INVITATION TO TENDER BONDS
made by
CITY OF SAN ANTONIO, TEXAS
ACTING BY AND THROUGH THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO
(the "Issuer")

All terms used below with initial capitalization where not required by the rules of grammar and not otherwise defined have the meanings given to them in this Invitation.

The Issuer invites Bondowners, as described herein, of all or any portion of its bonds of the series designations with the maturity dates and CUSIP numbers listed on page (ii) hereof (the "Target Bonds") to offer to sell to the Issuer for cash:

CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS,
TAXABLE NEW SERIES 2020

CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS,
TAXABLE NEW SERIES 2022

THIS INVITATION WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME ON MAY 31, 2024 UNLESS EARLIER TERMINATED OR EXTENDED

Key Dates and Times

All of these dates and times are subject to change. All times are New York City time.
Notices of changes will be sent in the manner provided for in this Invitation.

Launch Date	May 14, 2024
Pricing Notice	May 23, 2024
Tender Expiration Date	5:00 PM on May 31, 2024
Preliminary Notice of Acceptance	June 3, 2024
Determination of Target Bonds Purchase Price	Approximately 10:00 AM on June 4, 2024
Notice of Target Bonds Purchase Price	June 4, 2024
Final Notice of Acceptance	June 4, 2024
Settlement Date	June 25, 2024

To make an informed decision as to whether, and how, to offer Target Bonds, beneficial owners of Target Bonds ("**Bondowners**") must read this Invitation carefully and should consult with their broker dealer, financial, legal, accounting, tax, and/or other professionals in making this decision.

The Dealer Managers for this Invitation are:

Jefferies LLC
Wells Fargo Bank, National Association

The Tender Agent and Information Agent is:

Globic Advisors Inc.

The date of the Invitation is May 14, 2024.

TARGET BONDS SUBJECT TO TENDER OFFER FOR CASH

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2020

CUSIP No.[1]	Maturity Date	Average Life Date[3]	Interest Rate (%)	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[2]	Indicative Fixed Spreads[4]
79625GDB6	2/1/2034	n/a	2.142	13,760,000	2/1/2031	10-Year	+ 0.0 bps
79625GDC4	2/1/2035	n/a	2.242	14,695,000	2/1/2031	10-Year	+ 7.0 bps
79625GDD2	2/1/2036	n/a	2.392	14,830,000	2/1/2031	10-Year	+ 15.0 bps
79625GDE0	2/1/2037	n/a	2.492	15,055,000	2/1/2031	10-Year	+ 22.0 bps
79625GDF7	2/1/2040	6/14/2039	2.875	51,150,000	2/1/2031	10-Year	+ 31.0 bps
79625GDG5	2/1/2048	8/22/2044	2.905	219,145,000	2/1/2031	30-Year	+ 28.5 bps

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022

CUSIP No.[1]	Maturity Date	Average Life Date[3]	Interest Rate (%)	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[2]	Indicative Fixed Spreads[4]
79625GFB4	2/1/2025	n/a	3.041	6,710,000	-	2-Year	+ 30.0 bps
79625GFC2	2/1/2026	n/a	3.146	7,580,000	-	2-Year	- 35.0 bps
79625GFD0	2/1/2027	n/a	3.196	7,765,000	-	3-Year	- 30.0 bps
79625GFE8	2/1/2028	n/a	3.238	4,880,000	-	5-Year	- 20.0 bps
79625GFF5	2/1/2029	n/a	3.418	4,775,000	-	5-Year	- 18.0 bps
79625GFG3	2/1/2030	n/a	3.458	3,000,000	-	7-Year	- 15.0 bps
79625GFH1	2/1/2031	n/a	3.608	6,910,000	-	7-Year	- 12.0 bps
79625GFJ7	2/1/2032	n/a	3.758	1,995,000	-	10-Year	- 8.0 bps
79625GFK4	2/1/2033	n/a	3.908	16,300,000	2/1/2032	10-Year	- 5.0 bps
79625GFL2	2/1/2034	n/a	4.058	1,700,000	2/1/2032	10-Year	+ 3.0 bps
79625GFM0	2/1/2035	n/a	4.158	17,620,000	2/1/2032	10-Year	+ 11.0 bps
79625GFN8	2/1/2036	n/a	4.258	10,460,000	2/1/2032	10-Year	+ 19.0 bps
79625GFP3	2/1/2037	n/a	4.308	18,135,000	2/1/2032	10-Year	+ 26.0 bps
79625GFQ1	2/1/2042	1/15/2041	4.365	70,690,000	2/1/2032	30-Year	+ 25.0 bps
79625GFR9	2/1/2047	12/25/2045	4.445	90,360,000	2/1/2032	30-Year	+ 34.5 bps

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(2) Except for the 30-Year Benchmark Treasury Security (as defined herein), which will be the "old long bond" (maturity date February 15, 2054, 4.25%, CUSIP 912810TX6), each Benchmark Treasury Security will be the most recently auctioned "on-the-run" United States Treasury Security for the maturity indicated as of the date and time that the Offer Purchase Price for the Target Bonds is set, currently expected to be approximately 10:00 a.m. ET on June 4, 2024.

(3) Average life date is shown for the Target Term Bonds (as defined herein) only. The Target Term Bonds will be priced to their respective average life dates.

(4) Indicative Fixed Spreads as shown above are preliminary and subject to change. The Fixed Spreads for each CUSIP number will appear in the Pricing Notice.

IMPORTANT INFORMATION

This Invitation and other information with respect to this Invitation are available from the Dealer Managers and the Information Agent and Tender Agent at www.globic.com/cpsenergy. Bondowners wishing to offer their Target Bonds for purchase pursuant to this Invitation must follow the procedures more fully described herein. Pursuant to the terms of this Invitation as more fully described herein, the Issuer reserves the right to cancel or modify this Invitation at any time on or prior to the Expiration Date and reserves the right to make a future invitation to tender bonds at prices different than the offer purchase prices described herein in its sole discretion. Except as described in this Invitation, the Issuer will have no obligation to purchase Target Bonds offered pursuant to this Invitation. The Issuer further reserves the right to waive any irregularities or defects in any offer received.

This Invitation is not being made to, and Target Bonds offered for purchase in response to this Invitation will not be accepted from or on behalf of, Bondowners in any jurisdiction in which this Invitation, the making of an offer to sell Target Bonds or the acceptance thereof would not be in compliance with the laws of such jurisdiction. In those jurisdictions whose laws require the Tender Offer to be made through a licensed or registered broker or dealer, the Tender Offer is being made on behalf of the Issuer by the Dealer Managers.

The Issuer, the Dealer Managers, and the Information Agent and Tender Agent are not recommending to any Bondowner whether or not to tender their Target Bonds for purchase in connection with this Tender Offer. Each Bondowner must make this decision for itself and should read this Invitation and the Series 2024 Bonds POS, attached as **Appendix A**, and the Pricing Notice in the form attached hereto as **Appendix B**, in their entirety and should consult with its broker-dealer, financial, legal, accounting, tax, and other professionals in making this decision.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Invitation, including **Appendices A** and **B** hereto, and, if given or made, such information or representation may not be relied upon as having been authorized by the Issuer.

The delivery of this Invitation shall not under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the information set forth herein or in any attachments hereto or materials delivered herewith or in the affairs of the Issuer since the date hereof.

The Dealer Managers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein, including **Appendix A**. The Dealer Managers have not independently verified any of the information contained herein and assumes no responsibility for the accuracy or completeness of any such information. References to website addresses 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 websites and the information or links contained therein are not incorporated into, and are not a part of, this Invitation.

This Invitation contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Invitation and other materials referred to or incorporated herein, the words "estimate", "anticipate", "forecast", "project", "intend", "propose", "plan", "expect", and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

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INVITATION DATED MAY 14, 2024 TO TENDER BONDS
made by
CITY OF SAN ANTONIO, TEXAS
ACTING BY AND THROUGH THE CITY PUBLIC SERVICE BOARD OF SAN ANTONIO
to the Bondowners described herein of
all or any portion of the maturities listed on page (ii) herein of its

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2020	CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022

1. Introduction. This Invitation to Tender Bonds, dated May 14, 2024 (as it may be amended or supplemented, this "**Invitation**"), which includes the Appendices hereto, describes an offer ("**Tender Offer**") made by the City of San Antonio, Texas (the "**Issuer**"), acting by and through the City Public Service Board of San Antonio, Texas, to the beneficial owners (the "**Bondowners**") of the Issuer's outstanding (i) Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020 (the "**2020 Bonds**"), and (ii) Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022 (the "**2022 Bonds**", and together with the 2020 Bonds, the "**Target Bonds**") maturing on the dates set forth in the tables on page (ii) of this Invitation to tender such Target Bonds for cash purchase on the Settlement Date (as defined herein) by the Issuer at the applicable price (each, an "**Offer Purchase Price**") to be determined as described herein based on a yield (each, a "**Purchase Yield**") equal to the fixed spread (each, a "**Fixed Spread**") to be added to the yield on the relevant benchmark United States Treasury Security (the "**Benchmark Treasury Security**"). See Section 2, "Information to Bondowners – *Tender Consideration – Determination of Offer Purchase Prices*" herein. Interest on Target Bonds purchased to but not including the Settlement Date ("**Accrued Interest**") will also be paid on the Settlement Date. On or about May 23, 2024, the Issuer expects to publish the Pricing Notice (as it may be amended and supplemented, the "**Pricing Notice**") in the form attached hereto as **Appendix B**, which will include the Fixed Spread for each maturity and corresponding CUSIP of the respective Target Bonds. **All times in this Invitation are local time in New York City**. The Tender Offer is being made by the Issuer with the assistance of Jefferies LLC and Wells Fargo Bank, National Association, as dealer managers (together, the "**Dealer Managers**"), and Globic Advisors Inc., as information agent and tender agent (the "**Information Agent and Tender Agent**").

The purchase of any Target Bonds pursuant to this Invitation is contingent on the Issuer receiving sufficient net proceeds from the issuance of its Electric and Gas Systems Revenue and Refunding Bonds, New Series 2024B (the "**Series 2024 Bonds**"), and is also subject to the terms of this Invitation and certain other conditions as described herein, including the approval of the Attorney General of the State of Texas (the "**Attorney General**") with respect to the Series 2024 Bonds and satisfaction of the Financing Conditions (as defined herein). The Issuer's obligation to accept for purchase and to pay for Target Bonds validly tendered (and not withdrawn) pursuant to this Invitation is also subject to the satisfaction or waiver of certain conditions. See "*Issuer's Obligation to Purchase Offered Target Bonds*" below and Section 14, "Conditions to Purchase", herein for additional information regarding certain of such conditions.

Purpose. This Tender Offer is part of a plan by the Issuer to, in part, refinance certain of its outstanding indebtedness, including the purchase of some or all of the Target Bonds and the defeasance of some or all of the Target Bonds not purchased, for debt service savings (the "**Refunding Plan**"), as described in the Preliminary Official Statement of the Issuer dated May 14, 2024, and attached hereto as **Appendix A** (the "**Series 2024 Bonds POS**") and below under the heading "*Concurrent Defeasance of*

Certain Unpurchased Bonds". **The Issuer's outstanding bonds of any series that are not identified in the tables on page (ii) of this Invitation are not subject to this Tender Offer.** For additional information concerning the Issuer, its Refunding Plan, and its outstanding indebtedness, see the Series 2024 Bonds POS attached hereto as **Appendix A**.

Offers by Bondowners. Pursuant to this Invitation, each Bondowner may submit an offer to tender to the Issuer for cash purchase all or a part of its Target Bonds, in a denomination of $5,000 principal amount (the "**Minimum Authorized Denomination**") or any integral multiple thereof, with respect to which the Bondowner has a beneficial ownership interest. The applicable Fixed Spread for each maturity and corresponding CUSIP of the Target Bonds at which such Target Bonds may be tendered by a Bondowner for purchase pursuant to this Invitation will be set forth in the Pricing Notice. The applicable Offer Purchase Price for each maturity and corresponding CUSIP of the Target Bonds will be determined as further described below in Section 2, "Information to Bondowners – *Tender Consideration – Determination of Offer Purchase Prices*" herein.

Source of Funds. Other than Accrued Interest, the total amount paid to Bondowners to purchase the Target Bonds validly tendered and accepted for purchase pursuant to this Invitation (the "**Aggregate Purchase Price**") is anticipated to be certain net proceeds of the Series 2024 Bonds to be issued on the Settlement Date. The payment of Accrued Interest on Target Bonds validly tendered for purchase is expected to be made from funds held by the Issuer for such purpose.

Issuer's Obligation to Purchase Offered Target Bonds. Subject to the terms of this Invitation and the satisfaction of all conditions to the Issuer's obligation to purchase tendered Target Bonds as described herein, and provided that (i) a Bondowner's Target Bonds tendered for purchase have been validly tendered by 5:00 p.m., ET, on May 31, 2024 (as may be extended from time to time in accordance with this Invitation, the "**Expiration Date**"), and (ii) accepted by the Issuer on or before June 4, 2024 (as may be extended from time to time in accordance with this Invitation, the "**Final Acceptance Date**"), the Issuer will purchase such Target Bonds tendered and accepted for purchase on June 25, 2024 (the "**Settlement Date**"). Accrued Interest on the Target Bonds purchased will also be paid on the Settlement Date.

The Issuer's obligation to accept for purchase any tendered Target Bonds and the Issuer's obligation to pay for Target Bonds validly tendered (and not validly withdrawn) and accepted pursuant to this Invitation is subject to the satisfaction of or waiver of the following conditions on or prior to the Settlement Date: (A) the successful completion by the Issuer of the issuance of the Series 2024 Bonds, certain proceeds of which will be sufficient to, together with other available moneys of the Issuer to, (x) fund the Aggregate Purchase Price of all Target Bonds validly tendered and accepted for purchase pursuant to this Invitation, and (y) pay all fees and expenses associated with the issuance of the Series 2024 Bonds and this Tender Offer; (B) receipt of all certifications and opinions required by the "Dealer Manager Agreement" executed between the Issuer and the Dealer Managers in connection with this Tender Offer, and (C) when taken together with the issuance of the Series 2024 Bonds, the Issuer, determining in its reasonable discretion that it will obtain a satisfactory and sufficient economic benefit as a result of market conditions, including (x) all or any portion of the maturities listed on page (ii) will produce sufficient debt service savings for the Issuer, (y) the expected or actual level of participation by Bondowners, or (z) any other factors not within the sole control of the Issuer, all on terms and conditions that are in the Issuer's best interest (collectively, the "**Financing Conditions**").

No assurances can be given that the Series 2024 Bonds will be issued or that any Target Bonds tendered for purchase by a Bondowner will be purchased. See Section 10, "Determination of Amounts to be Purchased; Acceptance of Offers; Final Notice of Acceptance", for more information on the selection of tendered Target Bonds to be purchased, if any. The Issuer reserves the right, subject to applicable law, to amend or waive any of the conditions to this Invitation, in whole or in part, any time prior to the Expiration

Date or from time to time subject to the Financing Conditions and other conditions described in this Invitation. The Issuer also has the right to terminate this Tender Offer at any time up to and including the Expiration Date. See Section 15, "Extension, Termination, and Amendment of Tender Offer", herein.

The Issuer is under no obligation to accept any of the Target Bonds that are tendered for purchase pursuant to this Invitation as described above and in Section 10, "Determination of Amounts to be Purchased; Acceptance of Offers; Final Notice of Acceptance". Any Target Bonds not tendered by Bondowners, or Target Bonds tendered by Bondowners pursuant to this Invitation but not accepted for purchase by the Issuer (the "**Unpurchased Bonds**") that have been returned to the Bondowners, will continue to be payable and secured by their terms until maturity or prior defeasance or redemption. If all conditions to this Invitation are not satisfied or waived by the Issuer on or prior to the Settlement Date, all Target Bonds tendered by Bondowners pursuant to this Invitation will be returned to the Bondowners and will continue to be payable and secured under their terms until maturity or prior redemption. See Section 17, "Additional Considerations – *Potential Subsequent Transactions*" herein.

Potential Concurrent Defeasance of Certain Unpurchased Bonds. Notwithstanding the foregoing and dependent on market conditions, the Issuer may concurrently defease certain of the Unpurchased Bonds maturing on February 1, 2025 through February 1, 2034 of both series of Target Bonds (the "**Defeasance Candidates**") with a portion of the proceeds of the Series 2024 Bonds. Should the Issuer choose to defease any of the Defeasance Candidates, those Defeasance Candidates that are not subject to optional redemption at par by the Issuer will be defeased to their respective maturity dates. Those Defeasance Candidates that are subject to optional redemption by the Issuer at par (e.g., the 2020 Bonds maturing on February 1, 2034, CUSIP number 79625GDB6, and the 2022 Bonds maturing on February 1, 2033 and February 1, 2034, CUSIP numbers 79625GFK4 and 79625GFL2) may either be defeased to maturity or to their respective optional redemption dates that are shown on page (ii) hereof. Any defeased Target Bonds would no longer be outstanding under their terms. Such defeasance may result in the withdrawal of certain credit ratings on the defeased Target Bonds. Bondholders of the Target Bonds should review the respective Official Statements for any relevant provisions pertaining to the foregoing potential defeasance and should further consult with their broker-dealer, financial, legal, accounting, tax, and other professionals for any associated outcomes thereto.

The Issuer will determine whether to defease any Defeasance Candidates, what maturities will be defeased and in what amounts after determining the economic impact of the Target Bonds accepted for purchase pursuant to this Invitation on the defeasance of the Defeasance Candidates. The Issuer has the sole discretion to determine which Defeasance Candidates, if any, and in what amount will be defeased. There can be no assurance that a particular Bondowner's Unpurchased Bond that constitute Defeasance Candidates will be defeased by the Issuer.

Sinking Fund Amortization of Unpurchased Target Term Bonds. The Series 2020 Target Bonds maturing on February 1, 2040 and February 1, 2048 (the "**Series 2020 Target Term Bonds**") and the Series 2022 Target Bonds maturing on February 1, 2042 and February 1, 2047 (the "**Series 2022 Target Term Bonds**", and together with the Series 2020 Target Term Bonds, the "**Target Term Bonds**") are each subject to mandatory sinking fund redemption in specified annual principal amounts prior to their respective maturity dates. If less than all the Target Term Bonds are purchased by the Issuer pursuant to this Invitation, each of the original principal amounts to be redeemed on each mandatory sinking fund redemption date or paid at maturity of such Target Term Bond may be reduced. The Issuer is permitted to and intends to apply purchases of the Target Term Bonds to any sinking fund redemption requirement of its choosing, including to the earliest sinking fund requirements. Such an application would result in the extension of the average life of such Unpurchased Bonds.

Future Refunding, Defeasance, or Purchase of Unpurchased Bonds. The Issuer further reserves the right, in its sole discretion, to refund, defease, and/or purchase some or all of the Unpurchased Bonds in the future.

To make an informed decision as to whether, and how, to offer Target Bonds for purchase pursuant to this Invitation, a Bondowner must read this Invitation carefully and entirely, including the Series 2024 Bonds POS attached hereto as Appendix A and the Pricing Notice in the form attached hereto as Appendix B.

None of the Issuer, the Dealer Managers, or the Information Agent and Tender Agent make any recommendation that any Bondowner tender or refrain from tendering all or any portion of such Bondowner's Target Bonds for purchase. Bondowners must make these decisions and should consult with their broker-dealer, financial, legal, accounting, tax, and other professionals.

2. Information to Bondowners

General. The Issuer will provide additional information about this Tender Offer, if any, to Bondowners of the Target Bonds, including, without limitation, the information contained in the Pricing Notice in the form attached hereto as **Appendix B** expected to be delivered on or about May 23, 2024 and the information contained in **Appendix A** and any supplement to the Series 2024 Bonds POS, by delivery of such information in the following ways (collectively, the "**Information Services**"):

(a) to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system website, currently located at http://emma.msrb.org (the "**EMMA Website**"), using the CUSIP numbers for the Target Bonds;

(b) to DTC (defined below) and to the DTC participants holding the Target Bonds; and

(c) by posting electronically on the website of the Information Agent and Tender Agent at www.globic.com/cpsenergy.

Delivery by the Issuer of information in the foregoing manner will be deemed to constitute delivery of the information to each Bondowner of the Target Bonds. The Issuer, the Dealer Managers, and the Information Agent and Tender Agent have no obligation to ensure that any such Bondowner actually receives any information provided by the Issuer in this manner. Any such Bondowner who would like to receive information furnished by or on behalf of the Issuer as described above must make appropriate arrangements with its broker-dealer, account executive, or other financial advisor or representative.

Pricing Notice and Fixed Spreads. On or about May 23, 2024, the Issuer will provide the Pricing Notice in the manner described under the heading "*General*" above in the form attached hereto as **Appendix B**, which Pricing Notice will set forth the Fixed Spreads.

Tender Consideration – Determination of Offer Purchase Prices. The applicable Fixed Spread, expressed as an interest rate percentage, will be added to the yield on the relevant Benchmark Treasury Security (the "**Treasury Security Yield**") to arrive at the Purchase Yield used to calculate the Offer Purchase Price for each maturity and corresponding CUSIP of the Target Bonds. The Benchmark Treasury Security for each CUSIP is identified on page (ii) hereof and will also be identified in the Pricing Notice. The Treasury Security Yield will equal the bid-side yield of the Benchmark Treasury Security as quoted on the Bloomberg Bond Trader FIT1 series of pages at approximately 10:00 a.m., New York City time, on June 4, 2024.

The Purchase Yields will be used to calculate the Offer Purchase Prices expressed as a dollar amount per $100 principal amount of the Target Bonds. The Offer Purchase Prices will be calculated using the market standard bond pricing formula as of the Settlement Date using the relevant Purchase Yield, the coupon of the relevant Target Bond and the maturity date for each Target Bond, except for each of the Target Term Bonds (defined below) which will be priced to their respective average life dates as shown below.

Summary of the Target Term Bonds

Series	CUSIP[1]	Maturity Date	Average Life Date	Outstanding Principal Amount
2020	79625GDF7	2/1/2040	6/14/2039	$51,150,000
2020	79625GDG5	2/1/2048	8/22/2044	$219,145,000
2022	79625GFQ1	2/1/2042	1/15/2041	$70,690,000
2022	79625GFR9	2/1/2047	12/25/2045	$90,360,000

The Issuer expects to publish a Notice of Target Bonds Purchase Prices on June 4, 2024. The purchase price to be received on the Settlement Date by a Bondowner whose Target Bonds were validly tendered and accepted for purchase, in whole or in part, by the Issuer will equal the par amount of such Bondowners' purchased Target Bonds multiplied by the Offer Purchase Price of such Target Bonds divided by 100. In addition to the purchase price of the Target Bonds accepted for purchase by the Issuer, Accrued Interest on such Target Bonds will be paid by the Issuer on the Settlement Date.

3. Expiration Date; Offers Only Through Financial Institutions; Brokerage Commissions. This Tender Offer to tender Target Bonds will expire at 5:00 p.m., ET, on May 31, 2024, the Expiration Date, unless earlier terminated, and Target Bonds received after 5:00 p.m., ET, on the Expiration Date will not be considered. See Section 15, "Extension, Termination, and Amendment of Tender Offer" herein for a discussion of the Issuer's ability to extend the Expiration Date and to terminate or amend this Invitation.

In the sole discretion of the Issuer, the Issuer may extend the Expiration Date, the Preliminary Acceptance Date (defined herein), the Final Acceptance Date, or the Settlement Date.

All of the Target Bonds are held in book-entry-only form through the facilities of The Depository Trust Company of New York ("**DTC**"). The Information Agent and Tender Agent and DTC have confirmed that this Tender Offer is eligible for submission of tenders for purchase through DTC's Automated Tender Offer Program (known as the "**ATOP**" system). **Bondowners of Target Bonds who want to tender Target Bonds for purchase pursuant to the Issuer's Invitation must do so through a DTC participant in accordance with the relevant DTC procedures for the ATOP system. The Issuer will not accept any tenders of Target Bonds for purchase that are not made through the ATOP system**. A Bondowner that is not a DTC participant can only tender Target Bonds for purchase pursuant to this Invitation by making arrangements with and instructing the bank or brokerage firm through which it

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holds Target Bonds (sometimes referred to herein as a "custodial intermediary") to tender the Bondowner's Target Bonds on its behalf through the ATOP system. To ensure a Bondowner's Target Bonds are tendered through the ATOP system by 5:00 p.m., ET, on the Expiration Date, the Bondowner must provide instructions to its custodial intermediary with sufficient time for such custodial intermediary to tender the Target Bonds in accordance with DTC procedures through the ATOP system by this deadline. Each Bondowner wishing to tender Target Bonds should contact its custodial intermediary for information on when such custodial intermediary needs the Bondowner's instructions in order to tender the Bondowner's Target Bonds through the ATOP system by 5:00 p.m., ET, on the Expiration Date. See also Sections 5, "Provisions Applicable to all Offers" below.

The Issuer, the Dealer Managers, and the Information Agent and Tender Agent are not responsible for making or transmitting any tender of Target Bonds or for the transfer of any tendered Target Bonds through the ATOP system or for any mistakes, errors, or omissions in the making or transmission of any offer or transfer.

Bondowners will not be obligated to pay any brokerage commissions or solicitation fees to the Issuer, the Dealer Managers, or the Information Agent and Tender Agent in connection with this Tender Offer. However, Bondowners should check with their broker-dealer, account executive, or other financial institution which maintains the account in which their Target Bonds are held to determine if it will charge any commission or fees.

4. Minimum Denominations; Changes to the Terms of this Invitation.

Authorized Denominations for Offers. A Bondowner may tender, as aforesaid, all or a portion of its Target Bonds of a particular maturity and corresponding CUSIP in a principal amount of its choosing, but only in principal amounts equal to the Minimum Authorized Denomination or any integral multiple of $5,000 in excess thereof.

Changes to Terms of this Invitation. As described in Section 15 hereof, the Issuer may revise the terms of this Invitation prior to the Expiration Date. If the Issuer determines to revise the terms of this Invitation, it shall provide notice thereof in the manner described in Section 2 of this Invitation to provide reasonable time for dissemination of such revision to Bondowners. If the Issuer increases the Fixed Spread for any of the Target Bonds pursuant to this Invitation (which would thereby reduce the related Offer Purchase Price), the Issuer shall provide notice thereof (in the manner described in Section 2 of this Invitation) no less than three (3) Business Days prior to the Expiration Date, as extended. **In such event, any tenders of the affected Target Bonds prior to such change in the Fixed Spread for such Target Bonds pursuant to this Invitation will remain in full force and effect and each Bondowner of such affected Target Bonds wishing to revoke its tender of such Target Bonds must affirmatively withdraw its tender of such Target Bonds prior to the Expiration Date in the manner described in Section 8 hereof.**

5. Provisions Applicable to all Offers. A Bondowner should ask its financial advisor, investment manager, broker or account executive for advice in determining whether to tender Target Bonds for purchase and the principal amount of Target Bonds to be tendered. A Bondowner should also inquire as to whether its financial institution will charge a fee for submitting tenders. The Issuer, the Dealer Managers, and the Information Agent and Tender Agent will not charge fees to any tendering Bondowner or completing the purchase of Target Bonds.

A tender of Target Bonds cannot exceed the par amount of Target Bonds owned by the Bondowner. Target Bonds may be tendered and accepted for payment only in principal amounts equal to the Minimum Authorized Denomination and integral multiples of $5,000 in excess thereof.

"All or none" tenders are not permitted. No alternative, conditional or contingent tenders will be accepted. All tenders shall survive the death or incapacity of the tendering Bondowner.

By tendering Target Bonds pursuant to this Invitation, each such Bondowner will be deemed to have represented and warranted to and agreed with the Issuer and the Dealer Managers that:

(a) the Bondowner has received, and has had the opportunity to review, this Invitation (including the Series 2024 Bonds POS attached as **Appendix A** hereto) and the Pricing Notice prior to making the decision as to whether or not it should tender its Target Bonds for purchase;

(b) the Bondowner has full authority to tender, sell, assign, and transfer such Target Bonds, and that, on the Settlement Date, the Issuer, as transferee, will acquire good title, free and clear of all liens, charges, encumbrances, conditional sales agreements, or other obligations and not subject to any adverse claims, subject to payment to the Bondowner of the applicable Offer Purchase Price, plus payment of Accrued Interest on the Target Bonds;

(c) the Bondowner has made an independent decision to tender, the appropriateness of the terms thereof, and whether the tender is appropriate for the Bondowner;

(d) such decisions are based upon the Bondowner's judgment and upon advice from such advisors as the Bondowner has consulted;

(e) the Bondowner is not relying on any communication from the Issuer, the Dealer Managers, or the Information Agent and Tender Agent as investment advice or as a recommendation to make the offer, it being understood that the information from any of the foregoing related to the terms and conditions of this Invitation shall not be considered investment advice or a recommendation to tender Target Bonds; and

(f) the Bondowner is capable of assessing the merits of and understanding (on its own and/or through independent professional advice), and does understand and accept, the terms and conditions of this Invitation.

6. Transmission of Offers by Financial Institutions; DTC ATOP Procedures. Tenders of Target Bonds pursuant to this Invitation may only be made through DTC's ATOP system. Bondowners that are not DTC participants must make their tenders through their custodial intermediary. A DTC participant must tender the Target Bonds on behalf of the Bondowner for whom it is acting pursuant to this Invitation, by book-entry through the ATOP system. In so doing, such custodial intermediary and the Bondowner on whose behalf the custodial intermediary is acting, agree to be bound by DTC's rules for the ATOP system. In accordance with ATOP procedures, DTC will then verify receipt of the Tender Offer and send an Agent's Message (as described below) to the Information Agent and Tender Agent.

The term "Agent's Message" means a message transmitted by DTC to, and received by, the Information Agent and Tender Agent, forming a part of the book-entry confirmation stating that DTC has received an express acknowledgement from the DTC participant tendering Target Bonds for purchase that are the subject of such book-entry confirmation that includes: (i) the CUSIP number(s) and the par amount(s) of the Target Bonds that have been validly tendered by such DTC participant on behalf of the Bondowner pursuant to this Invitation, and (ii) that the Bondowner agrees to be bound by the terms of this Invitation, including the representations, warranties, agreements and affirmations deemed made by it as set forth in Section 5 above. By causing DTC to transfer Target Bonds into the Issuer's ATOP system, a financial institution warrants to the Issuer that it has full authority, and has received from the Bondowner(s) of such Target Bonds all direction necessary, to tender and sell such Target Bonds as set forth in this Invitation.

Agent's Messages must be transmitted to and received by the Information Agent and Tender Agent by not later than 5:00 p.m., ET, on the Expiration Date. Target Bonds will not be deemed to have been tendered for cash purchase pursuant to this Invitation until an Agent's Message with respect thereto is received by the Information Agent and Tender Agent.

Each DTC participant is advised to submit each beneficial owner's instruction individually into DTC's ATOP system to ensure proper settlement.

The Issuer, the Dealer Managers, and the Information Agent and Tender Agent are not responsible for making or transmitting any tender of Target Bonds or for the transfer of any tendered Target Bonds through the ATOP system or for any mistakes, errors, or omissions in the making or transmission of any offer or transfer.

7. Determinations as to Form and Validity of Tenders; Right of Waiver and Rejection. All questions as to the validity (including the time of receipt of Agent's Messages by the Information Agent and Tender Agent), eligibility, and acceptance of any tenders of Target Bonds will be determined by the Issuer in its sole discretion and will be final, conclusive, and binding.

The Issuer reserves the right to waive any irregularities or defects in any tender. The Issuer, the Dealer Manager, and the Information Agent and Tender Agent are not obligated to give notice of any defects or irregularities in tenders, and they will have no liability for failing to give such notice.

8. Withdrawals of Tenders Prior to Expiration Date; Irrevocability of Tenders on Expiration Date. A Bondowner may withdraw its tender of Target Bonds pursuant to this Invitation by causing a withdrawal notice to be transmitted via DTC's ATOP system to, and received by, the Information Agent and Tender Agent at or before 5:00 p.m., ET, on the Expiration Date (as the date and time may have been changed as provided in this Invitation).

A Bondowner that is not a DTC participant can only withdraw its tender by making arrangements with and instructing the custodial intermediary through which it holds its Target Bonds to submit the Bondowner's notice of withdrawal through the DTC ATOP system.

All tenders of Target Bonds will become irrevocable as of 5:00 p.m., ET, on the Expiration Date.

9. Preliminary Acceptance Notice. On June 3, 2024, unless such time or date is extended by the Issuer (the "**Preliminary Acceptance Date**"), the Issuer will determine the preliminary principal amount, if any, of the Target Bonds for each CUSIP that it will purchase, based on satisfaction of the Financing Conditions. Notice of the preliminary principal amount of the Target Bonds, if any, for each CUSIP that the Issuer initially agrees to purchase pursuant to the Invitation will be provided to the Information Services on the Preliminary Acceptance Date via the publication of a "**Preliminary Notice of Acceptance**".

10. Determination of Amounts to be Purchased; Acceptance of Offers; Final Notice of Acceptance. This Tender Offer is part of the Refunding Plan as described in the Series 2024 Bonds POS. The Series 2024 Bonds, if issued, will be used in part to finance the Refunding Plan and to pay the costs and expenses of the Tender Offer and issuing the Series 2024 Bonds. The Issuer intends to purchase up to all of the Target Bonds validly tendered pursuant to this Invitation, though depending upon the results of this Tender Offer and other factors including the Financing Conditions, the Issuer, in its sole discretion, may elect to purchase less than all of the Target Bonds so tendered. The Issuer shall be under no obligation to accept any Target Bonds tendered for purchase pursuant to this Invitation. The Issuer, in its sole discretion, will select which, if any, Target Bonds validly tendered of a particular maturity and corresponding CUSIP are purchased based on its determination of the economic benefit from such purchase.

Should the Issuer decide to only purchase a portion of the Target Bonds being tendered for purchase of a certain CUSIP, the Issuer will accept such Target Bonds tendered for purchase on a pro rata basis. The principal amount of each individual offer will be adjusted, pro rata, based upon a proration factor for each such CUSIP (each, a "**Proration Factor**"). In such event, should the principal amount of any individual offer, when adjusted by the Proration Factor, result in an amount that is not a multiple of $5,000, the principal amount of such offer will be rounded up to the nearest multiple of $5,000. If as a result of such adjustment, the principal amount of a Bondowner's unaccepted Target Bonds is less than the Minimum Authorized Denomination of $5,000, the Issuer will reject such Bondowner's offer in whole. The Issuer will determine the Proration Factor that permits it to accept the amount of Target Bonds it has determined to purchase.

On the Final Acceptance Date (i.e., June 4, 2024, unless extended), upon the terms and subject to the conditions of this Invitation, the Issuer will announce its acceptance for purchase of Target Bonds, if any, validly tendered by Bondowners pursuant to this Invitation via the publication of a "**Final Notice of Acceptance**", with acceptance subject to the satisfaction or waiver by the Issuer of the conditions to the purchase of tendered Target Bonds. See Section 11, "Acceptance of Tenders Constitutes Irrevocable Agreement" and Section 14, "Conditions to Purchase".

The Final Notice of Acceptance will state: (i) the principal amount of the Target Bonds of each maturity and corresponding CUSIP number that the Issuer has accepted for purchase in accordance with this Invitation, which may be zero for a particular maturity and corresponding CUSIP, or (ii) that the Issuer has decided not to purchase any Target Bonds.

Following the publication of the Notice of Acceptance, all Target Bonds that were tendered but were not accepted for purchase will be released and returned to the tendering institution in accordance with DTC's ATOP procedures. The Issuer, the Dealer Manager, and the Information Agent and Tender Agent are not responsible or liable for the operation of the ATOP system by DTC to properly credit such released Target Bonds to the applicable account of the DTC participant or custodial intermediary or by such DTC participant or custodial intermediary for the account of the Bondowner.

Notwithstanding any other provision of this Invitation, the obligation of the Issuer to accept for purchase and to pay for Target Bonds validly tendered (and not validly withdrawn) by Bondowners pursuant to this Invitation is subject to the satisfaction or waiver of the conditions set forth under Section 14, "Conditions to Purchase" below. The Issuer reserves the right, subject to applicable law, to amend or waive any of the conditions to this Invitation, in whole or in part, any time prior to the Expiration Date or from time to time subject to the Financing Conditions and other conditions described in this Invitation. This Tender Offer may be withdrawn by the Issuer at any time prior to the Expiration Date.

11. Acceptance of Tenders Constitutes Irrevocable Agreement. Acceptance by the Issuer of validly tendered Target Bonds will constitute an irrevocable agreement between the tendering Bondowner and the Issuer to sell and purchase such Target Bonds, subject to the conditions and terms of this Invitation, including the Conditions to Purchase set forth in Section 14 below.

12. Settlement Date; Purchase of Target Bonds. Subject to satisfaction of all conditions to the Issuer's obligation to purchase tendered Target Bonds, as described herein, the Settlement Date is the day on which Target Bonds accepted for purchase will be purchased and paid for at the applicable Offer Purchase Price, and Accrued Interest on the Target Bonds to be purchased will also be paid. Such purchase and payment are expected to occur on the Settlement Date. The Settlement Date has initially been set as June 25, 2024, unless extended by the Issuer, assuming all conditions to this Invitation have been satisfied or waived by the Issuer.

The Issuer may, in its sole discretion, change the Settlement Date by giving notice thereof in the manner described in Section 2 of this Invitation prior to the change. However, the Settlement Date may not be later than July 19, 2024. If the Issuer does not complete the purchase of the Target Bonds by 3:00 p.m., ET, on July 19, 2024, the right and obligation of the Issuer to purchase any Target Bonds will automatically terminate, without any liability to any Bondowner, and the Issuer will instruct DTC to release from the controls of the ATOP system all Target Bonds.

Subject to satisfaction of all conditions to the Issuer's obligation to purchase Target Bonds tendered for purchase pursuant to this Invitation, as described herein, payment by the Issuer will be made through DTC on the Settlement Date. The Issuer expects that, in accordance with DTC's standard procedures, DTC will transmit the Aggregate Purchase Price to be paid for the Target Bonds tendered for purchase (plus Accrued Interest) to DTC participants holding the Target Bonds accepted for purchase on behalf of Bondowners for subsequent disbursement to the Bondowners. **The Issuer, the Dealer Managers, and the Information Agent and Tender Agent have no responsibility or liability for the distribution of the Aggregate Purchase Price and Accrued Interest paid by DTC to DTC participants or by DTC participants to tendering Bondowners**.

Promptly following such deliveries and payments, the Issuer will instruct the paying agent/registrar for the purchased Target Bonds to cause such purchased Target Bonds to be cancelled and retired.

13. Source of Funds. The source of funds to purchase the Target Bonds validly tendered for purchase pursuant to this Invitation and accepted by the Issuer is anticipated to be certain proceeds received by the Issuer from the sale of its Series 2024 Bonds, expected to be issued on the Settlement Date. The payment of Accrued Interest on Target Bonds validly tendered and accepted for purchase is expected to be made from funds held by the Issuer for such purpose. The Issuer's ability to settle the cash purchase of Target Bonds tendered for purchase is contingent upon the successful delivery of its Series 2024 Bonds and the other conditions set forth herein.

14. Conditions to Purchase. The consummation of the purchase of the Target Bonds pursuant to this Invitation is conditioned upon the satisfaction of the Financing Conditions and other conditions described in this Invitation. Furthermore, the Issuer will not be required to purchase any Target Bonds, and will incur no liability as a result, if, before payment for Target Bonds on the Settlement Date:

(a) The Issuer does not, for any reason, have sufficient funds on the Settlement Date from certain proceeds of the Series 2024 Bonds to pay the Aggregate Purchase Price of tendered Target Bonds accepted for purchase pursuant to this Invitation and pay all fees and expenses associated with the Series 2024 Bonds and this Tender Offer;

(b) Litigation or another proceeding is pending or threatened which the Issuer believes may, directly or indirectly, have an adverse impact on this Tender Offer or the expected benefits of this Tender Offer to the Issuer or the Bondowners;

(c) A new war, other hostilities, or the escalation of those currently existing as of the date hereof, public health or other national emergency, banking moratorium, suspension of payments by banks, a general suspension of trading by the New York Stock Exchange, or a limitation of prices on the New York Stock Exchange exists and the Issuer believes this fact makes it inadvisable to proceed with the purchase of Target Bonds;

(d) A material change in the business or affairs of the Issuer has occurred which the Issuer believes in its sole discretion makes it inadvisable to proceed with the purchase of Target Bonds;

(e) The Attorney General will not issue an unqualified opinion (i) relating to the legality and validity of the Series 2024 Bonds, (ii) confirming the firm banking arrangements made for the discharge and final payment or redemption of the Target Bonds accepted for purchase, and (iii) approving the Series 2024 Bonds, or the Texas Comptroller of Public Accounts will not register the Series 2024 Bonds, as required by applicable law;

(f) A material change in the net benefits of the transaction contemplated by this Tender Offer and the Series 2024 Bonds POS has occurred due to a material change in market conditions that the Issuer reasonably believes makes it inadvisable to proceed with the purchase of Target Bonds; or

(g) There shall have occurred a material disruption in securities settlement, payment, or clearance services.

