other section of this Ordinance pertaining to the appointment or selection of Trustees to the Board, the City Council reserves unto itself the absolute right at any time upon passage of an ordinance approved by a majority vote of its members to change the method of selection of and appointment to the Board of Trustees to direct selection by the City Council, with such change of method to direct selection being at the sole option of the City Council without approval of any persons, party, holder of Bonds, or the Board of Trustees.

The operation and management of the Systems requires specialized knowledge and experience. Except as otherwise specifically provided in this Ordinance, the Board of Trustees shall have absolute and complete authority and power with reference to the control, management, and operation of the Systems and the expenditure and application of the revenues of the Systems subject to the provisions contained in this Ordinance, all of which shall be binding upon and shall govern the Board of Trustees. In connection with the management and operation of the Systems and the expenditure and application of the revenues therefrom, the Board of Trustees shall be vested with all of the powers of the City with respect thereto, including all powers necessary or appropriate for the performance of all of the covenants, undertakings, and agreements of the City contained in this Ordinance, and shall have full power and authority to make rules and regulations governing the furnishing of electric and gas service to customers and for the payment of the same, and for the discontinuance of such services upon failure of customers to pay therefor, and, to the

extent authorized by law, shall have full authority with reference to making of extensions, improvements, and additions to the Systems and the acquiring by purchase or condemnation of properties of every kind in connection therewith. The delegation of authority and power herein made represents a legislative act of the City Council declaring policy regarding the management and operation of the Systems; the Board of Trustees' exercise of such delegated authority and puts into execution such declared policies and is, therefore, administrative in nature

The Board of Trustees, in exercising the management powers granted herein, will ensure that policies adopted affecting research, development, and corporate planning will be consistent with City Council policy, and policies adopted by the Board of Trustees pertaining to such matters will be subject to City Council review.

The Board of Trustees shall elect one of its members as Chair and one as Vice Chair of the Board and shall appoint a Secretary and a Treasurer, or a Secretary-Treasurer, who may, but need not be, a member or members of the Board. If a member of the Board of Trustees is not appointed as Secretary or Treasurer, or Secretary-Treasurer, then an employee or employees of the Board whose duties in the operation of the Systems require performance of similar duties may be appointed as Secretary or Treasurer or Secretary-Treasurer. The Board of Trustees may follow and adopt such rules for the orderly handling of its affairs as it may see fit and may manage and conduct the affairs of the Systems with the same freedom and in the same manner ordinarily employed by the board of directors of private corporations operating properties of a similar nature. No member of the Board of Trustees, however, shall ever vote by proxy in the exercise of his duties as a Trustee.

The Board of Trustees shall appoint and employ all officers, employees, and professional consultants which it may deem desirable, including without limitation, a General Manager and Chief Executive Officer of the Systems, attorneys, engineers, architects, and other advisors. No officer or employee of the Board of Trustees may be employed who shall be related within the second degree of consanguinity or affinity to any member of the Board of Trustees.

The Board of Trustees shall obtain and keep continually in force an employees' fidelity and indemnity bond of the so-called "blanket" type, written by a solvent and recognized indemnity company authorized to do business in the State of Texas and covering losses to the amount of not less than One Hundred Thousand Dollars (\$100,000).

The members of the Board of Trustees, other than the Mayor of the City, shall receive annual compensation in the minimum amount of Two Thousand Dollars (\$2,000.00), except that the Chair of the Board shall receive annual compensation in the minimum amount of Two Thousand Five Hundred Dollars (\$2,500.00). Such compensation may be increased from time to time by the majority vote of the City Council then in office.

The members of the Board of Trustees and administrative officers shall not be personally liable, either individually or collectively, for any act or omission not willfully fraudulent or in bad faith.

SECTION 20: Maintenance and Operation-Insurance. The City hereby agrees and reaffirms that the Systems shall be maintained in good condition and operated in an efficient

manner and at reasonable cost. So long as any of the Bonds are Outstanding, the City, acting by and through the Board of Trustees, agrees to maintain insurance of a kind and in an amount (including self-insurance) which usually would be carried by private companies engaged in a similar type of business.

