October 20, 2021

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

Dear Board Members and Mrs. Gold-Williams:

Thank you for the opportunity to provide our FY2022 Monthly Financial Update as of September 30, 2021.

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

Of note, last month we cited, the timing of the rate case remains fluid. Discussions with City leadership progressed well this month and we were able to get better alignment on timing options for a potential rate increase. It is becoming more probable that the timing options for a potential rate increase effectiveness will occur after this current fiscal year. **Accordingly, for this month's forecast we have again provided a view of our financials and metrics <u>without</u> the current year benefit of the potential rate increase.** This has an impact on our financial position and risk remains, but as of this forecast we still anticipate year-end financial metrics above credit rating agency guidance.

Key Highlights

Our expected financial position remains improved from the approved budget most notably from reduced forecasted expenses. In summary,

- **Different from last month, the current assumption now is that a rate increase is effective after this fiscal year. We removed an approximate current year benefit of $27 million gross, $23 million net of city payment from our FY2022 forecast. This assumption change results in lower total revenue.**
- Also, this month we had higher electric sales than previously forecasted for September, but still below budget, and a $14.6 million reduction to

our Operations and Maintenance (O&M) projection from an employee benefit plans adjustment due to favorable market valuation. Both worked to offset the lower total revenue discussed in the bullet above.

- In consideration of the above items, we are forecasting to end the year with a Net Loss of $16.7 million, trending above our budgeted year-end Net Loss of $34.4 million and improved from last months forecasted update.
- Repair and Replacement additions are forecasted to be above budget and,
- We are forecasting improvements in Adjusted Debt Service Coverage and Debt Capitalization compared to the approved budget. The Days Cash on Hand metric is forecasted below budget, <u>but above credit rating agency guidance thresholds.</u>