These conditions are for the sole benefit of the Issuer. They may be asserted by the Issuer prior to the time of payment for the Target Bonds on the Settlement Date. The conditions may be waived by the Issuer in whole or in part at any time and from time to time in its sole discretion and may be exercised independently for each maturity date and CUSIP number of the Target Bonds. The failure by the Issuer at any time to exercise any of these rights will not be deemed a waiver of any of these rights, and the waiver of these rights with respect to particular facts and other circumstances will not be deemed a waiver of these rights with respect to any other facts and circumstances. Each of these rights will be deemed an ongoing right of the Issuer that may be asserted at any time and from time to time. Any determination by the Issuer concerning the events described in this Section 14 will be final and binding upon all parties. If, prior to the time of payment of any Target Bonds any of the events described happens, the Issuer will have the absolute right to cancel its obligations to purchase Target Bonds without any liability to any Bondowner or any other person.

15. Extension, Termination, and Amendment of Tender Offer. Through and including the Expiration Date, the Issuer has the right to extend this Tender Offer, to any date in its sole discretion. Notice of an extension of the Expiration Date will be given in the manner described in Section 2 of this Invitation, on or about 11:00 a.m., ET, on the first Business Day after the then current Expiration Date.

The Issuer also has the right, prior to the Final Acceptance Date, to terminate this Invitation at any time by giving notice of such termination in the manner described in this Invitation.

The Issuer also has the right, prior to the Expiration Date, to amend or waive the terms of this Invitation in any respect and at any time by giving notice of the amendment or waiver in the manner described in Section 2 of this Invitation. The amendment or waiver will be effective at the time specified in such notice.

If the Issuer amends the terms of this Invitation, including a waiver of any term, in any material respect, notice of such amendment or waiver will be given in the manner described in Section 2, to provide reasonable time for dissemination of such amendment or waiver to Bondowners and for Bondowners to respond. **If the Issuer increases the Fixed Spread for any of the Target Bonds pursuant to this Invitation, any tenders submitted with respect to the affected Target Bonds prior to such increase will remain in full force and effect, and any Bondowner of such affected Target Bonds wishing to revoke its tender must affirmatively withdraw its tender of such Target Bonds prior to the Expiration Date in the manner described in Section 8 hereof.**

No extension, termination, or amendment of this Invitation (or waiver of any terms of this Invitation) will: (i) change the Issuer's right to decline to purchase any Target Bonds without liability; or (ii) give rise to any liability of the Issuer, the Dealer Managers, or the Information Agent and Tender Agent to any Bondowner or nominee.

16. Certain Federal Income Tax Consequences.

General Matters. The following discussion summarizes certain U.S. federal income tax considerations generally applicable to U.S. Holders (as defined below) that tender their Target Bonds for cash. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective tendering investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the "**IRS**") with respect to any of the U.S. federal income tax considerations discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not address U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Target Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar, or certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies. Furthermore, it does not address: (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Internal Revenue Code of 1986 (the "**Code**"), or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Target Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors who will hold their Target Bonds as "capital assets" within the meaning of Section 1221 of the Code. The following discussion does not address tax considerations applicable to any investors in the Target Bonds other than investors that are U.S. Holders. As used herein, "**U.S. Holder**" means a Bondowner of a Target Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). If a partnership holds Target Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Target Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Target Bonds (including their status as U.S. Holders).

ANY FEDERAL INCOME TAX DISCUSSIONS IN THIS INVITATION ARE INCLUDED FOR GENERAL INFORMATION ONLY AND SHOULD NOT BE CONSTRUED AS A TAX OPINION NOR TAX ADVICE TO BONDOWNERS BY THE ISSUER, THE DEALER MANAGERS, THE INFORMATION AGENT AND TENDER AGENT, OR ANY OF THE ISSUER'S ADVISORS OR AGENTS. SUCH DISCUSSIONS ALSO DO NOT PURPORT TO ADDRESS ALL ASPECTS OF FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO PARTICULAR BONDOWNERS (E.G., A FOREIGN PERSON, BANK, THRIFT INSTITUTION, PERSONAL HOLDING COMPANY, TAX EXEMPT ORGANIZATION, REGULATED INVESTMENT COMPANY, INSURANCE COMPANY, OR OTHER BROKER OR DEALER IN SECURITIES OR CURRENCIES). BONDOWNERS SHOULD NOT RELY ON SUCH DISCUSSIONS AND ARE URGED TO CONSULT THEIR TAX ADVISORS TO DETERMINE THE PARTICULAR FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF SALES MADE BY THEM PURSUANT TO TENDERS OF TARGET BONDS, INCLUDING THE EFFECT OF POSSIBLE CHANGES IN THE TAX LAWS. IN ADDITION TO FEDERAL TAX CONSEQUENCES, THE SALE OF TARGET BONDS MAY BE TREATED AS A TAXABLE EVENT FOR STATE, LOCAL AND FOREIGN TAX PURPOSES. BONDOWNERS ARE URGED TO CONSULT THEIR TAX ADVISORS TO DETERMINE THE PARTICULAR STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF SALES MADE BY THEM PURSUANT TO TENDERS OF TARGET BONDS, INCLUDING THE EFFECT OF POSSIBLE CHANGES IN THE TAX LAWS.

Tendering U.S. Holders. The purchase by the Issuer of a validly tendered Target Bond and accepted for cash purchase will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder will recognize gain or loss equal to the difference between (i) the amount of cash received (except to the extent attributable to Accrued Interest on the Target Bond, which will be taxed as ordinary interest income except to the extent such interest is excludible from gross income under Section 103 of the Code) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Target Bond (generally, the purchase price paid by the U.S. Holder for the Target Bond, decreased by any amortized acquisition premium, and increased by the amount of any original issue discount previously included in income by such U.S. Holder with respect to such Target Bond or otherwise required to be added to the cost basis of the U.S. Holder in such Target Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Target Bonds holding the Target Bond for a period exceeding one year, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income. The deductibility of capital losses is subject to limitations.

Backup Withholding. Amounts paid to Bondowners may be subject to backup withholding by reason of the events specified by Section 3406 of the Code, which events include failure of a Bondowner to supply the broker, dealer, commercial bank or trust company acting on behalf of such Bondowner with such Bondowner's taxpayer identification number certified under penalty of perjury. Certification can be made by completing a substitute IRS Form W-9, a copy of which is available from the Information Agent and Tender Agent. Backup withholding may also apply to Bondowners who are otherwise exempt from such backup withholding if such Bondowners fail to properly document their status as exempt recipients.

17. Additional Considerations. In deciding whether to participate in this Tender Offer, each Bondowner should consider carefully, in addition to the other information contained in this Invitation, the following:

Market for Target Bonds. The Target Bonds are not listed on any national or regional securities exchange. To the extent that the Target Bonds are traded, their prices may fluctuate greatly depending on the trading volume and the balance between buy and sell orders. Bondowners may be able to effect a sale of the Target Bonds at a price higher than the Offer Purchase Price established pursuant to this Invitation.

Target Bonds Not Tendered for Purchase; Sinking Fund Installment Schedule Modification. Bondowners of Target Bonds who do not accept this Invitation will continue to hold their respective interests in such Target Bonds. If Target Bonds are purchased pursuant to this Invitation, the principal amount of Target Bonds for a particular maturity and corresponding CUSIP that remains outstanding will be reduced, which could adversely affect the liquidity and market value of the Target Bonds of that maturity and CUSIP that remain outstanding.

If less than all the Target Term Bonds of a particular maturity and CUSIP are purchased by the Issuer pursuant to this Invitation, each of the original principal amounts to be redeemed on each mandatory sinking fund redemption date or paid at maturity of such Target Term Bond will be reduced. The Issuer is permitted to and intends to apply purchases of the Target Term Bonds to any sinking fund redemption requirement of its choosing, including to the earliest sinking fund requirements. Such an application would result in the extension of the average life of such Unpurchased Bonds. Unpurchased Target Term Bonds will continue to be outstanding and subject to the mandatory sinking fund redemption in annual amounts that will be reflected on a revised mandatory sinking fund redemption schedule posted on the Settlement Date.

The Target Bonds that remain outstanding will continue to be governed by their terms.

With respect to all Target Bonds that are subject to mandatory redemption from sinking fund installments, the Issuer is permitted to designate the sinking fund installments that are to be reduced as allocated to such cancellation or redemption. If less than all of the Target Bonds of a given CUSIP number for which sinking fund installments have been established are purchased by the Issuer pursuant to the Tender Offer, the Issuer has the right to select which sinking fund installments will be reduced and the average life of the remaining Target Bonds of that CUSIP number may change.

The Issuer will determine how purchased Target Bonds that are term bonds will be credited against future mandatory sinking fund redemptions with respect to such term bonds. The mandatory sinking fund redemptions with respect to untendered Target Bonds that are term bonds will be adjusted accordingly. Such sinking fund redemptions will also take into account any limitations as per guidance from tax counsel.

Potential Concurrent Defeasance of Certain Unpurchased Bonds. Notwithstanding the foregoing and dependent on market conditions, the Issuer may concurrently defease the Defeasance Candidates with a portion of the proceeds of the Series 2024 Bonds. Should the Issuer choose to defease any of the Defeasance Candidates, those Defeasance Candidates that are not subject to optional redemption at par by the Issuer will be defeased to their respective maturity dates. Those Defeasance Candidates that are subject to optional redemption by the Issuer at par (e.g., the 2020 Bonds maturing on February 1, 2034, CUSIP number 79625GDB6, and the 2022 Bonds maturing on February 1, 2033 and February 1, 2034, CUSIP numbers 79625GFK4 and 79625GFL2) may either be defeased to maturity or to their respective optional redemption dates that are shown on page (ii) hereof. Any defeased Target Bonds would no longer be outstanding under their terms. Such defeasance may result in the withdrawal of certain credit ratings on the defeased Target Bonds. Bondholders of the Target Bonds should review the respective Official Statements for any relevant provisions pertaining to the foregoing potential defeasance and should further consult with their broker-dealer, financial, legal, accounting, tax, and other professionals for any associated outcomes thereto.

The Issuer will determine whether to defease any Defeasance Candidates, what maturities will be defeased and in what amounts after determining the economic impact of the Target Bonds accepted for purchase pursuant to this Invitation on the defeasance of the Defeasance Candidates. The Issuer has the sole discretion to determine which Defeasance Candidates, if any, and in what amount will be defeased.

There can be no assurance that a particular Bondowner's Unpurchased Bond that constitute Defeasance Candidates will be defeased by the Issuer.

Potential Subsequent Transactions. To the extent Target Bonds are not purchased pursuant to this Invitation, the Issuer reserves the right to, and may in the future decide to, acquire some or all of the Target Bonds through open market purchases, privately negotiated transactions, subsequent tender offers, exchange offers, or otherwise, upon such terms and at such prices as it may determine, which may be more or less than the consideration offered pursuant to this Invitation, and which could be cash or other consideration. Any future acquisition of Target Bonds may be on the same terms or on terms that are more or less favorable to Bondowners than the terms described in this Invitation. The Issuer also reserves the right in the future to defease, refund, or redeem any remaining portion of outstanding Target Bonds. The decision to undertake any such future transactions will depend on various factors existing at that time. There can be no assurance as to which of these alternatives, if any, the Issuer may ultimately choose to pursue in the future.

Ratings. As of the date of this Invitation, the Target Bonds are each rated "AA-" (stable outlook) by S&P Global Ratings, "Aa2" (stable outlook) by Moody's Investors Service, Inc., and "AA-" (stable outlook) by Fitch Ratings, Inc. The ratings of the Target Bonds by each rating agency reflect only the views of such organization and any desired explanation of the significance of such ratings and any outlooks or other statements given by such rating agency with respect thereto should be obtained from such rating agency.

There is no assurance that the current ratings assigned to the Target Bonds will continue for any given period of time or that any of such ratings will not be revised upward or downward, suspended or withdrawn entirely by any rating agency. Any upward or downward revision, suspension or withdrawal of such ratings may have an effect on the availability of a market for or the market price of the Target Bonds. Each Bondowner should review these ratings and consult with its financial representatives concerning them.

Periodically, rating agencies will evaluate and, on occasion as a result of these evaluations revise, their rating methodologies and criteria for municipal issuers such as the Issuer. A revision in a rating agency's rating methodology could result in a positive or negative change in a rating assigned by that agency, even if the rated entity has experienced no material change in financial condition or operation. Any of the rating agencies at any time while the Target Bonds remain outstanding (including during the term of this Tender Offer) could undertake such an evaluation process.

Market Conditions. The purpose of this Tender Offer is to provide the Issuer with the opportunity to purchase a portion of the Target Bonds. The final decision to purchase Target Bonds, and which Target Bonds will be accepted for purchase by the Issuer will, in part, be based upon market conditions and other factors outside of the control of the Issuer.

The Dealer Managers are not acting as a financial or municipal advisor to the Issuer in connection with this Tender Offer.

18. The Dealer Managers. References in this Invitation to the Dealer Managers are to Jefferies LLC and Wells Fargo Bank, National Association, only in their capacities as the Dealer Managers.

The Dealer Managers may contact Bondowners regarding this Tender Offer and may request brokers, dealers, custodian banks, depository trust companies, and other nominees to forward this Invitation to beneficial owners of the Target Bonds.

The Issuer, subject to the terms of the Dealer Manager Agreement, will pay the Dealer Managers a fee for their services in connection with this Tender Offer, and in addition, the Issuer will pay the Dealer Managers their reasonable out-of-pocket costs and expenses relating to this Tender Offer.

The Dealer Managers, including their respective affiliates, are full-service financial institutions engaged in various activities, which may include securities 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. The Dealer Managers and their respective affiliates have, from time to time, performed, and may in the future perform, a variety of these services for the Issuer, for which they received and or will receive customary fees and expenses. In the ordinary course of their respective various business activities, the Dealer Managers, and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own accounts and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities of the Dealer Managers and/or their respective affiliates may involve securities and instruments of the Issuer, including but not limited to Target Bonds, whether or not tendered for purchase pursuant to this Invitation.

In addition to their roles as Dealer Managers in connection with this Tender Offer, Jefferies LLC is currently expected to serve as the lead bookrunning underwriter of the Series 2024 Bonds, with Wells Fargo Bank, National Association expected to serve as co-senior managing underwriter of the Series 2024 Bonds, anticipated to be issued by the Issuer as described in the Series 2024 Bonds POS attached as **Appendix A** and, as such, will receive compensation in connection with that transaction as well.

19. Information Agent and Tender Agent. The Authorized Officer has appointed, and hereby affirms such appointment by publication of this Invitation, Globic Advisors Inc. to act as the Information Agent and Tender Agent in connection with the Tender Offer and has authorized Jefferies LLC to engage the Information Agent and Tender Agent to advise the Issuer and Dealer Managers as to such matters related to the Tender Offer. The Issuer will pay the Information Agent and Tender Agent customary fees for its services in connection with this Tender Offer, and in addition, the Issuer will pay the Information Agent and Tender Agent its reasonable out-of-pocket costs and expenses related to this Tender Offer, subject to the terms of the Dealer Manager Agreement.

20. Miscellaneous. This Invitation is not being made to, and offers will not be accepted from or on behalf of, Bondowners in any jurisdiction in which this Invitation or the acceptance thereof would not be in compliance with the laws of such jurisdiction. In those jurisdictions whose laws require this Tender Offer to be made through a licensed or registered broker or dealer, this Tender Offer is being made on behalf of the Issuer by the Dealer Managers.

No one has been authorized by the Issuer, the Dealer Managers, or the Information Agent and Tender Agent to recommend to any Bondowners whether to tender Target Bonds for purchase pursuant to this Invitation. No one has been authorized to give any information or to make any representation in connection with this Tender Offer other than those contained in this Invitation. Any recommendation, information and representations given or made cannot be relied upon as having been authorized by the Issuer, the Dealer Managers, or the Information Agent and Tender Agent.

None of the Issuer, the Dealer Managers, or the Information Agent and Tender Agent makes any recommendation that any Bondowner tender or refrain from tendering all or any portion of such Bondowner's Target Bonds for purchase. Bondowners must make these decisions and should consult

with their broker-dealer, account executive, financial advisor, attorney, and/or other appropriate professionals.

21. Available Information; Contact Information. Certain information relating to the Target Bonds and the Issuer may be obtained by contacting the Dealer Managers or Information Agent and Tender Agent at the contact information set forth below. Such information is limited to (i) the Invitation, including the information set forth in the Series 2024 Bonds POS, which is attached hereto as **Appendix A**, and (ii) information about the Issuer available through the EMMA Website.

Investors with questions about this Tender Offer should contact the Dealer Managers or the Information Agent and Tender Agent utilizing the contact information below:

GLOBIC ADVISORS INC., *Information Agent and Tender Agent*
Attention: Robert Stevens
485 Madison Avenue, 7th Floor
New York, New York 10022
Tel: (212) 227-9622
Email: rstevens@globic.com
Document Website: www.globic.com/cpsenergy

JEFFERIES LLC, *Dealer Manager*
Contact your Jefferies LLC Representative
or
Municipal Syndicate Desk
520 Madison Avenue
New York, New York 10022
Tel: (800) 567-8567 Email: muni_underwriting@jefferies.com

WELLS FARGO BANK, NATIONAL ASSOCIATION, *Dealer Manager*
Contact your Wells Fargo Representative
or
Lawrence Stephens
30 Hudson Yards
New York, New York 10001
Tel: (212) 214-2860 Email: Lawrence.Stephens@wellsfargo.com

***

Appendix A

SERIES 2024 BONDS PRELIMINARY OFFICIAL STATEMENT

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT
DATED: MAY 14, 2024

RATINGS:		
	Fitch	"AA-"
	Moody's	"Aa2"
	S&P	"AA-"
		See "RATINGS" herein.

NEW ISSUES – BOOK-ENTRY-ONLY SYSTEM

In the opinions 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, including the alternative minimum tax on certain corporations.

$446,495,000*
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2024A

$409,315,000*
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE AND REFUNDING BONDS, NEW SERIES 2024B

$194,465,000*
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2024C

June 1, 2024 (Interest to accrue from the Closing Date) **Due: February 1, as shown herein**

The $446,495,000* City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024A (the "2024A Bonds") will be issued under and in conformity with the Constitution and general laws of the State of Texas, including Chapters 1207 and 1371, Texas Government Code, as amended (together, the "Act"), the City's Home Rule Charter, and pursuant to an ordinance (the "2024A Ordinance") adopted by the City Council ("City Council") of the City of San Antonio, Texas ("City") on May 2, 2024. The $409,315,000* City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2024B (the "2024B Bonds") will be issued under and in conformity with the Constitution and general laws of the State of Texas, including the Act, Chapter 1502, Texas Government Code, as amended, the City's Home Rule Charter, and pursuant to an ordinance (the "2024B Ordinance") adopted by the City Council of the City on May 2, 2024. The $194,465,000* City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024C (the "2024C Bonds", and collectively with the 2024A Bonds and the 2024B Bonds, the "Bonds") will be issued under and in conformity with the Constitution and general laws of the State of Texas, including the Act, the City's Home Rule Charter, and pursuant to an ordinance (the "2024C Ordinance", and collectively with the 2024A Ordinance and the 2024B Ordinance, the "Ordinances") adopted by the City Council of the City on May 2, 2024. As permitted by applicable provisions of the Act, the City Council has, in the Ordinances, delegated to certain City representatives the authority to execute respective approval certificates (individually, an "Approval Certificate", and collectively, the "Approval Certificates") establishing final characteristics and terms of the sale of each respective series of Bonds.

The City, with the assistance of Jefferies LLC and Wells Fargo Bank, National Association, as dealer managers, expects to release an "Invitation to Tender Bonds", dated May 14, 2024 (the "Invitation"), inviting owners of certain outstanding bonds of the City (described herein) to tender such bonds for purchase and cancellation by the City (the "Tender Offer"). Such purchase of any tendered bonds is expected to be funded by certain of the 2024B Bonds. See "THE BONDS – The Purchased Bonds" herein.

The 2024A Bonds are being issued to: (i) refund short-term variable rate obligations consisting of hereinafter-defined Commercial Paper Obligations and Flex Notes (the "2024A Refunded Obligations") into long-term obligations, and (ii) pay costs and expenses relating to the issuance of the 2024A Bonds. The 2024B Bonds are being issued to (i) finance costs associated with acquiring, purchasing, constructing, repairing, extending, equipping, and renovating capital improvements to the hereinafter-defined Systems, (ii) finance the purchase of outstanding bonds acquired by the City by means of the Tender Offer to produce debt service savings, (iii) refund currently outstanding Senior Lien Obligations and Junior Lien Obligations for debt service savings (the "2024B Refunded Obligations"), and (iv) pay costs and expenses relating to the issuance of the 2024B Bonds. The 2024C Bonds are being issued to: (i) refund short-term variable rate obligations consisting of Commercial Paper Obligations (the "2024C Refunded Obligations" and collectively with the 2024A Refunded Obligations and the 2024B Refunded Obligations, the "Refunded Obligations") into long-term obligations, and (ii) pay costs and expenses relating to the issuance of the 2024C 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 respective initial delivery (the "Closing Date") to the initial purchasers named below (collectively, the "Underwriters") (expected to occur on or about June 25, 2024*) and will be payable on February 1 and August 1 of each year, commencing February 1, 2025.* 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 (the "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 Trust Company, 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 issued on a parity with the currently outstanding Previously Issued Senior Lien Obligations (defined herein) and any Additional Senior Lien Obligations (defined herein) hereafter issued, payable solely from and equally and ratably secured, together with the currently outstanding Previously Issued Senior Lien Obligations, by a first and prior lien on and pledge of the Net Revenues of the Systems that is superior to the pledge thereof and lien thereon securing the currently outstanding Junior Lien Obligations (defined herein) and the Inferior Lien Obligations (defined herein), all as fully set forth in the Ordinances. See "THE BONDS – Authority and Security for the Bonds" herein.

The Ordinances do 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 PAGES ii, iii, AND iv FOR MATURITIES, INTEREST RATES, AND PRICING SCHEDULES

*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 Shanna Ramirez, Esq., General Counsel for the City Public Service Board, and for the Underwriters by their legal counsel, Bracewell LLP, San Antonio, Texas. The Bonds are each expected to be available for initial delivery to the Underwriters and credited through DTC on or about June 25, 2024.**

JEFFERIES **WELLS FARGO SECURITIES**
ACADEMY SECURITIES **BLAYLOCK VAN, LLC**
BOK FINANCIAL SECURITIES, INC. **FROST BANK** **PNC CAPITAL MARKETS LLC**

* Preliminary, subject to change.

MATURITIES, INTEREST RATES, AND PRICING SCHEDULE

$446,495,000*
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS
REVENUE REFUNDING BONDS, NEW SERIES 2024A

Due February 1 in the years shown below

$260,255,000 Serial Bonds*

Stated Maturity[1]	Principal Amount ($)[1]	Interest Rate (%)	Initial Yield (%)	CUSIP No.[2]
2035	20,690,000			
2036	21,725,000			
2037	22,810,000			
2038	23,955,000			
2039	25,150,000			
2040	26,410,000			
2041	27,730,000			
2042	29,115,000			
2043	30,570,000			
2044	32,100,000			

$186,240,000 Term Bonds*

$186,240,000* Term Bond due February 1, 2049,[1] Priced to Yield _.___%, CUSIP No.[2] ___

____
* Preliminary, subject to change.

[1] The 2024A Bonds are subject to redemption prior to stated maturity at the prices, in the amounts, and at the times described herein. Any Term Bonds (defined herein) will be subject to mandatory sinking fund redemption. See "THE BONDS – Redemption of Bonds" herein.

[2] CUSIP numbers are included solely for the convenience of the owners of the 2024A Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems, Inc. on behalf of the American Bankers Association. No assurance can be given that the CUSIP number for a particular maturity of the 2024A Bonds will remain the same after the date of delivery of the 2024A 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.

MATURITIES, INTEREST RATES, AND PRICING SCHEDULE

$409,315,000*
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS
REVENUE AND REFUNDING BONDS, NEW SERIES 2024B

Due February 1 in the years shown below

$254,280,000 Serial Bonds*

Stated Maturity[1]	Principal Amount ($)[1]	Interest Rate (%)	Initial Yield (%)	CUSIP No.[2]
2026	3,820,000			
2027	10,950,000			
2028	8,365,000			
2029	8,520,000			
2030	7,010,000			
2031	11,165,000			
2032	6,630,000			
2033	21,120,000			
2034	16,540,000			
2035	8,910,000			
2036	8,565,000			
2037	9,715,000			
2038	11,495,000			
2039	11,325,000			
2040	13,680,000			
2041	9,950,000			
2042	30,140,000			
2043	24,785,000			
2044	31,595,000			

$155,035,000 Term Bonds*

$69,765,000* Term Bond due February 1, 2049,[1] Priced to Yield _.___%, CUSIP No.[2] ___

$85,270,000* Term Bond due February 1, 2054,[1] Priced to Yield _.___%, CUSIP No.[2] ___

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* Preliminary, subject to change.

[1] The 2024B Bonds are subject to redemption prior to stated maturity at the prices, in the amounts, and at the times described herein. Any Term Bonds (defined herein) will be subject to mandatory sinking fund redemption. See "THE BONDS – Redemption of Bonds" herein.

[2] CUSIP numbers are included solely for the convenience of the owners of the 2024B Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems, Inc. on behalf of the American Bankers Association. No assurance can be given that the CUSIP number for a particular maturity of the 2024B Bonds will remain the same after the date of delivery of the 2024B 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.

MATURITIES, INTEREST RATES, AND PRICING SCHEDULE

$194,465,000*
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS
REVENUE REFUNDING BONDS, NEW SERIES 2024C

Due February 1 in the years shown below

$73,975,000 Serial Bonds*

Stated Maturity[1]	Principal Amount ($)[1]	Interest Rate (%)	Initial Yield (%)	CUSIP No.[2]
2035	5,880,000			
2036	6,175,000			
2037	6,485,000			
2038	6,810,000			
2039	7,150,000			
2040	7,505,000			
2041	7,880,000			
2042	8,275,000			
2043	8,690,000			
2044	9,125,000			

$120,490,000 Term Bonds*

$52,935,000* Term Bond due February 1, 2049,[1] Priced to Yield _.___%, CUSIP No.[2] ___

$67,555,000* Term Bond due February 1, 2054,[1] Priced to Yield _.___%, CUSIP No.[2] ___

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* Preliminary, subject to change.

(1) The 2024C Bonds are subject to redemption prior to stated maturity at the prices, in the amounts, and at the times described herein. Any Term Bonds (defined herein) will be subject to mandatory sinking fund redemption. See "THE BONDS – Redemption of Bonds" herein.

(2) CUSIP numbers are included solely for the convenience of the owners of the 2024C Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems, Inc. on behalf of the American Bankers Association. No assurance can be given that the CUSIP number for a particular maturity of the 2024C Bonds will remain the same after the date of delivery of the 2024C 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.

CITY OF SAN ANTONIO, TEXAS

CITY COUNCIL

Ron Nirenberg, Mayor

Dr. Sukh Kaur	Jalen McKee-Rodriguez	Phyllis Viagran
Dr. Adriana Rocha Garcia	Teri Castillo	Melissa Cabello Havrda
Marina Alderete Gavito	Manny Peláez	John Courage
	Marc Whyte	

KEY MANAGEMENT & PERSONNEL

Erik Walsh – City Manager
Ben Gorzell, Jr. – Chief Financial Officer
Debbie Racca-Sittre – City Clerk
Andrew Segovia – City Attorney

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO

Janie Gonzalez, Chair		Dr. Francine Romero, Vice Chair
Dr. Willis Mackey, Trustee	John T. Steen, Jr., Trustee	Ron Nirenberg, Mayor

Rudy D. Garza – President & Chief Executive Officer ("CEO")
Cory Kuchinsky – Chief Financial Officer ("CFO") & Treasurer
Shanna Ramirez, Esq. – Chief Legal & Ethics Officer & General Counsel ("CLEO&GC") & Board Secretary

EXECUTIVE MANAGEMENT

Rudy D. Garza – President & CEO
Elaina Ball – Chief Strategy Officer
Cory Kuchinsky – CFO & Treasurer
Shanna Ramirez, Esq. – CLEO&GC, & Board Secretary
Lisa Lewis – Chief Administrative Officer
Evan O'Mahoney – Chief Information Officer
DeAnna Hardwick – Chief Customer Strategy Officer
Benjamin Ethridge – Chief Energy Supply Officer

CONSULTANTS

McCall, Parkhurst & Horton L.L.P.	PFM Financial Advisors LLC
Kassahn & Ortiz, P.C.	Estrada Hinojosa & Company, Inc.
Co-Bond Counsel	Co-Financial Advisors

USE OF INFORMATION

For purposes of compliance with Rule 15c2-12, as amended, of the United States Securities and Exchange Commission ("Rule 15c2-12"), and in effect on the date of this Preliminary Official Statement, this document constitutes an "official statement" of the City with respect to the Bonds that has been "deemed final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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 respective responsibilities to investors under 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.

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, New York, New York ("DTC") or its Book-Entry-Only System or Assured Guaranty Municipal Corp., as the provider of the debt service reserve surety policy.

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.

Each of the 2024A Bonds, the 2024B Bonds, and the 2024C Bonds are separate and distinct securities offerings being issued and sold independently pursuant to this common Official Statement, and while the Bonds share certain common attributes, each series is separate from the other and should be reviewed and analyzed independently.

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.

TABLE OF CONTENTS

PRELIMINARY OFFICIAL STATEMENT

Relating To

$446,495,000*
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS
REVENUE REFUNDING BONDS,
NEW SERIES 2024A

$409,315,000*
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS
REVENUE AND REFUNDING BONDS,
NEW SERIES 2024B

$194,465,000*
CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS
REVENUE REFUNDING BONDS,
NEW SERIES 2024C

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 offering for sale of the $446,495,000* City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024A (the "2024A Bonds"), the $409,315,000* City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2024B (the "2024B Bonds"), and $194,465,000* City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024C (the "2024C Bonds", and collectively with the 2024A Bonds and the 2024B Bonds, the "Bonds"). Certain terms not defined herein will have the meanings ascribed thereto in the Ordinances (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 each 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 each Ordinance. A copy of such documents 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 and the Escrow Agreement (defined herein) 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 12, 2021 through February 19, 2021, the continental United States experienced a severe winter storm (the "2021 Winter Weather Event") 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. As a result of the 2021 Winter Weather Event, record breaking cold weather invaded the entire State, 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 2021 Winter Weather Event, 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 Railroad Commission of Texas ("RRCT") 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.

* Preliminary, subject to change.

As the 2021 Winter Weather Event covered the entire State, the Electric Reliability Council of Texas ("ERCOT") implemented what were initially expected to be rotating outages 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 were offline for scheduled maintenance, in anticipation of energy loads needed during spring and summer months. The extreme cold weather also impacted 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 was required to 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 primarily attributable to localized damage requiring repair.

Throughout the 2021 Winter Weather Event, Texas utilities 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 and wholesale power markets experienced extreme price volatility and, at points, ceased functioning properly. Indeed, 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, and ERCOT set the price per megawatt hour ("MWh") of electricity in the ERCOT real time market at the market cap of $9,000 from February 15, 2021 through February 19, 2021. During this time, ancillary service charges (which are incremental to the $9,000 per MWh market cap and were not subject to any price limitation) pushed the actual per MWh price to a high of $25,000. These financial impacts during the 2021 Winter Weather Event were highly disruptive to the Texas electric utilities market and some market participants became insolvent, filed for bankruptcy, or wound up exiting the market.

The ERCOT Market

Settlements and Market Participant Short-Payments and Uplift. In the immediate aftermath of the 2021 Winter Weather Event, ERCOT 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 for power purchases. 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 previously estimated the cumulative aggregate short-pay amount at $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.

All ERCOT market participants, including CPS Energy, could be exposed to the liability from non-paying or bankrupt ERCOT market participants. ERCOT is a membership-based nonprofit corporation that acts as a clearinghouse for the sale and purchase of wholesale power, among other functions. ERCOT is revenue neutral given that its operating expenses are paid by an administrative fee assessed on all market participants, and any short-paid amounts are passed on to other market participants. When a market participant fails to pay its settlement invoices in full, ERCOT "uplifts" the shortage to market participants on a pro-rata share as established through the ERCOT 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. To address extraordinary, purchased power costs incurred during the 2021 Winter Weather Event, the 87th Texas Legislature passed Senate Bill 1580 ("SB 1580") and House Bill 4492 ("HB 4492"). SB 1580 sets forth the ability for electric cooperatives to securitize certain costs. HB 4492 pertains to the securitization of other ERCOT market participants (see "Relevant Policy and Legislation" below for additional information on HB 4492). Separately, the Texas Legislature passed House Bill 1520 ("HB 1520") to securitize the exceptionally high gas expenses incurred by investor-owned gas utilities and House Bill 1510 ("HB 1510") to assist electric utilities located within the State but outside of ERCOT by securitizing the elevated costs of power incurred during the 2021 Winter Weather Event.

In February 2022, ERCOT received $637.3 million from Rayburn Country Electric Cooperative, Inc. ("Rayburn") as full payment for all outstanding settlement invoices related to its power purchases. This payment was the result of Rayburn's successful bond financing completed pursuant to the securitization process outlined in SB 1580. ERCOT paid CPS Energy $4.3 million from the bond proceeds delivered by Rayburn reducing the outstanding short-payment amount to $10.1 million. This $10.1 million is related to Brazos Electric Power Cooperative, Inc. ("Brazos"), which underwent bankruptcy proceedings for its outstanding settlement invoices to ERCOT. On November 14, 2022, the bankruptcy court approved Brazos' disclosure statements and plan of reorganization, which included a settlement intended to reimburse ERCOT's claim of $1.88 billion (the "Brazos Settlement Plan"). Under the Brazos plan of reorganization, CPS Energy elected various recovery options related to its share of the Brazos Settlement Plan that reduced CPS Energy's $10.1 million outstanding short-pay to approximately $6.5 million. In late 2022, CPS Energy began receiving payments related to the Brazos Settlement Plan and will eventually receive total payments of $6.5 million over thirty years, with approximately 80% collected within the first two years. As of June 30, 2023, CPS Energy received $5.2 million of the $6.5 million outstanding short-pay. The Brazos Settlement Plan is funded primarily through securitized bonds issued by Brazos' down-stream membership electric cooperatives, sale proceeds of Brazos' generation assets, and revenue from Brazos' transmission and distribution operations. The proceeds received from Brazos will be used to further reduce ERCOT's short-payment liability to generators and reimburse the congestion revenue rights auction fund from which ERCOT borrowed during the 2021 Winter Weather Event to make short-payments. Beyond the Brazos bankruptcy proceeding, CPS Energy does not have insight into other market participants that may cease to operate or that have outstanding settlement invoices from ERCOT and their ability to repay.

State Response to the 2021 Winter Weather Event

In the aftermath created by the 2021 Winter Weather Event, the ERCOT market faced many challenges. The storm exposed deficiencies in the natural gas supply as well as deficiencies in the winterization programs implemented by generator and transmission owners. As a result, numerous changes occurred at both the Public Utility Commission of Texas (the "PUCT") and ERCOT, including the following:

- All three commissioners of the PUCT resigned their positions. The PUCT was expanded from three to five commissioners and the current commissioners are as follows: Thomas Gleeson (Chairman), Kathleen Jackson, Lori Cobos, Jimmy Glotfelty, and one vacancy.
- All out-of-state board members of the ERCOT Board of Directors (the "ERCOT Board") submitted letters of resignation; shortly thereafter, three additional ERCOT Board members resigned.
- The ERCOT Board voted to terminate its CEO, Bill Magness.
- The ERCOT Board was reconstituted by eliminating the prior 16-member board, which represented different market segments. The new ERCOT Board membership consists of 11 members with the PUCT Chair, the Public Counsel, and the ERCOT CEO acting as ex officio non-voting members, with the remaining 8 voting members appointed by a select committee.
- Paul Foster was named Chair of the ERCOT Board.
- All seats on the ERCOT Board are currently filled.
- The ERCOT Board selected Pablo Vegas as President and CEO, who joined ERCOT in October 2022.

The Texas Legislature also addressed events from the 2021 Winter Weather Event during the 87th Texas Legislature Regular Session, which ended on May 31, 2021. Senate Bill 3 ("SB 3") was the comprehensive bill approved by the Texas Legislature and signed into law by the Governor on June 8, 2021, addressing the vulnerabilities exposed during the 2021 Winter Weather Event. Among other items, SB 3 requires electric and other energy companies to implement several reforms, including (i) implementation of winterization measures for natural gas, electric generation, and transmission facilities; water production facilities, and supply systems; (ii) identification and mapping of facilities that support the electricity supply chain, including pipeline facilities that supply natural gas fuel generators; (iii) identification and designation of such natural gas facilities as "critical facilities"; and (iv) implementation of a statewide energy outage alert system. These provisions apply to CPS Energy by the addition of Section 38.075 of the Utilities Code, which: (i) requires the PUCT to adopt weatherization standards to prepare for weather emergencies, (ii) requires ERCOT to inspect the covered entities for compliance, (iii) requires ERCOT to inform the PUCT of violations, and (iv) authorizes the PUCT to impose an administrative penalty for each violation, not to exceed $1 million for each day of noncompliance.

The PUCT implemented weatherization regulations in two phases. The first phase requires owners/operators to weatherize their transmission and generation facilities to the standards established by North American Electric Reliability Corporation ("NERC") following the 2021 Winter Weather Event and to address any failures experienced during such time. Phase two, which was approved in September 2022, addresses additional weatherization standards accounting for recommendations in a state climatologist report published in December 2022. Concerning the weatherization of critical gas pipeline and delivery facilities, the RRCT also acted in two phases. In phase one, the RRCT adopted a rule in November 2021 focused on the identification of critical gas facilities, as well as relatively small facilities that would be exempt from critical designation. Under the rule, pipelines that are directly serving a city gate (to supply gas distribution systems) and generation resources are not eligible for an exemption from critical designation. In April 2022, the Texas Electricity Supply Chain Security and Mapping Committee released its confidential map and public report on the State's electric utility supply chain. Following the release of the map, the RRCT implemented phase two by adopting a new rule in August 2022 relating to weatherization standards. The new rule applies to natural gas supply and gas pipeline facilities included on the Electricity Supply Chain Map, all of which must be designated as "critical facilities" under the RRCT's earlier rule. The new rule outlines standards applicable to these facilities to ensure operation during extreme weather, requirements for attestations and inspections, and penalties. On a going-forward basis, the RRCT will publish an online guide of best weatherization practices.

Regarding changes to the wholesale market, SB 3, along with instructions from the Governor, directed the PUCT to consider a wide range of market design reforms to incentivize the deployment of additional dispatchable generation within ERCOT. Overall, the PUCT made changes to move away from operating under a "crisis-based business model" where demand reserve and other resources are called upon by ERCOT only in response to emergency conditions. This model has proven ill-equipped in encouraging investment in dispatchable generation resources readily available during tight energy market conditions. In the short-term, at the direction of the PUCT, ERCOT adopted conservative operation practices characterized by much higher purchases of ancillary services and standby generation prior to entering emergency conditions compared to past practices. The desired effect is to minimize conditions of supply scarcity in the market when the price of electricity may increase sharply.

In addition, the PUCT effectuated rule changes to prevent energy prices from skyrocketing at the magnitude experienced during the 2021 Winter Weather Event. For instance, in 2021 the PUCT removed the provision of the systemwide low-offer cap ("LCAP") rule that allowed the fuel price adder portion of the LCAP to increase by as much as 50-times the fuel cost when necessary to recover the operating cost of a generator selling power into the wholesale market. This allowed ancillary services during the 2021 Winter Weather Event to rise above the systemwide high-offer cap ("HCAP") of $9,000 per MWh for natural gas fuel generators faced with the phenomenal rise in gas prices at the time due to short supply. The PUCT also approved a reduction in the HCAP to $5,000 per MWh.

In the long-term, the PUCT is looking at potential changes in market structure to incentivize the construction of additional dispatchable generation resources to increase grid reliability of supply necessary to meet the increasing electricity load demand of a growing state. The potential long-term solution(s) must counteract the increasingly limited opportunities for scarcity pricing in the market, which is the result of more conservative ERCOT operational practices. While such conservative operations increase grid reliability, they also diminish instances where the price of electricity increases in the wholesale market due to limited availability of generation in the real-time market ("Scarcity Pricing"). In the ERCOT energy-only market, Scarcity Pricing is intended to send a signal to invest in new dispatchable generation resources. These price signals, which have been inadequate in the past to incentivize new dispatchable generation given the entry of no marginal cost renewable generation resources, are becoming fewer under ERCOT's operational practices. Therefore, the challenge for the PUCT is to make structural changes in the market to increase opportunities for dispatchable generation resources to make enough money to prevent their early retirement and incentivize investment in new dispatchable generation. Dispatchable generation is necessary because ERCOT cannot operate the wholesale market with only intermittent renewable generation resources. In December 2021, the PUCT issued a roadmap outlining several market design options and contracted with a consulting firm to analyze and evaluate the market design reform proposals. The consulting firm released its report to the PUCT on November 10, 2022, recommending design updates to the Texas wholesale electricity market intended to strengthen current and long-term reliability reforms to the electric grid. In February 2023, the PUCT unanimously approved the Performance Credit Mechanism (the "PCM") market redesign proposal but did not move to implement the proposal pending further guidance from the Texas Legislature.

