



January 30, 2023

Board of Trustees
Mr. Rudy D. Garza, President & CEO

Dear Trustees and Mr. Garza:

Attached is our Monthly Financial Update which includes results through December 31, 2022, as well as our latest estimate for full year 2023 financial performance. This report will be posted to our website shortly after its distribution to you. Highlights from this report are included below.

Year-To-Date Financial Performance Highlights

Our financial performance is largely impacted by higher fuel costs and weather which drive incremental revenue, but much of that additional revenue is being used to cover the high cost of fuel and city payment. We have entered the shoulder months, where seasonality in demand drives revenue lower, resulting in less funding for core business costs. One-time items such as reduced pension costs, lower interest expenses, and expense management are resulting in net income slightly below our plan.

We continue to forecast that our key financial metrics will remain at acceptable levels (i.e., higher than rating agency thresholds) for FY2023.

Detailed YTD financial highlights include:

- Total top line operating revenue was \$429.4 million above plan due to high fuel costs and weather.
- Total fuel & regulatory costs were \$434.8 million above plan and City Payment was \$46.5 million higher than plan.
- Bad debt expense (which is a reduction in revenue) is now \$67.7 million above plan (\$77.1 million vs. plan of \$9.4 million).
- Rising interest rates continue to drive mark-to-market adjustments (non-cash item) on our long-term bond investments. Year-to-date, non-operating revenue is \$9.9 million below plan.
- These items resulted in revenue available to cover core business costs that were \$61.8 million below plan (~4.0% below plan of \$1,410.8 million).
- Offsetting this, are non-fuel expenses which are below plan by \$48.9 million. This results in net income of \$81.9 million which is slightly below the budget of \$94.8 million.

- On the Flow of Funds, our Repair & Replacement (R&R) additions are \$368.7 million YTD (above budget by \$36.2 million).
- Days Cash on Hand is 144 as of December 31, which is below YTD target of 153. This is driven by high past due receivables.
- Adjusted Debt Service Coverage and Debt Capitalization ratios are better than plan year to date (ADSC = 1.93x vs. YTD target of 1.83x; Debt Cap = 61.5% vs. YTD target of 62.2%).

We recently met in person with all three rating agencies at our headquarters. Fitch, who was due to provide a rating update, re-affirmed our current ratings. Please see the recent Board Communication we sent you on January 26th for more details. The rating affirmation demonstrates the strong faith the rating agencies have in our path forward and we continue to be one of the top-rated utilities in ERCOT and the nation.

Thank you, again, for your leadership and support.

Sincerely,



Cory Kuchinsky, CPA
CFO & Treasurer

PK

Attachments

Copy COSA: Erik Walsh, City Manager
Ben Gorzell, CFO
Zack Lyke
Juan Valdez
Russell Huff

Copy CPS Energy: Rudy D. Garza, President & CEO
CEO Direct Reports
Govt & Reg Affairs & Public Policy



MONTHLY FINANCIAL UPDATE

AS OF DECEMBER 31, 2022

ELECTRIC SALES

BY CUSTOMER SEGMENT- DECEMBER FY2023*



Customer Sector	Usage Growth	% of Total Load	% Impact on Total Usage
Residential	4.1%	41.7%	1.7%
Churches & Services	0.9%	7.1%	0.1%
Manufacturing	-1.3%	2.3%	0.0%
Retail	2.1%	5.1%	0.1%
Educational Services	2.3%	4.9%	0.1%
Hotel & Food Services	2.7%	4.3%	0.1%
Other**	2.5%	34.6%	0.9%
Total System		100.0%	3.0%

*Billed December actual performance to budget.

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

ELECTRIC SALES

BY CUSTOMER SEGMENT- YTD FY2023*

Customer Sector	Usage Growth	% of Total Load	% Impact on Total Usage
Residential	7.3%	44.6%	3.3%
Churches & Services	2.7%	6.7%	0.2%
Manufacturing	7.5%	2.2%	0.2%
Retail	2.1%	5.1%	0.1%
Educational Services	1.9%	5.0%	0.1%
Hotel & Food Services	2.6%	4.4%	0.1%
Other**	1.4%	32.0%	0.4%
Total System		100.0%	4.4%

*Billed December actual YTD performance to budget.