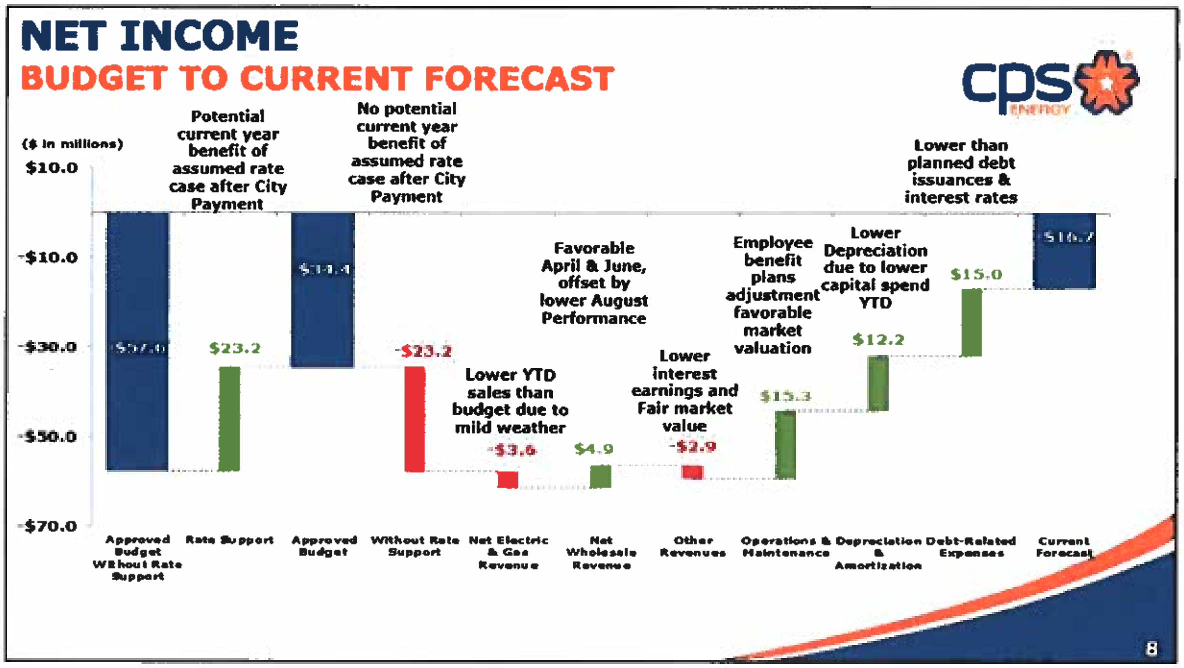
Headwinds & Risks

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

Summary of Budget to Current Forecast Drivers

A summary of the drivers of change from the budget to the current financial forecast is included on slide 8 (titled "Net Income – Budget to Current Forecast") of this month's financial update. Total electric non-fuel revenue is forecasted below budget. Net wholesale revenue performance tracked with budget in September and is still forecasted to end the year $4.9 million above budget supported by strong April and June performances due to higher market prices driven by lower wind volumes and outages across ERCOT. However, offsetting that favorability is forecasted net electric and gas revenue which is $26.9 million below budget. This reflects the removal of the current year benefit of an assumed rate increase and YTD total electric system sales 2.1% below budget due to mild weather. Our forecast assumes some lift in the remaining months for total electric sales forecasting year-end sales at 1.1% below budget.

On the expense side, the organization continues to hold O&M costs near budget, diligently managing increased costs due to Storm Uri and other storms by continuing to manage labor costs through our strategic hiring approach and salary freeze. This month we also reduced our O&M forecast by $15 million primarily from an employee benefit plans adjustment due to favorable market valuation. This is mostly attributable to final recording of our benefit trust investment performance for calendar year 2021, which exceeded projections included in the approved budget. In addition, our Finance team has structured favorability into our financing plan by leveraging lower debt issuances and securing lower rates than were budgeted, leading to lower debt-related expenses of approximately $15 million compared to budget. Depreciation, which is a non-cash item, is below budget by just over $12 million due to fewer assets being put in service and depreciated compared to the budget as a result of overall lower capital spend.



Path Forward

As noted last month, we continue to thoughtfully pursue a path forward in this challenging year to ensure current and future financial sustainability. We look forward to providing you with timely updates of financial performance.

Thanks again for your leadership and support, and feel free to call (210) 415-2941 if you have any questions.

Sincerely,

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

CPK

Attachments

Copy COSA: Erik Walsh, City Manager
Ben Gorzell, CFO
Ivalis Gonzalez Meza
Michelle Lugalia-Hollon
Russell Huff

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

FY2022 MONTHLY FINANCIAL UPDATE AS OF SEPTEMBER 30, 2021

PRESENTED BY:

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

Informational Update

DISCLAIMER

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

OBJECTIVES & TAKEAWAYS

- FINANCIAL RESULTS FORECAST
- HIGHLIGHT FINANCIAL PERFORMANCE & METRICS

AGENDA

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

NET INCOME

SEPTEMBER 2021 YTD ACTUAL PERFORMANCE

($ in millions)	FY2022		
Description	Budget	Actuals	Variance: Favorable (Unfavorable)
Revenue available for nonfuel expenses			
Electric	$ 1,776.3	$ 1,789.7	$ 13.4
Gas	103.2	114.8	11.6
Total operating revenue	1,879.5	1,904.5	25.0
Less:			
Electric fuel, distribution gas & regulatory	713.1	732.8	(19.7)
Payments to the City of San Antonio	249.2	242.1	7.1
Net operating revenue	917.2	929.6	12.4
Nonoperating revenue	26.0	19.8	(6.2)
Total revenue available for nonfuel expenses	943.2	949.4	6.2
Nonfuel expenses			
Operation & maintenance	428.5	424.1	4.4
Depreciation, amortization & decommissioning	318.6	306.7	11.9
Interest & debt-related	151.8	137.7	14.1
Total nonfuel expenses	898.9	868.5	30.4
Net Income (Loss)	$ 44.3	$ 80.9	$ 36.6

Highlights:

- **Operating Revenue**
  - Electric Billed Sales are 2.1% lower.
  - Gas Billed Sales are 2.0% higher.
  - Wholesale Revenue Net Fuel is $4.9M above budget primarily due to record high ERCOT load coupled with unplanned ERCOT power plant outages for the months of April & June.
- **Non-Operating Revenue**
  - Primarily driven by lower than planned interest income & change in fair market value.
- **Depreciation**
  - Lower due to lower capital spend.
- **Interest & debt-related**
  - Reflects lower than planned commercial paper issuances & interest rates.