SECTION 21: Records – Accounts - Accounting Reports. The City, acting by and through the Board of Trustees, hereby agrees, covenants, and reaffirms that so long as any Bonds, or any interest thereon, remain Outstanding and unpaid, a proper and complete set of records and accounts pertaining to the operation of the Systems shall be kept and maintained separate and apart from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Systems as provided in Chapter 1502, as amended, Texas Government Code, and that the holder or holders of any of the Bonds or any duly authorized agent or agents of such holders shall have the right at all reasonable times to inspect all such records, accounts, and data relating thereto and to inspect the Systems and all properties comprising the same. The Board of Trustees shall, so far as practicable and to the extent consistent with the provisions of this Ordinance, keep its books and records in the manner prescribed in the Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners. It is further agreed that as soon after the close of each Fiscal Year as may reasonably be done, the City (acting by and through the Board of Trustees) will cause an annual audit of such books and accounts to be made by an independent firm of certified public accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountants, shall reflect the revenues and expenses of the Systems for said Fiscal Year, and the assets, liabilities, and financial condition of the Systems (in reasonable detail) at the close of such Fiscal Year.

Expenses incurred in making the audit referred to above are to be regarded as Maintenance and Operating Expenses and paid as such. A copy of the aforesaid annual audit shall be furnished to the Municipal Securities Rulemaking Board, where it will be available through the Electronic Municipal Market Access System, in accordance with the provisions of Section 44 hereof.

SECTION 22: Remedies in the Event of Default. In addition to all of the rights and remedies provided by the laws of the State of Texas, it is specifically covenanted and agreed particularly that in the event the City (i) defaults in the payments to be made to the Bond Fund as required by this Ordinance, or (ii) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the holder or holders of any Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City, its officers, the Board of Trustees, and/or all of them, to observe and perform any covenants, conditions, or obligations prescribed in this Ordinance.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedies herein provided shall be cumulative of all other existing remedies, and the specifications of such remedies shall not be deemed to be exclusive.

SECTION 23: Special Covenants. The City hereby further covenants as follows:

A. The City has secured from the Board of Trustees a resolution acknowledging its duties, responsibilities, and obligations under this Ordinance and agreeing to fully comply with all its terms and provisions, including the administration and operation of the Systems and the disposition of revenues of the Systems, compliance with which represents a material inducement to a Bondholders' investment decision relative to any Bonds.

B. It has the lawful power to pledge the Net Revenues supporting the Bonds and has lawfully exercised said power under the laws of the State of Texas, including said power existing under the Acts, and the Additional Junior Lien Obligations, when issued, shall be equally and ratably secured under said pledge of income in such manner that one bond shall have no preference over any other bond of said issues.

C. Other than for the payment of the Senior Lien Obligations, the Junior Lien Obligations, the Bonds, the Commercial Paper Obligations, and the Inferior Lien Obligations, the rents, revenues and income of the Systems have not in any manner been pledged to the payment of any debt or obligation of the City or of the Systems, except that certain reimbursement agreements, indemnity agreements, credit facility agreements, and other financial or contractual arrangements which have been or may be entered into by the City grant a subordinate and inferior lien on and pledge of the Net Revenues of the Systems to secure the payment obligations of the City or the Board under these agreements, which lien is subordinate and inferior to the lien on and pledge thereof securing the payment of any Maintenance and Operating Expenses, the debt service requirements on the Senior Lien Obligations, the Junior Lien Obligations, the Bonds, the Commercial Paper Obligations, the Inferior Lien Obligations and any other provision of the ordinances authorizing the issuance of these obligations.

D. So long as any of the Bonds or any interest thereon remain Outstanding, the City will not sell or encumber the Systems or any substantial part thereof; *provided* that this shall not be construed to prohibit the sale of such machinery or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the Systems.

E. No free service of the Systems shall be allowed, and, should the City or any of its agents or instrumentalities make use of the services or facilities of the Systems, payments for services rendered by the Systems should either be made by the City or amounts equal in value to the services rendered by the Systems shall be deducted from the annual payment due the General Fund of the City from the Net Revenues of the Systems as provided in Section 13 hereof.

F. To the extent it legally may, the City further covenants and agrees that, so long as any Bonds or any interest thereon are Outstanding, no franchise shall be granted for the installation or operation of any competing electric or gas system other than that owned by the City, and the operation of any such systems by anyone other than the City is hereby prohibited.

SECTION 24: Satisfaction of Obligation of City. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in this Ordinance, then the lien on and the

pledge of Net Revenues and all covenants, agreements, and other obligations of the City to the Holders shall thereupon cease, terminate, and be discharged and satisfied.