Relevant Policy and Legislation

During the 2023 88th Legislative Regular Session of the Texas Legislature (the "Regular Session"), legislators sought to increase the reliability and resiliency of the ERCOT grid by finding ways to incentivize new dispatchable generation. Early in the session, key committee chairs in both chambers expressed their intent to review the PCM model and suggest alternative market reform proposals cautioning the PUCT to await the legislative outcome prior to taking any further action on the matter. The Regular Session witnessed the passage of House Bill 1500 ("HB 1500") which directs the PUCT to continue development of the PCM model with certain guardrails in place and the requirement of cost studies prior to PCM implementation. HB 1500 also introduced a new ancillary and reliability service intended to add more revenue to dispatchable generation resources to incentivize retention of the existing dispatchable generation fleet. Senate Bill 2627 ("SB 2627") introduced a loan program supported by $10 billion in state funding eligible for new dispatchable generation projects. To implement the loan program, Senate Joint Resolution 93 ("SJR 93") required Texas voters to approve an amendment to the State constitution, which was approved in November 2023 authorizing the use of $10 billion in State revenue to support the loan program. In response to SB 2627, the PUCT initiated in November 2023 a rulemaking proceeding to establish the Texas Energy Fund In-ERCOT Generation Loan Program (the "Texas Energy Fund"). On April 2, 2024, the PUCT approved a final order establishing the loan program. In addition, House Bill 5 ("HB 5") created economic development incentives intended to spur private investment in the construction of new dispatchable generation. HB 1500 also includes recommendations from the Sunset Advisory Commission for improving functions at the PUCT, ERCOT, and the Office of Public Utility Counsel ("OPUC"). Implementation of these programs will require the PUCT to adopt new regulations, including the development of new ERCOT protocols.

In the aftermath of the 2021 Winter Weather Event, the 87th Texas Legislature passed the following notable bills impacting the electric industry:

- House Bill 16 ("HB 16") was approved by the Texas Legislature and signed into law by the Governor on May 26, 2021. HB 16 prohibits offering a wholesale indexed product to a residential customer.

- Senate Bill 2 ("SB 2") was approved by the Texas Legislature and signed into law by the Governor on June 8, 2021. SB 2 changed the governance structure of the ERCOT Board. The bill reduces the ERCOT Board from 16 members to 11, eight of which now represent different professional fields instead of specific market segments. Furthermore, these eight seats were appointed by a newly created selection committee. The selection committee is composed of three people—one appointed by the Governor, one appointed by the Lieutenant Governor and one appointed by the Speaker of the House. The committee is also required to use an outside firm for recruiting members. Lastly, the bill requires that any rules or enforcement actions undertaken by ERCOT under the authority delegated to them by the PUCT must receive PUCT approval before taking effect.

- Senate Bill 2154 ("SB 2154") was approved by the Texas Legislature and signed into law by the Governor on June 18, 2021. SB 2154 increased the number of PUCT Commissioners from three to five and all must be Texas residents. The Governor will continue to appoint the PUCT Commissioners with Senate confirmation. The bill restricts former PUCT Commissioners from lobbying the PUCT for one year upon their departure and amends the criteria and qualifications for the PUCT Commissioners where at least two of the five commissioners must be "well-informed and qualified in the field of public utilities and utility regulation".

- HB 4492 was approved by the Texas Legislature and signed into law by the Governor on June 16, 2021. HB 4492, among other things, authorizes a loan of up to $800 million to ERCOT from the State's Economic Stabilization (or "Rainy Day") fund through securitization. The proceeds from the securitization have been used by ERCOT to pay market participants that were short-paid for power purchases during the 2021 Winter Weather Event with the remainder going to reimburse an ERCOT fund that was temporarily used to make the initial short-payments for power during the storm. Payment for the debt service of the securitized loan is being allocated to all market participants based on their pro-rata share of market activity going forward. CPS Energy has received from those proceeds $3.8 million of an approximate outstanding $18.1 million owed to CPS Energy by ERCOT for power purchases made during the 2021 Winter Weather Event. With both the Rayburn securitization financing transaction and the Brazos plan of reorganization in effect, only $1.2 million of short payments remain outstanding, with most or the remaining short payments expected to be received over the next thirty years.

- HB 4492 also permits the securitization financing of $2.1 billion in exposure to reliability deployment price adder charges and ancillary services costs incurred by load-serving entities ("LSEs") that were in excess of the ERCOT System-wide Offer Cap ("SWOC") of $9,000/MWh associated with power purchases by the LSEs during the 2021 Winter Weather Event. The purpose of this securitized transaction is to reimburse customers that would otherwise be liable for the extremely high electricity prices related to the period of the 2021 Winter Weather Event. Payment for the debt service of this securitized loan will be allocated to each obligated LSE that receives securitized funds based on their respective load ratio-share of the ERCOT wholesale market. Certain LSEs (including CPS Energy) may opt out of participation in the securitization financing described above, if they have paid in full all invoices owed ERCOT during the 2021 Winter Weather Event. CPS Energy timely filed a notice of opt-out of this securitization program. Both the $800 million and $2.1 billion securitized transactions under HB 4492 were approved by the PUCT in 2021 through debt obligation orders, and ERCOT implemented uplift procedures to recover non-bypassable charges to repay the securitized bonds over 30 years.

- HB 1520 was approved by the Texas Legislature and signed into law by the Governor on June 16, 2021. HB 1520 pertains to the financing of certain extraordinary costs that were incurred by certain gas utilities by granting authority to issue bonds and authorizing fees. The bill applies to investor-owned gas utilities whose rates are subject to RRCT jurisdiction. Therefore, the securitization financing provided through this bill is not available to CPS Energy. Extraordinary costs incurred by CPS Energy to secure gas supply to provide service during the 2021 Winter Weather Event will need to be financed through traditional financing methods.

- House Bill 2586 ("HB 2586") was approved by the Texas Legislature and signed into law on May 24, 2021 by the Governor. HB 2586 requires the PUCT to conduct an annual audit of ERCOT that would be sent to the Texas Legislature and posted online for public viewing.

The legislation discussed above is not intended to be an exhaustive list of all legislation from the 88th and 87th Texas Legislative sessions but provides an explanation of salient laws that may impact the City or its Systems. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Electric Utility Restructuring in Texas – Texas Legislative Impact on the Electric Industry – 88th Texas Legislature" and "– Prior Legislative Session" and "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – ELECTRIC UTILITY RESTRUCTURING IN TEXAS – Wholesale Market Design Developments" for a discussion regarding additional legislation in certain legislative sessions.

Following the end of the 87th Legislative Session, the Governor instructed the PUCT to use its existing authority to make operational changes at ERCOT and begin market reform efforts. On July 6, 2021, the Governor sent a letter to the PUCT directing the PUCT to immediately take the following actions: (i) streamline incentives within ERCOT to foster the development and maintenance of adequate and reliable sources of power; (ii) allocate reliability costs to generation resources that cannot guarantee their own availability; (iii) instruct ERCOT to establish a maintenance schedule for non-renewable electricity generators; and (iv) order ERCOT to accelerate the development of transmission projects that increase connectivity between existing or new dispatchable generation plants and areas of need. The PUCT and ERCOT quickly responded by outlining the actions each entity had already undertaken, or planned to undertake, in line with the Governor's directives. The PUCT quickly initiated several rulemaking proceedings to address market reforms in response to the directive from the Governor.

As described above under *State Response to the 2021 Winter Weather Event*, the PUCT eliminated the 50x the natural gas price index component of the LCAP, and on December 2, 2021, modified the value of the HCAP by lowering it from the current $9,000 to $5,000 per MWh.

On June 28, 2021, ERCOT approved Nodal Protocol Revision Request ("NPRR") 1080 that limits ancillary services prices at the SWOC of $5,000 per MWh. NPRR 1080 was proposed to correct the ERCOT protocols which allowed ancillary services prices to exceed the SWOC during the 2021 Winter Weather Event consistent with the version of the LCAP rule then in effect.

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

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 its demand for 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. As described under "CPS Energy Actions to Address Disputed Charges", CPS Energy is currently disputing certain charges for natural gas that have been deemed excessive and unconscionable by CPS Energy. On March 3, 2023, the City received Private Letter Ruling 202309014 (the "Private Letter Ruling") issued by the Internal Revenue Service (the "IRS") affirming that certain 2021 Winter Weather Event charges and costs could be refinanced on a tax-exempt basis (certain of which have been refinanced and others are expected to be refinanced with certain proceeds of the 2024B Bonds), pursuant to the extraordinary nature of such costs (and is expected to allow the funding of further long-term costs on a tax-exempt basis).

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 and has updated its outage management system. An annual winter weather preparation program was also implemented and has been evaluated multiple times by ERCOT.

CPS Energy reviewed information gathered during the 2021 Winter Weather Event as well as an independent engineering analysis to support a reevaluation of its weatherization program and implemented solutions to weatherize certain components of generation facilities that experienced malfunction due to freezing conditions for the first time during the 2021 Winter Weather Event. CPS Energy implemented an expanded weatherization program in compliance with the PUCT's new weatherization regulations.

On February 22, 2021, Mayor Ron Nirenberg (the "Mayor") announced the formation of the Committee on Emergency Preparedness (the "CEP"), comprised of City Council members and external community stakeholders. As of December 31, 2021, all recommendations pertaining to CPS Energy made by the CEP in response to the 2021 Winter Weather Event have been addressed. These measures further strengthened the reliability and resiliency of the Systems for the benefit of CPS Energy customers. These items were related to overall infrastructure and communications improvement, as well as emergency preparedness and outage management.

CPS Energy further strengthened the resiliency of its power plants against sustained freezing temperatures. Following the 2021 Winter Weather Event, CPS Energy has invested over $40 million in power plant weatherization enhancements. Continued weatherization efforts were funded as part of CPS Energy's rate increase approved by the Board and City Council on January 10, 2022 and January 13, 2022, respectively. Approximately $31 million of the revenue from the increase is allocated incrementally for infrastructure resiliency—power generation and distribution projects to support operations during extreme weather. CPS Energy spent $42.3 million in 2021 on these efforts and spent approximately $10.9 million in 2022.

Since February 2021, CPS Energy has reevaluated its circuits to more precisely isolate the ones providing electricity to critical infrastructure such as hospitals, fire stations, and police substations. As a result, 172 circuits have been added for a total of 401 circuits to rotate in the event of state-mandated outages. The approach will minimize the duration each customer is expected to experience during an outage cycle by rotating circuit outages among more customers.

CPS Energy continues to work closely with the San Antonio Water System ("SAWS") to evaluate existing circuit redundancy and strategies for onsite generation as a means of greater resiliency for the most critical facilities and streamlined communication between CPS Energy and SAWS Operations Teams for greater responsiveness to the needs of both utilities. On September 21, 2022, the Board approved an agreement with SAWS that will result in the use of shared generators at select pump stations, in compliance with SB 3. Under the agreement, SAWS will pay an estimated $97 million to acquire and install the generators for CPS Energy operation. CPS

Energy in turn will be allowed to utilize the generators during peak demand periods and have access to approximately 30 MW of power that could be deployed.

In addition, corrective actions were completed at the South Texas Nuclear Project ("STP") to ensure the station is ready for winter weather operations. These actions focused on heat trace systems and piping insulation, revising the station's Winter Readiness procedure, and training for Operations, Maintenance and Engineering personnel on the station's winter readiness. STP also submitted Winter Weather Readiness Reports to ERCOT on December 1, 2021, required by PUCT Rule 25.55. ERCOT inspectors were onsite December 6, 2021 to tour the plant and confirm STP's compliance. STPNOC certified Winter Readiness for the 2023-2024 winter period in November 2023. On December 5, 2023, ERCOT performed a regulatory inspection of STPNOC winter readiness compliance with no findings issued. 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 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 STP. Those units are maintained and operated 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 January 31, 2024, CPS Energy's cash and cash equivalents balance in its General Fund and Repair & Replacement Fund was approximately $1.1 billion. CPS Energy obtained approval to increase the aggregate hereinafter-defined Commercial Paper Programs' capacity to $1 billion and has obtained an equal amount of liquidity to support such programs. As of the date of the Preliminary Official Statement, $148,600,000 of the aggregate $1,000,000,000 capacity is available. Shortly after the release of this Preliminary Official Statement, the City plans to issue $83,500,000* in additional hereinafter-defined Notes. Upon the foregoing issuance, $65,100,000* of the aggregate $1,000,000,000 capacity will be available. Refunding of the Refunded Obligations is expected to restore an additional $418,500,000* in capacity, resulting in $483,600,000* of available capacity under the Commercial Paper Programs upon the closing of the Bonds. CPS Energy also has utilized in full the $100 million capacity from the Series A Flexible Rate Revolving Note Program (hereinafter-defined as the "Series A Flex Notes"). As of the date hereof, CPS Energy has utilized $285 million of the $500 million borrowing capacity under the hereinafter-defined Series B Flex Notes. In addition, and as further described herein, CPS Energy has obtained approval for future implementation of an extendible municipal commercial paper program that does not rely on traditional liquidity to support the issuance of notes from time to time. CPS Energy anticipates sufficient liquidity to accommodate worst-case financial projections resulting from the 2021 Winter Weather Event and to address its operational and capital needs for the remainder of its current fiscal year.

Long-Term Financing Plan. After utilizing all options to reduce the costs associated with the 2021 Winter Weather Event as described below, CPS Energy is addressing any final amount for the costs of purchased natural gas and power through two or more long-term financing transactions, replenishing cash and capacity under each of the programs related to the Flex Notes (defined herein) as well as the Original Commercial Paper Program (by refunding such obligations). On April 13, 2022, CPS Energy closed on its $413,720,000 Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022 (the "Uri Bonds"), which represented the first such transaction, which certain Uri Bonds were thereafter the subject of a prior tender offer and subsequent purchase by the City for debt service savings in 2023. Certain Uri Bonds are expected to be refinanced with the proceeds of the 2024B Bonds.

Additionally, CPS Energy obtained approval, on January 13, 2022 from the City Council for a regulatory asset for the unrecovered costs of purchased natural gas and power, plus legal, interim financing, and other contractual charges. The costs to be recorded in this regulatory asset could approach $909 million under current estimates and are expected to be amortized over a period of 25 years and recovered through fuel costs. This figure consists of $517 million in natural gas charges, purchased power in the amount of $248 million, and other charges of $144 million. The estimated average residential electric and gas customer impact for costs financed with the Uri Bonds is anticipated to be $1.26/month or less for the first ten years, as previously disclosed to the Rate Advisory Committee (the "RAC"), Board, and City Council (and excludes the remaining disputed costs). As of March 1, 2024, $1.0873 per 100 cubic feet ("CCF") is assessed to all distribution gas customers and $0.00080 per kWh is collected from all retail electric customers to recover debt service associated with the regulatory asset. These assessments are reviewed and updated annually. The proceeds from this recovery will be available for payment of the debt service on the long-term debt that has previously been or will be issued to refinance obligations initially issued as short-term or interim financing. In the ordinance approving the regulatory asset, the City exempted CPS Energy from the City payment (as described in the Bond Ordinances as an amount not to exceed 14% of the Systems' gross revenues) (the "City Payment"), on CPS Energy fuel and other 2021 Winter Weather Event costs through the regulatory asset.

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* Preliminary, subject to change.

Due to high natural gas prices and an extremely hot summer, on September 16, 2022, the City Council approved a return of $50 million (from the City Payment proceeds paid to the City) to CPS Energy customers. To provide further energy bill assistance to the community, the City returned $42.5 million of the City Payment to be distributed back to CPS Energy's customers in the form of a credit on energy bills. The process of applying the bill credits to CPS Energy's customers' accounts began in November 2022. Funds remaining after applying the bill credits totaled $5 million. Of the $50 million, the remaining $7.5 million will assist low-income programs and customers who have past due balances, with up to $300 in assistance (which cannot exceed their total past due balance) and who were also, as of July 31, 2022, enrolled in one of CPS Energy's specified assistance programs.

CPS Energy Actions to Address Disputed Charges. Customer affordability remains a key focus area in any cost recovery or long-term financing plan. As such, CPS Energy continues to work to protect customers from costs from the 2021 Winter Weather Event that are unconscionable.

CPS Energy submitted a filing to the Federal Emergency Management Agency ("FEMA") of approximately $4.7 million of costs incurred related to the 2021 Winter Weather Event and is seeking reimbursement of 90% of those costs, per FEMA guidelines. As of March 2, 2023, costs of $4.2 million were obligated by FEMA, of which $0.4 million was received by CPS Energy in June 2023. The remaining $3.8 million is still under review by the Texas Division of Emergency Management for payment support and reimbursement.

On March 12, 2021, CPS Energy filed suit against ERCOT in the Bexar County District Court alleging breach of contract, claiming damages in the amount of $15 million in short payments, and seeking 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 short payments to CPS Energy heretofore described. The requested judgment also sought to prevent ERCOT from requiring CPS Energy and its customers to pay for other market participants' default (i.e., Uplift) based on excessive prices and to prevent ERCOT from charging CPS Energy for any amounts associated with the Pricing Errors identified in the Potomac report issued by the Independent Market Monitor. In December 2021, the Fourth Court of Appeals (the "Fourth Court") dismissed CPS Energy's petition on procedural grounds, and without addressing the merits of the case, stating that the PUCT has exclusive original jurisdiction over CPS Energy's claims. On January 27, 2022, CPS Energy filed its petition for review with the Texas Supreme Court. On February 15, 2022, the Texas Supreme Court requested that ERCOT file a response, which it did on April 18, 2022. On September 2, 2022, the Texas Supreme Court granted CPS Energy's Petition for Review, and the matter was consolidated with *In re ERCOT and William L. Magness*. Oral arguments were held on January 9, 2023. On June 23, 2023, the Texas Supreme Court affirmed the Fourth Court's dismissal of CPS Energy's petition on procedural grounds and held that ERCOT is entitled to sovereign immunity. CPS Energy successfully recovered most of its $15 million short-payment claim primarily through implementation of securitization financing by market participants that defaulted on their financial obligations to ERCOT in the aftermath of the 2021 Winter Weather Event, including Rayburn and Brazos electric cooperatives. The proceeds of these securitized transactions by these market participants resulted in repayment of their outstanding short-payments to ERCOT, which have been used to reimburse short-pay claimants such as CPS Energy. See "INTRODUCTORY STATEMENT – TEXAS 2021 WINTER WEATHER EVENT – The ERCOT Market".

CPS Energy purchases natural gas from its suppliers pursuant to market standard contracts promulgated by the North American Energy Standards Board. Pursuant to these market standard contracts, CPS Energy, in the event of a dispute concerning the payment, is permitted to pay the undisputed portion of amounts invoiced 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 more than $500/MMBtu. CPS Energy believes that these charges, in some cases representing a 15,000% price increase compared to the pre-storm price of the same commodity, are unconscionable and reflect unlawful pricing for items essential to its customers during a declared disaster, such as the 2021 Winter Weather Event. CPS Energy challenged certain prices under the Disputed Payment Provision.

CPS Energy is currently engaged in litigation against three of its natural gas suppliers, in which CPS Energy is disputing (under the Disputed Payment Provision) over $350 million in natural gas prices charged by those suppliers for natural gas in the 2021 Winter Weather Event as being unconscionable and violative of public policy in Texas. The pending gas supplier cases have been consolidated into the Multidistrict Litigation ("MDL") Panel and have been assigned to a judge in Bexar County (the "County") for pre-trial proceedings. 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 reactions of its natural gas suppliers in response to CPS Energy's invoking the Disputed Payment Provision.

Investor and Community Communication and Outreach. Since February 25, 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. CPS Energy also provided incurrence of a material financial obligation filings and material event notices concerning resultant rating actions on CPS Energy by Fitch Ratings, Inc. ("Fitch"), Moody's Investors Service, Inc. ("Moody's"), and S&P Global Ratings ("S&P"), respectively. In addition, CPS Energy issued press releases regarding its position and resultant actions in response to the 2021 Winter Weather Events. These press releases are available at newsroom.cpsenergy.com; however, these press releases are not incorporated by reference herein.

Though the substance of the event notices is included in this Official Statement in summarized form, investors may access those notices on the MSRB's EMMA website at www.emma.msrb.org for additional information regarding the covered events. These event notices, however, are not incorporated herein by reference.

City Committees. On November 14, 2023, Mayor Ron Nirenberg appointed members to the standing Charter Review Commission ("CRC"), which was authorized by the City Council in 2014 to study and make recommendations regarding provisions within the City Charter. Mayor Nirenberg charged the CRC with reviewing provisions of the City Charter related to City Council Districts and Redistricting, among other topics. A subcommittee, led by former city attorney Frank Garza, on March 21, 2024 made its preliminary recommendation that the number of council districts should remain the same, at least until the next decennial redistricting process.

Various Legal Actions Related to the 2021 Winter Weather Event

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 because of the 2021 Winter Weather Event. CPS Energy is currently analyzing its potential exposure, as well as its defense in these matters. All these lawsuits were transferred to the Texas state-wide MDL Panel and assigned to a judge in Harris County, Texas. This court is handling all pretrial matters with each case to be transferred back to its county of origin for trial if not disposed of at the pre-trial stage. The majority of the plaintiffs in the MDL have amended their pleadings to include all generators across the state, including CPS Energy. These actions significantly increased the number of cases in which CPS Energy is directly named. The court selected representative cases that will serve as test cases on several points of law including dispositive motions. However, due (in part) to an influx of filings by plaintiffs near the two-year anniversary of the 2021 Winter Weather Event, this MDL remains in the early stages of the litigation process. CPS Energy makes no guarantees or predictions regarding success or failure in connection with this litigation. On March 17, 2023, the Third Court of Appeals in Austin, Texas (the "Third Court") ruled the PUCT overstepped the authority granted to it by the Texas Legislature during the 2021 Winter Weather Event when it raised the price of electricity to $9,000 per MWh. The PUCT subsequently filed a petition for review with the Texas Supreme Court, which was granted. However, the Texas Supreme Court has not yet issued an opinion on the matter. The outcome of this litigation and its effects remain unknown.

Summary

With the exception of certain still outstanding ERCOT short-payments subject to Uplift in an uncertain amount, CPS Energy is confident that it has identified the upward limit 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, considering the possibility that this worst-case financial consequence is realized.

CPS Energy is committed to exploring all options and taking advantage of applicable Texas law and provisions of its contractual arrangements to shield its customers and other stakeholders from paying charges that are unconscionable and violative of public policy in Texas.

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 ensure 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 Section to the Remainder of this Official Statement

Much of the information and financial data included in this Official Statement is based on historical data that does not include the impact of, but 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, and the scope and breath, for the reasons hereinbefore discussed, remain fully unknown.

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 authorizes the issuance of obligations payable from and secured by liens on and pledges of the Net Revenues (as defined in Appendix C hereto) of the Systems at varying levels of lien priority. These City obligations, and the related priority lien on and pledge of Net Revenues securing their payment, are briefly and generally hereafter described.

Senior Lien Obligations and the Bonds. Under certain City ordinances (such ordinances, together with the hereinafter-defined 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, collectively with the Previously Issued Senior Lien Obligations and the Bonds, the "Senior Lien Obligations") (see "THE BONDS – Additional Bonds").

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 2024A Bonds are issued as Additional Senior Lien Obligations pursuant to an ordinance (the "2024A Ordinance") adopted by the City Council of the City on May 2, 2024. The 2024B Bonds are issued as Additional Senior Lien Obligations pursuant to an ordinance (the "2024B Ordinance") adopted by the City Council of the City on May 2, 2024. The 2024C Bonds are issued as Additional Senior Lien Obligations pursuant to an ordinance (the "2024C Ordinance", and together with the 2024A Ordinance and the 2024B Ordinance, the "Ordinances"). At the time of such issuance, the City shall have demonstrated its compliance with the conditions precedent to the issuance of Additional Senior Lien Obligations prescribed in the Bond Ordinances (see "THE BONDS – Additional Bonds"). As of the date of this Official Statement, the City has outstanding $4,334,080,000 of Senior Lien Obligations. After giving effect to the issuance of the Bonds, the refunding of the Refunded Obligations that are Senior Lien Obligations, and the purchase and cancellation of the Purchased Bonds, the City will have outstanding $5,269,380,000* of Senior Lien Obligations.

Junior Lien Obligations. In addition to the Senior Lien Obligations, the City has, under certain City ordinances (the "Junior Lien Ordinances"), issued, and there are 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, together with 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. As of the date of this Official Statement, the City has $2,064,100,000 of Junior Lien Obligations outstanding. After giving effect to the refunding of certain of the 2024B Refunded Obligations, the City will have outstanding $2,033,330,000* of Junior Lien Obligations. See "JUNIOR LIEN OBLIGATIONS" herein.

Subordinate Lien Obligations (Commercial Paper Notes). The Senior Lien 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 adopted an amended and restated ordinance (the "Original Commercial Paper Ordinance") on April 19, 2019 approving modifications to the commercial paper program (the "Original Commercial Paper Program") under which the City is authorized to issue, from time to time, commercial paper notes (obligations issued or incurred under either of the Commercial Paper Programs are referred to herein as "Notes" or "Commercial Paper Obligations"). In connection therewith and as of the date hereof, the City has obtained liquidity support for such Notes (in taxable or tax-exempt form) issued under the Original Commercial Paper Program in the aggregate amount of $500,000,000 in the form of two revolving credit agreements (each, a "Credit Agreement") from two 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 Original 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, and the hereinafter-defined New Series Commercial Paper Program. As of the date hereof, the City has an aggregate principal amount of $451,400,000 of Notes outstanding under the Original Commercial Paper Program (a portion of which comprise certain of the Refunded Obligations). After the issuance of the Bonds and the refunding of certain of the Refunded Obligations, the City expects to have $316,400,000* of Notes outstanding under the Original Commercial Paper Program.

*Preliminary, subject to change.

Pursuant to the authority in the Senior Lien Ordinances and the Junior Lien Ordinances, the City adopted a new series commercial paper ordinance (the "New Series Commercial Paper Ordinance" and together with the Original Commercial Paper Ordinance, the "Commercial Paper Ordinances") on April 20, 2023 authorizing a new series commercial paper program (the "New Series Commercial Paper Program", and together with the Original Commercial Paper Program, the "Commercial Paper Programs") under which the City is authorized to issue, from time to time, Commercial Paper Obligations under one or both Commercial Paper Programs in an aggregate combined principal amount at any one time outstanding not to exceed $1,000,000,000. In connection therewith and as of the date hereof, the City has obtained liquidity support for such Notes (in taxable or tax-exempt form) issued under the New Series Commercial Paper Program in the aggregate amount of $500,000,000 in the form of three revolving Credit Agreements 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 New Series 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. See "COMMERCIAL PAPER PROGRAMS" herein. As of the date hereof, the City has $400,000,000 of Notes outstanding under the New Series Commercial Paper Program. Shortly after the release of this Preliminary Official Statement, the City plans to issue $83,500,000* in additional Notes. After this issuance, $483,500,000* of Notes will be outstanding under the New Series Commercial Paper Program. After the issuance of the Bonds and the refunding of certain of the Refunded Obligations, the City expects to have $200,000,000* of Notes outstanding under the New Series Commercial Paper Program.

As further described herein, the City Council approved the prospective implementation of a hereinafter-defined EMCP Program in the amount of $150,000,000.

Inferior Lien Obligations. As authorized by the Senior Lien Ordinances, the Junior Lien Ordinances, and the Commercial Paper Ordinances, 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 Flexible Rate Revolving Note Private Placement Programs, as Inferior Lien Obligations, where it is authorized to issue flex notes under (a) the Series A Flexible Rate Revolving Note Program (the "Series A Flex Notes"), and (b) the Series B Flexible Rate Revolving Note Program (the "Series B Flex Notes", and together with the Series A Flex Notes, the "Flex Notes"). Series A Flex Notes are authorized to be issued in an aggregate principal amount not to exceed $100,000,000 outstanding at any one time until the November 1, 2028 program expiration date. Series B Flex Notes are authorized to be issued in an aggregate principal amount not to exceed $500,000,000 outstanding at any one time until the April 1, 2031 program expiration date.

The City has entered into a Note Purchase Agreement (dated February 24, 2023) with Truist Bank and Truist Commercial Equity, Inc., with a term that expires November 1, 2028, and pursuant to which such bank is obligated to purchase Series A Flex Notes in a principal amount up to the programmatic capacity. As of the date hereof, the full $100,000,000 of Series A Flex Notes' programmatic capacity is drawn and not available until capacity is replenished. The City has entered into additional Note Purchase Agreements, as amended from time to time (each dated as of April 12, 2023) with JPMorgan Chase Bank, National Association for $225,000,000, Wells Fargo Bank, National Association for $200,000,000, and Frost Bank for $75,000,000, which obligates each bank to purchase Series B Flex Notes when issued in respective principal amounts that, in the aggregate, total the programmatic capacity, with terms that expire on April 4, 2028. As of the date hereof, $285,000,000 of Series B Flex Notes programmatic capacity is drawn, with $215,000,000 undrawn and available. Although certain of the Series B Flex Notes represent a portion of the Refunded Obligations, restoration of programmatic capacity is not expected until on or about July 25, 2024, the expected redemption date of the refunded Series B Flex Notes. See "FLEXIBLE RATE REVOLVING NOTE PRIVATE PLACEMENT PROGRAMS" herein. This Official Statement relates only to the sale of the Bonds and not to the sale of any other series of obligations. Investors interested in investing in other City obligations should review the associated offering document related thereto.

THE BONDS

PURPOSE

The 2024A Bonds are being issued to: (i) refund short-term variable rate obligations consisting of Commercial Paper Obligations and Flex Notes (the "2024A Refunded Obligations") into long-term obligations, and (ii) pay costs and expenses relating to the issuance of the 2024A Bonds. The 2024B Bonds are being issued to (i) finance costs associated with acquiring, purchasing, constructing, repairing, extending, equipping, and renovating capital improvements to the Systems, (ii) finance the purchase and cancellation by means of the Tender Offer to produce debt service savings, as described herein, of $________ aggregate principal amount of the Target Bonds, defined below (the "Purchased Bonds") to produce debt service savings, (iii) refund currently outstanding Senior Lien Obligations and Junior Lien Obligations for debt service savings (the "2024B Refunded Obligations"), and (iv) pay costs and expenses relating to the issuance of the 2024B Bonds. The 2024C Bonds are being issued to: (i) refund short-term variable rate obligations consisting of Commercial Paper Obligations (the "2024C Refunded Obligations" and collectively with the 2024A Refunded Obligations and the 2024B Refunded Obligations, the "Refunded Obligations"), and (ii) pay costs and expenses relating to the issuance of the 2024C Bonds.

*Preliminary, subject to change.

THE PURCHASED BONDS

The City, with the assistance of Jefferies LLC and Wells Fargo Bank, National Association, as dealer managers (together, the "Dealer Managers"), is releasing the Invitation to the beneficial owners of the City's "Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020" and "Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022" identified in the Invitation (together, the "Target Bonds") on the terms set forth in the Invitation. Subject to the terms and limitation on amount of Target Bonds to be purchased for cancellation by the City set forth in, and other conditions of, the Invitation, on the date of delivery of the 2024B Bonds (the "Closing Date"), the City will purchase for cash those Target Bonds validly tendered and accepted for purchase (in the principal amounts comprising the Purchased Bonds, as set forth in "APPENDIX F – SCHEDULE OF PURCHASED BONDS"). The City expects to pay for such Purchased Bonds, together with the costs related thereto, from (x) proceeds of the 2024B Bonds, and (y) certain available funds of the City held in trust for the beneficial owners of the Target Bonds. The Purchased Bonds will be canceled on the Closing Date and will no longer be deemed outstanding.

Target Bonds not so purchased will remain outstanding, with the exception of any Target Bonds not so purchased that comprise Refunded Obligations. Prior to or on the Closing Date, Robert Thomas, CPA, LLC (the "Verification Agent") will provide its report (the "Verification Report") verifying, among other items described below, the sufficiency of cash deposited with the Paying Agent/Registrar (defined herein) to pay the purchase price of the Purchased Bonds plus costs related thereto.

This description is not intended to summarize the terms of the Invitation, or to solicit offers to tender Target Bonds, and reference is made to the Invitation for a discussion of the terms of the Invitation and the conditions for settlement of the Target Bonds validly tendered and accepted for purchase. The City will file the Invitation with the MSRB through its EMMA System. See "THE BONDS – Sources and Uses of Funds" and "APPENDIX F – SCHEDULE OF PURCHASED BONDS".

THE REFUNDED OBLIGATIONS

The Refunded Obligations, and interest due thereon, are to be paid on the scheduled redemption date and maturity dates thereof from funds to be deposited with U.S. Bank Trust Company, National Association, Houston, Texas (the "Escrow Agent") pursuant to separate Escrow and Trust Agreements, each dated the date of the approval of the Ordinances (collectively, the "Escrow Agreement"), between the City and the Escrow Agent.

The Ordinances provide that the City will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the City, if any, with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their scheduled redemption date and maturity dates. Such funds shall be held by the Escrow Agent in separate escrow funds (collectively, 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.

The Verification Agent will issue its Verification Report additionally verifying at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the sufficiency of the amount initially deposited to the Escrow Fund to pay the principal of and interest on the Refunded Obligations when due. 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 Ordinances were adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA". See "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein. 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 certain of the Bond proceeds and cash, if any, 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 Verification Report, 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 D – FORMS OF OPINIONS OF CO-BOND COUNSEL" herein.

The City will have no further responsibility with the amounts available in the Escrow Fund or for the payment of the Refunded Obligations from time to time, including any insufficiency therein caused by the failure of the Escrow Agent to receive payment when due.

GENERAL

The Bonds will bear interest at the rates and are scheduled to mature on the dates and in the amounts set forth on pages ii, iii, and iv of this Official Statement. Interest on the Bonds will accrue from the Closing Date (expected to occur on or about June 25, 2024*) and will be payable on February 1 and August 1 of each year, commencing February 1, 2025.*

Registered owners of the Bonds are those shown on the registration books kept by the Paying Agent/Registrar 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 Ordinances 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 Trust Company, 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 2024A Bonds, along with CPS Energy's cash contribution, if any, will be applied approximately as follows:

Sources of Funds	
Principal Amount of the Bonds	$
Plus [Net] Reoffering Premium	
CPS Energy's Cash Contribution	
Total Sources of Funds	$
Uses of Funds	
Escrow Fund Deposit	$
Underwriters' Discount	
Costs of Issuance and Additional Proceeds	
Total Uses of Funds	$

The proceeds from the sale of the 2024B Bonds, along with CPS Energy's cash contribution, if any, will be applied approximately as follows:

Sources of Funds	
Principal Amount of the Bonds	$
Plus [Net] Reoffering Premium	
CPS Energy's Cash Contribution	
Total Sources of Funds	$
Uses of Funds	
Purchased Bonds to be Cancelled upon Purchase	$
Escrow Fund Deposit	
Construction Fund Deposit	
Underwriters' Discount	
Costs of Issuance and Additional Proceeds	
Total Uses of Funds	$

* Preliminary, subject to change.

The proceeds from the sale of the 2024C Bonds, along with CPS Energy's cash contribution, if any, will be applied approximately as follows:

Sources of Funds	
Principal Amount of the Bonds	$
Plus [Net] Reoffering Premium	
CPS Energy's Cash Contribution	
Total Sources of Funds	$
Uses of Funds	
Escrow Fund Deposit	$
Underwriters' Discount	
Costs of Issuance and Additional Proceeds	
Total Uses of Funds	$

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, Texas Government Code, as amended (together, the "Act"), Chapter 1502, Texas Government Code, as amended (as it relates to the 2024B Bonds), the City's Home Rule Charter, and the Ordinances. As permitted by the applicable provisions of the Act, the City has, in the Ordinances, delegated the authority to various City officials and CPS Energy staff, to execute respective approval certificates (individually, an "Approval Certificate", and collectively, the "Approval Certificates") establishing final characteristics and terms of the sale of each respective series of Bonds.

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

None of the Ordinances create a mortgage or other security interest on the property of the Systems. The taxing power of neither the City nor any other political subdivision of the State or the State is pledged for the payment thereof.

PERFECTION OF SECURITY FOR THE BONDS

Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the 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 pledge of the Net Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, as amended, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City has agreed in the Ordinances 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 Ordinances provide 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 Bonds), and including the establishment and maintenance of the reserve therefor; (iii) to the payment of the Junior Lien Obligations, and 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 related thereto; (v) to the payment and security of obligations hereafter issued which are inferior in lien to the Senior Lien Obligations, the Junior Lien Obligations, and the Commercial Paper Obligations, which obligations are referred to in the Bond Ordinances and herein defined as Inferior Lien Obligations and which includes the Flex Notes; (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; (vii) to the payment of the annual amount due to the General Fund of the City, as provided in the Bond 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. 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 of each series stated to mature on and after February 1, 2035* in whole or in part and by lot, on August 1, 2034*, or on any date thereafter, at the price of par plus accrued (but unpaid) interest to such date of redemption.

Mandatory Sinking Fund Redemption. If one or more consecutive maturities of any series of Bonds are grouped as a single term Bonds (the "Term Bonds"), such Term Bonds will be subject to mandatory sinking fund redemption.

Selection of Bonds Redeemed in Part. If less than all the Bonds of any series are to be redeemed, the City may select the maturities of the 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 Bond (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 Bond 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 Bond 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 Ordinances.

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 each 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 applicable 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.

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* Preliminary, subject to change.

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 applicable 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 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 applicable 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 Ordinances 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 (including the Bonds), the Junior Lien Obligations, the Commercial Paper Obligations, and the 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 (a "Municipal Utility", the "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 C – CERTAIN PROVISIONS OF THE ORDINANCES". See also "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 (including the proposed Additional 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, 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 Senior Lien Obligations and, in connection with their issuance, the City will, in accordance with the provisions of the Bond Ordinances, 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 Internal Revenue Code (the "Code") (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 President Barack Obama 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.

Under current law, Sequestration is scheduled to continue through 2030. Assuming Congress does not repeal the sequester, the percentage reduction that will be applied to payments of issuers of direct-pay bonds for Fiscal Years 2021 thru 2030 will be 5.7 percent. Additionally, on June 22, 2020, the IRS issued a notice that due to the suspension or limitation of operations related to the COVID-19 pandemic (the "Pandemic"), the processing of returns for credit payments to issuers of qualified bonds, including requested payments, were being delayed and such payments continue to be subject to delays.

RESERVE FUND

As additional security for the Senior Lien Obligations (including the Bonds), the Ordinances establish that Net Revenues of the Systems must be first appropriated and pledged to the "City of San Antonio Electric and Gas Systems Parity Bond Retirement Account" (the "Retirement Account") previously created for the payment of principal of and interest on the Senior Lien Obligations. Within the Retirement Account there is established and maintained a reserve amount ("Reserve Amount") equal to not less than the average annual principal and interest requirements of all outstanding Senior Lien Obligations. In addition, CPS Energy has the right under the Bond Ordinances to fund the Reserve Amount requirement by securing an insurance policy, surety policy, or other similar credit facility. See "APPENDIX C – CERTAIN PROVISIONS OF THE ORDINANCES" herein. The Reserve Amount for the Previously Issued Parity Bonds is currently funded by a qualified surety policy (the "AGM Policy") under the Bond Ordinances, provided by Assured Guaranty Municipal Corp. ("AGM"). The AGM Policy has a maximum coverage amount equal to $400,000,000 and an expiry date of February 1, 2057, which amount and expiry date will be sufficient to cover all currently outstanding Senior Lien Obligations, including the portion of the Reserve Amount attributable to the issuance of the Bonds. The Ordinances and the AGM Policy detail the rights, duties, and obligations of the City in connection with the AGM Policy and the methodology concerning draws under the AGM Policy, the reimbursement obligation of the City in such event, and the City's ability to cause the reinstatement of the amounts available under the AGM Policy. The AGM Policy is attached hereto as APPENDIX G and incorporated herein by reference for all purposes.

ASSURED GUARANTY MUNICIPAL CORP.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets and participates in the asset management business through ownership interests in Sound Point Capital Management, LP and certain of its investment management affiliates. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P, "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A1" (stable outlook) by Moody's. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On April 30, 2024, Moody's announced it had affirmed AGM's insurance financial strength rating of "AA" (stable outlook). AGM can give no assurances as to any further rating action that Moody's may take.

On October 20, 2023, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On July 13, 2023, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Capitalization of AGM

At March 31, 2024:

- The policyholders' surplus of AGM was approximately $2,665 million.

- The contingency reserve of AGM was approximately $892 million.

- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately $2,036 million. Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty UK Limited ("AGUK") and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and net deferred ceding commission income of AGM were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (filed by AGL with the SEC on February 28, 2024); and

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024 (filed by AGL with the SEC on May 8, 2024).

All information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "THE BONDS – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "THE BONDS – Assured Guaranty Municipal Corp.".