ELECTRIC SALES
BY CUSTOMER SEGMENT- YTD FY2022*

Customer Sector	Usage	% of Total Load	% Impact on Total Usage
Residential	-2.2%	45.9%	-1.0%
Churches & Services	-0.2%	7.5%	0.0%
Manufacturing	-1.2%	4.5%	-0.1%
Retail	0.1%	5.1%	0.0%
Educational Services	-0.3%	4.7%	0.0%
Hotel & Food Services	-0.7%	4.5%	0.0%
Other**	-3.4%	27.8%	-1.0%
Total System		**100.0%**	**-2.1%**

*Billed September actual YTD performance to budget.

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

NET INCOME

LATEST ESTIMATE VS. BUDGET

(8 months actuals/4 forecast)

($ in millions)	FY2022		
Description	Budget	Forecast without Potential Rate Increase	Variance: Favorable (Unfavorable)
Revenue available for nonfuel expenses			
Electric	$ 2,493.2	$ 2,517.6	$ 24.4
Gas	206.3	231.3	25.0
Total operating revenue	2,699.5	2,748.9	49.4
Less:			
Electric fuel, distribution gas & regulatory	1,023.5	1,096.6	(73.1)
Payments to the City of San Antonio	360.3	358.5	1.8
Net operating revenue	1,315.7	1,293.8	
Nonoperating revenue	35.9	33.0	(2.9)
Total net revenue available for nonfuel expenses	1,351.6	1,326.8	(24.8)
Nonfuel expenses			
Operation & maintenance	687.5	672.2	15.3
Depreciation, amortization & decommissioning	476.0	463.8	12.2
Interest & debt-related	222.5	207.5	15.0
Total nonfuel expenses	1,386.0	1,343.5	42.5
Net Income (Loss)	$ (34.4)	$ (16.7)	$ 17.7

Potential Rate Increase:

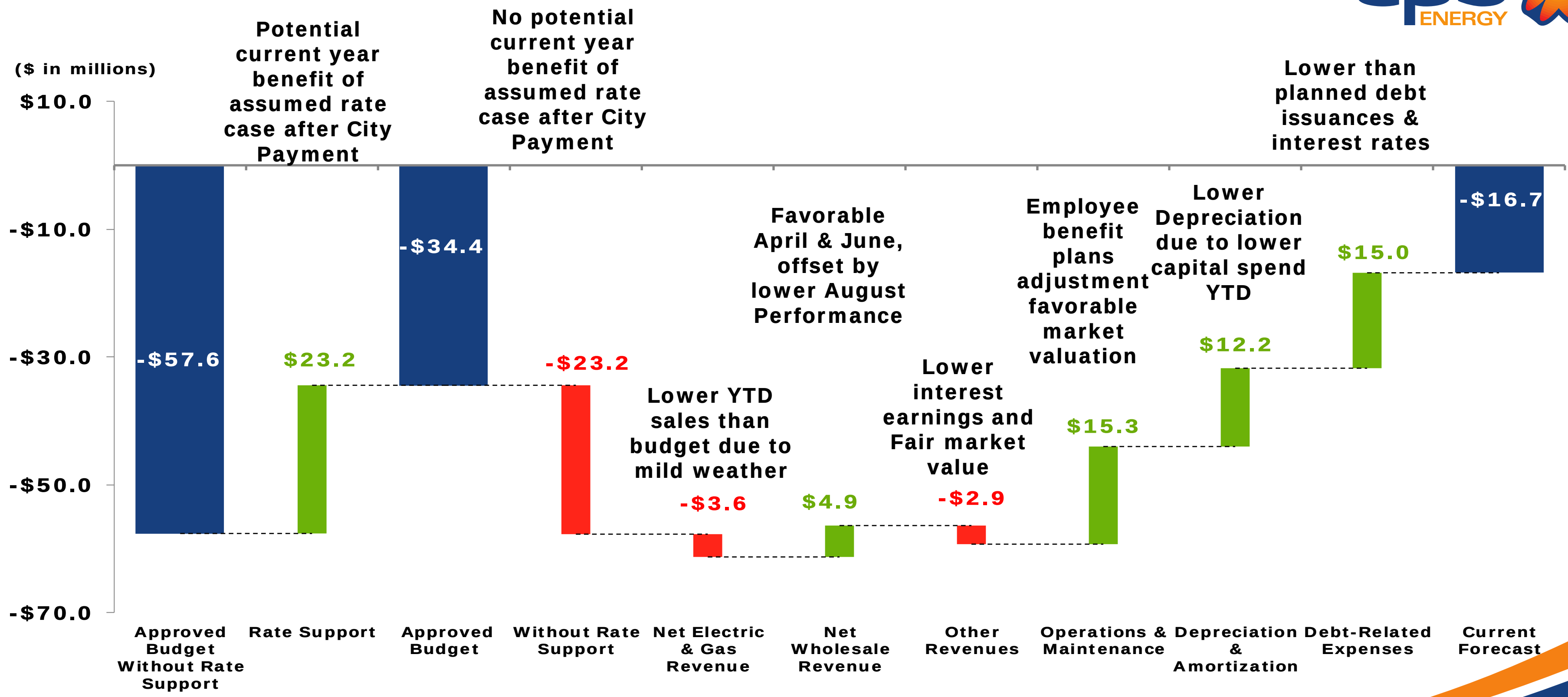
Assumes a potential rate increase next year, effective FY2023, no current year benefit assumed.