To provide for the payment of the principal of, premium, if any, and interest on any Bond, the City may irrevocably deposit in trust with the Paying Agent/Registrar, or an authorized escrow agent, (a) money sufficient to pay in full such principal, premium, if any, and interest at Stated Maturity or to the redemption date therefor and/or (b) Government Securities to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any money deposited therewith, if any, to pay when due the principal of, premium, if any, and interest on such Bond on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. In the event of a defeasance of the Bonds, the City shall deliver a certificate from its financial advisor, the Paying Agent/Registrar, an independent accounting firm, or another qualified third party concerning the deposit of cash and/or Government Securities to pay, when due, the principal of, redemption premium (if any), and interest due on any defeased Bonds. If interest to become due on such Bond on any such date shall accrue at a rate not determined at the time of such deposit, the City shall provide for such interest as if accrued at the maximum possible rate. The City covenants that no deposit of money or Government Securities will be made under this Section 24 and no use made of any such deposit which would cause the Bonds to be treated as arbitrage bonds within the meaning of section 148 of the Code.

Any money so deposited with the Paying Agent/Registrar or authorized escrow agent, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section 24 which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such money has been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar or authorized escrow agent for the payment of the principal of, premium, if any, or interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity, or applicable redemption date, of the Bonds such money was deposited and is held in trust to pay shall upon the request of the City be remitted to the City against a written receipt therefor, subject to the unclaimed property laws of the State of Texas.

Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem defeased Bonds that is made in conjunction with the payment arrangements specified in clause (a) or (b) above shall be revocable, *provided* that the City (1) in the proceedings providing for such defeasance, expressly reserves the right to call the defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased Bonds immediately following the defeasance; (3) directs that notice of the reservation be included in any redemption notices that it authorizes; and (4) at the time of the redemption, satisfies the conditions of clause (a) or (b) above with respect to such defeased Bonds as though it was being defeased at the time of the exercise of the option to redeem the defeased Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased Bonds.

SECTION 25: Damaged, Mutilated, Lost, Stolen, or Destroyed Bonds.

A. In the event any Outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new bond of the same principal amount, stated maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

B. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, the applicant for a replacement bond shall furnish to the City and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the applicant shall furnish to the City and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond, as the case may be.

In every case of damage or mutilation of a Bond, the applicant shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

C. Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Bond, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

D. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the City, whether or not the lost, stolen, or destroyed Bond shall be found at any time or be enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and proportionately with any and all other Bonds duly issued under this Ordinance.

E. In accordance with Chapter 1201, as amended, Texas Government Code, this Section of this Ordinance shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the City or any other body or person, and the duty to replace such bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such bonds in the form and manner and with the effect, as provided in Section 3B of this Ordinance for Bonds issued in conversion and exchange for other Bonds.

SECTION 26: Ordinance to Constitute Contract; Amendment. The City acknowledges that the covenants and obligations of the City herein contained are a material inducement to the purchase of the Bonds. This Ordinance shall constitute a contract with the Holders from time to time, binding on the City and its successors and assigns, and it shall not be amended or repealed by the City so long as any Bond remains Outstanding except as permitted in this Section. An actual or constructive amendment of any term, provision, or covenant of this Ordinance that is not

compliant with this amendment process specified in this Section 26 shall result in an impairment of the contract between the city and the Bondholders hereby evidenced. The City may, without the consent of or notice to any Holders, from time to time and at any time, amend this Ordinance in any manner not detrimental to the interests of the Holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of Holders holding a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; *provided* that, without the consent of all Holders of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission.

SECTION 27: Approval by Attorney General and Registration by the Comptroller of Public Accounts. The Mayor of the City and Treasurer of the Board are hereby authorized to have control and custody of the Bonds and all necessary records and proceedings pertaining thereto pending the sale of the Bonds and the initial delivery thereof to the Purchasers and the Mayor and other officers and employees of the City and the Board are hereby authorized and instructed to make such certifications, execute such instruments, and perform such acts as may be necessary to assure the proper investigation, examination and approval thereof by the Attorney General of the State of Texas, and their registration by the Comptroller of Public Account of the State of Texas, and to accomplish delivery of said bonds to the Purchasers.

SECTION 28: Covenants Regarding Tax Exemption of Interest on the Bonds.