AMENDMENTS

The City may, without the consent of or notice to any registered owners, from time to time and at any time, amend the applicable Ordinances 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 applicable 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 the redemption price therefor, 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 Ordinances provide for the defeasance of the Bonds when payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, 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) to mature as to principal and interest in such amounts and at such times to insure 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 respective Ordinance. The City has additionally reserved the right in each Ordinance, subject to satisfying the requirements of 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 Ordinances provide that "Government Securities" means (i) direct, non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) non-callable 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) non-callable 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 Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. Each Authorized Official may limit the foregoing Government Securities in connection with the sale of each series of 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 Ordinances do 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 shall no longer be regarded to be outstanding or unpaid. After firm banking arrangements have been made, the City shall have no further rights to amend the Ordinances or call Bonds for redemption; provided however, 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 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 each Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in each 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 each 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 Ordinances do 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 each 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, Texas Government Code, as amended ("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 Ordinances' 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, each Ordinance provides that bondholders may exercise the remedy of mandamus to enforce the obligations of the City under each 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 opinions of Co-Bond Counsel relating to the Bonds, the forms of which is attached hereto as APPENDIX D, shall note that all opinions relative to the enforceability of the Ordinances, 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 upon presentation of the Bonds to the Paying Agent/Registrar, which initially is U.S. Bank Trust Company, 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 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.

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 each maturity of each series of the Bonds, each in the aggregate principal amount of such maturity 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 alternative, 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 a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity 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 MMI 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, physical 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, physical 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 Ordinances will be given only to DTC.

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DEBT SERVICE REQUIREMENTS

The following schedule is calculated on an accrual (rather than cash) basis and reflects annual debt service requirements on all outstanding Senior Lien Obligations as of the date of this Preliminary Official Statement (including the current Fiscal Year debt service payments made through (and including) February 1, 2024). This schedule does not incorporate the estimated results of the Bonds. Debt service on the Junior Lien Obligations, as well as debt service incurred on obligations issued from time to time under the Commercial Paper Programs and the Flexible Rate Revolving Note Private Placement Programs, respectively, is also excluded. See "JUNIOR LIEN OBLIGATIONS", "COMMERCIAL PAPER PROGRAMS", and "FLEXIBLE RATE REVOLVING NOTE PRIVATE PLACEMENT PROGRAMS" herein.

		The Bonds		
Year Ending January 31,	Existing Senior Lien Obligations(1)*	Principal	Interest	Total Senior Lien Obligations(1)*
2025	$378,673,621			$378,673,621
2026	342,268,345			342,268,345
2027	362,332,578			362,332,578
2028	362,332,359			362,332,359
2029	305,742,863			305,742,863
2030	305,754,591			305,754,591
2031	305,911,021			305,911,021
2032	304,450,079			304,450,079
2033	312,205,417			312,205,417
2034	324,573,107			324,573,107
2035	333,077,169			333,077,169
2036	333,630,875			333,630,875
2037	334,217,261			334,217,261
2038	334,833,612			334,833,612
2039	317,568,614			317,568,614
2040	271,254,001			271,254,001
2041	271,979,100			271,979,100
2042	232,083,844			232,083,844
2043	173,694,920			173,694,920
2044	143,171,595			143,171,595
2045	143,172,488			143,172,488
2046	143,175,772			143,175,772
2047	143,177,610			143,177,610
2048	78,087,829			78,087,829
2049	43,991,325			43,991,325
2050	34,240,025			34,240,025
2051	-			-
2052	-			-
2053	-			-
Totals	$6,635,600,021			$6,635,600,021

* Preliminary, subject to change. Numbers may not total due to rounding.

(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, considers the effects of Sequestration assuming a 5.7% reduction in tax credits which continues through September 2030. See "THE BONDS – Refundable Tax Credit Bonds" herein.

HISTORICAL NET REVENUES AND COVERAGE[1]

(Dollars in thousands)

	Fiscal Years Ended January 31,[1]				
	2020	**2021**	**2022**	**2023**	**2024**
Gross Revenues[2]	$ 2,602,177	$ 2,511,242	$ 2,754,975	$ 3,469,577	$ 3,442,879
Maintenance & Operating Expenses	1,497,182	1,555,519	1,743,521	2,211,545	1,967,750
Available For Debt Service	$ 1,104,995	$ 955,723	$ 1,011,454	$ 1,258,032	$ 1,475,129
Actual Principal and Interest Requirements:					
Senior Lien Obligations[3], [4], [8], [9]	$ 223,292	$ 327,599	$ 331,844	$ 349,887	$ 366,255
Junior Lien Obligations[4], [10]	$ 148,806	$ 61,964	$ 60,198	$ 77,548	$ 77,917
ACTUAL COVERAGE – Senior Lien[5]	4.95x	2.92x	3.05x	3.60x	4.03x
ACTUAL COVERAGE – Senior and Junior Liens	2.97x	2.45x	2.58x	2.94x	3.32x
PRO FORMA MADS COVERAGE					
Senior Lien[6]	2.92x	2.52x	2.67x	3.32x	3.90x
Senior and Junior Liens[7]	2.18x	1.88x	1.99x	2.48x	2.91x

(1) Some numbers 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 related to the direct subsidy for the Build America Bonds. See "THE BONDS – Refundable Tax Credit Bonds" herein.
(5) Calculation differs from "FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE" herein, by the inclusion of nonoperating expenses in the above schedule.
(6) Maximum annual debt service on Senior Lien Obligations; calculated based on maximum annual debt service after taking into account the issuance of the Bonds.
(7) 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; calculated based on maximum annual debt service after taking into account the issuance of the Bonds.
(8) Amount shown is gross debt service and does not include any cash contributions made.
(9) Amount shown for Senior Lien Obligations in FY2020 is lower compared to each Fiscal Year thereafter due to fewer bond maturities coming due in FY2020 compared to each Fiscal Year thereafter.
(10) Amounts shown for Junior Lien Obligations in FY2021, and each Fiscal Year thereafter, are lower due to bonds that matured in FY2020 (Jr. Lien Revenue Refunding Bonds, Series 2014).

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OUTSTANDING SENIOR LIEN OBLIGATIONS AND JUNIOR LIEN OBLIGATIONS

The following schedule is calculated on an accrual (rather than cash) basis and reflects annual debt service requirements on all outstanding Senior Lien Obligations and Junior Lien Obligations as of the date of this Preliminary Official Statement (including the current Fiscal Year debt service payments made through (and including) February 1, 2024). This schedule does not incorporate the estimated results of the Bonds. Debt service on the Commercial Paper Obligations incurred under the Commercial Paper Programs and the Flex Notes issued under the Flexible Rate Revolving Note Private Placement Programs is excluded. See "COMMERCIAL PAPER PROGRAMS" and "FLEXIBLE RATE REVOLVING NOTE PRIVATE PLACEMENT PROGRAMS" herein.

		Junior Lien Obligations(2)(3)*		
Year Ending January 31,	Existing Senior Lien Obligations(1)*	Variable Rate Obligations(2)	Fixed Rate Obligations(3)	Total Senior and Junior Lien Obligations(1), (4)*
2025	$378,673,621	$20,136,871	$55,949,009	$454,759,501
2026	342,268,345	32,062,809	63,709,009	438,040,163
2027	362,332,578	44,389,040	63,711,009	470,432,627
2028	362,332,359	53,946,525	63,708,509	479,987,393
2029	305,742,863	83,347,333	83,245,759	472,335,955
2030	305,754,591	82,454,350	83,245,459	471,454,400
2031	305,911,021	80,704,350	93,901,304	480,516,675
2032	304,450,079	78,960,717	93,726,750	477,137,546
2033	312,205,417	77,197,983	97,120,050	486,523,450
2034	324,573,107	50,454,350	124,139,950	499,167,407
2035	333,077,169	50,454,350	120,995,450	504,526,969
2036	333,630,875	50,460,717	120,438,700	504,530,292
2037	334,217,261	50,447,983	119,844,250	504,509,494
2038	334,833,612	53,384,350	119,233,350	507,451,312
2039	317,568,614	68,849,812	118,585,714	505,004,140
2040	271,254,001	72,772,222	158,969,094	502,995,317
2041	271,979,100	71,812,308	158,245,844	502,037,252
2042	232,083,844	83,288,979	47,774,400	363,147,223
2043	173,694,920	100,661,528	62,785,400	337,141,848
2044	143,171,595	99,621,910	62,786,250	305,579,755
2045	143,172,488	120,279,354	27,363,500	290,815,342
2046	143,175,772	114,324,221	27,361,500	284,861,493
2047	143,177,610	89,080,400	27,366,000	259,624,009
2048	78,087,829	89,090,100	27,364,000	194,541,928
2049	43,991,325	59,911,500	27,363,000	131,265,825
2050	34,240,025	8,027,200	-	42,267,225
2051	-	38,937,200	-	38,937,200
2052	-	38,934,400	-	38,934,400
2053	-	38,934,000	-	38,934,000
Totals	$6,635,600,021	$1,902,926,862	$2,048,933,259	$10,587,460,142

* Preliminary, subject to change. Some numbers may not total due to rounding.

(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 United States. 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, considers the effects of Sequestration assuming a 5.7% reduction in tax credits which continues through September 2030. See "THE BONDS – Refundable Tax Credit Bonds" herein.

(2) Assumes periodic redemptions in accordance with mandatory sinking fund requirements. Debt service calculated on variable rate Junior Lien Obligations in a term interest rate mode 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 7.00% "stepped" rate thereafter to February 1, 2033 Stated Maturity; 2015C Bonds – 1.75% term rate through November 30, 2024, and 7.00% "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 (remarketed in a SIFMA Index Mode) – assumed rate of 3.50% through November 30, 2025, and 8.00% "stepped" rate thereafter to February 1, 2048 Stated Maturity; 2020 Bonds – 1.75% term rate through November 30, 2025 and 7.00% "stepped rate" thereafter to February 1, 2049 Stated Maturity; the variable rate portion of the 2022 Bonds – 2.00% term rate through November 30, 2027 and 7.00% "stepped rate" thereafter to February 1, 2049 Stated Maturity, and 2023 Bonds – 3.65% term rate through November 30, 2026 and 8.00% "stepped rate" thereafter to February 1, 2053 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, considers the effects of Sequestration assuming a 5.7% reduction in tax credits which 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 Commercial Paper Obligations and any Inferior Lien Obligations. See "COMMERCIAL PAPER PROGRAMS" herein.

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 or any Flex Notes to be issued pursuant to the Flexible Rate Revolving Note Private Placement Programs) (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 exclusively 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.

As of the date of this Official Statement, CPS Energy has outstanding $2,064,100,000 of Junior Lien Obligations. After giving effect to the refunding of certain of the Refunded Obligations, the City will have outstanding $2,033,330,000* 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' fixed rate and projected variable rate debt service requirements.

COMMERCIAL PAPER PROGRAMS

Pursuant to authorization from the City, CPS Energy maintains the Commercial Paper Programs to provide an aggregate limit of taxable and tax-exempt interim financing for various purposes in the total amount of $1,000,000,000. The Original 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 Notes in multiple series (identified as "Series A", "Series B", and "Series C"). The Credit Agreements for the Original Commercial Paper Programs provide liquidity support for such Notes (in either taxable or tax-exempt form) in an aggregate amount of $500,000,000 (comprised of $400,000,000 in liquidity support for the Series A Notes and $100,000,000 in liquidity support for the Series C Notes). The Series A Credit Agreement is effective through June 19, 2026 (unless earlier terminated in accordance with its terms), with Bank of America, N.A., serving as liquidity provider thereunder. No Credit Agreement is currently in effect with respect to the Series B Notes. The Series C Credit Agreement is effective through June 21, 2025 (unless earlier terminated in accordance with its terms), with Wells Fargo Bank, National Association, serving as liquidity provider thereunder.

The purpose of the Original 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 Original 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 Original 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 Programs; and (iii) borrowings under and pursuant to the Credit Agreements. The obligations of the City under the Credit Agreements are secured on a parity basis with the pledge of the Net Revenues that secures the Notes and along with the Notes, comprise the Original Commercial Paper Obligations.

As of the date hereof, the City has an aggregate principal amount of $451,400,000 of Notes outstanding under the Original Commercial Paper Program. After the issuance of the Bonds and the refunding of certain of the Refunded Obligations, the City expects to have $316,400,000* of Notes outstanding under the Original Commercial Paper Program.

*Preliminary, subject to change.

The purpose of the New Series 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 20, 2053 (the maturity date specified in the New Series 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 New Series 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 Programs; and (iii) borrowings under and pursuant to the Credit Agreements. The obligations of the City under the Credit Agreements are secured on a parity basis with the pledge of the Net Revenues that secures the Notes and along with the Notes, comprise the New Series Commercial Paper Obligations.

The New Series Commercial Paper Program currently is authorized to issue Notes in multiple series (identified as "New Series A-1", "New Series B", and "New Series C"). The Credit Agreements for the New Series Commercial Paper Program currently provide liquidity support for such Notes (in either taxable or tax-exempt form) in an aggregate amount of $500,000,000 (comprised of $200,000,000 in liquidity support for the New Series A-1 Notes, $150,000,000 in liquidity support for the New Series B Notes, and $150,000,000 in liquidity support for the New Series C Notes). The New Series A-1 Credit Agreement is effective through July 31, 2031 (unless earlier terminated in accordance with its terms), with JPMorgan Chase Bank, National Association, serving as liquidity provider thereunder. The New Series B Credit Agreement is effective through July 31, 2028 (unless earlier terminated in accordance with its terms), with Truist Bank serving as liquidity provider thereunder. The New Series C Credit Agreement is effective through October 12, 2025 (unless earlier terminated in accordance with its terms), with PNC Bank, National Association, serving as liquidity provider thereunder.

As of the date hereof, the City has an aggregate principal amount of $400,000,000 of Notes outstanding under the New Series Commercial Paper Program. Shortly after the release of this Preliminary Official Statement, the City plans to issue $83,500,000* in additional Notes. After the issuance of the Bonds and the refunding of certain of the Refunded Obligations, the City expects to have $200,000,000* of Notes outstanding under the New Series Commercial Paper Program.

On May 2, 2024, the City Council approved the prospective implementation of an extendible municipal commercial paper program (the "EMCP Program") in the amount of $150,000,000. The EMCP Program is expected to be implemented within a year of May 2, 2024.

FLEXIBLE RATE REVOLVING NOTE PRIVATE PLACEMENT PROGRAMS

As authorized by the Senior Lien Ordinances, the Junior Lien Ordinances, and the Commercial Paper Ordinances, 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 may issue Inferior Lien 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 Programs.

The City has entered into a Note Purchase Agreement (dated February 24, 2023) with Truist Bank and Truist Commercial Equity, Inc., with a term that expires November 1, 2028, and pursuant to which such bank is obligated to purchase Series A Flex Notes in an aggregate principal amount up to the programmatic capacity of $100,000,000. As of the date hereof, the full $100,000,000 of Series A Flex Notes' programmatic capacity is fully drawn and not available until capacity is restored.

The City has entered into additional Note Purchase Agreements, as amended from time to time (each dated as of April 12, 2023) with JPMorgan Chase Bank, National Association for $225,000,000, Wells Fargo Bank, National Association for $200,000,000, and Frost Bank for $75,000,000, which obligates each bank to purchase Series B Flex Notes when issued in respective principal amounts that, in the aggregate, total the programmatic capacity of $500,000,000, with terms that expire on April 4, 2028. As of the date hereof, $285,000,000 of Series B Flex Notes programmatic capacity is drawn, with $215,000,000 undrawn and available. No restoration of programmatic capacity is expected until on or about July 25, 2024 (the expected redemption date of the Series B Flex Notes) when the proceeds of certain of the Bonds will be applied to restore capacity of the Series B Flex Notes.

This Official Statement relates only to the sale of the Bonds and not to the sale of any other series of obligations. Investors interested in investing in other City obligations should review the associated offering document related thereto.

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* Preliminary, subject to change.

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:

Name & Position	Profession	Originally Appointed to the Board	Present Term Expires[(1)]
Janie Martinez Gonzalez, Chair	President & CEO, Webhead	February 18, 2019	January 31, 2029
Dr. Francine Romero, Vice Chair	Associate Professor & Chair of the Public Administration Department at the University of Texas at San Antonio	February 1, 2022	January 31, 2027
John T. Steen, Jr. [(2)] Trustee	Attorney and Investor, Law Office of John T. Steen	February 1, 2016	January 31, 2026
Dr. Willis Mackey, Trustee	Superintendent, Retired Judson Independent School District	April 6, 2018	January 31, 2028
Ron Nirenberg,[(3)] Ex-Officio Member	Mayor, City of San Antonio	June 21, 2017	May 31, 2025

(1) Dr. Romero is serving her first term. Mr. Steen, Dr. Mackey, and Ms. Gonzalez are each serving their second terms.
(2) Among other positions in State government, Mr. Steen served as the 108th Secretary of State and as a commissioner of the Texas Department of Public Safety.
(3) Mr. Nirenberg was selected for a fourth term on May 6, 2023.

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 3,497 employees as of January 31, 2024, which included approximately 1,261 skilled craft (hourly/field) employees. The average tenure of a CPS Energy employee is about 13 years. Most of the 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 workforce which, between February 1, 2023, and January 31, 2024, recorded a turnover rate of 5.6%. CPS Energy recently reached a 4-year labor agreement with union leadership. The agreement is effective from February 1, 2023, through January 31, 2027. This agreement includes an annual general wage increase ("GWI") for all wage scale employees at the start of each fiscal year, on February 1. The GWI percentage is scheduled to be 4% in years 1-3 and 3% in the final year.

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 capacity to keep CPS Energy operating at its highest level of productivity.

Until 2022, CPS Energy salaried and executive employees participated in a discretionary Employee Incentive Plan ("EIP"), that rewarded 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 provided direct links between CPS Energy's competitiveness, performance and compensation. In addition to measuring performance on key metrics for CPS Energy, employees' individual performance was linked to their individual incentive payout. The EIP was reviewed annually to ensure overall design, metrics and targets aligned with CPS Energy's goals and drive employee performance towards organizational goals. On April 10, 2020, distributions for CPS Energy's EIP program were suspended to preserve cash in the face of reduced revenue and increased customer debt as a result of the Pandemic. The 2020 EIP ultimately was paid out; however, 2021 remains suspended and will not be paid. In 2022, CPS Energy determined that the EIP would be suspended indefinitely and continues to evaluate incentive options for future consideration.

Reorganizations of the members of the Executive Leadership Team were announced periodically via voluntary event notices filed on EMMA throughout 2021 and 2022. Detailed information related to each of these executive level organizational changes may be obtained by viewing the related voluntary notices. The reorganized Executive Leadership Team and credentials is as follows.

CPS Energy's current members of the Executive Leadership Team include: Rudy D. Garza, President & CEO; Elaina Ball, Chief Strategy Officer; Shanna Ramirez, Chief Legal & Ethics Officer, General Counsel ("CLEO&GC"), & Board Secretary; Lisa Lewis, Chief Administrative Officer ("CAO"); Evan O'Mahoney, Chief Information Officer ("CIO"); Cory Kuchinsky, Chief Financial Officer ("CFO") & Treasurer; DeAnna Hardwick, Chief Customer Strategy Officer; Benjamin Ethridge, Chief Energy Supply Officer; and Richard Medina, Chief Energy Delivery Officer.

Mr. Rudy D. Garza was named Interim President & CEO, effective November 8, 2021, and on September 6, 2022, the Board approved Mr. Garza as the permanent President & CEO. He is the first Hispanic leader to hold this leadership position. Previously, he served as the Chief Customer & Stakeholder Engagement Officer and oversaw customer experience and engagement initiatives at CPS Energy. He was 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. 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. Elaina Ball was named Chief Strategy Officer effective June 12, 2023. Ms. Ball leads strategic planning and is responsible for the oversight and execution of CPS Energy's Vision 2027. Ms. Ball has over 17 years of experience working with both investor-owned and public power utility companies. She has provided effective leadership in power generation, transmission & distribution, market operations, technology, and business development functions. She has previously served as CEO for Fayetteville Public Works Commission in Fayetteville, North Carolina, as Chief Operating Officer for El Paso Electric and Austin Energy, Senior Vice President of Power Delivery at Entergy, and is a CPS Energy alumnus serving as Vice President of Technical Services & Energy Solutions in 2012. She also has extensive leadership experience with STP, having served on their Board of Directors, Owners' Committee, and Benefits' Committee. Ms. Ball has been actively engaged with multiple utility organizations including the Rocky Mountain Electrical League, the Association of Women in Energy, in addition to community non-profits such as the Austin Science Education Foundation, El Pasoans Fighting Hunger, and Fayetteville Tech Community College. Ms. Ball holds a Bachelor of Science degree in Chemical Engineering from the University of Texas at Austin. She is also a graduate of the University of Idaho Utility Energy Executive program and a certified Six Sigma Black Belt.

Ms. Shanna Ramirez, J.D., CISM, is the CLEO&GC and Board Secretary. Ms. Ramirez joined CPS Energy in July 2015 as Director & Senior Counsel and has extensive experience providing business and legal advice. She practiced employment litigation at Haynes and

Boone, LLP, and was Vice President & Deputy General Counsel for Fiesta Restaurant Group, Inc. Ms. Ramirez provides oversight for CPS Energy's Legal, Audit, Compliance, Ethics, Integrated Security, and Government and Regulatory Affairs & Public Policy functions, in addition to serving as Secretary to the Board of Trustees. She is responsible for driving strategic initiatives to advance the interests of its customers and community, including environmental, social, and governance (ESG) goals. Ms. Ramirez has a Bachelor of Arts in History and Political Science from Trinity University and a Juris Doctor from the University of Maryland School of Law. She is also a graduate of the Executive Education, Accelerated Development Program at Rice University.

Ms. Lisa Lewis is the CAO and oversees the Administrative Services team, Human Resources, Safety & Occupational Heath, Labor Relations, Supply Chain and Logistics, and Facilities Management and Real Estate. Ms. Lewis has worked for CPS Energy for over 20 years and previously served as Senior Vice President of People & Culture. Ms. Lewis has focused on enabling the 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. She also serves on the boards of RMEL, an electric industry organization focused on training and safety, as well as the Alamo Area Council of Governments. 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.

Mr. Evan O'Mahoney is the CIO and is responsible for overseeing all aspects of the Enterprise Information Technology in the organization including Infrastructure & Operations, Enterprise Architecture, Business Solutions, Digital Experience, and Execution Excellence. Mr. O'Mahoney strategically leads CPS Energy's Digital Transformation initiative, Evolve, which aims to improve how employees work and to deliver customer-facing solutions that provide tailored experiences. Mr. O'Mahoney has over 15 years of experience driving change and growth in organizations such as the Toshiba Corporation, where he served as Director, Solutions & Professional Services. Before joining CPS Energy in 2019, Mr. O'Mahoney was the Chief Technology Officer for the County, where he led the organization to implement strategic technology plans in support of all County offices, divisions, and departments. He has a Bachelor of Science in Business Administration from the University of the Incarnate Word.

Mr. Cory Kuchinsky, CPA, 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 & Development, and Financial Information Systems Management. Mr. Kuchinsky joined CPS Energy in 2006 and has served in multiple leadership roles. Prior to joining CPS Energy, he worked for Ernst & Young LLC. He currently serves on the DoSeum board, a local children's museum dedicated to transforming communities through learning. Mr. Kuchinsky holds a Bachelor of Science in Business Administration and a Master of Science in Accounting from Trinity University.

Ms. DeAnna Hardwick is the Chief Customer Strategy Officer and leads Community Impact, Customer Experience Operations, Customer Value Optimization, Enterprise Customer Experience, Resolutions & Solutions, and Corporate Communications & Marketing. Prior to her current role, she served as Vice President of Customer Success. Under her leadership, Customer Success developed innovative approaches to serving customers impacted by the Pandemic, including the Customer Outreach Resource Effort (CORE) team. Ms. Hardwick joined CPS Energy in 2015 when she was hired to be a call center leader and has risen through the ranks as a leader. Prior to joining CPS Energy, Ms. Hardwick spent 15 years working at various Fortune 100 companies, where she was charged with delivering easy and exceptional customer experiences. Ms. Hardwick holds a Bachelor of Science in Business Management from the University of Phoenix.

Mr. Benjamin (Benny) Ethridge, P.E., is the Chief Energy Supply Officer for CPS Energy. He oversees power generation and energy market operations for over 4,800 MWs of fossil-fueled generation capacity. In addition, he also handles the contractual power purchase agreements with renewable generation resources and manages ownership interest in the STP nuclear plant. He is also a member of the STP Nuclear Operating Company Owner's Committee. Mr. Ethridge joined CPS Energy in 2015 with over 30 years of diverse energy industry experience. He began his career as a construction engineer with Houston Lighting & Power Company. Following industry deregulation, he served in a variety of commercial and operational leadership roles with Reliant Energy, Topaz Power Group, and NRG Energy. Mr. Ethridge holds a Bachelor of Science in Civil Engineering from Texas A&M University and a Master of Business Administration from Houston Baptist University. He is a registered professional engineer in the State of Texas.

Mr. Richard Medina, P.E., is the Chief Energy Delivery Officer and is responsible for the safe, reliable and economical delivery of electrical power and natural gas to CPS Energy's customers. As a 30-year plus veteran at CPS Energy, he oversees the Engineering, Planning, and Field Operation functions for Transmission, Substation and Distribution, along with System Operations, Customer Reliability, and asset management programs associated with electric and natural gas delivery. Mr. Medina has led many of CPS Energy's grid transformation strategies including CPS Energy's electrification roadmap, optimization of EV infrastructure, and fostering alliances with local and national research leaders. Mr. Medina has served in a variety of leadership positions as well as serving on several external boards and committees such as EPRI, Texas A&M Smart Grid, Advanced Energy Economy, and others. Mr. Medina has a Bachelor of Science in Electrical Engineering from Texas A&M University and is a registered professional engineer in the State of Texas.

Aligned with senior management's One Team mentality and a strong commitment to its customers, community and employees, CPS Energy has increased its internal focus on talent development. 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. 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 Original Commercial Paper 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 Bond Ordinances, which 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 a new trial under Rule 329b of the Texas Rules of Civil Procedure and subsequently requested a hearing on the matter. At the hearing, the judge overruled the motion for a new trial. The matter was appealed, and oral arguments were heard on September 22, 2021 before the Third Court. On November 18, 2021, the Third Court issued a memorandum opinion dismissing the appeal. On December 16, 2021, appellants filed a motion for rehearing *en banc* and a motion for rehearing, which were denied on April 11, 2022. Subsequently, the opponents filed a Petition for Review with the Texas Supreme Court, which was denied on February 24, 2023. On March 21, 2023, the opponents filed an Original Petition for Bill of Review to Set Aside Void Judgment in the trial court. The trial court granted a summary judgement in favor of CPS Energy on November 17, 2023, and the opponents appealed that ruling to the Third Court. The briefing deadline for the opponents' reply brief was extended to June 3, 2024, and a ruling is pending. CPS Energy intends to vigorously defend itself in this litigation; however, no prediction can be made, as of the date hereof, with respect to the outcome of the litigation.

Management continues to communicate facts around its highly effective business strategies that have been thoughtfully designed to balance customer Operational Evolution, Financial Stability, Customer Experience, Team Culture, as well as Community Partnership and Growth.

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 the County and small portions of its adjacent counties including Atascosa, Bandera, Comal, Gillespie, Gonzales, Guadalupe, Kendall, Kerr, Medina, and 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 between 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 the County and portions of the surrounding counties of Comal, Guadalupe, and Medina. In the counties of Kendall, Karnes, Wilson, Atascosa, Guadalupe, and Caldwell, 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 ("Grey Forest"), dated July 28, 2003, for a term through May 31, 2028. Pursuant to this License Agreement, the City permits Grey Forest 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 3.0% of the gross revenues received by Grey Forest 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 Grey Forest, acting by and through Grey Forest Utilities, as a supplier of natural gas.

CPS Energy and the City of Castroville, Texas ("Castroville"), a previous 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 September 29, 2023. The City of Lytle, Texas had a gas supply contract that had been extended through October 1, 2023. Both cities executed contract renewals with CPS Energy for a six month period with an extension option on a month-to-month basis for an additional six months.

Franchise Agreements

CPS Energy maintains "Franchise Agreements" with 31 incorporated communities in the San Antonio metropolitan area. These Franchise Agreements permit CPS Energy to operate its facilities in the streets and public ways of these cities, in exchange for a franchise fee of 4.5% on electric and natural gas revenues earned within their respective municipal boundaries. Of the 31 cities, 7 have decided to increase their franchise fees to 5.5%. The effective dates of these agreements are February 1, 2015, for two municipalities, January 1, 2018, May 1, 2020, and August 1, 2021, with the last two going into effect in February 2024. 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 five jurisdictional City boundaries.

Customer Base as of January 31, 2024 (1), (2), (3)

ELECTRIC(2)			GAS(2)		
	Number	Percent		Number	Percent
Residential	846,133	90 %	Residential	368,951	94 %
Commercial & Industrial	79,374	8 %	Commercial	17,393	5 %
All Night Security Lighting	13,706	1 %	-	—	—
Street Lighting, Public Authorities & Other Utilities(3)	10,916	1 %	Industrial & Public Authorities(3)	2,772	1 %
Total	950,129	100 %	Total	389,116	100 %

(1) Amounts are preliminary and unaudited.
(2) 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 January 31, 2024.
(3) 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 Supply & Market Operations ("ESMO"), who report to the CPS Energy Vice President for ESMO, 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 ESMO. 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.

Long-term supply agreements were established with Central Texas Electric Cooperative ("CTEC"), the City of Boerne, Texas ("Boerne"), the City of Seguin, Texas ("Seguin"), and the Kerrville Public Utility Board ("KPUB") to provide energy supply for terms that began in June 2013. The CTEC contract ended at the end of calendar year 2021. The Boerne and Seguin contracts ended at the end of calendar year 2023, and the KPUB contract will end at the end of calendar year 2026. In addition, CPS Energy has converted its retail contracts with the City of Hondo, Texas ("Hondo"), Castroville, and Floresville Electric Light and Power System ("FELPS") into wholesale contracts as well. The FELPS' contract will conclude at the end of calendar year 2025. The Hondo contract was extended for five years through December 2027. The Castroville contract ended in December 2022. The requirements under the wholesale agreements are for firm energy obligations provided by CPS Energy. CPS Energy is open to entering into new long-term wholesale power sales agreements with public or private entities in the future. There is some potential to extend existing agreements with certain counterparties who wish to continue to secure their power supply from CPS Energy. CPS Energy may also agree to provide 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 counterparties.

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 except for electric wholesale transmission activities and rates. Unless and until the City Council and Board choose to opt-in to electric retail competition or the Texas Legislature places CPS Energy into 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 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 Subordinate Lien Obligations, and any Inferior Lien Obligations, and to make all other payments prescribed in the Ordinances.

CPS Energy has periodic rate increases, with the most recent electric and gas base rate increase of 4.25% approved by the Board on December 4, 2023 and approved by the City Council on December 7, 2023. The rate increase, which became effective February 1, 2024, covers the following investments: (1) infrastructure reliability and resiliency, including reinforcing CPS Energy's power plants, wires, and poles; (2) assessment of needs and design of a future technology platform to replace current end-of-life platform; (3) meet the substantial growth of the community by expansion of existing substations, construction of new substations, installing transformers and equipment, and upgrade or replace aging service districts; and (4) hiring and training of employees and employee retention, in preparation for continuous retirements. The rate increase is expected to generate an additional $85 million annually. For the average residential customer, the rate increase is expected to add $4.45 or 2.7% (includes base plus fuel and regulatory revenue) to the monthly bill. A 3.85% base rate increase was previously implemented on March 1, 2022 (the first such rate increase since a 4.25% electric and gas base rate increase became effective on February 1, 2014). In conjunction with the March 1, 2022 rate increase, costs associated with the 2021 Winter Weather Event and recorded in the regulatory asset began to be recovered on customer bills through the fuel cost adjustment as discussed in the "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" herein. When combined with the $1.26 or 0.8% (for paid 2021 Winter Weather Event costs of approximately $414 million) per month in the fuel adjustment portion of a customer's bill related to the regulatory asset, the total average bill increase was estimated to be $5.10 or 3.3% for the average electric and natural gas residential customer. CPS Energy expects it will continue to periodically seek electric and gas base rate increases as required to maintain debt coverage, debt-to-equity, and liquidity ratios.

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 already shared with the public, Board, and City it may need another rate increase in early 2026, using a 5.5% increase as a placeholder, which is preliminary and subject to change.

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

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 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 cost recovery requirements while gathering information to refine the offering. The Commercial Electric Vehicle Pilot Rate was the first offering under the NSO tariff. Several other pilots have been launched through this tariff since its inception, including offerings for public electric vehicle charging and resiliency service. The resiliency service pilot, designed to enhance reliability from natural gas generators, was successful and was approved as a full tariff in September of 2020.

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 $10 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 2022, the accumulated cost for the STEP program was $837 million. As of January 31, 2022, CPS Energy quantified a cumulative reduction of 980 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 envisioned 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 used the information that it gathered to update, design, and create programs and services that met the needs of its diverse set of customers. Due to COVID-19 and delays in achieving the STEP Bridge goals, CPS Energy sought and received City Council approval in January 2021 to extend the STEP Bridge program. 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 August 30, 2021, the Board requested staff to perform an analysis of the STEP program to determine whether to continue the program. The analysis was prepared by the Brattle Group and presented to the Board at its February 2022 meeting. On June 16, 2022, the City Council approved a plan for the new Sustainable Tomorrow Energy Plan (also known as "STEP") program to be funded as a $350 million initiative over the next five years. This average impact will continue to be $3.50 per month to a residential energy bill. The program goals include 410 MW of demand reduction, 1% energy savings per year, 16,000 weatherized homes, and 1.85 million tons of avoided carbon. For additional information on CPS Energy's STEP energy efficiency and conservation programs, and other strategic initiatives, see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs" herein. See also "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Strategic Initiatives" herein.

Green 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 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.

Resiliency Tariff

In September 2020, CPS Energy converted a limited Resiliency Service pilot into a permanent tariff for its commercial customers. Under the Resiliency Service offering, CPS Energy or a third party 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 July 31, 2024, Resiliency Service has been enabled at 27 customer sites with a total capacity of 30.4 MW.

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 CCF, approximately equivalent to $2.167 per one million Btu. 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. The Board approved the regulatory asset at a special meeting on January 10, 2022 and on January 13, 2022 City Council approved the Regulatory Asset that enables CPS Energy to amortize the 2021 Winter Weather Event fuel and power related costs over a period not to exceed 25 years and recover the associated debt service through the monthly fuel and gas cost adjustment factors under the oversight of the City.

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 2024) adds $0.01409 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 (effective February 2024), this charge increases bills by $0.00085 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.

TEN-YEAR ELECTRIC CUSTOMER STATISTICS [1],[2]

	Fiscal Years Ended January 31,									
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
RESIDENTIAL										
Average Monthly kWh/ Customer	1,182	1,149	1,119	1,117	1,122	1,111	1,119	1,059	1,153	1,110
Average Monthly Bill/ Customer	$ 120.17	$ 122.81	$ 120.25	$ 122.70	$ 124.14	$ 118.28	$ 119.04	$ 116.71	$ 141.18	$ 134.72
Average Monthly Revenue/kWh	$ 0.1017	$ 0.1069	$ 0.1075	$ 0.1098	$ 0.1106	$ 0.1065	$ 0.1063	$ 0.1102	$ 0.1224	$ 0.1214
COMMERCIAL AND INDUSTRIAL										
Average Monthly kWh/ Customer	10,848	10,888	11,049	10,967	10,874	10,810	10,048	10,293	10,932	11,323
Average Monthly Bill/ Customer	$ 922.86	$ 961.12	$ 978.60	$ 1,009.75	$ 1,003.04	$ 951.02	$ 908.91	$ 981.38	$ 1,166.17	$ 1,143.04
Average Monthly Revenue/kWh	$ 0.0851	$ 0.0883	$ 0.0886	$ 0.0921	$ 0.0922	$ 0.0880	$ 0.0905	$ 0.0953	$ 0.1067	$ 0.1009
ALL CUSTOMERS										
Average Monthly kWh/ Customer	2,381	2,342	2,326	2,299	2,284	2,251	2,158	2,096	2,238	2,204
Average Monthly Bill/ Customer	$ 217.35	$ 223.24	$ 221.98	$ 226.11	$ 226.20	$ 214.08	$ 209.09	$ 212.77	$ 253.48	$ 241.46
Average Monthly Revenue/kWh	$ 0.0913	$ 0.0953	$ 0.0954	$ 0.0983	$ 0.0990	$ 0.0951	$ 0.0969	$ 0.1015	$ 0.1133	$ 0.1096

[1] Excludes unbilled revenues and off-system sales.
[2] Numbers may not compute due to rounding.

TEN-YEAR GAS CUSTOMER STATISTICS [1],[2]

	Fiscal Years Ended January 31,									
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
RESIDENTIAL										
Average Monthly MCF/ Customer	3	3	2	2	3	3	2	2	3	2
Average Monthly Bill/ Customer	$ 33.36	$ 25.23	$ 22.81	$ 23.86	$ 23.59	$ 20.55	$ 20.15	$ 23.36	$ 35.85	$ 27.78
Average Monthly Revenue/MCF	$ 10.7768	$ 9.3094	$ 10.2985	$ 10.1782	$ 8.9054	$ 7.8460	$ 8.2550	$ 9.8188	$ 13.8656	$ 12.1413
COMMERCIAL										
Average Monthly MCF/ Customer	50	49	49	49	53	55	48	52	55	56
Average Monthly Bill/ Customer	$ 385.16	$ 283.81	$ 294.04	$ 304.61	$ 269.58	$ 206.59	$ 227.92	$ 347.36	$ 614.33	$ 412.02
Average Monthly Revenue/MCF	$ 7.6501	$ 5.8097	$ 5.9732	$ 6.1779	$ 5.0714	$ 3.7454	$ 4.7392	$ 6.6912	$ 11.1604	$ 7.3565
ALL CUSTOMERS										
Average Monthly MCF/ Customer	6	6	5	6	6	6	6	6	6	6
Average Monthly Bill/ Customer	$ 57.97	$ 42.67	$ 40.68	$ 43.10	$ 40.25	$ 32.94	$ 34.59	$ 43.90	$ 72.50	$ 52.14
Average Monthly Revenue/MCF	$ 8.9725	$ 7.2329	$ 7.5618	$ 7.5895	$ 6.6121	$ 5.2299	$ 5.9401	$ 7.8199	$ 12.1431	$ 9.0098

[1] Excludes unbilled revenues and off-system sales.
[2] Numbers may not compute due to rounding.

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,									
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Payments To City[(1), (2)]	$320,933	$320,454	$324,469	$338,455	$361,351	$342,989	$330,564	$352,558	$438,528	$449,351

(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.

FIVE-YEAR ELECTRIC AND GAS SALES BY CUSTOMER CATEGORY

	Fiscal Years Ended January 31,[(4)]				
	2020	**2021**	**2022**	**2023**	**2024**
ELECTRIC SYSTEM					
SALES IN kWh[(1)]					
Residential	$10,038,080,665	$10,394,483,601	$10,100,166,676	$11,296,200,170	$11,141,324,600
Commercial & Industrial	9,714,043,700	9,228,300,394	9,700,763,781	10,490,429,954	10,780,441,863
Street lighting	67,702,803	65,828,289	65,694,823	65,900,927	65,228,930
Public authorities	2,781,803,288	2,571,430,547	2,684,302,829	2,843,769,037	2,864,660,166
Other utilities[(2)]	6,058,856,975	5,159,615,281	6,874,115,210	4,703,420,290	6,535,669,950
ANSL[(3)]	19,767,424	18,786,088	18,566,941	18,286,666	17,992,114
Total sales in kWh	28,680,254,855	27,438,444,200	29,443,610,260	29,418,007,044	31,405,317,623
AVERAGE NUMBER OF CUSTOMERS					
Residential	752,952	773,847	794,899	816,163	836,435
Commercial & Industrial	74,884	76,533	78,540	79,966	79,340
Street lighting	2,627	2,667	2,655	2,861	2,952
Public authorities	7,328	7,313	7,439	7,637	7,869
Other utilities[(2)]	13	15	12	10	9
ANSL[(3)]	13,233	13,348	13,646	13,719	13,700
Total customers	851,037	873,723	897,191	920,356	940,305
kWh SALES PER CUSTOMER					
Residential	13,332	13,432	12,706	13,841	13,320
Commercial & Industrial	129,721	120,579	123,514	131,186	135,877
GAS SYSTEM					
SALES IN MCF[(1)]					
Residential	10,532,808	10,038,333	10,005,049	11,096,561	10,034,283
Commercial	11,593,503	10,076,850	10,793,246	11,473,026	11,674,291
Industrial	1,438,925	2,307,116	1,009,329	1,210,412	1,910,092
Public authorities	3,306,480	2,942,548	3,150,485	3,290,786	3,167,368
Total sales in MCF	26,871,716	25,364,847	24,958,109	27,070,785	26,786,034
AVERAGE NUMBER OF CUSTOMERS					
Residential	335,154	342,737	350,393	357,658	365,520
Commercial	17,515	17,461	17,326	17,369	17,370
Industrial	35	33	30	30	29
Public authorities	2,787	2,722	2,760	2,804	2,807
Total customers	355,491	362,953	370,509	377,861	385,726
MCF SALES PER CUSTOMER					
Residential	31	29	29	31	27
Commercial	662	577	623	661	672
Industrial	41,112	69,913	33,644	40,347	65,865

(1) Excludes unbilled revenues.
(2) Includes off-system sales.
(3) All Night Security Lighting.
(4) Numbers may not compute due to rounding.