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

FINANCIAL PERFORMANCE

YEAR-TO-DATE



	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Total Revenue <i>(Operating & Non-Operating)</i>	\$2,749M	\$3,168M	\$419M
- Less Fuel & Regulatory Costs	\$981M	\$1,416M	(\$435M)
- Less City Payment	\$357M	\$403M	(\$46M)
Revenue Available to Cover Core Business Costs	\$1,411M	\$1,349M	(\$62M)

To date, revenue available to cover core business costs is significantly below plan primarily due to higher fuel & regulatory expenses.

FINANCIAL PERFORMANCE

YEAR-TO-DATE



	<u>Budget</u>	<u>Actual</u>	<u>Variance:</u> <u>Favorable</u> <u>(Unfavorable)</u>
Gross Retail Revenue	\$ 2,579.2	\$ 2,990.5	\$ 411.3
Retail Fuel & Regulatory Expense	883.1	1,197.4	(314.3)
Bad Debt Expense	9.4	77.1	(67.7)
<u>Retail Revenue Net of Fuel</u>	<u>1,686.7</u>	<u>1,716.0</u>	<u>29.3</u>
Wholesale Revenue	145.6	231.4	85.8
Wholesale Fuel & Regulatory Expense	98.2	218.7	(120.5)
<u>Wholesale Revenue Net of Fuel</u>	<u>47.4</u>	<u>12.7</u>	<u>(34.7)</u>
Non Operating Revenue	33.3	23.4	(9.9)
City Payment	356.6	403.1	(46.5)
<u>Revenue Available to Cover Core Business Costs</u>	<u>1,410.8</u>	<u>1,349.0</u>	<u>(61.8)</u>
Nonfuel Expenses	1,316.0	1,267.1	48.9
<u>Net Income (Loss)</u>	<u>\$ 94.8</u>	<u>\$ 81.9</u>	<u>\$ (12.9)</u>

Lower revenues & higher fuel costs have resulted in \$62M lower revenues than planned to cover core business costs.

FINANCIAL PERFORMANCE

FY2023 NET INCOME FORECAST



	<u>Budget</u>	<u>Forecast</u>	<u>Variance:</u> <u>Favorable</u> <u>(Unfavorable)</u>
Gross Retail Revenue	\$ 2,800.8	\$ 3,286.5	\$ 485.7
Retail Fuel & Regulatory Expense	964.1	1,327.4	(363.3)
Bad Debt Expense	10.4	80.0	(69.6)
<u>Retail Revenue Net of Fuel</u>	<u>1,826.3</u>	<u>1,879.1</u>	<u>52.8</u>
Wholesale Revenue	155.9	254.6	98.7
Wholesale Fuel & Regulatory Expense	105.8	239.7	(133.9)
<u>Wholesale Revenue Net of Fuel</u>	<u>50.1</u>	<u>15.0</u>	<u>(35.1)</u>
Non Operating Revenue	36.4	29.1	(7.3)
City Payment	388.2	444.2	(56.0)
<u>Revenue Available to Cover Core Business Costs</u>	<u>1,524.6</u>	<u>1,479.0</u>	<u>(45.6)</u>
Nonfuel Expenses	1,447.4	1,427.9	19.5
<u>Net Income (Loss)</u>	<u>\$ 77.2</u>	<u>\$ 51.1</u>	<u>\$ (26.1)</u>

With high bad debt expense, lower wholesale revenues, & other non-cash items, we expect to have net income come in below plan.

KEY FINANCIAL METRICS

REVISED FORECAST VS. BUDGET



	<u>Year to Date</u>	<u>Full Year Forecast</u>	<u>Full Year Budget</u>	<u>Threshold Levels</u>
Adjusted Debt Service Coverage Ratio	1.93	1.85	1.79	1.50
Debt Capitalization Ratio	61.5%	61.7%	61.7%	<60%
Days Cash On Hand	144	160	170	150

Our year-end forecasted metrics remain aligned with our prior month projection. We expect our year-end financial metrics to end at acceptable levels.



Thank You