A: Covenants. The City covenants to take any action necessary to assure, or refrain from any action which would adversely affect, the treatment of the Bonds as obligations described in section 103 of the Internal Revenue Code of 1986, as amended (the *Code*), the interest on which is not includable in the “gross income” of the holder for purposes of federal income taxation. In furtherance thereof, the City covenants as follows:

(1) to take any action to assure that no more than 10 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited to a reserve fund, if any) are used for any “private business use,” as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds or the projects financed therewith are so used, such amounts, whether or not received by the City, with respect to such private business use, do not, under the terms of this Ordinance or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of section 141(b)(2) of the Code;

(2) to take any action to assure that in the event that the “private business use” described in subsection (1) hereof exceeds 5 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a “private business use” which is “related” and not “disproportionate,” within the meaning of section 141(b)(3) of the Code, to the governmental use;

(3) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(4) to refrain from taking any action which would otherwise result in the Bonds being treated as “private activity bonds” within the meaning of section 141(b) of the Code;

(5) to refrain from taking any action that would result in the Bonds being “federally guaranteed” within the meaning of section 149(b) of the Code;

(6) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Bonds, other than investment property acquired with --

(a) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a refunding bond, for a period of 90 days or less until such proceeds are needed for the purpose for which the bonds are issued,

(b) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations, and

(c) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(7) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage);

(8) to refrain from using the proceeds of the Bonds or proceeds of any prior bonds to pay debt service on another issue more than 90 days after the date of issue of the Bonds in contravention of the requirements of section 149(d) of the Code (relating to advance refundings); and

(9) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the “Excess Earnings,” within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code.

B: Rebate Fund. In order to facilitate compliance with the above covenant (8), a “Rebate Fund” is hereby established by the City for the sole benefit of the United States of America, and such fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

C: Proceeds. The City understands that the term “proceeds” includes “disposition proceeds” as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Bonds. It is the understanding of the City that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Bonds, the City will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the City agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In furtherance of such intention, the City hereby authorizes and directs any Designated Financial Officer to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the City, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

D: Allocation Of, and Limitation On, Expenditures for the Project. The City covenants to account for the expenditure of sale proceeds and investment earnings to be used for the purposes described in Section 1 of this Ordinance (the *Project*) on its books and records in accordance with the requirements of the Internal Revenue Code. The City recognizes that in order for the proceeds to be considered used for the reimbursement of costs, the proceeds must be allocated to expenditures within 18 months of the later of the date that (1) the expenditure is made, or (2) the Project is completed; but in no event later than three years after the date on which the original expenditure is paid. The foregoing notwithstanding, the City recognizes that in order for proceeds to be expended under the Internal Revenue Code, the sale proceeds or investment earnings must be expended no more than 60 days after the earlier of (1) the fifth anniversary of the delivery of the Bonds, or (2) the date the Bonds are retired. The City agrees to obtain the advice of nationally-recognized bond counsel if such expenditure fails to comply with the foregoing to assure that such expenditure will not adversely affect the tax-exempt status of the Bonds. For purposes hereof, the City shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

E: Disposition of Project. The City covenants that the property constituting the Project will not be sold or otherwise disposed in a transaction resulting in the receipt by the City of cash or other compensation, unless any action taken in connection with such disposition will not adversely affect the tax-exempt status of the Bonds. For purpose of the foregoing, the City may rely on an opinion of nationally-recognized bond counsel that the action taken in connection with

such sale or other disposition will not adversely affect the tax-exempt status of the Bonds. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the City shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

F: Written Procedures. Unless superseded by another action of the City, to ensure compliance with the covenants contained herein regarding private business use, remedial actions, arbitrage and rebate, the City Council hereby adopts and establishes the instructions attached hereto as Exhibit F as the City's written procedures

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APPENDIX E



CPS ENERGY

FORM OF OPINION OF CO-BOND COUNSEL

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McCall, Parkhurst and Horton L.L.P.
112 East Pecan Street
Suite 1310
San Antonio, Texas 78205

Kassahn & Ortiz, P.C.
9901 I.H. 10 West
Suite 800
San Antonio, Texas 78230

FINAL

IN REGARD to the authorization and issuance of the “City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2021A” (the *Bonds*), dated March 1, 2021, in the aggregate principal amount of \$330,700,000, we have reviewed the legality and validity of the issuance thereof by the City of San Antonio, Texas (the *City*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof, and have Stated Maturities of February 1 in each of the years 2031 through 2041, February 1, 2046, and February 1, 2049, unless mandatorily or optionally redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