FIVE-YEAR STATEMENT OF NET REVENUES AND DEBT SERVICE COVERAGE[1]

	Fiscal Years Ended January 31,[8]				
	2020	**2021**	**2022**	**2023**	**2024**
ELECTRIC SYSTEM					
BILLED REVENUES					
Residential	$ 1,068,738,092	$ 1,105,408,857	$ 1,113,300,881	$ 1,382,676,560	$ 1,352,256,246
Commercial & Industrial	854,607,500	834,735,595	924,935,424	1,119,043,616	1,088,266,374
Street lighting	16,505,845	16,778,793	17,280,260	18,553,315	18,534,328
Public authorities	219,309,619	208,989,919	229,381,492	272,977,031	259,225,595
Other utilities[2]	239,305,653	155,205,351	216,872,471	239,066,816	380,981,634
ANSL[3]	5,621,729	5,700,175	5,873,985	6,268,779	6,206,888
Other	20,825,911	22,103,166	21,278,198	26,310,311	31,380,012
Total revenues	2,424,914,349	2,348,921,856	2,528,922,711	3,064,896,428	3,136,851,077
OPERATION & MAINTENANCE EXPENSE					
Production	915,986,314	943,620,735	1,144,465,210	1,462,914,926	1,226,991,052
Transmission	21,172,017	20,315,099	18,170,779	22,801,389	24,301,534
Distribution	107,540,953	122,353,589	107,182,854	127,529,949	151,088,276
Regulatory assessments	82,622,243	94,648,457	79,468,880	99,947,713	99,827,746
Energy efficiency	73,049,721	71,385,502	67,148,014	56,787,062	54,746,266
Customer accounts & information	24,475,716	24,694,002	21,873,797	26,714,517	31,269,087
Administrative & general	164,909,958	163,467,605	128,520,655	137,080,304	140,163,926
Payroll taxes[4]	6,884,451	7,014,656	6,925,500	6,746,474	7,897,078
STP decommissioning expense	—	—	—	—	—
Total expenses	1,396,641,373	1,447,499,645	1,573,755,689	1,940,522,334	1,736,284,965
Operating income - electric	1,028,272,976	901,422,211	955,167,022	1,124,374,094	1,400,566,112
GAS SYSTEM					
BILLED REVENUES					
Residential	82,640,922	82,866,247	98,237,598	153,860,106	121,829,057
Commercial & Industrial	47,371,294	55,742,548	78,221,757	141,069,015	98,165,371
Public authorities	10,524,742	12,062,039	18,710,961	33,794,610	21,342,920
Other	2,402,972	2,972,077	2,928,389	3,278,647	3,317,308
Total revenues	142,939,930	153,642,911	198,098,705	332,002,378	244,654,656
OPERATION & MAINTENANCE EXPENSE					
Gas purchased	43,669,989	54,103,096	115,380,880	203,657,703	109,693,700
Distribution	30,290,497	31,083,602	34,385,725	38,486,791	44,525,799
Customer accounts & information	12,055,201	11,733,014	10,389,629	12,689,804	14,842,397
Administrative & general	12,319,422	6,348,042	8,404,528	10,385,905	10,560,590
Payroll taxes[4]	371,084	410,523	381,045	410,116	537,066
Total expenses	98,706,193	103,678,277	168,941,807	265,630,319	180,159,552
Operating income - gas	44,233,737	49,964,634	29,156,898	66,372,059	64,495,104
Combined operating income - Electric and gas	1,072,506,713	951,386,845	984,323,920	1,190,746,153	1,465,061,216
Nonoperating income[5]	34,322,842	8,678,487	27,953,413	72,678,847	61,373,580
Net revenues, per ordinances	$ 1,106,829,555	$ 960,065,332	$ 1,012,277,333	$ 1,263,425,000	$ 1,526,434,796
DEBT SERVICE[6]					
Senior lien obligations - Principal and interest	$ 223,291,750	$ 327,598,903	$ 331,844,436	$ 349,887,061	$ 366,255,183
Junior lien obligations - Principal and interest	148,805,700	61,964,047	60,198,470	77,547,591	77,916,630
Other interest & debt-related costs[7]	20,634,735	3,857,826	3,685,672	6,269,556	15,924,110
Total debt service	$ 392,732,185	$ 393,420,775	$ 395,728,578	$ 433,704,208	$ 460,095,923
DEBT SERVICE COVERAGE					
Senior & junior lien obligations, commercial paper, FRRN[8]	2.82x	2.44x	2.56x	2.91x	3.32x
Senior lien obligations	4.96x	2.93x	3.05x	3.61x	4.17x

(1) Excludes unbilled revenue and component units (STP Decommissioning).
(2) The decreased wholesale revenues and related volumes in FY2020 and FY2021 were primarily a result of decreased market opportunities. The increased wholesale revenues in FY2022 were primarily a result of increased 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) Amounts shown in FY2020 include cash defeasance costs of $12.5 million.
(8) Numbers may not compute due to rounding.

FINANCIAL MANAGEMENT OF THE SYSTEMS

MANAGEMENT DISCUSSION

CPS Energy's Basic Financial Statements for the fiscal years ended January 31, 2024 and 2023, and the Independent Auditors' Report thereon are included in APPENDIX B. 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, 2024. 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 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.

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. Where indicated, certain information presented herein is unaudited. 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" 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 2024 financial reporting, see CPS Energy's fiscal year 2024 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 2024 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, 2024. Other accounting and reporting changes that occurred during the prior reporting year continued into the fiscal year ending January 31, 2024. 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 2024 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 balancing the mix of financing tools available 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, including exercising options to refund higher interest 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 debt exposure will not exceed 25.0% of total outstanding debt, except when strategically necessary. The gross variable rate debt currently comprises approximately 26.8% of CPS Energy's debt portfolio and is expected to increase to approximately 27.6%* after the issuance of additional Notes shortly after posting of this Preliminary Official Statement. After the issuance of the Bonds and the refunding of certain of the Refunded Obligations, CPS Energy expects its total variable rate debt to comprise approximately 18.0%* of its debt portfolio.

*Preliminary, subject to change.

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 the 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 25-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 serve CPS Energy's customers.

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. Over the 25-year horizon, the electric sales and peak demand compound annual growth rate is projected to be approximately 2.5%, and the gas sales growth rate is projected to be about 0.6%. CPS Energy has continued to expand its electric customer extensions, with ongoing construction growth in this area. The capital projects are funded with transfers from internally generated funds, debt proceeds, and other sources.

A capital improvement plan is reviewed annually 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 improvement plan with estimates of expenditures necessary to meet proposed and probable new environmental regulations and regulatory standards. CPS Energy's five-year capital improvement plan, including the FY2025 approved capital budget approved on February 5, 2024, is forecasted to be approximately $6.2 billion from February 1, 2024 to January 31, 2029. Subsequent to the approval of the capital improvement plan, the Board approved a resolution on March 25, 2024 requesting the City Council to authorize the issuance of obligations in an amount not to exceed $3,092,200,000. The City Council approved the authorization and issuance of such obligations on May 2, 2024 (which comprise, among other items, approval of the Bonds and the refunding of the Refunded Obligations).

A significant portion will be investments required to meet the expected customer growth within CPS Energy's service area and to keep up with the refresh and modernization of an aging infrastructure. Construction projects include facilities growth for electric transmission, electric generation, electric distribution, general properties, and gas facilities. A continued focused investment in reliability and resiliency and efforts to improve CPS Energy's operational resiliency, controls, and communication in emergency situations remains at the forefront of the capital improvement plan. Additional projects include those to maintain regulatory standards and additional investments for civic improvements.

Over the five-year period covered by the capital improvement plan, construction funding from debt proceeds is expected to average approximately $826 million per year.

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 $2.0 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 January 31, 2024, totaled $30.4 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 and Solutions ("ERMS") Division is under the direction of the Chief Strategy Officer and is responsible for enterprise risk assessments, internal controls program and commodity related middle office activities. As part of these responsibilities, each business day ERMS monitors counterparty credit related exposure.

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 October 31, 2023 and effective as of January 31, 2024, 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(a)(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 on January 31, 2024, was 1.63 years for CPS Energy's funds. CPS Energy's funds, as of January 31, 2024, 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 January 31, 2024 totaled approximately $1,161 billion. Based on market value, 41% of the portfolio was invested in money market mutual funds/investment pools, 42% in United States government agency obligations, 4% in collateralized mortgage obligations and other pass through securities whose principal and interest are backed by Federal Agencies, 12% 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 consistently 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 ensure 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 December 31, 2023, 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 December 31, 2023, totaled approximately $518 million and was comprised of fixed income securities totaling approximately $306 million, equity securities (domestic and international) having a market value of approximately $152 million, US REITs in the amount of approximately $46 million, and the remaining $14 million being invested in cash and cash equivalents. Based upon market values, 68% of fixed income securities were invested in United States Government and Government Agency obligations, 27% were invested in corporate bonds and municipal bonds, 4% were invested in foreign bonds and other, and 1% 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-" by both 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 December 31, 2023, 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 December 31, 2023, totaled approximately $190 million and was comprised of fixed income securities totaling approximately $114 million, equity securities having a market value of approximately $54 million, US REITs in the amount of approximately $15 million and the remaining $7 million being invested in cash and cash equivalents. Based upon market values, 73% of fixed income securities were invested in United States Government and Government Agency obligations, 25% were invested in corporate and municipal bonds, 1% were invested in foreign bonds and other, and 1% was invested in cash and cash equivalents, such as money market funds.

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 11 – Employee Pension Plan" and "– Note 12 – Other Postemployment Benefits" in CPS Energy's Basic Financial Statements attached hereto as APPENDIX B ("Notes 11, 12, 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.

As set forth herein and in Notes 11, 12, 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 11, 12, 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 2017 to 2019, was conducted during 2020 and changes to both demographic and economic assumptions were recommended for consideration based on the study results. The most impactful recommendation was a reduction in the expected rate of return on assets from 7.25% to 7.00%. The change resulted in an increase in the liability, recommended contributions and expenses. The Administrative Committee authorized the actuary to use the recommended assumptions to prepare the January 1, 2021 actuarial reports that are used to determine liability, contributions, and expense for CPS Energy's fiscal year 2023 financial statements.

An updated experience study was completed in 2023 covering Pension and OPEB Plans' experience during calendar years 2020 to 2022. Changes in assumptions as a result of the latest study will be reflected in the January 1, 2023 actuarial valuations, to be recorded in CPS Energy's fiscal year ending January 31, 2025.

PENSION PLAN

The Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan and provides 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.

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 Pronouncement, to create a regulatory asset representing the net effect of the prior period restatement that is being amortized over a 50-year period.

On December 4, 2023, and December 7, 2023, the Board and City Council, respectively, approved expanded regulatory accounting, superseding the 2015 pension regulatory asset. With the authorized use of regulatory accounting for both pension and OPEB costs, a new regulatory asset was established and the amortization expense related to the 2015 pension regulatory asset ceased to be recorded in FY2024. As a result, any current year contributions to fund the Pension Plan are reflected as pension expense included in O&M on the Statements of Revenues, Expenses and Changes in Net Position and any difference between the funding and the GASB Statement No. 68 pension expense will be deferred as a regulatory asset on the Statements of Net Position. The established regulatory accounting for pension and OPEB costs establishes a regulatory asset to match the pension and OPEB expense to the funded amounts and the cost recovery through rates.

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 11 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

(Dollars in thousands)

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, 2024	$2,357,824	$2,007,845	$349,979	85.2%
January 31, 2023	$2,234,500	$2,122,446	$112,054	95.0%
January 31, 2022	$2,164,873	$1,916,698	$248,175	88.5%
January 31, 2021	$2,060,241	$1,766,519	$293,722	85.7%
January 31, 2020	$1,988,962	$1,610,834	$378,128	81.0%

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.

Like 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, like 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.

As previously mentioned on December 4, 2023, and December 7, 2023, the Board and City Council, respectively, approved expanded regulatory accounting for both pension and OPEB costs. As a result, a new regulatory asset was established and any current year contributions to fund the OPEB Plans are reflected as OPEB expense included in O&M on the Statements of Revenues, Expenses and Changes in Net Position. Additionally, any difference between the funding and the GASB Statement No. 75 OPEB expense will be deferred as a regulatory asset on the Statements of Net Position. The established regulatory accounting for pension and OPEB costs establishes a regulatory asset to match the pension and OPEB expense to the funded amounts and the cost recovery through rates.

Refer to complete disclosures at Note 12 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

(Dollars in thousands)

Fiscal Year Ended	**Ending Total OPEB Liability (a)**	**Ending Plan Fiduciary Net Position (b)**	**Ending Net OPEB (Asset) Liability (a-b)**	**Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b/a)**
January 31, 2024	$251,091	$297,739	$(46,648)	118.6%
January 31, 2023	$277,024	$326,859	$(49,835)	118.0%
January 31, 2022	$240,024	$297,828	$(57,804)	124.1%
January 31, 2021	$250,115	$284,986	$(34,871)	113.9%
January 31, 2020	$263,922	$267,509	$(3,587)	101.4%

Life Plan

(Dollars in thousands)

Fiscal Year Ended	Ending Total OPEB Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net OPEB (Asset) Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b/a)
January 31, 2024	$58,659	$53,872	$4,787	91.8%
January 31, 2023	$57,208	$57,987	$(779)	101.4%
January 31, 2022	$55,999	$53,686	$2,313	95.9%
January 31, 2021	$47,261	$52,591	$(5,330)	111.3%
January 31, 2020	$46,186	$49,759	$(3,573)	107.7%

Disability Plan

(Dollars in thousands)

Fiscal Year Ended	Ending Total OPEB Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net OPEB (Asset) Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b/a)
January 31, 2024	$7,094	$6,635	$459	93.5%
January 31, 2023	$6,363	$7,041	$(678)	110.7%
January 31, 2022	$7,092	$6,504	$588	91.7%
January 31, 2021	$5,457	$6,238	$(781)	114.3%
January 31, 2020	$6,114	$5,566	$548	91.0%

Total OPEB Plans

(Dollars in thousands)

Fiscal Year Ended	Ending Total OPEB Liability (a)	Ending Plan Fiduciary Net Position (b)	Ending Net OPEB (Asset) Liability (a-b)	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability (b/a)
January 31, 2024	$316,844	$358,246	$(41,402)	113.1%
January 31, 2023	$340,595	$391,887	$(51,292)	115.1%
January 31, 2022	$303,115	$358,018	$(54,903)	118.1%
January 31, 2021	$302,833	$343,815	$(40,982)	113.5%
January 31, 2020	$316,222	$322,834	$(6,612)	102.1%

An Actuarial Standard of Practice relating to the measurement of OPEB liabilities requires actuaries to select the best estimate assumptions with neither a conservative nor an aggressive bias, which requires the liability to reflect the benefit of certain pharmaceutical manufacturer rebates.

STRATEGIC INITIATIVES

The utility industry is witnessing rapid change and CPS Energy's strategic plan, Vision 2027 – An Evolving Utility, is designed to guide CPS Energy through this transformation in the near future. The strategic plan sets out clearly how CPS Energy will better serve its customers and community while being dynamic enough to be adapted and amended as a bridge to CPS Energy's strategic plans for the ensuing years past 2027. A major point of this adaptability is evident in CPS Energy's power generation plan, which involves a transition from coal generation to cleaner resources while also replacing aging gas steam units with a diverse mix of renewable and dispatchable energy sources, resulting in further emissions reductions.

San Antonio is one of the fastest growing cities in America, and the utility industry is faced with integrating new technology while balancing societal and regulatory expectations, managing severe weather events, and remaining competitive in retaining and attracting talent.

To prepare for and take advantage of these changes, CPS Energy established a set of five strategic objectives with goals and key initiatives:

- Operational Evolution,
- Financial Stability,
- Customer Experience,
- Team Culture, and
- Community Partnership & Growth.

CPS Energy is focused on executing four strategic initiatives to achieve Vision 2027's objectives.

- Vision 2027 Power Generation Plan
- System Resiliency & Growth
- Evolve: Enterprise Resource Plan ("ERP")
- Customer Experience

These initiatives are the organization's priorities in evolving to deliver on its mission of service today and tomorrow.

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 an 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 objectives, key results, 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 its Enterprise Scorecard, 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. CPS Energy recently solicited applicants for the vacancies on the CAC.

In January 2021, CPS Energy solicited applications for the community to participate in the RAC that was formed by CPS Energy in December 2020. The RAC's mission is to provide helpful and unique knowledge and customer insights to the efforts and projects related to rate structure, rate design, and generation planning with the ultimate goals of helping the Board and management balance its strategic objectives and increasing the mutual understanding of public issues and concerns. The RAC consists of 21 members comprised of 11 appointees by the Board, including Mayoral appointees, and City Council appointees. The RAC has met multiple times since May 2021.

The RAC worked with CPS Energy throughout calendar year 2022 to evaluate various combinations of generation portfolios to identify the combination of generation resources that will allow CPS Energy to continue to provide reliable, affordable, and environmentally sustainable power to the community as it replaces retiring generation units over the next few years. On January 23, 2023, the Board approved a path forward to replace aging gas steam generation units retiring between the date hereof and 2029 and to cease coal operations no later than calendar year 2030.

In February 2023, the RAC moved to its next focus area of rate design with a series of meetings focused on affordability. The topic of bill affordability for customers was addressed from three vantage points—bill discounts, energy efficiency and conservation, and demand management. Following these discussions, RAC members in June 2023 completed a survey with their feedback on potential initiatives and measures to address affordability challenges. In August 2023, CPS Energy thanked the RAC for their hard work, dedication, and recommendations to the Board. A resolution was passed to dissolve the current RAC and to "stand up" a new 2023 Rate Request Community Working Group.

On May 2, 2024, the City Council approved an update to its affordability discount program, with the federal poverty guidelines now at or below 150%, thereby expanding the number of total eligible customers by 29,151 to 134,502 customers within the City. Approximately $2 million in funding for this program will be provided by wholesale revenue, and CPS Energy estimates it can enroll 10,000 to 15,000 customers. The change goes into effect on June 1, 2024.

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.

CPS Energy Strategies

Historical Programs

In March of 2018, CPS Energy announced its *Flexible Path*SM strategy. The *Flexible Path*SM goals included integrating new and emerging technologies, such as battery storage and electric vehicles, expanding its use of renewable energy resources, and adding more programs and services to produce energy efficiency and increase demand response. In June of 2019, CPS Energy announced the next phase of such initiative, the *Flex*POWER BundleSM. The *Flex*POWER BundleSM initiative played an important part of the *Flexible Path*SM, as such program was created as a deliberately blended approach to power generation through which CPS Energy added more solar resources coupled with battery energy storage and firming capacity.

CPS Energy executed an agreement with Consolidated Edison Development, Inc., a subsidiary of Con Edison Clean Energy Businesses, Inc., for a 300 MW solar project to be located in Goliad County, Texas, representing the first initiative of CPS Energy's FlexPOWER BundleSM. In October 2022, RWE Clean Energy, LLC (based out of Germany) announced it would be acquiring all of Con Edison Clean Energy Businesses. The transaction closed in March 2023. CPS Energy consented to the ownership change. In September 2022, CPS Energy reached an agreement with Kenlov Ashtrom Renewable Energy LLC, a subsidiary of Kenlov Renewable Energy and Ashtrom Renewable Energy ("KARE"), for the purchase of 180 MW of solar energy. Developed and originated by KARE's U.S. development partner, OnPeak Power, this project will provide CPS Energy with 180 MW of the full 305 MW from the Tierra Bonita solar farm located in Pecos County, Texas. The KARE agreement is a 20-year contract with an anticipated completion date of early 2025. In January 2023, CPS Energy signed a contract with Ashtrom Renewable Energy, in collaboration with OnPeak Power, for 100 MW of the El Patrimonio solar project, which will be located in the County. The power purchase agreement is a 20-year contract with an anticipated commercial operation date of December 2026. Additionally, as part of the agreement, Ashtrom Renewable Energy will provide community benefits, including the contribution of funds towards CPS Energy student scholarships, as well as on-site field day mentorship to local students during the construction of the facility in the County. Ashtrom Renewable Energy will also grant funds towards the construction of an outdoor classroom that can be used for field trip instruction.

In January 2023, CPS Energy signed a contract with Calpine, who will provide a total of approximately 500 MW of firming capacity from the Guadalupe Energy Center located in Guadalupe County. Firming capacity with natural gas is dispatchable, controllable, and reliable energy that can be utilized when the sun is not shining, or the wind is not blowing. The Calpine agreement began delivering power to CPS Energy in the Spring of 2023.

In January 2023, CPS Energy signed a contract with Eolian L.P., who will provide CPS Energy the exclusive right to dispatch a 50 MW, 2-hour duration energy storage project located in the County. This location, combined with the operating flexibility offered by energy storage, will further improve CPS Energy system resiliency as well as customer reliability. The agreement is a 20-year contract with an anticipated commercial operation date of December 2024.

CPS Energy and Quidnet Energy ("Quidnet") entered into a 15-year contract for an energy storage project to employ Quidnet's Geomechanical Pumped Storage technology. This includes pumped hydro storage, where water is pumped underground and stored between impermeable rock layers to keep the water under pressure. To produce electricity, the pressurized water is released to a hydroelectric turbine that generates emissions-free electricity. The project will be developed in two phases, starting with a 1 MW, 10-hour storage facility. As the project matures, CPS Energy has the option to expand the project to provide 15 MW, thus completing the second phase. CPS Energy's role in the partnership is that of the buyer of capacity produced by Quidnet's storage facility (thus mitigating CPS Energy's financial risk by mutually agreed upon operating standards). CPS Energy's financial obligation in buying the capacity is adjusted based on the storage facilities' actual operating performance.

Vision 2027

Vision 2027 – An Evolving Utility, CPS Energy's, focuses on strategic objectives to meet CPS Energy's mission through the lenses of equity and security, enabled by technology and innovation. These strategic objectives include operational evolution, financial stability, customer experience, a culture of service, and community partnerships and growth. With these initiatives, CPS Energy seeks to support community growth through the modernization of the grid, investing in generation sources, providing customers with enhanced experiences and options, balancing fiscal responsibility and community equity, ensuring a safe and service-driven culture, and continuing to support customer and operational needs.

Since adopting Vision 2027 in 2022, CPS Energy has made significant progress towards executing its strategic initiatives to deliver reliable, affordable, and sustainable energy services to customers, including the following:

Vision 2027 Power Generation Plan

- Developed a 25-year generation plan with community input to achieve affordability, reliability, and sustainability goals.
- Closing on purchase of multiple natural gas plants (1,700 MW) in Texas provides necessary firming capacity to diversified portfolio to maintain reliability and affordability for customers.
- Contracted additional 730 MW of solar capacity to accelerate transition to sustainable and affordable energy to serve growing population.

System Resiliency & Growth

- Received $2.45 million grant from U.S. Department of Transportation's for upgrades to gas infrastructure.
- Received $30.2 million grant from the U.S. Department of Energy to enhance CPS Energy's ongoing efforts to maintain grid reliability and resiliency.
- Launched winter demand response program to support grid reliability.

Evolve: ERP

- Issued request for proposals for ERP technology and implementation partners.
- Completed datacenter transformation to optimize costs and mitigate risks.
- Enhanced operational technology to better manage assets, mitigate risks and improve resiliency.
- Updated joint radio system with the County and the City to improve efficiency, manage costs and improve resiliency in emergency conditions.

Customer Experience

- Received authorization for STEP, which aims to reduce community demand by 410 MW, achieve 1% energy savings per year, weatherize 16,000 homes, and contribute to 1.85 million tons of avoided carbon over 5 years through equitable programs designed to help customers save energy and money.
- Secured $1 million in federal funds for CPS Energy's Casa Verde Weatherization Program.
- Connected customers with $27M in assistance in FY2024.

BUSINESS AND ECONOMIC DEVELOPMENT

CPS Energy works independently, as well as with local economic development agencies, such as Greater: SATX, to recruit, retain, and encourage the expansion of targeted businesses throughout CPS Energy's service territory. Strategic initiatives include 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, cybersecurity/information technology, logistics/distribution, corporate business services and large-scale retail developments.

CPS Energy, through its partnership with Greater: SATX, 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 JCB Ltd., Toyota and its major supplier Aisin AW, Navistar, DeLorean Motor Company Headquarters, Pabst Brewing Co., OKIN BPS, Ernst & Young, Cuisine Solutions, AMERIVET, The Hut Group, JPSECURE, Grunt Style, and Cell Right Technologies. All these companies represent new megawatt growth for CPS Energy, as these companies alone provide over 3,000 jobs and more than $630 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.

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 (collectively, the "JBSA Sites").

On September 28, 2017, CPS Energy entered into a 50-year Utilities Privatization Contract ("JBSA 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 JBSA 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 April 1, 2024, the overall net-present value of the fifty-year JBSA Contract was $338 million.

On August 31, 2020, the Board approved a Resolution of support for a partnership with SAWS and Itron to expand the intelligence of the SAWS' water distribution system to promote cost management and improve information and services to customers. Since then, a successful 6-month pilot was conducted during which 2,500 meters were installed utilizing CPS Energy's technology from the smart grid initiative. After the successful pilot, SAWS and CPS Energy moved into City-wide rollout, which is expected to be complete sometime in 2026. Upon completion of the City-wide deployment, CPS Energy will have approximately 600,000 SAWS' meters utilizing the smart grid network.

As further described herein, the Board approved an agreement with SAWS regarding the operation by CPS Energy of generators to be located at certain SAWS' facilities.

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 (ultra-low sulfur diesel), which provides fuel flexibility and greater resiliency. CPS Energy also owns a 40% interest in STP's two existing nuclear generating Units 1 and 2. These nuclear units supplied 27% of CPS Energy's total generation for the twelve months ending July 31, 2023.

On October 18, 2023, CPS Energy formally launched a request for proposal for up to 500 MW of energy storage systems, as part of its power generation plan approved by the Board earlier in 2023. Projects under this request may be diverse in technologies and responses are welcomed from both large-scale and smaller sized projects. The smaller scale projects can be strategically placed at different locations within the CPS Energy service area, providing another tool to meet community growth and the ability to improve reliability in specific locations. This request will be the first time CPS Energy has issued a notice solely for standalone storage projects, although past RFPs have included storage as an overall component. CPS Energy is still evaluating the proposals received and expects to make selections in the next few months.

See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Gas/Fuel Oil Plants" herein for a description of CPS Energy's recent acquisitions. See also "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]

Plant	Unit	Fuel	Year Installed	Summer Net Max Capability MW[2]	Total Summer Capability MW	
STP (42% Ownership)[3]	Unit 1	Nuclear	1988	543.0		
	Unit 2	Nuclear	1989	538.0	1,081.0	Nuclear
STP PPA	PPA	Market	2024	200.0	200.0	Market
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	1972	420.0		
	Unit 2	Gas	1974	410.0		
Braunig Plant	Unit 1	Gas	1966	217.0		
	Unit 2	Gas	1968	230.0		
	Unit 3	Gas	1970	412.0		
Barney Davis[12]	Unit 1	Gas	1974	292.0		
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		
Laredo Plant (CT)[12]	Unit 1	Gas	2008	89.0		
	Unit 2	Gas	2008	89.0		
Rio Nogales Plant[5] (NGCC 3x1)	Unit 1	Gas	2012	784.5		
Barney Davis Plant (NGCC 2x1)[12]	Unit 2	Gas	2010	605.0		
Nueces Bay Plant (NGCC 2x1)[12]	Unit 1	Gas	2010	635.0		
Guadalupe Energy Center[11]	PPA	Gas	2023	522.0	5,598.5	Gas/Oil
Commerce BESS[10]	Unit 1	Solar PV	2019	10.0	10.0	BESS
Total Thermal/BESS Capability					8,234.5	
Renewable Nameplate Capability						
Desert Sky Wind Farm[7]	PPA	Wind	2002	63.4		
Cottonwood Creek Wind Farm (Sweetwater3)[8]	PPA	Wind	2005	82.6		
Sweetwater 4	PPA	Wind	2007	240.8		
Penascal	PPA	Wind	2009	76.8		
Papalote Creek	PPA	Wind	2009	130.4		
Cedro Hill	PPA	Wind	2010	150.0		
Los Vientos	PPA	Wind	2012	200.1	944.1	Wind

Nelson Gardens	PPA	Landfill Gas	2014	4.2	4.2	Landfill Gas
Blue Wing	PPA	Solar PV(6)	2010	13.9		
Sinkin 1	PPA	Solar PV(6)	2012	9.9		
Sinkin 2	PPA	Solar PV(6)	2012	9.9		
Somerset	PPA	Solar PV(6)	2012	10.6		
Alamo 1	PPA	Solar PV(6)	2013	39.2		
St. Hedwig (Alamo 2)	PPA	Solar PV(6)	2014	4.4		
Eclipse (Alamo 4)	PPA	Solar PV(6)	2014	39.6		
Walzem (Alamo 3)	PPA	Solar PV(6)	2015	5.5		
Helios (Alamo 5)	PPA	Solar PV(6)	2015	95.0		
Solara (Alamo 7)	PPA	Solar PV(6)	2016	106.4		
CEC Beck (Community Solar)(9)	Owned	Solar PV(6)	2016	1.0		
Sirius 1 (Alamo 6)	PPA	Solar PV(6)	2017	110.2		
Sirius 2 (Pearl)	PPA	Solar PV(6)	2017	50.0		
Lamesa II (Ivory)	PPA	Solar PV(6)	2018	50.0		
Commerce PV	Owned	Solar PV(6)	2019	5.0	550.6	Solar PV
Total Renewable Nameplate Capability					1,498.9	
Total Capability including Purchased Power					9,733.4	

(1) Data as of May 6, 2024.
(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 and 2. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Nuclear" herein. Additional 2% ownership completed on May 2, 2024.
(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 reflect contracted nameplate capacity after contract renegotiation and turbine uprate.
(8) Capacity updated to reflect contracted nameplate capacity after contract renegotiation and turbine uprate.
(9) Community Solar pilot project "CEC Beck" added to CPS Energy renewable portfolio table to align with other corporate reporting.
(10) BESS – Battery Energy Storage System.
(11) Effective March 1, 2023 CPS Energy contracted for a gas toll purchase power agreement (PPA) for 522 MW of NGCC capacity.
(12) Purchase of plants completed on May 1, 2024.

Nuclear

Nuclear is one of CPS Energy's base energy options, providing about 26.3% of CPS Energy's total net annual generation for the twelve months ending January 31, 2024. 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 2633.1 MW. STP is located on a 12,220-acre site in Matagorda County, Texas, near the Texas Gulf Coast, approximately 200 miles from the City. CPS Energy currently owns 40% of these units. Participant Ownership ("Participants") in STP1 and STP2 and their shares therein are as follows:

	Ownership Effective January 31, 2024[(1)]	
Participants	%	Nominal Output MW (approximate)
Constellation Energy	44.0	1,158.6
CPS Energy	40.0	1,053.3
City of Austin-Austin Energy	16.0	421.2
	100.0	2,633.1

(1) On November 1, 2023, NRG Energy, holder of a 44% interest in STP, was acquired by Constellation Energy. The 44% interest in STP1 and STP2 is wholly owned by Constellation South Texas a subsidiary of Constellation Energy. CPS Energy's 2% additional ownership interest discussed below is subject to NRC and PUCT approval of such ownership licenses prior to an effective change.

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"). All costs and output continue to be shared in proportion to ownership interests.

Former STPNOC CEO, Mr. Tim Powell, retired effective April 4, 2024. The Board of Directors subsequently selected Kimberly A. Harshaw, the STPNOC Chief Nuclear Officer ("CNO"), to succeed Mr. Powell as acting CEO and CNO effective April 4, 2024.

On June 1, 2023, NRG Energy announced that the company had entered into a definitive agreement for the sale of their 44% share of ownership of STP to Constellation Energy ("Constellation"). CPS Energy filed litigation in Matagorda County, Texas to seek a legal determination of its rights as a co-owner under existing agreements related to STP. In addition, CPS Energy filed a motion with the NRC to dismiss, stay, or intervene in the license transfer application related to the proposed sale. The purpose of these filings was to ensure that CPS Energy's rights under existing agreements were preserved and followed by all parties. Austin Energy later joined the Matagorda County litigation as a plaintiff to protect their contract rights under applicable STP agreements. On November 1, 2023, NRG Energy, Inc announced its subsidiaries Texas Genco LP LLC and Texas Genco GP LLC completed the sale of NRG South Texas LP, a 44% ownership interest in the STP, to Constellation. Constellation, NRG, CPS Energy, and Austin Energy subsequently agreed to enter into settlement negotiations and stayed the Matagorda County litigation as well as the NRC proceeding to work toward a mutually agreeable solution. On May 2, 2024, CPS Energy, Austin Energy, NRG and Constellation resolved their disputes regarding the proposed sale of an interest in STP by NRG to Constellation South Texas LLC (formerly NRG South Texas LP) and the related contractual rights of CPS Energy and Austin Energy. As part of this resolution, CPS Energy and Austin Energy dismissed the Matagorda County litigation and withdrew their NRC objections. The settlement also included CPS Energy entering into an agreement to acquire an additional 2% ownership of STP from Constellation and a long-term Purchase Power Agreement with Constellation for an additional 200 MW of firm capacity that will be available for CPS Energy customers in time for the Summer of 2024. When the transaction closes (anticipated to be at the end of calendar year 2024), CPS Energy's ownership of STP will be 42%, Constellation's will be 42%, and Austin Energy's ownership will remain at 16%. CPS Energy currently has the benefit of the power purchase agreement associated with such transaction.

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, 2023, STP1 and STP2 operated at approximately 94.5% and 104.4% of net capacities, respectively. Due to the 2021 Winter Weather Event (see "INTRODUCTORY STATEMENT – Texas 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.

STP completed corrective actions to ensure the station is ready for winter weather operations. These actions included replacement of missing or degraded heat trace systems and piping insulation, revising the station's Winter Readiness procedure, and training on the station's winter readiness for Operations, Maintenance, and Engineering personnel. In addition, STP submitted TAC 25.55 required Winter Weather Readiness Reports to ERCOT on December 1, 2021. ERCOT inspectors were onsite December 6, 2021 to tour the plant and confirm STP's compliance.

Five-Year South Texas Project Capacity Factor[1]

	Calendar Years Ended December 31,				
	2019[2]	2020[2]	2021	2022	2023
Unit 1	105.1%	95.1%	94.9%	105.7%	94.5%
Unit 2	96.0%	105.1%	95.9%	94.4%	104.4%
Average	100.6%	100.1%	95.4%	100.1%	99.4%

(1) Capacity Factor based on nameplate rating of 1250.6 MW per unit.
(2) Greater than 100% due to plant upgrades.

Operational highlights for STP include the following: 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 20.1% of CPS Energy's total net annual generation in Fiscal Year 2023 and 1,345 MW of reliable capacity in the ERCOT market.

The Spruce Plant is located at the Calaveras Power Station southeast of the City. The Spruce Plant shares Calaveras Lake's cooling capacity with the Sommers gas plant. The Spruce Plant is equipped with substantial environmental controls. CPS Energy obtains its low sulfur content coal from the Powder River Basin area of Wyoming.

The Deely Plant is also located at the Calaveras Power Station. The Deely Plant consists of two large units, Deely1 and Deely2, which were installed in 1977 and 1978, respectively, and were 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 Deely Plant status changed from "mothballed" to "decommissioned and retired permanently" with NERC, the Energy Information Administration, and ERCOT in July 2023.

The Spruce Plant also consists of two large well maintained units. Spruce1 and Spruce2 were installed in 1992 and 2010, respectively. Spruce1 can provide 560 net MW of capacity to the BES. Spruce2 can provide 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.

On February 28, 2022, the Board approved spending $50 million on a three-acre pond at Spruce to remain compliant with applicable environmental laws. The pond was completed in October 2023 and is currently in service.

CPS Energy was considering the installation of new water discharge treatment technology to meet environmental compliance standards by the end of 2028. However, based on the new generation plan approved by the Board on January 23, 2023, the project has been canceled as Spruce1 is approved to cease operation in December 2028 and Spruce2 will be converted to natural gas by the end of 2027.

Gas/Fuel Oil Plants

The Sommers Plant, located at the Calaveras Power Station, comprises two large steam units operating on natural gas that share Calaveras Lake's cooling capacity with the Spruce Plant. Sommers1 and Sommers2 were installed in 1972 and 1974 respectively. Sommers1 can provide 420 net MW of intermediate/peaking capacity to the BES. Sommers2 can provide 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. Sommers1 is planned to cease operation in March 2027 and Sommers2 is planned to cease operation in March 2029 as outlined in the new generation plan approved by the Board on January 23, 2023.

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 can provide 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. Braunig1, Braunig2, and Braunig3 are planned to cease operation in March 2025 as outlined in the new generation plan approved by the Board on January 23, 2023. The foregoing must receive ERCOT approval prior to implementation through the submission of notifications of suspension of operations (an "NSO") which is the formal process used to inform ERCOT when a unit will be retired, seasonally run only, or mothballed. CPS Energy submitted the NSO to ERCOT on March 13, 2024 and a response was received by CPS Energy on April 22, 2024. ERCOT completed its reliability analysis and as a result, ERCOT will issue a Request for Proposal for Must-Run Alternatives ("MRA"). Per ERCOT's response, the purpose of the request is to solicit more cost-effective alternatives than entering into a Reliability Must Run ("RMR") agreement regarding the Generation Resources. In addressing the need to support ERCOT System reliability, any decision on whether to enter into an RMR or MRA service agreement must evaluate the costs and benefits of the service. CPS Energy expects ERCOT to begin the RMR/MRA evaluation process following the summer generation season. CPS Energy is still planning to cease operation of the Braunig1, Braunig2, and Braunig3 units by March 2025 and will collaborate with ERCOT on the RMR/MRA evaluation process. In the event ERCOT requires CPS Energy to continue operations, CPS Energy will be reimbursed for such costs.

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 can provide 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 LM6000 Combustion Turbine. These combustion turbine units may be fueled with either gas or ultra-low sulfur No. 2 diesel making them very flexible and able to take advantage of constrained energy situations in the ERCOT market. The units are operated as 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 gas steam and combustion turbine 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 combustion turbine rotors are reaching end of life. The CT1 compressor/turbine rotor was replaced in November 2023 and the CT2 compressor/turbine rotor is scheduled to be replaced by December 2024.

The Milton B. Lee West Power Station located in the southwest portion of the 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 can provide approximately 46 net MW of capacity to the BES. Each unit consists of a generator driven by a GE LM6000 Combustion Turbine. These combustion turbine units operate on natural gas. The units are operated as peaking units and are utilized to cover energy in periods of high demand and ancillary service obligations of CPS Energy. CPS Energy is considering adding dual fuel capability to the units utilizing ultra-low sulfur No. 2 diesel by 2027.

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 785 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 pipeline 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 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. The combustion turbine rotors are reaching end of life. The CT1 rotor was replaced in March 2023, and a project to replace the CT2 rotor is scheduled for April 2025. The CT3 rotor was successfully replaced in April 2024.

On May 1, 2024, CPS Energy announced the closing on the acquisition of Talen Energy Corporation's ("Talen") (OTCQX: TLNE) approximately 1,710-megawatt ("MW") generation portfolio located in the South Zone of the ERCOT market for $785 million, subject to customary net working capital adjustments. These assets include natural gas plants in Corpus Christi and Laredo, Texas. CPS Energy and Talen previously announced the transaction on March 27, 2024. Under the terms of the agreement CPS Energy has acquired all assets associated with the 897 MW Barney Davis and 635 MW Nueces Bay natural gas-fired generation facilities, both located in Corpus Christi, Texas, as well as its 178 MW natural gas-fired generation facility in Laredo, Texas. The plants in Corpus Christi and Laredo are expected to be operational for the next 25 years. There are a combined total of 66 operations employees at these sites, and they all have retained employment with CPS Energy.

This action supports CPS Energy's generation plan, approved on January 23, 2023 by the Board. It secures an additional 1,710 MWs of power for the greater community and will be available as soon as the summer of 2024. The addition of these units aligns with the generation plan, which includes the retirement of older units and the addition of a blend of gas, solar, wind, and energy storage.

CPS Energy's Vision 2027 plan includes its generation plan that contemplates the retirement of 2,249 MW of older and inefficient dispatchable generation capacity before 2030. CPS Energy has added 730 MW of solar energy and 50 MW of energy storage to date as part of its generation plan, with an additional 500 MW energy storage RFP in the works. With the addition of these facilities, environmental emissions are anticipated to stay on track to meet the City's Climate Action and Adaptation Plan (the "CAAP") emissions reduction commitment by 2030. In addition, it provides CPS Energy the flexibility to add more renewable energy and storage with this benefit of firming capacity (power that is available as needed) in place.