Assumptions:

- **Operating Revenue**
  - Electric Billed Sales estimated to be 1.1% lower than budget.
  - Gas Billed Sales estimated to be 1.4% higher than budget.
  - Wholesale Revenue Net Fuel is $4.9M above budget primarily due to record high ERCOT load coupled with unplanned ERCOT power plant outages for the months of April & June.
- **Interest & debt-related**
  - Lower than planned debt issuances & interest rates.
- **O&M**
  - Employee benefit plans adjustment due to favorable market valuation.
  - Lower COVID-19 expenses than forecasted.
  - Reflects additional costs due to Winter Storm Uri.
- **Depreciation**
  - Lower due to capital spend.

NET INCOME

BUDGET TO CURRENT FORECAST



FLOW OF FUNDS

LATEST ESTIMATE VS BUDGET

(8 months actuals/4 forecast)

($ in millions)	FY2022		
Description	Budget	Forecast without Potential Rate Increase	Variance: Favorable (Unfavorable)
Revenues, net of unbilled	$ 2,715.7	$ 2,760.9	$ 45.2
Less: city payment (CP) per flow of funds	360.3	358.5	1.8
Revenues, net of unbilled & CP	2,355.4	2,402.4	47.0
Less: fuel & regulatory expense	1,023.5	1,096.7	(73.2)
Revenues, net fuel & regulatory	1,331.9	1,305.7	(26.2)
Operation & maintenance	689.3	673.1	16.2
Debt service	410.3	398.4	11.9
Total expenses	1,099.6	1,071.5	28.1
6% Gross Revenue to R&R	162.9	165.7	2.8
Remaining to R&R	69.4	68.5	(0.9)
Total R&R fund additions	$ 232.3	$ 234.2	$ 1.9
Total capital expenditures	$ 638.9	$ 624.5	$ 14.4

Potential Rate Increase:

Assumes a potential rate increase next year, effective FY2023, no current year benefit assumed.

Assumptions:

- **Operating Revenue**
  - Electric Billed Sales estimated to be 1.1% lower than budget.
  - Gas Billed Sales estimated to be 1.4% higher than budget.
  - Wholesale Revenue Net Fuel is $4.9M above budget primarily due to record high ERCOT load coupled with unplanned ERCOT power plant outages for the months of April & June.
- **Interest & debt-related**
  - Lower than planned debt issuances & interest rates.
- **O&M**
  - Employee benefit plans adjustment due to favorable market valuation.
  - Lower COVID-19 expenses than forecasted.
  - Reflects additional costs due to Winter Storm Uri.
- **Capital**
  - Lower due to deferral of projects.

KEY FINANCIAL METRICS
LATEST ESTIMATES VS BUDGET

Metric	FY2021 Actuals	FY2022 Budget	Accountability Plans Threshold	Forecast without Potential Rate Increase
Adjusted Debt Service Coverage (ADSC)	1.59	1.57	1.50[1]	1.60
Days Cash on Hand (DCOH)	209	181	150[1]	161
Debt Capitalization (DC)	60.5%	65.1%	65.1%[2]	62.0%

Legend

- Red: Outside of Credit Ratings Agency Guidance
- Yellow: Above Credit Ratings Agency Guidance, but nearing thresholds

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

ONGOING ACTIONS

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

Thank You

Appendix

NET INCOME

PRIOR FORECAST TO CURRENT FORECAST

($ in millions)