WE HAVE SERVED AS CO-BOND COUNSEL for the City solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the City’s obligations being refunded with proceeds of the Bonds, and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the City or the City’s Systems and have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the City’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon, original or certified copies of the proceedings of the City Council of the City in connection with the issuance of the Bonds, including the Ordinance; a resolution adopted by the Board of Trustees (the *Board*) of the City Public Service Board of San Antonio, Texas; the Paying Agent/Registrar Agreement between the City and U.S. Bank National Association, Houston, Texas, the Escrow Deposit Letter (the *Escrow Agreement*) between the City and U.S. Bank National Association, Houston, Texas (the *Escrow Agent*), and the certification (the *Sufficiency Certificate*) of PFM Financial Advisors LLC, as co-financial advisor to the City concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; customary certifications and opinions of officials of the City and the Board; certificates executed by officers of the City and the Board relating to the expected use and investment of proceeds of the Bonds and

certain other funds of the City and the Board, and to certain other facts within the knowledge and control of the City and the Board; and such other documentation, including an examination of the Bond executed and delivered initially by the City, which we found to be in due form and properly executed, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding special obligations of the City enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from and equally and ratably secured, together with the currently outstanding Junior Lien Obligations, solely by a junior and inferior lien on and pledge of the Net Revenues, such lien on and pledge of the Net Revenues being expressly junior and inferior to the lien on and pledge of Net Revenues as security for the payment of the currently outstanding Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City in accordance with the Ordinance. In the Ordinance, the City retains the right to issue Additional Senior Lien Obligations, Additional Junior Lien Obligations, Commercial Paper Obligations and Inferior Lien Obligations, without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the City, the Board, or the Systems, except with respect to the Net Revenues. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the City and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded and to be discharged, paid, and retired with certain proceeds of the Bonds are regarded as being outstanding for purposes of the ordinance authorizing their issuance only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Sufficiency Certificate as to the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of

paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the City and the Board with the provisions of the Ordinance and in reliance upon the Sufficiency Certificate as to the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement and upon the representations and certifications of the City and the Board made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

McCall, Parkhurst and Horton L.L.P.

Kassahn & Ortiz, P.C.

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CPS ENERGY

TABLE OF REFUNDED OBLIGATIONS

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TABLE OF REFUNDED OBLIGATIONS

City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2021A (Commercial Paper Notes, Series A, Series B and Series C)

Dealer: JP Morgan Chase, N.A.

Series A

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Interest (%)</u>	<u>Payment Amount</u>
3/24/2021	4/9/2021	\$ 5,000,000	\$ 219.18	\$ 0.10	\$ 5,000,219.18
3/24/2021	4/9/2021	\$ 50,000,000	\$ 2,191.78	\$ 0.10	\$ 50,002,191.78
3/24/2021	4/9/2021	\$ 50,000,000	\$ 2,191.78	\$ 0.10	\$ 50,002,191.78
3/24/2021	4/9/2021	\$ 50,000,000	\$ 2,191.78	\$ 0.10	\$ 50,002,191.78
3/24/2021	4/9/2021	\$ 50,000,000	\$ 2,191.78	\$ 0.10	\$ 50,002,191.78
3/24/2021	4/9/2021	\$ 50,000,000	\$ 2,191.78	\$ 0.10	\$ 50,002,191.78
3/24/2021	4/9/2021	\$ 50,000,000	\$ 2,191.78	\$ 0.10	\$ 50,002,191.78
Total Series A		\$ 305,000,000	\$ 13,369.86		\$ 305,013,369.86

Dealer: Citigroup Global Markets Inc.

Series B

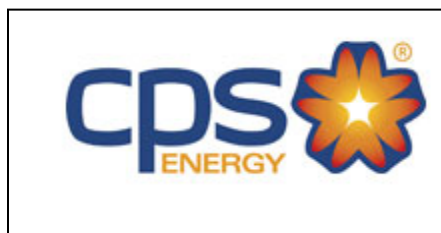
<u>Issue Date</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Interest (%)</u>	<u>Payment Amount</u>
3/24/2021	4/9/2021	\$ 60,000,000	\$ 3,156.16	0.12	\$ 60,003,156.16
Total Series B		\$ 60,000,000	\$ 3,156.16		\$ 60,003,156.16

Dealer: Loop Capital Markets LLC

Series C

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Interest (%)</u>	<u>Payment Amount</u>
3/24/2021	4/9/2021	\$ 55,000,000	\$ 2,893.15	0.12	\$ 55,002,893.15
Total Series C		\$ 55,000,000	\$ 2,893.15		\$ 55,002,893.15
Grand Total		\$ 420,000,000	\$ 19,419.17		\$ 420,019,419.17

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MUNICIPALLY OWNED ELECTRIC & GAS UTILITY

SAN ANTONIO, TEXAS 2021