Renewable Resources

As of May 6, 2024, CPS Energy's renewable energy capacity totals 1,498.9 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 improved, 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 Desert Sky Wind contract has since been renegotiated to extend through December 31, 2027 and now provides a total of 63.4 MW. 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; and a 25-year contract for 200.1 MW from the Los Vientos Wind Farm. CPS Energy has a 20-year contract for 150 MW from the Cedro Hill Wind Farm. This contract was renegotiated in January 2023 with a revised termination date of November 2045, in response to a request from the developer to repower the project with improved equipment. Recent transmission congestion in South Texas during various seasons has impacted the Los Vientos and Cedro Hill wind farms, resulting in agreed-upon curtailment of these units during periods of negative pricing (a standard procedure).

CPS Energy also recently ended a long term contract for a landfill gas-generated energy project totaling 9.6 MW which came on-line in December 2005. Under an additional 15-year 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. Currently, Alamo 6 is one of the largest solar PV plants in Texas. In addition to the 25-year 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.

In September 2021, OCI, CPS Energy, and Hyundai Motor Group executed a memorandum of understanding to test recycled electric vehicle batteries for solar energy storage. These parties have installed the energy storage system in which CPS Energy serves as operator.

In December 2023, CPS Energy signed a contract with Genesis Consolidated Industries ("GCI"), who will provide CPS Energy the exclusive right to dispatch a 150 MW solar project located in Caldwell County. The agreement is a 25-year contract with an anticipated commercial operation date of August 2025. Additionally, as part of the agreement, GCI will provide community benefits, including the contribution of funds as well as efforts to establish various training programs in the community related to renewables projects and developments.

CPS Energy receives energy from 944.1 MW of wind, 550.6 MW of solar and 4.2 MW of landfill gas generated energy for a total renewable energy capacity in operation of 1,498.9 MW.

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 1,504.9 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.

As further described herein, CPS Energy executed several agreements in 2022 and 2023 for the purchase of solar capacity once these new projects are fully developed and operational at various future dates. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Strategic Initiatives – CPS Energy Strategies – Historical Programs".

Storage Resources

Eolian L.P. will provide CPS Energy the exclusive right to dispatch a 50 MW, 2-hour duration energy storage project located in the County. This location, combined with the operating flexibility offered by energy storage, will further improve CPS Energy Systems' resiliency as well as customer reliability. The agreement, signed in January 2023, is a 20-year contract with an anticipated commercial operation date of December 2024.

Other Contracted Resources

In January 2023, CPS Energy signed a contract with Calpine to provide a total of approximately 500 MW of firming capacity located in Guadalupe County at the Guadalupe Energy Center. Firming capacity with natural gas is dispatchable, controllable, and reliable energy that can be utilized to support increasing amounts of renewable generation. The Calpine agreement began delivering power to CPS Energy in the Spring of 2023.

Peak Demand and Native Load

In the CPS Energy service territory, a new system peak demand of 5,701 MW was set on August 21, 2023, surpassing the previous 2022 record of 5,440 MW. A new winter peak demand record of 5,346 MW was also set on January 16, 2024. 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 most 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. In 2019, CPS Energy leased 2,000 acre-feet of its Edwards Aquifer water to SAWS for a five-year term, 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 into the program. Savings are expected to cover the cost in approximately 13 years. As of February, 2024 approximately 1.3 million smart grid devices have been installed pursuant to this program. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – COMPLIANCE AND REGULATION – Energy Conservation and Public Safety Programs – Energy Conservation" herein. In addition, CPS Energy is utilizing smart grid technologies to ensure grid resilience and reduce the impacts of power events during natural disasters such as flooding and hurricanes.

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 enable centralized monitoring, provide locations of streetlights, and provide streetlight failure and status reports which will improve maintenance planning and increase operational efficiency. The solution will provide a foundation for future technologies such as enhanced control of streetlights and adaptive lighting schedules.

The smart streetlight platform can also be leveraged by smart city use cases. The City identified several smart city use cases that it piloted, which included the following: temperature and air quality monitoring, flood detection, noise detection, and smart parking.

CPS Energy and the City selected two solution providers to pilot smart streetlight control and smart city applications within the City's three Innovation Zones (Downtown, Medical Center, and Brooks City Base) over a 6-month period. The pilot period concluded on October 15, 2021. An initial evaluation of the results of the streetlight pilot are complete, and such results are being shared with internal and external shareholders. CPS Energy hopes to finalize this process and make the final award decision in 2025.

New Products and Services

CPS Energy continually evaluates its entire portfolio of electric and gas products and services to more fully meet customers' needs. To that end, in the latter half of calendar year 2020, CPS Energy received approval from the Board and City Council for three new offerings now 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 Green Tariff (as described under "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Green Tariff"), CPS Energy procures renewable energy from a source chosen by the customer, and then sells 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 or a third party 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, 2024, 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 seeking to access to the ERCOT wholesale energy markets as generation resources, CPS Energy finalized 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. The WDS tariff, which offers transmission service at distribution voltage, is subject to the joint jurisdiction of the City Council (regarding appropriate cost recovery for use of distribution assets) and the PUCT (to ensure nondiscriminatory rates and terms of access to the transmission system via the distribution network). CPS Energy filed its application with the PUCT for administrative approval of the updated WDS tariff on October 12, 2020, in Docket No. 51409, which was subsequently challenged by two energy storage companies requesting a hearing on the merits. The PUCT granted the request for a contested hearing and forwarded the matter to the State Office of Administrative Hearings ("SOAH") for adjudication. On June 25, 2021, the SOAH administrative law judges approved the WDS tariff rates on an interim basis subject to potential adjustment pending the final resolution of the case. On September 15, 2022, the PUCT issued a final order approving CPS Energy's revised WDS tariff as filed, consistent with a settlement agreement reached among the parties to their contested proceeding.

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 98 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 8,307 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 759 miles of three-phase equivalent distribution lines, 87 miles of three-phase downtown network distribution lines, and 6,340 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.	CenterPoint Energy
LCRA Transmission Services Corp.	Oncor Electric Delivery Company LLC
South Texas Electric Co-op Inc.	Texas-New Mexico Power Co.

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 the City of Lubbock, Texas) ("LP&L") to join ERCOT. LP&L has since transferred 430 MW of its load from the Southwest Power Pool to ERCOT.

On August 10, 2023, ERCOT set a peak record for electric demand of 85,508 MW compared to the grid's previous all-time high demand of 83,961 MW on August 9, 2023. The winter peak record for electric demand was set on January 16, 2024, reaching 78,314 MW compared to the grid's previous winter peak record of 74,525 MW on December 23, 2022. Increased power usage in response to weather conditions, commercial and industrial demand growth, and population growth has impacted and may continue to impact the grid's ability to prospectively operate effectively and efficiently and both the Texas Legislature and the PUCT are actively making changes by focusing on improving the safety and reliability of the electric system.

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, 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. 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 daily. 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 approval by the PUCT.

CPS Energy is also complying with the reliability standards of 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. CPS Energy's NERC Audit was complete in July 2023. One finding was identified, which was fully mitigated.

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 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 considering 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 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 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. Such information is not incorporated into or made a part of this Official Statement.

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 2023. As of December 31, 2022, and 2021, CPS Energy had accumulated approximately \$471 million and \$556 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, 2022, the 28% Trust funds available for decommissioning costs totaled \$303 million, which exceeded the estimated NRC requirement of \$127 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 2023 cost study, funds are projected to be adequate to meet expected costs. 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, 2022, and 2021, 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 \$204 million, respectively. Based on the most recent annual calculation of financial assurance, as of December 31, 2022, the TCC Funded Trust funds available for decommissioning costs for CPS Energy's 12% interest in STP totaled \$120 million, which exceeded the estimated NRC requirement of \$54 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 (the "D.C. Circuit Court") 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. After 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 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 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. On March 5, 2023, STPNOC and its outside counsel received notice from the DOJ that the DOE proposes extending the terms of the settlement through December 31, 2025. The extension was executed on April 4, 2023. 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". On September 20, 2022, Nevada Governor Steve Sisolak and the Nevada Agency for Nuclear Projects announced the filing of a new legal motion to bring an end to failed federal plans to construct a repository for the Yucca Mountain. As of the date hereof, no funding for the Yucca Mountain repository is pending before the Congress.

Until the DOE fulfills its responsibilities under the NWPA (which includes a permanent underground disposal facility), the NWPA 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 spent nuclear fuel subaccount 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 ninth claim under the Spent Fuel Settlement Agreement with the DOE was submitted in was submitted in late October 2020 for the period of August 1, 2019 to July 31, 2020. On April 19, 2021, CPS Energy received its share of the allowable reimbursement costs from the DOE. The tenth claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2021 for the period of August 1, 2020 to July 31, 2021. On April 19, 2022, CPS Energy received its share of the allowable reimbursement costs from the DOE. The eleventh claim under the Spent Fuel Settlement Agreement with the DOE was submitted in late October 2022 for the period of August 1, 2021 to July 31, 2022. On April 11, 2023, 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 October 2023 for the period of August 1, 2022 to July 31, 2023.

A June 2012 decision by 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 an 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. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – DESCRIPTION OF FACILITIES – Electric System – Power Generation Sources – Gas/Fuel Oil Plants" herein for a description of CPS Energy's recent acquisitions.

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 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 assesses 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 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 involved development of two additional reactors at the STP site, also known as STP3 and STP4. The second possible nuclear project was an Exelon-proposed new two-unit facility at a proposed location in Victoria County, Texas.

In August 2012, Exelon announced they had notified the NRC they intended to withdraw the Early Site Permit application for the Victoria County Station Project. This action effectively ended the development of the project. Subsequently, CPS Energy wrote-off the $2.7 million in capital funds invested in the project. This write-off was reflected in September 2012.

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"), an 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 the 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 on 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 of 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 were 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.

AvR Plant

On September 11, 2023, the AvR Plant entered a planned maintenance outage to replace an excitation system control module on CT1 and replace steam turbine valve actuator servos. When the part replacements were completed, the outage ended and the unit was released for operation on September 15, 2023.

On September 6, 2021, the AvR Plant Combustion Turbine ("CT")1 tripped offline due to a high exhaust temperature spread. Plant personnel investigated the issue and determined that extensive compressor damage had occurred. Plant personnel have engaged with the Original Equipment Manufacturer (OEM) to further analyze the event. The damaged compressor was repaired and reassembled by the OEM. The unit was returned to service on November 4, 2021. The AvR Plant steam turbine was derated during the duration of the CT1 outage.

On February 15, 2021, both the AvR Plant CT1 and 2 and the steam turbine were derated due to low incoming supply gas pressure during the 2021 Winter Weather Event. On February 16, the AvR Plant CT1 was taken off-line due to low incoming supply gas pressure. CT1 remained in outage and the steam turbine remained derated until February 18, when incoming natural gas supply pressure could support full unit capacity.

On February 15, 2021, the AvR Plant steam turbine tripped offline and was attributed to extreme cold weather-related failure of a steam seal pressure transmitter sensing line. The steam turbine trip also caused the AvR Plant CT2 to trip due to high hot reheat bypass temperature. Maintenance personnel restored the sensing line and installed temporary heat trace and insulation. The unit was restarted later that day.

On February 14, 2021, the AvR Plant CT1 was taken offline due to a steam leak from a failed drainpipe beneath the Heat Recovery Steam Generator ("HRSG"). After the area was safe for personnel entry, maintenance personnel removed and replaced a section of drain line and the unit was restarted on February 14, 2021. The AvR Plant steam turbine was derated during the CT1 outage.

Braunig

On January 19, 2024, Braunig 3 entered a forced outage due to a condenser tube leak, causing high chlorides in the boiler. The outage was then extended after experiencing a turbine water induction event. This event was suspected to have been caused by leak-by on the attemperator supply valves. The condenser tube leak and attemperator valves were repaired before ending the outage and releasing the unit for operation on January 25, 2024.

On December 1, 2023, Braunig 3 entered a maintenance outage to address multiple maintenance items, including the main condensate flow control valve. The outage ended and the unit was released back to operation on December 15, 2023.

On October 9, 2023, Braunig 3 entered a maintenance outage to repair a boiler waterwall tube leak. Weld repairs were made and NDE inspections were performed before the unit was released for operations on October 14, 2023.

On August 28, 2023, Braunig 2 was derated to 210 MWs net due to continuing boiler feed water issues. Maintenance personnel identified an issue with the boiler feed pump's fluid drive coupling oil level control, which caused reduced pump speeds. The derate ended on September 7, 2023.

On August 10, 2023, Braunig 2 was derated by 10 MW due to boiler feedwater flow issues caused by boiler feed pump speed deficiencies. Maintenance personnel identified an issue with the boiler feed pump's fluid drive coupling oil level control, which caused reduced pump speeds. Repairs to the level control were made and the derate ended on September 7, 2023.

On August 9, 2023, Braunig 3 was further derated to 382 MWs net due to continuing boiler air flow issues.

On July 12, 2022, Braunig3 was taken offline due to a water chemistry excursion caused by condenser tube leaks. Maintenance personnel plugged the condenser tube leaks and performed a leak check prior to releasing the unit back to operations. On July 15, 2022, plant operations were attempting to release the unit when they discovered the main gas trip valve had failed to operate correctly and the outage was extended to repair the valve. The unit was returned to service on July 21, 2022.

On June 13, 2023, at 1600 hours Braunig3 was derated by 20 MW due to boiler air flow limitations.

On May 17, 2022, Braunig2 was derated due to the loss of 2B condensate pump. The 2B condensate pump was sent to a pump vendor for inspection and repair. Significant pump wear and damage was discovered during the inspection. The pump was repaired, reinstalled, and released back to service on August 18, 2022.

On February 18, 2021, Braunig2 was taken offline due to a steam leak on turbine extraction steam line. Maintenance personnel replaced a gasket on the non-return check valve on the line, and the unit was released for dispatch on February 19, 2021.

On February 16, 2021, Braunig2 tripped offline on high burner gas pressure when several gas burners failed to light while load was increasing. Maintenance personnel addressed several electrical and controls issues on various burners on the boiler. The unit was restarted later that evening but was derated twice due to gas burner issues. Maintenance personnel troubleshot and were able to establish all gas burners, and the unit was released to full load operation on February 17, 2021.

On February 16, 2021, Braunig2 tripped offline due to a low drum level trip caused by low coupling lube oil temperature on the shaft driven boiler feed pump. This led to the feed pump speed decrease, which caused the drum level to swing and ultimately cause the unit to trip. After the trip, the cooling water supply regulator was adjusted to control the coupling lube oil temperature, and the unit was restarted and released to dispatch later that day.

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.

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 $186 million on January 31, 2019, CPS Energy recorded $182.7 million 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 August 23, 2023, Rio Nogales Plant output was reduced due to low incoming gas supply pressure at 11:34 AM. Full load operation was restored when the incoming gas supply pressure increased to levels that could sustain full unit capacity at 12:50 PM.

On June 11, 2022, Rio Nogales tripped offline and was unable to restart due to mechanical issues associated with the HP/IP steam turbine that was installed in November 2021. The cause was associated with manufacturing and field assembly errors that have since been corrected. The unit returned to service on July 16, 2022, following a 35-day outage to perform the repairs. The IP turbine stages were replaced with new equipment during the Spring 2023 maintenance outage.

On February 15, 2021, Rio Nogales CT2 was derated due to the Combustion Turbine inlet bleed heat valve not modulating. Maintenance crews replaced a failed solenoid on the inlet bleed heat valve and the unit was returned to full load operation later that day.

On February 14, 2021, Rio Nogales CT3 tripped offline due to a faulty pressure transmitter reading on the Combustion Turbine exhaust pressure. The pressure transmitter was removed from service and the unit was restarted on February 15, 2021 and operated with a redundant transmitter indication.

On February 14, 2021, Rio Nogales plant output was reduced due to low incoming gas supply pressure during the 2021 Winter Weather Event. Full load operation was restored when incoming gas supply pressure increased to levels that could sustain full unit capacity on the morning of February 15, 2021, but the unit was again derated later than night as gas pressure reduced. Full load operation was restored on February 16, 2021.

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 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 April 15, 2023, Milton B. Lee ("MBL") CT3 entered a forced outage after a borescope inspection revealed damage to the High-Pressure Turbine Stage 1 Buckets. This finding was deemed unserviceable according to OEM Specifications and required all buckets to be replaced. MBL CT3 remained in a forced outage state while the buckets were replaced and was released back to commercial operation on May 19, 2023.

On February 16, 2021, MBL CT7 and CT8 were derated due to their compressor water injection systems being taken out of service in order to conserve demineralized water supply for Braunig1, Braunig2, and AvR Plant. The ability to produce demineralized water supply for the MBL East CT units was being impacted by low incoming City water supply pressure during the 2021 Winter Weather Event. As water pressure began to rise back to normal levels, CT8 was restored to full operation on February 18, 2021, followed by CT7 on February 19, 2021.

On February 16, 2021, MBLCT8 was operating on natural gas when dispatch requested to switch fuel sources. It was cycled off in attempt to restart with fuel oil. During the initial start attempt, operations suspected that a fuel oil leak was present. The initial startup attempt was suspended to allow for additional inspections. After confirming that no leaks were present, another startup attempt was performed, and the unit was released to dispatch on fuel oil later that day.

Beginning February 15, 2021, the MBL West site incoming gas supply pressure was limited during the 2021 Winter Weather Event. MBLWCT1, CT2, CT3 and CT4 all experienced multiple derates between February 15 and February 19, 2021, due to the reduced gas pressure. Once gas supply pressures returned to normal levels, the plants were released to full operation dispatch.

On February 14, 2021, MBLCT5 failed to start due to Compressor Discharge Pressure ("CDP") purge solenoid valve issues. A replacement CDP purge valve solenoid was ordered, and expedited shipping was requested. However, due to travel restrictions during the 2021 Winter Weather Event, the arrival was delayed. The solenoid was replaced, and the unit restored to operation on February 23, 2021.

Sommers

On November 9, 2023, Sommers1 entered a planned outage to complete Bus 12 relay testing and watt meter upgrades. The unit was released to full load capability on November 16, 2023.

On June 25, 2023 Sommers2 experienced an unplanned outage due to high vibration on the exciter #7 bearing. The event was caused by exciter axial lead failure. The axial leads were replaced, exciter equipment was repaired, and the unit returned to service on July 12, 2023.

On May 6, 2022, Sommers1 planned outage was extended an additional 23 days to perform unforeseen repairs on the boiler feed pump turbine's second and third stage turbine blades. The unit was returned to service on May 29, 2022.

On February 16, 2021, Sommers2 was derated to 365 MWs net due to the forced draft fans' inlet guide vanes not responding to position commands. The unit was brought off-line on February 20, 2021, for inspections and maintenance personnel identified a broken fan inlet guide vane shaft. The unit was restarted without repairs to meet market capacity demand and was eventually brought offline on February 24, 2021, to perform repairs. The unit was restored to full load operation on February 25, 2021.

On February 15, 2021, Sommers2 was manually tripped by operations because of erratic and nonsensical value readings on critical systems. The erroneous readings were attributed to extreme cold weather-related failure of sensing lines for a Boiler Circulating Water pump transmitter, Feedwater flow transmitters and a Throttle Pressure transmitter. Maintenance personnel thawed the sensing lines and installed temporary heat trace, and the unit was restarted on February 15, 2021.

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.

Spruce

Spruce1 is currently derated to 275MW due to an unplanned event on 1A Induced Draft Fan. The unplanned derate is tentatively scheduled to continue through June 2024, based on current repair timeline estimates.

On November 7, 2023, Spruce2 experienced an unplanned outage due to an Exciter Bridge failure. Inspection and repairs were completed and the unit was released to full capability on November 11, 2023.

On August 28, 2023, Spruce2 was taken offline due to boiler tube leak in lower temperature SH section. Plant maintenance performed repairs to the damaged boiler tubes and the unit was returned to service on September 3, 2023.

On August 5, 2023, Spruce1 was taken offline due to boiler tube in the RH front pendant section. Plant maintenance performed repairs to the damaged boiler tubes and the unit was returned to service on August 9, 2023.

On June 13, 2023, Spruce1 experienced a failure on its Turbine Overspeed device. Plant maintenance completed repairs and the unit was returned to service on June 22, 2023.

On May 6, 2023, Spruce2 experienced an unplanned outage due to 2B Forced Draft Fan Variable Frequency Drive ("VFD") Transformer failed windings. Rental VFDs were installed, and the unit was released to full load capability on June 7, 2023.

On April 4, 2023, Spruce2 was derated to 400 MWs due to the Variable Frequency Drive Transformer failure on one of the two Forced Draft fans. On May 6, 2023, the unit entered a forced outage due to the failure of the Variable Frequency Drive Transformer on the second Forced Draft Fan. Rental Variable Frequency Drives were installed, and the unit returned to full load operation on June 7, 2023.

On March 23, 2023, Spruce2 experienced an unplanned outage due to an AVR Plant fault. SCR, bridge, and cards were replaced. The unit was released to full load capability on March 29, 2023.

On August 31, 2022, Spruce1 was taken offline due to boiler tube leaks in the waterwall section. Plant maintenance performed repairs to the damaged boiler tubes and the unit was returned to service on September 7, 2022.

On August 7, 2022, Spruce1 was taken offline due to boiler tube leaks in the reheat section. Plant maintenance performed repairs to the damaged boiler tubes and the unit was returned to service on August 16, 2022.

On August 4, 2022, Spruce2 was taken offline due to boiler tube leaks in the reheat section. Plant maintenance performed repairs to the damaged boiler tubes and the unit was returned to service on August 28, 2022.

On July 26, 2022, Spruce1 was taken offline after an oil piping flange from the generator step up transformer was found to be overheating. The cause was attributed to the lack of an electrical isolation kit that failed to be installed during commissioning. The proper isolation kit was installed on the flange by CPS Energy maintenance teams. The unit was returned to service on July 28, 2022.

On May 19, 2022, Spruce2 was taken offline due to boiler tube leaks in the superheat and reheat sections. Plant maintenance performed repairs to the damaged boiler tubes and the unit was returned to service on May 28, 2022.

On May 12, 2022, Spruce1 was taken offline to inspect the voltage regulator and excitation transformer cooling systems due to high temperatures coming into alarm. Both cabinets were inspected and cleaned and a cooling fan in the voltage regulator cabinet was found inoperable and causing high temperature alarm. The fan was repaired, and the unit was returned to service on May 14, 2022.

On September 6, 2021, Spruce1 was taken offline due to a Submerged Scraper Conveyor ("SSC") failure in the bottom ash handling system. Plant personnel investigated the issue and determined that the SSC take-up tensioner shaft assembly had failed. Plant maintenance repaired the SSC and the unit was returned to service on September 14, 2021.

On August 2, 2021, Spruce2 was taken offline due to a boiler water tube leak. Plant maintenance performed repairs to the damaged boiler tubes and the unit was returned to service on August 13, 2021.

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 at a reduced capacity on natural gas February 15, 2021. On February 16, 2021, operations established partial coal firing on the unit utilizing 2-3 pulverizers, which provided additional reduced capacity through February 20, 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 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 was able to operate without any real or reactive power capability restrictions.

STP1

On February 28, 2024, STPNOC reported a broken spring on a main steam outlet safety relief value. To conduct the repair of this condition, STP1 was taken offline on February 29, 2024. Following repairs, STP1 was returned to service on March 4, 2024 and reached 100% power on March 5, 2024.

On January 21, 2024, STP1 entered a forced outage to complete repairs following an oil leak in the Main Turbine electric-hydraulic control system. The cause of the leak was a failed flexible hydraulic oil hose. Damage from the oil leak and subsequent small fires were limited to insulation within the high-pressure turbine enclosure. The repairs were completed and the unit was returned to service on January 30, 2024 and reached 100% power on January 31, 2024.

On June 23, 2021, STP1 was taken offline due to a failed Moisture Separator Reheater relief valve. The relief valve prematurely opened forcing a down power in an unsuccessful attempt to reseat the valve. Following shutdown, the relief valve was replaced, and the unit was returned to service on June 27, 2021 and reached 100% power later that day.

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.

STP2

There have been no significant generating station events related to STP2.

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 currently includes coal, natural gas, nuclear, and fuel oil (but see "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – Strategic Initiatives" herein for recent Board actions). 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 has taken several measures to provide additional certainty of fuel supply and additional operational flexibility:

- Increased total natural gas storage capacity.
- Increased daily natural gas storage withdrawal capability.
- Increased both baseload purchases and financial hedges
- Increased volume of fuel oil stored onsite to double the number of days of on-hand inventory
- Added new natural gas suppliers and firm transportation to CPS Energy's portfolio

CPS Energy's coal units are designed to use Powder River Basin ("PRB") coal from Wyoming. Coal is secured through contracts providing prices that reflect current market conditions. Delivery of PRB coal to CPS Energy occurs on the Union Pacific Railroad ("UP") 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. The current rail transportation contract with UP is effective through December 31, 2026 and provides more favorable rates and similar delivery flexibility compared to recent rail contracts. UP is currently delivering coal to CPS Energy at full capacity. CPS Energy does not anticipate any operational impacts related to coal delivery.

CPS Energy owns 1,190 and leases 105 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 the northern portion of the County. 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. On May 1, 2023, CPS Energy completed the purchase from Markwest Texas PNG Utility LLC of two lateral pipelines that interconnect to the DCP Guadalupe and Houston Pipeline/Kinder Morgan intrastate pipelines and directly serve the Rio Nogales Power Plant. 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 Milton B. Lee East plant. At this plant, 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. Natural gas prices remain subject to volatility in the market. 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, 2024, 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 upgraded the PFC bonds to "A2". In addition, on January 27, 2022, Moody's upgraded Royal Bank of Canada, the commodity swap counterparty and guarantor, from "Aa2" to "Aa1". 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 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 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. No objections were received, and the preliminary order was final as of April 30, 2021. An event notice was filed regarding the finality of the order.

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 no earlier than 2025. 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, spanning several years of duration, covering STP through 2032. Enrichment requirements are contracted with Urenco USA and Orano through 2032. Fabrication requirements are contracted with Westinghouse through STP's renewed 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 116 miles of steel mains that range in size from 8 to 30 inches. Over 89 miles of gas transmission was placed into service since 2000 and approximately 77% 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 19 gate/tap and 348 pressure regulating stations and a network of approximately 6,081 miles of mains. The system consists of 2 to 30-inch steel mains and 1-1/4 to 8-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 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 Audit Results

The RRCT 2023 Annual Distribution Audit conducted in May of 2023 resulted in three alleged violations involving various pipeline deficiencies relating to the cathodic protection system, Grade 2 leak re-evaluation activities, and above ground facility condition found at the time of the audit. Two of the three alleged violations were corrected prior to the submission of the plan of correction to the RRCT on June 26, 2023. The approved plan of correction was completed on December 20, 2023.

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 June 12-16, 2023. The alleged violation involved procedures required for the safe operation of launcher/receivers during maintenance activities. The plan of correction was submitted to the RRCT on July 20, 2023. All actions to correct the alleged violation have been completed and were accepted by the RRCT on November 17, 2023.

The RRCT conducted a Transmission Comprehensive Audit of CPS Energy's transmission system, which resulted in zero alleged violations. The audit took place December 4-7, 2023. The audit consisted of a detailed review of operation & maintenance records and field inspection of corresponding transmission facilities.

The RRCT conducted a Specialized Audit of the CPS Energy Drug & Alcohol Plan, which resulted in zero alleged violations. The audit took place April 10-12, 2023. The audit consisted of a detailed review of the plan's required components, testing protocols, and records.

The RRCT conducted a Specialized Audit of the CPS Energy Operator Qualification Plan, which resulted in zero alleged violations. The audit took place June 27-30, 2022. The audit consisted of a detailed review of plan's required components, qualification of individuals performing covered tasks on the natural gas pipeline system, and qualification of records.

The RRCT conducted a Specialized Audit of the CPS Energy Natural Gas Transmissions and Distribution procedures and programs for alignment with Section 114 of the PIPES Act of 2020 (the "PIPES Act"). The audit resulted in one alleged violation being cited. The audit took place August 3-4, 2022. CPS Energy's response to the RRCT included a statement of disagreement with their findings and included an example of meeting the intent of Section 114 of the PIPES Act in relation to the alleged violation. The RRCT responded on September 23, 2022 in agreement and considered the matter corrected.

The RRCT 2022 Annual Distribution Audit conducted in May of 2022 resulted in four alleged violations involving various pipeline deficiencies relating to cathodic protection system deficiencies, pipeline marker condition, and pressure regulation station operational matters. The alleged violations cited are being addressed with the plan of correction that was submitted to the RRCT on June 22, 2022. All actions to correct the alleged violations have been completed and accepted by the RRCT.

The RRCT conducted a Specialized Audit of the CPS Energy DIMP, which resulted in zero alleged violations. The audit took place on March 28-31, 2022. The audit consisted of a detailed review of current practices in identifying existing and potential threats, evaluating each, and implementing measures to reduce or eliminate each, as well as the program's performance and a review of performance and effectiveness records for compliance with federal and state rules.

The RRCT conducted Specialized Audits of the CPS Energy Public Awareness and Damage Prevention Programs, which resulted in zero alleged violations. The audits took place on March 21-24, 2022. The audits were comprised of a detailed review of each program for specific components and requirements for meeting all federal and state rules and referenced guidance.

The RRCT conducted nine New Construction Audits during the 2022 calendar year from January through September that resulted in zero alleged violations. The audits were comprised of records review and field operation of construction activities during new facility installations. The RRCT conducted similar audits during calendar year 2021 that resulted in one alleged violation. The response to the RRCT, with a plan of corrections to address the alleged violation, was submitted on June 24, 2021 and corrections were implemented on July 30, 2021.

The results of the 2021 RRCT Annual Distribution Audit conducted in May of 2021 resulted in seven 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 July 24, 2021, and all corrections have been completed.

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. All alleged violations were addressed with an approved plan of corrections and completed on September 10, 2021.

RRCT Subsequent Audit Results

The RRCT conducted an evaluation of CPS Energy's operational activities near a residential structure on February 12, 2020. Operations records were reviewed over a period of months which resulted in one alleged violation. The alleged violation was addressed with a plan of correction sent to RRCT on August 21, 2020.

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 has responded to 66,729 locate requests during the 2024 calendar year; the RRCT has assessed CPS Energy penalties on 13 dockets totaling $32,500. CPS Energy responded to 243,257 locate requests during the 2023 calendar year and was assessed penalties on 34 dockets totaling $84,000. In comparison, CPS Energy responded to 244,282 locate requests and had $38,000 assessed in penalties in calendar year 2022 and 255,493 locate requests with $74,500 assessed in penalties in calendar year 2021.

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OTHER ELECTRIC AND GAS SYSTEMS STATISTICS[(1)]

	Electric System			Gas System	
	Transmission System	Overhead Distribution System	Underground Distribution System & Network	Transmission Pipeline	Distribution System
Substations	17[(2)]	98	n/a	n/a	n/a
Miles of Lines	1,555	8307	7,099[(3)]	n/a	n/a
Miles of Lines	n/a	n/a	87[(4)]	n/a	n/a
Kilovolts	138/345	13.2/34.5	13.2/34.5	n/a	n/a
Miles of Main	n/a	n/a	n/a	116	6,062
Main Sizes (inches)	n/a	n/a	n/a	8 - 30	1 ¼ – 30
Main Pressures (psig)	n/a	n/a	n/a	135 - 1,100	9 – 485[(5)]

(1) As of April 1, 2024.
(2) Includes switchyards.
(3) Underground single phase, includes 759 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 to best ensure the security of CPS Energy and customer information. Continuous monitoring and risk mitigation will continue to be necessary as CPS Energy installs additional intelligent field equipment 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 ("GIS"), 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 GIS.

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 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 allowed for 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. 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, which has since been sold. 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 was sold on December 21, 2021 for $19 million. The tower garage and service parking lot adjacent to the old complex also sold for $5.6 million.

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 only. The customer call center and additional general office space for personnel have been relocated to the Complex. The previous Northside Customer Service Center was declared surplus by the Board on September 24, 2018 and was sold on November 22, 2021 for $5.25 million.

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 utilized for 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 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 in downtown San Antonio at 401 Villita Street near the CPS Energy old complex. CPS Energy declared the property as surplus and listed it for sale. The property sold in February 2023 for $5.3 million.

Vehicles and Work Equipment

CPS Energy operates and maintains a diversified vehicle and equipment fleet of 2,600 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, with a majority located at various construction centers, one located at the Coal Yard, and one at the Nacogdoches facility, are staffed with skilled technicians. CPS Energy technicians use manufacturers' diagnostics software to perform in-house, proactive maintenance and repairs. A new Fleet Management Software and vehicle GPS tracking system (Telematics) was implemented in 2021. Enterprise Fleet began adopting Electric Vehicles in 2022 and as of January 2024, CPS Energy had a total of 13 units ranging from Light Duty to Heavy Duty units. CPS Energy'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. CPS Energy's procurement strategy includes plans to continue acquiring a range of alternative-fueled fleet and to electrify units throughout the company where possible.

Real Estate Holdings

CPS Energy owns various properties throughout the service territory and a collection of buildings, totaling 2.5 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 recently divested 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 (the "EPA") and other environmental agencies to increase regulation. Consistent with the Biden Administration's enhanced focus on environmental regulation, on September 24, 2022, the EPA announced that it is establishing the new Office of Environmental Justice and External Civil Rights that will be charged with advancing environmental justice and civil rights concerns. The Office of Environmental Justice and the Comprehensive Environmental Enforcement Strategy was established in May 2023.

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 technicians and 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.

The EPA released four major environmental rules in early May 2024, one of which is the highly anticipated carbon rule (the "Carbon Rule"). The final Carbon Rule places strict limits on carbon emitted by power plants and impacts existing coal and natural gas-fired steam boilers and new natural gas-fired combined cycle plants. For new natural gas combined cycle plants, which run more than 40 percent of the time, the rule requires plants to reduce 90 percent of their CO_x emissions by 2032. This rule does not include reciprocating engines. The EPA will be developing similar carbon rules for existing natural gas combined cycle plants.

In addition to the final Carbon Rule, the EPA released the final rules for ELG, CCRs, and MATs (each as defined herein). The new rules will limit water pollution from coal plants, strengthen regulations on coal ash and limit mercury and other toxins from burning coal for electricity.

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 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 citizens and environmental groups disagreed with the EPA's decision and sued 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, 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 former 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 Environmental Integrity Program subsequently filed suit in the D.C. Circuit Court asking that the Court order the EPA to undertake certain actions related to the air permits issued by the TCEQ related to 8 Texas facilities.

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.

On February 22, 2024, the EPA released the pre-publication version of the proposed rule entitled "Prevention of Significant Deterioration and Nonattainment New Source Review: Regulations Related to Project Emissions Accounting". The EPA proposes revisions to the New Source Review regulations that affect the aggregation of projects as part of emissions calculations for pre-construction permitting. The EPA also seeks to broaden the "reasonable possibility" recordkeeping and reporting requirements. The proposed rule has not yet been published in the Federal Register. Comments will be due 60 days after publication. The proposed rule includes the proposed regulatory revisions in three significant areas of the New Source Review regulations that impact new source permitting and review of existing source projects:

- The definition of the term "project" by identifying criteria for determining the scope of a project that may be subject to NSR regulations;
- NSR applicability emissions accounting provisions, by requiring that emissions decreases in Step 1 (the significant emissions increase determination) be enforceable; and
- Reasonable possibility monitoring, recordkeeping and reporting provisions in the NSR regulations by broadening their applicability "to improve compliance with, and enforcement of, the NSR applicability process".

In August 2022, the EPA released an interim guidance document in the form of 18 frequently asked questions that details the EPA's stance on Environmental Justice ("EJ") issues and civil rights. This document provides the reasoning behind the EPA's focus on EJ and contains suggestions for state and local agencies to implement EJ into their permitting process. Currently, there are no required analyses for EJ or civil rights issues as far as air permitting for projects. It should be noted that the guidance itself is not legally binding and does not create any new legal rights or responsibilities. It is meant to provide information to federal, state, and local environmental permitting programs to help meet their responsibilities to integrate EJ and civil rights into environmental permitting processes. The potential impact of this document includes state agencies placing EJ integration at the forefront of the permitting process. CPS Energy has ongoing projects and future projects that could be affected by any such modifications (especially in non-rural areas). CPS Energy could see EJ screening and analysis in the air permitting timeline to be expanded and require more lead time before construction can begin. Also, in areas where a potential EJ issue is identified, enhanced community engagement might be required, which can affect public image and require additional environmental approvals.

Sulfur Dioxide ("SO_2"): One objective of the Clean Air Act Amendments is to reduce emissions of SO_2, 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 SO_2 emission allowance system. All new units also must comply with the program even though no new allowances are provided for them. An allowance is an authorization to emit one ton of SO_2 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 SO_2 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 online because of a commitment made in the Spruce2 air permitting process which required Spruce1 to reduce SO_2 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 SO_2 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 SO_2 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 SO_2 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 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 regarding 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 SO_2 and ozone season NO_x (defined herein) 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 met the SO_2 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 SO_2 and NO_x Texas will stay in the most stringent NO_x Ozone Season Program.

The EPA issued the final primary SO_2 National Ambient Air Quality Standards ("NAAQS") on June 2, 2010. The EPA determines 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 must 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 the 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 SO_2 NAAQS designations to be published in the Federal Register. For sources to be monitored, the SO_2 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 SO_2 by July 14, 2017. The EPA announced completion of its Round 3 SO_2 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 SO_2 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 SO_2 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 SO_2 allowance allocation and allocation amounts.

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 hazardous air pollutants ("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 Mercury and Air Toxics Standards (the "MATS") rule are warranted. Litigation contesting the validity of the foregoing actions immediately commenced.

Nitrogen Oxides: 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 emission limit, only that they have adequate NO_x allowances for the amount they 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 through 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 SO_2 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 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. 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, SO_2 Group 1, or SO_2 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 SO_2, or Group 2 SO_2 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 SO_2 Group 1 or SO_2 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. With the use of the Spruce2 SCR, CPS Energy will be able to meet the NO_x targets.

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 SO_2 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 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 SO_2 emissions' budgets, the EPA proposed to remove the State from the CSAPR SO_2 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 SO_2 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 (the "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 as revised on April 30, 2021, and a petition for review was subsequently filed in the D.C. Circuit Court.

On February 28, 2022, the EPA signed a proposal to disapprove SIP submittals from Arkansas, Louisiana, Oklahoma, and Texas, along with 15 other states, regarding interstate transport for the 2015 8-hour Ozone Standard. Comments on the proposed disapprovals were due April 25, 2022. The Cross-State Air Pollution Rule (a.k.a. Good Neighbor Rule) was finalized March 15, 2023. The rule imposes a significant reduction in ozone-forming emissions of NO_x from power plants and industrial facilities and has not impacted CPS Energy to date. The foregoing is subject to continued litigation, and Texas is not currently required to meet the new CSAPR Group 3 Trading Program requirements.

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 MW hour) for 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 on 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 allowed 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 complies with such requirements. 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 was 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 Deely1 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 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 completed 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.

On January 31, 2022, the EPA issued a proposed rule to take several actions under the MATS rule. The EPA is proposed to reinstate the "appropriate and necessary" requirements to regulate HAPs including mercury, from power plants, after considering costs. The rule would ensure that the existing standards for MATS would remain in effect and unchanged.

On February 1, 2022, the EPA issued a Notice of Proposed Rulemaking on the current MATS rule that reaffirms the finding that rules for coal- and oil-fired steam generating units are appropriate and necessary. The rule would ensure the existing standards for MATS would remain in effect and unchanged. In response to a January 2021 executive order, the proposed rule also solicits information on the cost and performance of new or improved technologies that control hazardous air pollutants, improved methods of operations, and risk related information for the EPA to re-evaluate the residual risk and technology review for MATS. CPS Energy is currently meeting all the requirements of MATS.

The proposed MATS rule was published on April 24, 2023. The rule would require the filterable particulate matter ("PM") limit be lowered to 0.010 lb/mmbtu, require all coal units to have PM analyzers in place within three years of the rule publishing, and remove definition 2 at startup which gave CPS Energy an additional four hours to get into compliance. The rule would require particulate matter monitors on Spruce 1 and 2. The initial cost could be between $200,000 and $400,000 per unit depending on whether one or two analyzer per unit were required. Additional costs for operations and maintenance and annual Relative Accuracy and Test Audits would be ongoing, adding at least $15,000 per year per unit. The compliance period would begin three years from the final rule. CPS Energy submitted comments on the proposed rule on June 23, 2023. The pre-publication of the rule occurred on April 25, 2024, but the requirements for a PM analyzer will occur in and around May 2027. It is expected that Spruce 2 will be converted to natural gas before the end of 2027 and will not require PM analyzers. Spruce 1 is scheduled to operate until December 2028 and therefore would require PM analyzers beginning in May 2027. There is an option for a 1-year extension that could delay the foregoing compliance date to May 2028.

Ozone: 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 the County, which 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. 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 the County and submitted that recommendation to the Texas Governor for consideration. The Texas Governor'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. Some final designations were issued in 2017, but the EPA did not make all 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 was 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 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 planned to issue a final rule establishing air quality designations 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 the 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 the County as Nonattainment but that it would work with local stakeholders to address the Nonattainment designation. Because the City 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 the Governor 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 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 former 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 to the requirements discussed above 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 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 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 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 the 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 the 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 the 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.

The County's nonattainment compliance deadline was September 24, 2021. The County did not maintain a design value for ozone below 70 ppm. On April 13, 2022, the EPA proposed to change the County's status from "marginal" to "moderate nonattainment", which was followed by a 60-day comment period. On September 15, 2022, the EPA announced that the City and County are designated as "moderate" and it was published on November 7, 2022 in the Federal Register. The proposed rules address additional requirements for inspection and vehicle maintenance. Attainment for the County would be required by the end of 2023 ozone season to meet a September 24, 2027 attainment date. On December 15, 2023, the TCEQ published proposed rules for nonattainment areas classified as moderate and above are required to meet the mandates of the Clean Air Act, which requires the SIP incorporate all reasonably available control measures ("RACM"), including reasonably available control technology ("RACT"), as expeditiously as practicable. The TCEQ is required to implement RACT requirement rules for all categories of stationary sources classified as major stationary sources of NO_x or volatile organic compounds. This proposed rulemaking would implement RACT requirements for major sources of NO_x in the County. This would include CPS Energy's generation facilities at Calaveras, Braunig, and Leon Creek. The rule would require a system wide NO_x 30-day rolling average on all of generation units located in the County. CPS Energy submitted comments on the proposed NO_x rules to the TCEQ on January 12, 2024. The TCEQ published the final rules on April 24, 2024, and CPS Energy will be subject to a system wide NO_x 30-day rolling average for units located in the County starting on January 1, 2025. The TCEQ will allow retired units to stay in the cap. If the retired unit contributions stay in the cap, CPS Energy does not expect any impacts from this rule.

On October 12, 2023, the Texas Governor sent a letter to the EPA requesting to voluntarily designate the City, Dallas, and Houston Areas as Serious for Ozone Nonattainment ahead of schedule. Following this letter, the EPA published the Serious designation for the County on January 26, 2024. Comments were due February 26, 2024. The attainment date for the County remains September 24, 2027. Failure to attain the NAAQS by that date, or effectively the end of the 2026 ozone season, will result in the County being bumped up to severe nonattainment.

The TCEQ is proposing to add the County to the existing list of counties affected by the vehicle inspection and maintenance program codified in Title 30 Texas Administrative Code (30 TAC) Chapter 114. Beginning November 1, 2026, all gasoline vehicles registered in the County that are two to 24 years old must be subjected to an on-board diagnostics ("OBD") inspection and a gas cap integrity inspection as part of the annual safety and emissions inspection. This is in addition to the anti-tampering checks performed as part of the annual safety and emissions inspection. All inspection stations would be required to offer the OBD test.

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 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 *EPA 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 SO_2 regarding four states and NO_x regarding 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 to 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 SO_2 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 March 15, 2021, the EPA finalized the 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. The EPA is proposing that 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), their projected NO_x emissions in the 2021 ozone season and thereafter will not significantly contribute to a continuing downwind nonattainment and/or maintenance problem, and therefore the states' CSAPR Update FIPs (or the state implementation plans ("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.

On April 6, 2022, the EPA issued a pre-publication version of a proposed FIP to address the states' "Good Neighbor" obligations with regard to the 2015 8-hour Ozone Standard. The EPA is proposing to promulgate new or revised FIPs for 26 states, including Texas. For 25 of the states, including Texas, the FIP will include new NO_x ozone season emission budgets for EGUs and non-EGUs, with the implementation of these budgets beginning in the 2023 ozone season. All 25 of these states will be included in a revised Group 3 ozone season NO_x trading program. In identifying levels of uniform control stringency, the EPA assessed the same NO_x

emissions controls the EPA analyzed in the CSAPR Update and the Revised CSAPR Update: (1) fully operating existing SCR, including both optimizing NO_x removal by existing operational SCRs and turning on and optimizing existing idled SCRs; (2) installing state-of-the-art NO_x combustion controls; (3) fully operating existing selective non-catalytic reduction ("SNCRs"), including both optimizing NO_x removal by existing operational SNCRs and turning on and optimizing existing idled SNCRs; (4) installing new SNCRs; (5) installing new SCRs; and (6) generation shifting (i.e., emission reductions anticipated to occur from generation shifting from higher to lower emitting units at each of these stringency levels).

The EPA has proposed a new FIP Addressing Regional Ozone Transport for the 2015 Ozone National Ambient Air Quality Standard that, if adopted as proposed, would create a NO_x trading program that would restrict operation of CPS Energy Spruce Unit 1 and gas- or oil-fired steam units, Sommers and VHB Units 1-3, during the May 1 to September 1 ozone season as follows:

1) On or after May 1, 2026, CPS Energy must hold sufficient allowances for the actual NO_x emissions from Spruce1 for the ozone season. Based on the EPA's illustrative budget, Spruce1 would receive an allocation of 304 tons in 2026;

2) On or after May 1, 2026, CPS Energy must hold sufficient allowances for the actual NO_x emissions from gas- or oil-fired steam units for the ozone season; and

3) On or after May 1, 2027, CPS Energy must hold sufficient allowances for actual NO_x emissions from Spruce1 above an emission rate of 0.14 lb NO_x/MMBtu on a daily basis.

The proposed emissions budgets are initially set at the level of reductions achievable through immediately available measures, including consistently operating emissions controls already installed at power plants, specifically SCR and SNCR. While the proposed emissions budgets are based on these measures, because the proposed FIP establishes a trading program and not direct control, these control measures are not necessarily required. Rather, EPA expects that facilities will utilize these controls to achieve required reductions.

- The EPA identified 0.08 lb/MMBtu as a reasonable level of performance for coal steam units with optimized SCR.

- The EPA identified 0.03 lb/MMBtu as a reasonable level of performance for gas- and oil-fired steam units and simple cycle units with optimized SCR.

Starting in 2026, the budgets would be set at levels achieved by the installation of modern and cost-effective SCR controls on large coal-fired power plants (100 MW or more) and older natural gas and oil-fired steam generators in the covered states that do not currently have them. By 2026, EPA projects that the program would result in a 29 percent reduction in ozone-season NO_x emissions from power plants in the 25 states covered by the Group 3 ozone season NO_x trading program.

In the proposed FIP, the EPA is adding additional restrictions, beyond those in the Revised CSAPR Update, to ensure consistent NO_x reductions are achieved. These measures include:

- A daily emissions rate limit for large coal-fired units (100 MW or more) set at 0.14 lb/MMBtu, which would take effect in 2024 for units with existing controls and in 2027 for units installing new controls, to ensure those controls are operated effectively and consistently at these plants throughout the ozone season. Units that exceed the daily rate would be subject to increased allowance surrender requirements;

- Limiting the size of the emissions allowance bank to maintain strong long-term incentives to reduce NO_x emissions; and

- Starting in 2025, annually updating budgets to account for new retirements, new units, and changing operations.

On May 12, 2022, the EPA extended the comment period on the proposed rule to June 21, 2022. CPS Energy submitted comments on June 17, 2022 to the EPA regarding the rule. CPS Energy was also a part of a Texas Interstate Group formed to comment on the modeling conducted by the EPA and the effect of grid reliability from the proposed rule. Several trade associations commented on the FIP saying it needed to include a safety value and exemptions to units that would be retired soon.

The EPA stated in the proposed FIP that the EPA will not finalize the proposed FIP with regard to individual covered states until the EPA either finalizes that state's SIP disapproval or the state withdraws the SIP. In the latter case, EPA will not finalize the FIP until the EPA makes a finding of failure to submit for that state. The EPA published their finding of SIP disapproval on January 31, 2023. On May 1, 2023, the Texas Attorney General, the TCEQ, and several other parties to the case, received a favorable judicial ruling challenging the CSAPR. Specifically, the court denied the EPA's motion to transfer the case from the 5th Circuit to the D.C. Circuit Court. Additionally, the 5th Circuit granted Texas' motion to stay the EPA's disapproval of Texas' SIP.

The FIP was issued on March 15, 2023 but it was not published until June 5, 2023. The effective date of the rule is August 4, 2023. One June 29, 2023, the EPA released a memorandum stating that Texas is not subject to the rule as long as the stay on EPA's denial of the State SIP is still in effect. The EPA filed its merits brief defending its disapproval of the SIP written by Texas on August 15, 2023. A reply brief was submitted on September 19, 2023 by industry legal representation. The reply brief focused on several key points that directly responded to points made by the EPA in their merits brief to the court filed on August 15, 2023. Some of the arguments made were that the EPA's disapproval of Texas' SIP exceeded its statutory authority, the EPA's merits brief applied the wrong standard of review, and that vacatur is the appropriate remedy. The Texas Attorney General's Office also submitted a reply brief, and their arguments complement those made by industry legal representation. In a separate legal action, a case against the EPA for the stay of the entire rule nationwide was brought forth in the Supreme Court's emergency docket by entities unrelated to the State of Texas merits case. The Supreme Court held oral arguments on the stay of the entire rule in February 2024. No opinion has been issued yet in either the Texas merits case or the Supreme Court case. Should the foregoing rule apply to Texas, the impact to CPS Energy could be significant, as budgeting, modeling, allowances, retirements, and the weather would all factor into any potential rule compliance.

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 SO_2, the same as by CSAPR. CPS Energy was not included in a BART regulation in 2010 that required some Texas coal units to install SO_2 scrubbers; however, BART is once again being looked at by EPA/TCEQ to control NO_x and SO_2.

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 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 the 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 SO_2 requirements, the EPA promulgated a BART alternative consisting of an intrastate trading program addressing the SO_2 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 requested 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 SO_2 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 deactivation of Deely units in 2018. 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, the 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. Deely1 and 2 and Sommers 1 and 2 are included in the rule. There is no impact to CPS Energy.

Carbon Dioxide ("CO_2") 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 CO_2 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 CO_2 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 CO_2 would be regulated under a key EPA permitting program. EAB sided with the EPA, agreeing that the EPA is not required to treat CO_2 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 CO_2 as "subject to regulation", and thus require permit limits for CO_2 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 CO_2 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 CO_2 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 apply 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 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, the 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 CO_2 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 CO_2 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 CO_2 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 CO_2, 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 CO_2 emissions from power plants, vehicles and other major sources. Power plants and other large stationary sources of CO_2 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 CO_2 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 CO_2 emissions. The EPA may push for BACT determinations for coal and gas fired generation (new and existing fleet) to meet 50-80% reduction in CO_2 through carbon capture and sequestration ("CCS"). As a potential alternative to reducing CO_2 emissions through 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 CO_2 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 lb/MWh, respectively. An EGU can either meet a 1,100 CO_2/MWh-gross standard over a 12-operating month period or meet a slightly tighter 1,000-1,050 CO_2 or a 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. EPA*, 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 considering 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 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 CO_2 emission and incorporate into their state plans. The ACE rule defined the best system of emission reductions ("BSER") for CO_2 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 CO_2 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. A lawsuit was filed in the D.C. Circuit Court that seeks repeal of the ACE rule. On January 19, 2021, the D.C. Circuit Court vacated the ACE rule governing emissions controls for power plants and its embedded repeal of the Obama-era CPP. On February 12, 2021, the EPA issued a memorandum that clarified that because the court vacated the ACE rule and did not expressly reinstate the CPP, the EPA understands the court's decision as leaving neither rule in effect. The Biden administration and the EPA stated that a revised CPP would be forthcoming but major elements of the plan were lost in negotiations over the 2021 federal budget. On October 29, 2021, the Supreme Court agreed to hear an appeal of the decision made by the D.C. Circuit Court in January 2021. The appeal was filed by Republican-led states and coal companies seeking to limit the EPA's authority to regulate carbon emissions under the Clean Air Act. The case was argued on February 28, 2022, and a Supreme Court decision was issued on June 30, 2022, holding that Section 111(d) of the Clean Air Act did not give the EPA the authority to use "generation-shifting" measures to set CO_2 emission limits for power plants. In doing so, the Supreme Court reversed the D.C. Circuit Court's January 2021 decision.

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 community to provide feedback on potential climate mitigation and adaptation strategies. The two working groups are the CAAP Technical & Advisory Committee and Climate Equity Committee. The City Council adopted the City-led CAAP at its October 17, 2019 meeting. The Board adopted CAAP goals during its August 2019 meeting. Within the plan, the City aims to reduce its GHG 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. On July 27, 2020, the Board sought proposals for new zero emission technologies to transition aging power plants, in accordance and alignment with CAAP. In August 2021, two CAAP subcommittees were formed, the Benchmarking Energy Use Subcommittee and the Energy Subcommittee. The Benchmarking Energy Use subcommittee met on a regular basis for a year and drafted a potential ordinance that, after input from stakeholders, was not proposed to City Council. The Energy Subcommittee decided to get updates from the RAC members on the progress of CPS Energy's future power generation plans and designate a member from the Energy Subcommittee to share committee feedback with the RAC during the public comment portion of the RAC meetings. Two of the metrics for the power generation planning process are Environmental Sustainability and Climate Resiliency, which includes meeting CAAP goals. The power generation plans will be measured against the two milestone targets in the CAAP, a 41% reduction in carbon emissions by 2030 and a 71% reduction in carbon emissions compared to a baseline year of 2016. The Board chose a power generation portfolio on January 23, 2023, and that portfolio and its carbon intensity were communicated to the CAAP Committees. CPS Energy continues to participate in the process and monitor the CAAP's progress. The CAAP Committees (Technical & Advisory and Climate Equity) had their last meetings in April 2023 as terms have ended. This action also dissolved the two subcommittees (Benchmarking Energy Use & Energy). The City is currently revising the ordinance that created the two committees and will potentially combine the two into one. This action would require approval by City Council. Instead of combining the committees, it was determined by the City that having two separate committees was beneficial. The City accepted applications for potential community members to join the CAAP Technical & Advisory Committee and Climate Equity Committee in April 2024. The applications are currently under review and new committee members will be chosen summer 2024.

On August 16, 2022, President Biden signed the Inflation Reduction Act (the "IRA") which adds a section to the Clean Air Act called "Methane Emissions and Waste Reduction Incentive Program for Petroleum and Natural Gas". It is meant to assist companies, organizations, and individuals reduce their methane emissions through grants, rebates, contracts, and loans. The legislation also introduced a new methane tax, but natural gas distribution is excluded from the methane tax. CPS Energy is therefore not affected by the new methane tax, as the activities performed by CPS Energy fall under the distribution industry segment. Additionally, the IRA grants a number of tax credits that CPS Energy may be eligible for if the requirements are met. Those include: a hydrogen production tax credit, a biogas and energy storage credit, enhancements to the credit for carbon capture, and credits for energy efficiency of residential and commercial properties.

The IRA also introduces a large amount of funding and grants for governmental and nonprofit organizations. The most significant of which are 7 billion in grants for "Zero-Emission Technologies" and other GHG reduction activities as determined by the EPA. Other funding is allocated to the EPA directly to enhance air monitoring programs and the GHG reporting program. Lastly, the IRA adds millions in grants for community-led air and other pollution monitoring, climate resiliency, climate adaptation, reducing indoor toxics and indoor air pollution.

The IRA invests $369 million in energy security and climate change, aiming to strengthen domestic production and manufacturing and reduce carbon emissions by 40% in 2030. Additionally, public power utilities and other tax-exempt entities will be given access to refundable direct payment tax credits. The IRA also expands and extends PTC and ITC for renewable energy sources. As of October 2022, the Treasury Department and the IRS issued six notices requesting public input on key climate and clean energy tax incentives founds within the IRA, including energy generation incentives, credit enhancements, incentives for homes/buildings, consumer vehicle credits, manufacturing credits, and credit monetization.

On May 23, 2023, the EPA issued its long-awaited proposed rules to regulate CO_2 emissions from the power sector. The EPA is proposing to update and establish more stringent NSPS for GHG emissions from new and reconstructed fossil fuel-fired stationary combustion turbine EGUs that are based on highly efficient generation, hydrogen co-firing, and carbon capture and sequestration ("CCS"). The EPA is also proposing to establish new emission guidelines for existing fossil fuel-fired steam-generating EGUs that reflect the application of CCS and the availability of natural gas co-firing. Simultaneously, EPA proposes repealing the ACE Rule because the emissions guidelines established in ACE Rule do not reflect the BSER system for steam generating EGUs and are inconsistent with further aspects of section 111 of the Clean Air Act. To address GHG emissions from existing fossil fuel-fired stationary combustion turbines, the EPA is proposing emissions guidelines for large and frequently used existing stationary combustion turbines. Furthermore, the EPA is soliciting comments on how the agency should approach its legal obligation to establish emissions guidelines for the remaining existing fossil fuel-fired combustion turbines not covered by this proposal, including smaller, frequently used, and less frequently used, combustion turbines. CPS Energy is actively participating with APPA and LPPC in reviewing the rule. Comments are due 60 days from the proposed rule with an additional 15-day extension which is August 8, 2023. CPS Energy submitted comments on August 1, 2023. In March 2024, the EPA announced that it would not finalize standards for the existing natural gas combustion turbine units. The EPA requested feedback on ways to control GHG emissions from existing natural gas combustion turbines by May 28, 2024.

The EPA finalized the Carbon Rule on April 25, 2024, ensuring that all coal-fired plants that plan to run in the long-term and all new baseload gas-fired plants control 90 percent of their carbon emissions. The rule includes new gas-fired combustion turbines and existing coal and gas-fired steam generating units. The final rule does not include existing natural gas combustion turbines which had been included in the proposed rule last year. The EPA will be developing rules for existing NG combustion turbine in a separate rule making. The final carbon rule still does not include reciprocating engines. The requirements for hydrogen blending as a BSER was removed but carbon sequestration is still considered a viable option to control carbon emissions.

The rule will require states to develop a plan for existing sources within 24 months of the published rule. While the state plans must achieve overall reductions equivalent to those specified by the emission guideline, the states have some discretion in setting standards. The EPA has developed several reliability assurance mechanisms that states can adopt and implement in order to address both short-term acute reliability problems was well as long-term resource adequacy difficulties.

Because the rule does not address existing natural gas combustion turbines, there are no impacts to Rio Nogales, AVR Plant, MBLE, MBLW, and CPS Energy's newly acquired units Barney Davis, Nueces Bay, and Laredo, except for Barney Davis #1. For coal and gas steam boilers, the compliance deadline is between 2030 and 2032 depending on the unit. Therefore, there are no impacts on the following units because CPS Energy has plans to have these units retired before either of these dates: Spruce 1, OWS1, OWS2, VHB1, VHB2, VHB3, and Barney Davis #1.

The impacts to Spruce 2 will require further review. The conversion of Spruce 2 does not meet the threshold to be considered a "new" or "modified" unit, therefore the unit will either be treated as existing coal or existing natural gas. CPS Energy expects to be considered an existing natural gas unit, therefore the following would be required. Due to the low projected Capacity Factor (17%), Spruce 2 would need to maintain good routine operation and maintenance practices along with a Carbon Intensity of 1600 lbs/mwh-gross based on a 12-month operating hour rolling total. The natural gas conversion has a projected rate of 1200 lbs/mwh.

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 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 wastewater 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. 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.

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 CWA, 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 decision on a case-by-case basis, in the CWA NPDES. On May 25, 2023, the Supreme Court issued a decision limiting the scope of the CWA, finding the EPA's position—that adjacent wetlands are jurisdictional when there is a significant nexus to traditional navigable waters and that WOTUS applies to "adjacent" or "neighboring" wetlands—lacks merit. The Supreme Court held that the definition of WOTUS includes only those wetlands that have a continuous surface connection to other jurisdictional waters. On August 29, 2023, a final rule was issued limiting the scope of the CWA by eliminating the significant nexus standard and excluding adjacent and interstate wetlands from the definition of jurisdictional waters.

Wildfire Mitigation Plan: CPS Energy continues to mitigate wildfire risk through the identification of distribution lines and structures located in high-risk wildfire areas through combined CPS Energy and Texas A&M Forest Service asset data. With this information, CPS Energy (i) initiated visual inspections, drone analysis, and vegetation management programs for assets in high-risk wildfire areas, including ground line inspection/testing of wood poles and visual inspection of wood pole tops; (ii) designed a work system to enable safety settings during a Red Flag Warning for the County, with safety settings that disable automatic reclosing on circuits and reclosers in high-risk wildfire areas to minimize the potential of an electric arc; (iii) will activate the Incident Management Team during a Red Flag Warning for the County to ensure timely response, minimize impact, collaboration amongst teams, and allocate resources; (iv) initiated a joint tabletop exercise with the San Antonio Office of Emergency Management and Bexar County Office of Emergency Management to ensure interagency cooperation, resource sharing, community resilience, and unified response planning, with any identified gaps to be incorporated into the Enterprise Wildfire Plan; and (v) continues to enhance customer, stakeholder, and employee communications strategy for public education and awareness of CPS Energy's wildfire mitigation strategy and will revise, as necessary, CPS Energy's risk register to incorporate mitigation actions.

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 would be applied in the 2019 wastewater permitting cycle. The TCEQ had indicated they are amenable to an extension of the compliance date if 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 SO_2 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 if adequate justification is provided. CPS Energy is currently in compliance with the foregoing.

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 ("EP") 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. On July 26, 2021 the EPA announced their intent to strengthen permit limits on wastewater discharges from coal power plants; specifically, FGD discharges; however, there will not be a discharge of FGD water from the Spruce units so this potential rulemaking is not expected to have an impact. The final rule was proposed on March 29, 2023. The rulemaking was limited in scope and does not impact CPS Energy in its current form (as FGD discharges will be eliminated for CPS Energy's 2021 Notice of Planned Participation in the VIP declaration to the TCEQ).

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 proposed 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 aimed 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 clarified federal authority under the CWA. Under this new proposal, WOTUS included traditional navigable waters, tributaries to those waters, impoundments of jurisdictional waters, wetland adjacent to jurisdictional waters, and certain ditches. The proposal also identified 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 CWA, explicitly directed 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 August 30, 2021, the U.S. District Court of Arizona vacated the Navigable Water Protection Rule and remanded to the EPA and the Army for reconsideration. Considering this order, the Army and the EPA have halted the implementation of the Navigable Water Protection Rule and are interpreting WOTUS consistent with the pre-2015 regulatory regime until further notice.

On January 13, 2021, the U.S. Army Corp of Engineers revised their Nationwide Permitting ("NWP") program in a final rulemaking which added clarity to regulations, decreasing the 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.

On December 7, 2021, a proposed rule was published in the Federal Register to revise the definition of WOTUS by replacing the Navigable Waters Protection Rule ("NWPR") with a revised version of the 1986 WOTUS regulations. The proposed rule would assert a broader geographic scope of WOTUS jurisdiction than either the NWPR or the 1986 regulations. On January 18, 2023, the rule was published in the Federal Register; the rule was effective on March 20, 2023. The agencies' final rule establishes a clear and reasonable definition of "waters of the United States" and reduces the uncertainty from constantly changing regulatory definitions. The impact of the final rule was not significant to CPS Energy; however, Texas filed an injunction barring the rule from going into effect in the State and additional states are filing legal challenges to the rule. On May 25, 2023, the Supreme Court issued a decision limiting the scope of the CWA, finding the EPA's position—that adjacent wetlands are jurisdictional when there is a significant nexus to traditional navigable waters and that WOTUS applies to "adjacent" or "neighboring" wetlands—lacks merit. The Supreme Court held that the definition of WOTUS includes only those wetlands that have a continuous surface connection to other jurisdictional waters. In light of this decision, various stakeholders are interpreting the phrase consistent with the Supreme Court's decision. On August 29, 2023, a final rule was issued limiting the scope of the CWA by eliminating the significant nexus standard and excluding adjacent and interstate wetlands from the definition of jurisdictional waters. On September 29, 2023, the EPA proposed a rule to modernize Section 401 rules that clarify the certification process and make it more transparent. No significant impacts to CPS Energy are expected.

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 decided not to take action to add new discharge prevention and containment regulatory requirements under CWA section 311. This final action was effective on October 3, 2019. On March 28, 2022, the EPA proposed a hazardous substance Facility Response Plan regulation for handling worst case discharges of hazardous substances. CPS Energy may have substances in quantities that would trigger this planning requirement at Braunig, Calaveras, and MLBW sites. The costs to comply is unknown but it is not expected to be significant. The rule was published on March 28, 2024.

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. Considering 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, the court in the Western District of Washington ruled the implementation of the pre-2015 WOTUS rule resulted in procedural violations.

In 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 on 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 CWA 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.

On November 18, 2021, the EPA and Army Corps of Engineers (together, the “Agencies”) announced a proposed rule to re-establish the pre-2015 definition of WOTUS which had been in place for decades, updated to reflect consideration of Supreme Court of the United States (the “Supreme Court”) decisions. The proposed rule was described by the Agencies upon its release as establishing a durable definition of WOTUS that protects public health, the environment, and downstream communities while supporting economic opportunity, agriculture, and other industries that depend on clean water. The Agencies will continue to consult with states, tribes, local governments, and stakeholders in both the implementation of WOTUS and future regulatory actions. The proposed rule was published in the Federal Register on December 7, 2021. The proposed rule had a 60-day comment period that ended on February 7, 2022. Regional roundtables engaging stakeholders were held through Summer 2022. On October 4, 2022, the Supreme Court heard oral arguments in *Sackett v. EPA* to determine whether the United States Court of Appeals for the Ninth Circuit utilized the proper test for determining whether wetlands are WOTUS under the CWA. On December 30, 2022, the agencies announced the final “Revised Definition of ‘Waters of the United States’” rule. On January 18, 2023, the rule was published in the Federal Register; the rule was effective on March 20, 2023. The agencies’ final rule establishes a clear and reasonable definition of “waters of the United States” and reduces the uncertainty from constantly changing regulatory definitions. The impact of the final rule was not significant to CPS Energy; however, Texas filed an injunction barring the rule from going into effect in the State and additional states are filing legal challenges to the rule. On August 29, 2023, the EPA announced its final WOTUS rule (as a direct response to *Sackett*), clarifying which wetlands are protected under the CWA.

Multiple suits have been filed and likely will continue to be filed related to the Clean Water Rule’s provisions. Lawsuits and comments will likely shape the proposed rule establishing a definition of WOTUS which specifies the waters entitled to receive federal protection.

Water Resources Planning

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. 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 energy savings. 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 for generation. With CPS Energy’s New Generation Plan and planned retirements of older units, it's likely the water intensity for generation will decrease as newer generation technologies typically require less water.

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. The EPA issued a proposed rule expanding the available options for extraction and determinative methods used to characterize and verify the clean-up of PCBs. Additional amendments to the PCB regulations, such as the amendment of performance-based disposal option for PCB remediation waste; the removal of the provision allowing PCB bulk product waste to be disposed as roadbed material; the addition of flexible provisions for cleanup and disposal of waste generated by spills that occur during emergency situations (e.g., hurricanes or floods), and the harmonization of the general disposal requirements for PCB remediation waste are also included in the proposed changes. The rule was finalized August 10, 2023.

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 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 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 propose 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, and 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 has completed construction of a new CCR impoundment, the Plants Drains Pond, to meet the proposed rule requirements. The Deely Bottom Ash Ponds, Old Evaporation Pond, and Sludge Recycle Holding impoundments are planned for closure during the next four years. CPS Energy is monitoring the proposed rule changes and has proposed closure dates to meet compliance deadlines.

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 ("SRH") and EP 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.

On June 1, 2021, the EPA approved the Texas partial CCR permit program, and it became effective on July 28, 2021. TCEQ will now enforce regulations related to location restrictions, operating criteria, groundwater monitoring and corrective action, closure and post closure, record keeping, and Internet postings. The EPA retains the more complex and decision-making portions of the rule, including those related to inactive, unlined, retrofitting and alternative closure requirements. The Texas program will operate in lieu of the federal CCR program, which essentially contains the same requirements. In accordance with the new Texas program, registration application was required to be submitted by January 24, 2022.

On January 11, 2022, the EPA announced it would be: (1) proposing decisions on requests for extensions to the current deadline for initiating closure of unlined CCR surface impoundments; (2) putting several facilities on notice regarding their obligations to comply with CCR regulations; and (3) laying out plans for future regulatory actions to ensure coal ash impoundments meet strong environmental and safety standards.

On January 11, 2022, the EPA notified CPS Energy that the two extension request applications submitted in November 2020 were deemed "complete" and were considered for approval. A decision timeline was not provided by EPA.

On July 12, 2022, the EPA proposed to conditionally approve CPS Energy's extension request to continue operating the SRH CCR pond that supports the Spruce plants until September 1, 2023. The extension date requested for both the EP and SRH units passed prior to the EPA rendering a final decision. These units are no longer receiving waste and therefore the final decision is no longer needed.

On May 18, 2023, the EPA proposed to amend the 2015 "Disposal of Coal Combustion Residuals from Electric Utilities Rule" to include legacy impoundments. Though not included previously, proposed changes would also place requirements on previously closed non-CCR impoundments and landfills. This would include four previously closed CCR landfills located at Calaveras Lake. The proposed rule would require groundwater monitoring and reporting on these non-operating units. In addition, the other rule portions would require these now closed units to be "re-opened" and "re-closed" again to meet the current CCR closure requirements. The proposed rule will not affect the operation of Spruce 1 and Spruce 2.

CPS Energy has completed construction of a new CCR impoundment, the Plants Drains Pond, to meet the proposed rule requirements. The Deely Bottom Ash Ponds, Old Evaporation Pond, and Sludge Recycle Holding impoundments are planned for closure during the next four years. CPS Energy is monitoring the proposed rule changes and has proposed closure dates to meet compliance deadlines.

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 non-PCB electrical equipment, electronics, paper, cardboard, metals, plastic bottles, aluminum cans, used oil, oil filters, tires, lamps, batteries, 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.

Decommissioning and initial environmental remediation of the Tuttle Power Plant commenced in 2013 and was completed in early 2017. This included the demolition of the cooling towers, powerhouse building and the four boilers, filling in the cooling tower basins, and leveling and reseeding the property's grounds. Assessment and remediation of the soil, cooling tower vaults and solid waste management units have been completed. Additional assessment and remediation of the remaining powerhouse slab are planned for completion by the end of 2024. Various options are being evaluated and the testing results provided to the EPA for approval prior to full scale remedial use.

Chemetco 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 Chemetco Superfund Site ("Chemetco") 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 Chemetco 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 if 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 was undergoing modifications to facilitate a TxDOT 281 North widening project. A WPAP is required because the substation is located 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 the EPA for a Notice of Violation for the Braunig Power Station for: 1) exceeding the monthly waste volume threshold of 220 lb/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-year 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 was 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.

In December 2021, CPS Energy replaced an emergency diesel generator. CPS Energy did not submit an application for a minor permit revision until July 28, 2022. The application was approved on November 30, 2022. On March 20, 2023, CPS Energy received a notice of violation for not submitting the authorization for the generator prior to the removal and replacement of the engine. CPS Energy conducted an after-action review to identify process improvements for notification of changes to equipment in the future.

As a public municipal utility, many CPS Energy activities are subject to review at the State and municipal level if they have the potential to affect known or unknown archaeological and historic sites. CPS Energy projects require review by the Texas Historical Commission ("THC") under the Texas Antiquities Code (the "Antiquities Code") and the City's Unified Development Code ("UDC"). In 2018, CPS Energy hired a staff archaeologist qualified as a professional archaeologist under the Secretary of the Interior's Standards and Guidelines. The CPS Energy staff archaeologist reviews company projects for compliance with the Antiquities Code and the UDC in accordance with a memorandum of understanding executed on October 29, 2020 by the THC. CPS Energy conducts and coordinates archaeological and archival investigations on many projects where applicable.

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 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 or customers with calculated Energy Burden of 10% or greater based on their annual income and annual energy bill valuations;
- 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;
- scheduling consumer information exhibits at high-traffic locations such as community resource fairs, community pop-ups, special events and trade shows;
- conducting utility-related presentations for schools, community service organizations, business and professional groups, and homeowner associations;
- offering free virtual or in-home home energy assessments; maintaining a secure website, Manage My Account at https://www.cpsenergy.com/mma. 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; and
- maintaining a secure website, named My Energy Portal, at https://www.cpsenergy.com/myenergyportal. 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 approximately 1,405,301 million smart meters as of May 5, 2024.

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. Through the STEP Programs, CPS Energy has developed a portfolio of solar offerings to help support the adoption of solar in the community. These offerings include rebates for customer-owned solar, community solar and a hosted solar program. As of January 31, 2024, 44,258 customers have installed rooftop solar, totaling 486 MW of solar capacity. Customers who install solar receive the 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 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 solar PV systems on their rooftops in exchange for credits on their energy bill. Working under a 20-year power purchase agreement with CPS Energy, PowerFin installed and operates 5 MW (AC) of rooftop solar on homes and businesses throughout the CPS Energy service territory and provides participating customers a monthly credit for hosting the systems on their roof. The program makes solar accessible to more customers by eliminating the significant upfront cost of traditional rooftop solar. In addition, CPS Energy selected Clean Energy Collective ("CEC"), to bring the first "Roofless" community solar pilot project to the City. CEC developed a 1 MW (AC) 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. The Roofless Solar program went live on August 26, 2016 and is fully subscribed. During fiscal year 2021, CPS Energy opted to purchase the solar farm from CEC and assumed maintenance and operational responsibility of the solar farm. On December 17, 2018, CPS Energy entered into a 25-year power purchase agreement with Big Sun SA1 ("Big Sun") to expand the Roofless Solar program by 5 MW. Big Sun successfully installed community solar panels on carports at commercial businesses across San Antonio. The panels were sold to customers who receive bill credits from CPS Energy for their share of the solar production. On August 24, 2023 CPS Energy launched a request for proposals for up to 50 MWs of community solar. The RFP encourages innovative and creative proposals, along with thoughtful approaches to serving the community's low-to-moderate income customers.

In connection with CPS Energy's development of a Strategic Energy Plan that includes energy efficiency and conservation as well as generation, CPS Energy committed to the STEP program in 2009. The goal of the STEP program was to save 771 MW of demand between 2009 and 2020, which was successfully achieved. The 771 MW is equivalent to the amount of energy produced by a large-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 980 MW through fiscal year 2022. 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. Considering 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 August 30, 2021, the Board requested staff to conduct an analysis on whether to continue the STEP program beyond the current end date of July 2022. The analysis was prepared by the Brattle Group and presented to the Board at its February 2022 meeting. On June 16, 2022, the City Council approved a plan for a new program to be funded over the next five years. The new STEP program went into effect August 1, 2022, with the goal of saving 410 MW of demand energy.

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 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. On August 30, 2021, the Board awarded a new contract for the delivery of residential and commercial energy efficiency programs to CLEAResult and extended the weatherization contract with Franklin Energy through July 31, 2022. On July 25, 2022, the Board awarded a three-year contract to CLEAResult to continue delivering the residential and commercial energy efficiency programs. On September 6, 2022, the Board awarded a one-year contract to Franklin Energy to continue delivering weatherization services. On June 26, 2023, the Board approved four-year contracts for weatherization services, creating new opportunities for local, small businesses to work directly with CPS Energy. The Board awarded contracts to seven new vendors: AG3 Group, LLC; M&M Weatherization; GGA Construction and Design LLC; Roadrunner Remodeling, Inc; Cool Component HTG & A/C, Inc; Ram's Weatherization and Construction, LLC; and Lone Star Energy Efficiency, LLC. On August 10, 2023, the San Antonio City Council approved up to $1,000,000 over two years ($500,000 per year) for small-scale repairs to make homes ready to qualify for the Casa Verde Weatherization Program.

See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Fuel and Gas Cost Adjustment" herein.

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 natural gas safety messaging, electric safety messaging is encompassed in all PSA formal presentations to the stakeholder audiences through face-to-face contact with first responders, contractors, school-aged children, excavators and the general public in the area to disseminate messaging regarding Texas' 811 Call Before You Dig and CPS Energy's Look Up and Live 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, tree trimmer/landscaper events, community safety events and at public gatherings like community resource fairs, homeowner association meetings, etc.

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

PSA information is also available in Spanish.

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 $31,064,067.00 (unaudited) is the reserve for claims liability as of the City's fiscal year ended September 30, 2023. 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:

Rogelio Carlos III, et al. v. Carlos Chavez, et al. San Antonio Police Department ("SAPD") SWAT officers were assisting High-Intensity Drug Trafficking Areas ("HIDTA") in searching for a fleeing suspect. The Plaintiff was misidentified by the HIDTA officer as being the suspect. The HIDTA officer engaged and attempted to physically apprehend the Plaintiff and was assisted by SAPD SWAT officers. The 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, the 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. The case was bifurcated and trial on the issue of liability was held from April 8 through

April 17, 2024 with a verdict in favor of one officer but finding liability by the remaining two officers. Post judgment motions will be submitted and a second trial to determine damages may be set at a date to be determined.

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. The trial court denied the City and the officer's motions for summary judgments in part. The officer filed an interlocutory appeal currently pending before the Fifth Circuit. No trial date has been set.

Alamo Aircraft, Ltd. v. City of San Antonio. Alamo Aircraft, Ltd. owned and/or leased business properties at 2602 SW 36th Street, 2613 SW 36th Street, and 2602 SW 36th Street for the business of buying and selling commercial and military aircraft parts, tools, and ground support equipment. The business required wide street access for tractor-trailers entering and exiting the property. In approximately 2009, the City began a roadway project for the upgrade and widening of SW 36th Street, and acquired portions of multiple properties, including Plaintiff's properties. Plaintiff alleges the project, as built, substantially altered portions of Plaintiff's properties impacting its ability to conduct business, including forcing Plaintiff to relocate its businesses. Plaintiff also claims the City violated a relocation agreement between the parties. Plaintiff filed suit for review of the City's actions and recovery for alleged violations of 42 U.S.C. § 4621 and 49 CFR, Part 24 and the Texas Property Code Section 21.046. Plaintiff seeks an order setting aside and reversing the City's relocation determinations and rulings, an award of an unspecified amount of damages for relocation entitlements and payments due and owing to Plaintiff, and attorneys' fees and costs. The City has filed a motion to dismiss the case for want of prosecution which is currently pending before the Court.

Anja Contreras, individually and as Representative and Beneficiary to the Estate of Asante Contreras, Deceased v. Mazda Motor Corporation, Mazda Motor of America, Inc., City of San Antonio, Joseph W. Woolard, and Stephen Palade. On May 3, 2020, Defendant Joseph Woolard was wanted on four felony warrants for firing a shotgun at a Bexar County Sheriff's Office deputy. When police officers attempted to contact him at a gas station, he fled for 40 minutes before going the wrong way on IH 35, striking a vehicle and causing the death of Asante Contreras. Plaintiff filed suit in state court alleging violations of 42 USC § 1983, the TTCA, and general negligence. Plaintiffs also asserted claims against Mazda Motor Corp. alleging negligence for the design and safety flaws of the Mazda 3 decedent was driving. Discovery is ongoing. This case is not currently set for trial.

Tyshell Klinedinst, individually and a/n/f of Shyla Klinedinst, Jhase Klinedinst, and Dominik Sally, minor children, and Necoa Baker v. City of San Antonio. Tyshell Klinedinst, three minor children, and a passenger were driving east on Rigsby Avenue near W.W. White Road when their vehicle was rear-ended by a City Public Works pickup. Plaintiff suffered a back injury with a recommendation for future surgery. Discovery is ongoing. This matter is set for trial on September 23, 2024.

Crystal Bass v. City of San Antonio. On May 4, 2018, Plaintiff was driving on Roosevelt Avenue when she claims a City Parks & Recreation vehicle failed to yield to the right of way and collided with her vehicle. Plaintiff suffered significant bodily injuries to her neck and back. Discovery is on-going. This case has not been set for trial.

Maria Monsibais v. City of San Antonio. Plaintiff alleges she was involved in a hit and run with a City vehicle. She claims to have followed the vehicle and photographed it. The City had no record of any vehicle involved in an accident on the date in question. Recently, facts have developed which indicate a City driver may have been involved. Plaintiff alleges back and neck injuries with a future medical procedure recommendation. This matter is not currently set for trial.

Texas Disposal System v. City of San Antonio. Texas Disposal System ("TDS") holds a contract with the City to operate the City's waste transfer station on Starcrest Road. TDS alleges the rates allowed under the contract, even with Consumer Price Index adjustments, does not properly compensate them and sought to change the terms of the contract, which the City denied. TDS brought suit against the City in late 2022 claiming the City breached the terms of the contract and seeks damages in excess of $250,000. Discovery is on-going. This case is set for trial on September 9, 2024.

Samantha Nichole Houston Goodale, et al. v Mark Seguin, et al. SAPD officers were assisting federal law enforcement in the execution of a federal warrant when they heard a gunshot. The officer shot his weapon at the Plaintiff's decedent's vehicle, killing decedent. Plaintiffs filed suit in federal district court against the Federal Marshall, the SAPD officer and the City of San Antonio. The Federal Marshall was dismissed from the suit. Motions for summary judgment have been filed on behalf of the City and the officer. Discovery is ongoing and the case is not set for trial.

Alexis Tovar, et al. v City of San Antonio, et al. On June 23, 2023, officers responded to an apartment complex for a call that a woman cut a fire alarm wire. When confronted by the officers, the woman ran to her apartment. Three officers climbed over the railing on her patio and saw her inside the apartment. The woman made a movement toward the patio window and the officers opened fire, killing her. Plaintiffs filed suit in Federal District Court against the City and the officers, alleging use of excessive force. The City will not be providing representation or indemnification for the officers. Discovery is on-going. This matter has not been set for trial.

Maria Tijerina, et al. v City of San Antonio, et al. SAPD received a call that a woman and her children were being held at gunpoint in their apartment by her boyfriend. SWAT was dispatched to the scene. The boyfriend exited the apartment and while standing on the landing, raised his weapon. SWAT officers discharged their weapons, killing the boyfriend. A single bullet went through the apartment door, ricocheted off an air conditioning vent and struck the woman, killing her. Suit has been filed on behalf of the woman and her children in Federal District Court. Discovery is on-going. This matter has not been set for trial.

Mission Road Developmental Center v. Cal-Tex Interiors, et al. Mission Road Developmental Center, a non-profit agency, filed a suit against the City and eleven other developers/property owners alleging development in the area of their facility has diverted the natural flow of water, causing flooding and damage to their property. With respect to the City of San Antonio, they allege that the City's construction activities in the area constitute inverse condemnation of their property. Discovery is on-going. No trial date has been set.

Graciela Robles v City of San Antonio. On July 13, 2022, Plaintiff's vehicle was moving slowly on US Highway 90 West with hazard lights activated and flashing. An SAPD officer, traveling westbound on US Highway 90 rear-ended Plaintiffs vehicle. As a result of the incident, Plaintiff suffered serious injuries for which she seeks to recover damages. Discovery is on-going. This matter is set for trial on September 23, 2024.

Maria Vitela, et al. v City of San Antonio, et al. On September 18, 2022, SAPD officers were flagged down to find a suspect wanted on felony warrants. Family members provided a description of the individual. Alejandro Vitela was seen riding his bicycle in the area, against traffic, and matched the description. When stopped, he was not cooperative, said he had a gun and would shoot the officers and then made movements that appeared that he was pulling a weapon. Officers drew their weapons and fatally shot Mr. Vitela. Subsequently, it was determined that he did not have a weapon. A suit has been filed on behalf of Mr. Vitela's estate against the City and one officer. This suit was recently served. Discovery is on-going. No trial date has been set.

Erik Cantu , et al. v City of San Antonio, et al. On October 20, 2022, SAPD Officer James Brennand was dispatched to a McDonald's for a disturbance. On his arrival, the disturbance had abated, but while in the parking lot, he observed a vehicle that had fled from him the night before. Officer Brennand called for backup but approached the vehicle before it arrived. He opened the door, startling the driver, Eric Cantu. Cantu immediately put the vehicle in reverse, causing the car door to strike the officer. Officer Brennand drew his weapon and shot at the vehicle as it drove away. Mr. Cantu was struck several times and was unable to continue driving within a block. Mr. Cantu was hospitalized for multiple gunshot wounds. Officer Brennand was terminated for failure to follow SAPD policies and procedures and was criminally indicted. A suit was recently filed and served. The City will not be providing a defense for former officer Brennand.

Lynda Espinoza, et al. v City of San Antonio, et al. On June 3, 2022, officers received a call for a vehicle stolen at gun point. Officers located the vehicle and attempted to make a stop. One officer blocked the stolen vehicle with his patrol car and began exiting his car, when the stolen vehicle began to drive straight at him. A second officer on the scene discharged his weapon at the driver, killing him. It was later discovered that the driver was a 13 year old male. The decedent's family filed suit against the City and the officer in federal court. The suit was recently filed and no trial date has been set.

Juana Morales v City of San Antonio. On August 21, 2020, Plaintiff, Juana Morales, stopped at an intersection and then began to turn left. An SAPD officer driving on the cross street struck Plaintiff's car on the front driver's side. Plaintiff alleges she suffered significant personal injuries. The officer countersued for injuries she incurred. This case is set for trial on August 19, 2024.

Harry Bethancourt, et al. v City of San Antonio. Plaintiffs allege that on April 23, 2022, an SAPD officer in a patrol vehicle disregarded a red light at the intersection of Broadway and Loop 410, striking their vehicle and causing physical injury. Discovery is on-going. The case is set for trial on October 7, 2024.

City of Houston et al. v. State of Texas. In a lawsuit filed in July 2023 in state district court in Travis County, certain Texas home-rule cities, including the City, sought a court declaration that legislation in HB 2127, effective September 1, 2023 ("HB2127"), is unconstitutionally vague. The Texas Constitution affords Texas home-rule cities broad authority in enacting local laws unless the Texas Legislature specifically legislates a state law that preempts local law. Any statutory language preempting local law must do so with "unmistakable clarity". In HB2127, the Texas Legislature broadly enacted "field preemption" in eight state statutory codes without enacting any specific State law. This sort of "field preemption" does not exist between Texas state law and local law.

HB2127 also provides for a private right of action for any person to sue a home-rule city to invalidate any local law with State field preemption under HB2127 after a 90-day notice period. In a suit under HB2127, a person suing the City may recover attorney's fees from the City. Given the ambiguity of HB 2127, the City cannot begin to predict the outcome of this lawsuit or the scope of potential litigation it may face when HB2127 goes into effect. In late August 2023, a Travis County judge granted the Cities' motion for summary judgment, finding the statute was overly broad and staying its effective date. The State immediately filed an appeal. Briefing on the appeal is on-going.

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 to abate the matter until the Texas Supreme Court issued a decision in the pending appeal concerning a similar Austin Paid Sick Leave ordinance. On March 4, 2020, the Fourth Court granted the abatement. On June 5, 2020, the Texas Supreme Court refused to review an order from the Third Court finding that the Austin Paid Sick Leave Ordinance was unconstitutional and preempted by the Texas Minimum Wage Act. On June 12, 2020, Intervenors/Appellants in the San Antonio matter filed an opposed motion to lift the abatement. On June 26, 2020, the Fourth Court entered an order reinstating the case to the docket. Intervenor/Appellant filed a brief with the Fourth Court on July 16, 2020. On July 16, 2020, the City filed a letter notifying the Fourth Court 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 March 10, 2021, the Fourth Court issued its opinion affirming the temporary injunction. On May 19, 2021, the Fourth Court issued a mandate affirming the trial court's order and assessing court costs for appeal against the Intervenor/Appellant. The City will be satisfying the costs.

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 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. The Fourth Court reversed in part and affirmed in part. The City filed a petition for review to the Texas Supreme Court, who declined to review the jurisdictional issue; consequently, the suit returned to the trial court and is proceeding with discovery on the merits.

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 San Antonio Police Officers' Association ("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 May 12, 2022, which provides for a term through September 30, 2026.

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 bargaining agreement was awarded pursuant to arbitration. The new contract took effect immediately with an expiration date of December 31, 2024. The parties commenced negotiations in March 2024 to achieve a successor agreement.

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. 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, which reversed the denial and rendered judgment in favor of the City. Plaintiffs appealed to the Texas Supreme Court. The Texas Supreme Court issued an opinion on April 1, 2022, finding the Plaintiffs failed to plead facts to overcome immunity but reversing and remanding to the trial court to allow the Plaintiffs an opportunity to amend. To date, Plaintiffs have not replead their case.

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. See "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event" for litigation arising out of the 2021 Winter Weather Event. Subject to the foregoing, CPS Energy separately discloses certain pending litigation and potential claims, as follows:

Robert Rymers and Virginia Rymers v. Right Choice Heating and Air Company, et al. Plaintiffs allege that on May 1, 2021, they were tenants living at 624 S. Walters, San Antonio, Texas when the structure caught fire severely injuring Robert Rymers, allegedly as a result a natural gas leak. The source of the alleged natural gas is unclear. Plaintiffs have sued CPS Energy as well as Franklin Energy and their subcontractor, Right Choice Heating and Air, who performed various energy efficiency and weatherization services at the home shortly before the fire in connection with the CPS Energy Casa Verde Program. CPS Energy is currently analyzing if there is any potential basis for liability, as well as the defensibility of this matter. No demand has been made upon CPS Energy by Plaintiffs and discovery is ongoing. However, Plaintiff Robert Rymers has incurred significant medical expenses to date and will continue to incur future medical and long-term care related expenses.

Kayleen Boyster, et al. v. CPS Energy et al. On September 3, 2022, Tate Boyster, an employee at a Lehigh Hanson aggregate quarry, was fatally electrocuted. Mr. Boyster was driving the property with another employee of the quarry and both of their significant others. After seeing a downed power line and charred ground, Mr. Boyster exited his vehicle, approached the line, and was electrocuted. Ms. Boyster has sued CPS Energy and Lehigh Hanson Materials South, LLC on allegations of negligence. CPS Energy is currently analyzing whether there is any potential basis for liability, as well as the defensibility of this matter. Because this involves a fatality, there is the possibility of a large, adverse verdict against the named defendants.

Time Warner Cable San Antonio, L.P. v. City Public Service of San Antonio; CPS Energy v. AT&T. Subject to certain exceptions, 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. Although CPS Energy considers the discrimination prohibition inapplicable for the relevant times, because the nondiscrimination law is not retroactive, beginning with its 2007 invoices, CPS Energy started charging all CTPs the same pole attachment rate.

For its part, AT&T contended that notwithstanding the terms of the nondiscrimination provisions of Texas law, it was entitled under the terms of its 1987 joint use pole attachment agreement with CPS Energy to pay a lower contractual rate. The 1987 joint use contract was terminated March 23, 2010. 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.(1) TWC sued CPS Energy in State district court in the County, now styled *Spectrum Gulf Coast LLC v. City Public Service of*

San Antonio, Cause No. 2008-CI-21150 (*Spectrum v. CPS Energy*), claiming CPS Energy's failure to collect the same pole attachment rate from AT&T as it collected from TWC was a 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, plus interest and attorney's fees. 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 uniform rate CPS Energy began to uniformly charge all pole attaching entities in 2007. 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 final Order in part regarding a finding of discrimination 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 Travis County district court's decision to the Third Court in May and June 2014. The case was argued before the Third Court 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 issued its opinion in the appeal of the PUCT order. The Third Court 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 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's jurisdiction to review. Regarding formula inputs, the Third Court 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 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. The Third Court's rulings were based on a substantial evidence review and limited to the PUCT's jurisdiction, which excludes interpretation of private pole attachment contracts.

On April 12, 2017, TWC filed its motion for rehearing and *en banc* reconsideration. On August 31, 2017, the Third Court 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's decision in part and remanded the case to the trial court. Again, the Texas Supreme Court's ruling was limited to the PUCT's jurisdiction, which excludes interpretation of private contracts.

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(1) 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*.

On June 17, 2019, CPS Energy filed a motion for rehearing with the Texas Supreme 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 Travis County 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 PUCT issued its Final Order on Remand on April 7, 2021 but failed to fully incorporate into several of its Findings of Fact ("FOF") and Conclusions of Law ("COL") certain appellate holdings of the Final Order on Rehearing related to Docket No. 36633. After denial of its motion for rehearing, CPS Energy filed an appeal of the PUCT's Final Order on Remand on June 11, 2021 in Travis County pursuant to the Texas Administrative Procedure Act. CPS Energy claims that the PUCT erred in adopting a Final Order on Remand that contains narrative descriptions but failed to incorporate into certain FOF and COL appropriate underlying appellate holdings as instructed on appeal. The Texas Attorney General filed an Original Answer on behalf of the PUCT on July 23, 2021 and requests for intervention were subsequently filed by Spectrum and AT&T. The lawsuit is styled as *CPS Energy's Original Petition for Judicial Review*, Case No. D-1-GN-21-002743, in the Travis County 459th Judicial District Court.

There remains pending two lawsuits arising generally out of this subject matter. The more-recent, City of San Antonio, acting by and through *City Public Service Board v. Southwestern Bell Telephone Company*, doing business as AT&T, Cause No. CI-2010-19757 (CPS Energy v. AT&T), consists of CPS Energy's claims against AT&T relating to pole sharing, attachments, and make-ready construction arising out of a 1987 joint-use agreement (the "1987 Agreement") and 1988 pole setting agreement (the "1988 Agreement"). AT&T has not asserted any counterclaims at this time. The case was unabated in 2021 when CPS Energy filed a Third Amended Original Petition (the "TAOP") that articulates in some detail CPS Energy's pole-ratio claims under the 1988 Agreement and modifies rental claims, essentially abandoning claims for rentals before termination of the 1987 Agreement on March 23, 2010, but states additional rental claims under the post-termination, "evergreen," at-will era for rates as modified. The more significant pole-ratio claims were first brought generally in 2010 in the original petition and were more distinctly articulated in a 2016 demand letter (triggering potential recovery of attorney's fees). AT&T has pleaded several defenses based primarily on issues related on the time it has taken CPS Energy to articulate the claims, including laches and waiver. The case is in the early stages of discovery and no depositions have been scheduled. CPS Energy has provided under a Rule 408 confidentiality agreement a schedule of damages based upon (1) CPS Energy's excess investment in poles; and (2) the excess costs of ownership incurred (maintenance, repair, depreciation, etc.). CPS Energy anticipates at least some efforts at settlement discussions in the near term.

No Litigation Certificates

On the date of the delivery of the Bonds to the Underwriters, the City will execute and deliver to the Underwriters respective certificates to the effect that 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.

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, gas, system reliability, nuclear plant safety, physical security, 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 Vice President of Compliance & Ethics. 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 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, state, 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 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 influence 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 after the date of this Official Statement.

FEDERAL ENERGY POLICY

REFORM GENERALLY

In 2022, the Biden Administration announced new rules that would require nearly all transformers to use amorphous steel core. On April 4, 2024, the Department of Energy announced its final rule for efficiency standards for distribution transformers. The final rule can be met with just 25 percent of new transformers using energy-efficient amorphous steel cores; the remaining 75 percent of transformers can continue to use traditional, grain-oriented electrical steel. The final rule also extends compliance timelines from three years to five years. Initial industry response to the final rule appears positive.

Industry associations across the board opposed the standards due to the impact they would have had on current supply chain constraints. CPS Energy worked through its national trade associations to engage in the rulemaking, as well as working in support of legislation by Senators Ted Cruz and Sherrod Brown to propose less stringent standards and delay the rule's implementation.

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 WIIN Act, the Resource Conservation and Recovery Act ("RCRA") was 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 final approval of the Texas partial CCR permit program was received on June 28, 2021 and became effective July 28, 2021.

The previously discussed IRA amends PURPA to add two "must consider" provisions, relating to (1) demand response practices; and (2) electric vehicle charging programs. The IRA requires states and nonregulated electric utilities to commence consideration of these standards no later than November 15, 2022, and this consideration must be concluded and a determination as to whether to adopt each standard made by November 15, 2023. CPS Energy adopted the standards for both of these programs by the required dates.

The Infrastructure Investment and Jobs Act of 2021 ("IIJA") amended the PURPA to add two utility standards that must be considered by CPS Energy, relating to (1) demand response practices; and (2) electric vehicle charging programs. The IIJA requires states and nonregulated electric utilities, such as CPS Energy, to commence consideration of these standards within a certain time frame. CPS Energy adopted a demand response standard similar to what is required by PURPA as part of the STEP in its original scope and STEP II in its more recent reconfiguration as approved by the City Council of the City. CPS Energy has not implemented an electric vehicle charging standard as provided in PURPA because the responsibility falls on the state. In 2023, the Texas Legislature passed SB 505, which promotes electric vehicle charging requirements similar to those enacted by PURPA, except that the bill did not require electric utilities, electric coops, or MOUs in Texas to deliver electricity to EV charging stations at marginal cost. CPS Energy will comply with the statutory requirements of SB 505 and applicable implementing regulations.

CYBERSECURITY

During 2013-2017, President Obama issued multiple Executive Orders and Presidential Policy Directives aimed at Improving Critical Infrastructure Cybersecurity. A part of that mission was 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 February 14, 2020, U.S. Secretary of Energy Rick Perry established a new Office of Cybersecurity, Energy Security, and Emergency Response ("CESER"). CESER's area of focus will be to strengthen and improve the security of the U.S. energy infrastructure against all hazards, including cybersecurity. CESER supports various cybersecurity efforts such as Cybersecurity Risk Information Sharing Program, Cybersecurity for the Operational Technology Environment, and the Energy Sector Software Bill of Materials proof of concept.

The John S. McCain National Defense Authorization Act mandated the creation of the Cyberspace Solarium Commission. The commission was to establish policy and strategic direction needed to prevent and prepare the United States against cyber space attacks. One of the key objectives coming from the commission was Promoting National Resilience to help mitigate risk across all elements of critical infrastructure.

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 January 21, 2021, President Biden temporarily suspended Donald Trump's EO and created a new EO 14028 titled "Improving the Nation's Cybersecurity". This EO charges multiple agencies with enhancing cybersecurity through a variety of initiatives related to the security and integrity of the software supply chain.

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 and is compliant with the CIP-014-1 standard requirements.

The FERC acted in July 2016 to improve the cybersecurity of the bulk electric system ("BES") through 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 was effective on January 1, 2021. CPS Energy is compliant with this new CIP standard CIP-013.

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, FERC sought comment on the potential risk of a coordinated cyberattack on geographically distributed targets and whether FERC action including potential modifications to the CIP Reliability Standards would be appropriate to address such risk.

On October 8, 2021, FERC released a report offering recommendations to assist professionals in the bulk-power system to improve their compliance with the CIP Reliability Standards and their overall cybersecurity posture.

On July 26, 2021, the Transportation Security Administration ("TSA") issued Security Directive Pipeline 2021-02 as an effort to improve the cybersecurity of the nation's critical natural gas pipelines or liquefied natural gas facilities. In this effort the TSA has mandated that all identified pipeline owners and operators must implement specific critically important mitigation measures aimed to reduce the risk of compromise from a cyberattack. All owners/operators were required to adhere to the directive and implement the controls by January 24, 2022. On July 26, 2023, the TSA introduced a revision to the security directive titled "Security Directive Pipeline-2021-02D (SD02D)" which supersedes all previous revisions of the directive. This revision requires gas pipeline owner/operators to establish and implement a Cybersecurity Implementation Plan, an Incident Response Plan, and an Assessment Plan that will allow the owner/operators to test the effectiveness of the measures outlined in the Security Directive. CPS Energy provides periodic reporting to the TSA related to mitigation and implementation of ongoing controls.

In February of 2022, U.S. geopolitical tensions increased due to the Russian invasion of Ukraine. During this time period the Department of Homeland Security through the Cybersecurity and Infrastructure Security Agency ("CISA") started a campaign known as "Shields Up" to help combat these tensions. Furthermore, the energy sector was placed on high alert due to the destructive capabilities the Russian government previously demonstrated on industrial control system in Ukraine. To date, CPS Energy remains in a heightened state of awareness because of the ongoing U.S.-Chinese geopolitical tensions.

In March of 2022, President Biden signed into law the Cyber Incident Reporting for Critical Infrastructure Act of 2022. This act requires the CISA to develop and implement regulations requiring covered entities to report to CISA cyber incidents and cyber extortion.

In March of 2023, President Biden released the National Cybersecurity Strategy. This strategy covers five pillars:

1. Defend Critical Infrastructure,
2. Disrupt and Dismantle Threat Actors,
3. Shape Market Force to Drive Security and Resilience,

4. Invest in a Resilient Future, and
5. Forge International Partnerships to Pursue Shared Goals.

The first pillar is aimed at further enhancing cybersecurity measures for Critical Infrastructure including developing new authorities to help set regulation, improving Public-Private Collaboration, integrating Federal Cybersecurity Centers, updating incident response plans, and modernizing Federal Defenses.

It is essential that CPS Energy aligns with industry standards such as the NIST Cybersecurity Framework and applies cybersecurity controls that are robust enough to stay ahead of the latest threats facing the energy sector. CPS Energy is currently implementing a 5-year strategic vision that ensures core cybersecurity capabilities (identification, detection, and protection) are met and advances those capabilities with the utilization of intelligence, advanced analytics, and machine learning algorithms.

CPS Energy participates in a variety of cyber initiatives and continues to analyze vulnerabilities and update its security, monitoring, and alerting technology 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 and lighting, are also employed to deter security threats. As portions of the CPS Energy teams have continued to work from home amid the Pandemic, CPS Energy continues to provide and implement cybersecurity measures to prevent incidents.

CPS Energy also participates with community and federal partners to ensure cybersecurity remains a focal point. CPS Energy has an established Cooperative Research & Development Agreement ("CRADA") with the Department of Defense ("DoD") units at Joint Base San Antonio. This CRADA allows CPS Energy to work side by side with DoD partners and perform tactical and strategic exercises to further secure the City. CPS Energy has also established a working relationship with the Texas Air National Guard cyber protection unit that allows for expedited incident response measures during emergency situations.

Part of the funding associated with CPS Energy's most recent rate case, approved in January 2022, is being used for technology upgrades to ensure cybersecurity protections remain in place.

TAX CREDITS, REPORTING, AND OTHER MATTERS

In March, 2024, Congressman Joaquin Castro announced that his office has secured $1 million for CPS Energy's Casa Verde Weatherization Program through the federal appropriations process. The additional funding will expand the reach and impact of Casa Verde, the utility's energy efficiency program that provides energy-saving upgrades for limited-income residents in San Antonio. This new funding is part of the Community Development Block Grant and will provide home repairs for 500 homes which will make them eligible for weatherization.

In 2023, the federal Department of Energy announced a federal grant to CPS Energy of $30 million to grow its power supply as part of $3.5 billion for 58 total projects awarded by the Biden administration to strengthen grid resilience nationwide. The grant is under the Grid Resilience and Innovation Partnership Program. CPS will also put up $30 million of its own funds to support growing energy resources that enable renewable energy sources to be better integrated into the grid.

In August 2022, President Joe Biden signed into law the Inflation Reduction Act ("IRA") that included, among other things, roughly two dozen energy tax provisions intended to help facilitate and support the transition to clean energy. Of particular significance to CPS Energy was the IRA's inclusion of a direct pay provision, which allows tax-exempt entities to receive direct cash payments from the federal government in lieu of comparable tax credits that CPS Energy would otherwise not be able to utilize.

In November 2021, President Joe Biden signed into law the IIJA. As it relates to utilities, the IIJA included new federal spending relative to utilities in the following categories:

- $65 billion for broadband infrastructure,
- $65 billion for electric and grid infrastructure,
- $47.2 billion for resiliency, including cybersecurity,
- $7.5 billion for zero- and low-emission school buses and ferries, and
- $7.5 billion in federal spending for electric and alternative fuel vehicle infrastructure.

The funding is largely being distributed through grant programs established (or in the process of being established) by various federal agencies. CPS Energy is actively engaged in assessing and applying for IIJA grant opportunities that can support and align with the utility's initiatives.

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 was 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 and Greenhouse Gases" 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. 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 affected CPS Energy's business, 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 after 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 D.C. Circuit Court 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. On November 16, 2021, FERC and NERC issued a final report examining the 2021 Winter Weather Event. The final report includes additional details regarding the need to strengthen rules for cold weather preparedness and coordination to prevent a reoccurrence of blackouts. Many of the recommendations were included in SB 3 as approved by the Texas Legislature earlier in 2021.

In 2024, U.S. Representatives Greg Casar and Alexandria Ocasio-Ortiz introduced legislation to require ERCOT to connect to neighboring grids and be regulated by FERC. CPS Energy will continue to monitor and evaluate this development and other FERC developments with a potential to impact the Systems.

THE PUBLIC UTILITY COMMISSION OF TEXAS

The PUCT exercises regulatory authority over the retail and wholesale markets of Texas. During the 87th Texas Legislature in 2021, Senate Bill No. 2154 passed relating to the membership of the PUCT. Now the PUCT is comprised of four commissioners plus 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. As of 2021, as a result of legislation passed by the 84th Texas Legislature in 2015, the PUCT requires MOUs to file certificates of convenience and necessity ("CCN") to build transmission within the MOU's certificates service territory that lies 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. 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. Pursuant to legislation passed during the 88th Texas Legislature in 2023, the PUCT now also has an expedited timeline under which they must approve or deny CCN applications.

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. 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 2021 Winter Weather Event, disrupted the flow of power to millions of Texas homes. On June 18, 2021, the PUCT lifted a moratorium on electricity disconnections allowing private electricity companies to shut off power to customers at the end of June 2021. CPS Energy resumed disconnects in September 2021 and has continued except when prohibited by holidays, maintenance schedules, and extreme weather conditions as outlined in CPS Energy's terms and conditions. As of March 31, 2024, CPS Energy has $88 million in installment plans, with an average length of 20 months and has approximately $154 million in past due accounts. CPS Energy is actively taking steps to support customers and implement collections actions to address accounts receivable. The past due amount is comprised of 38,000 inactive and 151,000 active accounts owing $35 million and $119 million, respectively.

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, Electric Cooperatives, and other vertically integrated utilities to provide these protections to their customers.

TEXAS RELIABILITY ENTITY, INC.

Headquartered in Austin, Texas, Texas Reliability Entity, Inc. ("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 ceased to monitor protocol compliance. Currently, the ERCOT Reliability Monitor is evaluating compliance with its protocols.

ERCOT

ERCOT is one of six Regional Reliability Councils in NERC. The ERCOT bulk electric system is located entirely within the State and serves more than 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 over 54,100 miles of transmission lines, including more than 9,000 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, 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 chair 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 approximately $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 submitted a new interim filing, which was approved on March 29, 2023, and authorized an access fee of approximately $3.18 per kW. The smaller non-investor owned TSPs with charges less than one percent of the total ERCOT wholesale transmission charges must file every 96 months. See "SAN ANTONIO ELECTRIC AND GAS SYSTEMS – CUSTOMERS AND RATES – Customer Rates – Transmission Access and Rate Regulation" herein.

ERCOT discontinued the use of the Seasonal Assessment of Resource Adequacy for the ERCOT Region and in its place published its first Monthly Outlook for Resource Adequacy ("MORA"). The MORA report is a monthly analysis of the resource adequacy and serves as an early indicator of the hour-by-hour risk that ERCOT may need to issue an Energy Emergency Alert or call for controlled outages to maintain grid reliability for the reporting month. The MORA report uses probability-based modeling to determine the likelihood that ERCOT will have insufficient operating reserves during each monthly peak electric demand period. The reports also include scenarios to show demand and resource availability for selected hours based on expected grid conditions.

On April 5, 2024, ERCOT published the MORA report for June 2024. The MORA report indicated the ERCOT region is expected to have a low risk of energy emergency for the month of June, under normal system conditions. The risk of energy emergencies is also low under an extreme low wind generation scenario.

On December 8, 2023, the Report on the Capacity Demand and Reserves ("CDR") in the ERCOT Region for 2024-2033 was updated. The CDR Report, which provides a 10-year forecasted planning reserve margin for the ERCOT summer and winter peak load seasons, highlights a forecasted peak demand for summer 2024 of 83,765 MW, a decrease from the last reported value of 85,029 MW. The winter 2024-2025 peak demand forecast is 69,282 MW, a decrease from the last reported value of 71,547 MW. The planning reserve margin expected for summer 2024 is now forecasted to be 29.4%. This is 4.7% points lower than the 34.9% margin for summer 2024 reported in the May 2023 CDR Report. This decrease is mainly due to delays in planned projects (mainly solar) that were previously expected to be in service. CPS Energy proactively monitors the ERCOT market closely to ensure it is mitigating the risk of exposure to high and volatile prices.

On November 3, 2022, the PUCT issued an order directing ERCOT to assume the duties and responsibilities of the Reliability Monitor for the Texas power grid. ERCOT, acting as the Reliability Monitor, gathers and analyzes information and data to meet its monitoring obligations as required by 16 TAC § 25.503(k), under the direction of PUCT.

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. Former 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.

In February 2022, the City Council of the City of Lubbock, Texas (the "City of Lubbock") voted to deregulate and enter into retail competition. In August 2022, LP&L officially notified ERCOT of its intention to join the retail competitive electric market, which is now complete.

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 and Solutions" herein for discussion of the Energy Price Risk Management Program in use at CPS Energy.

TEXAS LEGISLATIVE IMPACT ON THE ELECTRIC INDUSTRY

88th Texas Legislature

The 88th Texas Legislature convened in regular session on January 10, 2023 and ended on May 29, 2023. The Texas Governor subsequently called four special sessions throughout the remainder of 2023.

During the regular session of the 88th Texas Legislature, legislation was approved that impacted the administrative functions of PUCT and ERCOT, SB 3 from the 87th Legislature, the design of the ERCOT market, the treatment of demand-side energy resources, and initiatives to incentivize the building of additional dispatchable generation sources in ERCOT. The most significant pieces of legislation passed were HB 1500 (the sunset bill related to the PUCT, ERCOT, and OPUC, as well as market design concepts) and SB 2627/SJR 93, the Powering Texas Forward Act, to create a $10 billion Texas Energy Fund to incentivize the building and modernization of dispatchable generation sources. SJR 93 was approved by voters as Proposition 7 in the November 2023 constitutional amendment election. The PUCT has approved rules for the Texas Energy Fund loan program and will begin taking applications in June. The PUCT has also adopted rules for the Completion Bonus Grant Program and creating the backup power package program; both of these programs will tap funds from the Texas Energy Fund. Legislation was also adopted related to the development and operation of electric vehicle charging stations. No legislation altering the MOU business model was passed in the 88th Texas Legislature. CPS Energy personnel are actively engaged in the various PUCT workstreams.

Neither CPS Energy nor the City make any representation regarding any actions the Texas Legislature has taken or may take, but CPS Energy continually analyzes and monitors proposed and passed legislation for any developments applicable thereto.

Prior Legislative Sessions

The 87th Texas Legislature convened its regular session January 12, 2021 through May 31, 2021. The Governor previously called three subsequent special sessions beginning on July 8, August 7, and September 20, 2021. Following the 2021 Winter Weather Event, the Texas Legislature began its most comprehensive policy discussion in more than 20 years on addressing the State's power grid and its oversight. See "INTRODUCTORY STATEMENT – Texas 2021 Winter Weather Event".

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 House Bill 61 ("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 House Bill 4150 ("HB 4150"), which 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.

Other bills of impact to CPS Energy included House Bill 864 ("HB 864") and House Bill 866 ("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 Senate Bill 1012 ("SB 1012") and Senate Bill 1938 ("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 endpoints.

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. Senate Bill 64 ("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. Senate Bill 475 ("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, Senate Bill 936 ("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 Senate Bill 619 ("SB 619"), which groups the next Sunset review of the PUCT, OPUC, and ERCOT in 2024-2025.

During the 84th Legislative Session in 2015, the Texas Legislature passed Senate Bill 776 ("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 are required to 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. 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".

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 Senate Bill 758 ("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 House Bill 1818 ("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 and regulatory fee to fill a budget shortfall in its pipeline safety and 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 online.

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 ("SB 20"), enacted by the Texas Legislature in 2005, 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, 24.94% of the electricity generated in Texas from January 1, 2022 through December 31, 2022 came from wind energy resources, down from 23.66% for 2021. The total capacity of renewable facilities in Texas as of March 2023, is approximately 51,702 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 May 29, 2022, wind generation in ERCOT produced a new record of 27,044 MW. ERCOT's wind penetration record was set on April 10, 2022, at 69.15% 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 ("RTC"), and implementation of Marginal Line Losses. At the June 28, 2021, Technical Advisory Committee ("TAC") meeting, ERCOT announced an RTC implementation initiative, and has since provided regular status updates to the ERCOT Board.

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 RTC proposal as well as a two phase ORDC modification that would result in an increase in the reserve adder pricing. Both phases of the ORDC modification were successfully implemented. The first was implemented in the spring of 2019, with 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 April 2019, ERCOT formed the Real-Time Co-Optimization Task Force ("RTCTF"), reporting to the ERCOT TAC, to formulate and vet the policies needed to implement the RTO market change. In February 2020, the ERCOT Board 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 in December 2020 with an estimated implementation in late 2024. At the October 2021 ERCOT TAC meeting, the RTCTF presented completion of its charter deliverables. As a result, the ERCOT group dissolved the task force.

In August 2023, ERCOT reestablished the RTCTF and added batteries (energy storage) to the scope of the group. Energy storage investment and growth in the ERCOT market has revealed the need to fully integrate energy storage technology into the ERCOT market. The Real-Time Co-Optimization plus Batteries Task Force ("RTCBTF") will finalize the technical requirements for the RTC project and will include energy storage topics including State of Charge management as part of its charter. Once complete, the RTC enhancements to the ERCOT real-time market will allow for an more complete and optimized utilization of energy storage capacity.

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 SWOC of $9,000 per MWh, as is also required by ERCOT protocols.

During the 2021 Winter Weather Event, Texas experienced record-setting low temperatures for a sustained period. It is estimated that approximately 4 million customers lost electricity for days. ERCOT directed controlled outages to stabilize the grid. 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 1:20 AM. On February 17, 2021, at 11:55 PM 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 SWOC 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.

Several lawsuits have been filed against ERCOT and wholesale market design changes were implemented as a result of legislation enacted in the aftermath of the 2021 Winter Weather Event.

On June 24, 2021, the PUCT modified the value of the LCAP by eliminating a provision that ties its value to the natural gas price index and replaces it with a provision that ensures resource entities are able to recover their actual marginal costs when the LCAP is in effect. On December 2, 2021 the PUCT modified the value of the HCAP by lowering it from the current $9,000 to $5,000/MWh.

The PUCT opened a Project (No. 52373) where several wholesale market design developments were considered. In December 2021, the PUCT issued a two-phase blueprint for the ERCOT market redesign. Proposed phase-one concepts include reform to the ORDC, increase in demand response, reform to emergency response services ("ERS"), implementation of ERCOT contingency reserve services as a ramping ancillary service, implementation of fast frequency response, development of a voltage support ancillary service product, and development of firm fuel supply service ("FFSS").

In December of 2021, in response to a PUCT Order, ERCOT implemented changes to the formulation of the ORDC which offset the new lower HCAP by allowing scarcity price adders to materialize during times of lower scarcity. In August 2022, in response to a PUCT Order, ERCOT also increased the procurement of ERS by increasing the overall program budget to $75,000,000, an increase of $25,000,000. The PUCT also authorized ERCOT to procure an additional $25,000,000 in ERS capacity if the program is exhausted in an emergency event. In March 2022, in response to Senate Bill 3, 87(R), ERCOT established the rules to implement the new FFSS. In July 2022, ERCOT issued a request for proposal for the new service and announced in October 2022 that it had procured 2,940MW of capacity with an on-site backup fuel source to be used during fuel supply emergencies. The remaining phase-one changes are pending ERCOT protocol changes and system implementation.

Phase-two concepts focused on incorporating long-term market design reforms to promote the supply of dispatchable generation and develop a backstop reliability service. In February 2022, the PUCT issued a request for proposal to assist it in evaluating the various phase-two proposals, and in May 2022, the consulting firm Energy and Environmental Economics ("E3") was awarded the consulting contract. E3, PUCT staff, and ERCOT staff completed the analysis, and a report was published in November 2022 and filed in PUCT Project No 54335. E3 studied the five original proposals including the Load Serving Entity Obligation, Forward Reliability Market, Backstop Reliability Service, Dispatchable Energy Credits, and a hybrid that combined the Dispatchable Energy Credit and Backstop Reliability Service designs. During the evaluation process, PUCT staff and E3 developed a new proposal called the Performance Credit Mechanism ("PCM"). E3 formally recommended the Forward Reliability Market option and noted that their model results indicated a net increase in wholesale revenues in the range of $360 million to $920 million across all studied options. The PUCT considered these results, solicited stakeholder comments on the new option and in January 2023 commissioners formally adopted the PCM and declared their intention to pause on implementation of the PCM pending legislative consideration of wholesale market design policy. During the 88th Regular Session of the Texas Legislature, lawmakers considered various changes to the ERCOT wholesale market and ultimately adopted a series of laws to establish its desired framework for the PCM in House Bill 1500. The PUCT is now expected to update its wholesale market design efforts to align with legislative direction.

In May of 2023, the PUCT opened a Project (No. 55000) to further develop the PCM. In February of 2024, ERCOT filed a PCM update report focused on framework and design parameters, and policy decision points that the PUCT is expected to consider as the program is further developed. ERCOT is expected to continue to develop the framework and design of the PCM throughout 2024 by facilitating workshops with stakeholders and PUCT staff. Their goal is to develop and file a design proposal as early as July of 2024 with potential implementation yet to be determined.

Included in provisions adopted in House Bill 1500 is the requirement for ERCOT to develop and implement a new reliability service known as the Dispatchable Reserve Reliability Service ("DRRS") by December 1, 2024. The DRRS is intended to address market uncertainty caused by variations in generation availability by establishing a market-based product to provide additional dispatchable generation capacity. ERCOT identified implementation path options and at its open meeting held on June 29, 2023, the PUCT directed ERCOT to continue engaging with stakeholders on the implementation plan that would meet the statutory timeline. In July of 2023, ERCOT held a public workshop to identify and evaluate additional implementation details. In September of 2023, ERCOT filed a proposal to modify its protocols to implement DRRS in a limited way that would allow ERCOT to meet the statutory timeline. After PUCT deliberation and direction from key legislators, PUCT commissioners instructed ERCOT to fully implement the new service on a delayed timeline. ERCOT continues to work on the development of a service that will meet the legislative intent and in March 2024 held design workshops with stakeholders to develop a framework for the service and draft the necessary changes to ERCOT's protocols.

In April 2023, after a series of ERCOT stakeholder meetings and public workshops, the ERCOT Board of Directors approved a resolution recommending interim enhancement to the ORDC as a means to create a bridge between the current market structure and the fully implemented Phase-two market design. The resolution was in response to a request from commissioners that the ERCOT Board develop a recommendation that focuses on retaining existing resources, incentivizes new dispatchable generators, and reduces the need for out of market actions including Reliability Unit Commitments. ERCOT and its Technical Advisory Committee developed bridging options for the ERCOT Board to consider. In August 2023, the PUCT directed ERCOT to implement the ORDC enhancements as recommended by the ERCOT Board of Directors and provide metrics in their biennial performance report. On November 1, 2023, ERCOT implemented the ORDC enhancements by creating two minimum price floors to be effective prior to a capacity shortage.

In late September 2022, the PUCT voted in favor of expanding weather preparation rules governing weatherization of electric generation equipment and transmission equipment. The rule expansion heightens the seasonal standards, first deployed by PUCT in November 2021 for winter weather, and now includes equipment requirements for summer weather conditions. The winter weather preparation requirements took effect in December 2022, and summer weather preparation requirements began in June 2023.

In March of 2023, the PUCT opened a Project (No 54584) to establish a reliability standard for the ERCOT wholesale market. The PUCT recognized the need to create a metric to measure and maximize the desired level of reliability in the ERCOT system while balancing market costs. The creation of this standard will also determine the level of capacity needed for recently approved wholesale market design changes like the PCM, the new DRRS, or any other proposals that may be considered by regulators. The PUCT directed ERCOT to develop a methodology to formulate the standard based on three loss of load metrics including frequency, magnitude, and duration. ERCOT developed a model which evaluates the three metrics and has been working to create a set of study results that illustrates the reliability needs of the ERCOT system using varying installed reserve margin values under varying input assumptions. ERCOT's process uses a Monte Carlo simulation to predict reliability outcomes under many different capacity mix scenarios and creates a statistical representation of the risks associated with varying installed reserve margins on the ERCOT system. Initial results have shown that as the installed capacity increases, the reliability risk decreases. ERCOT expects to continue to refine the study and results in order to present a data set for commissioners to consider as they establish a reliability standard for the ERCOT market.

CONTINUING DISCLOSURE OF INFORMATION

In the respective Ordinances, the City, acting by and through the Board (who has accepted such responsibility by respective resolutions of the Board adopted on March 25, 2024) 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 Ordinances obligate 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, 2024"; "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 (the "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 IRS 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 each Ordinance, the City adopted policies and procedures to ensure timely compliance with its continuing disclosure undertakings. Neither the Bonds nor the Ordinances 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. Such information is not incorporated into or made a part of this Official Statement.

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, the Dealer Managers, 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 C – CERTAIN PROVISIONS OF THE ORDINANCES", and "APPENDIX D – FORMS OF OPINIONS OF CO-BOND COUNSEL" in this Official Statement, and such firms are of the opinions that the information relating to the Bonds, the Ordinances 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 Ordinances. 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, Bracewell LLP of San Antonio, Texas, whose legal fees are contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the City by the City Attorney and for CPS Energy by its General Counsel.

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

Jefferies LLC ("Jefferies"), as the book running senior manager of the Underwriters, has agreed, subject to certain customary conditions to closing, to purchase the 2024A Bonds, the 2024B Bonds, and the 2024C Bonds from the City at respective underwriting discounts of $______, $______, and $______, from the initial public offering prices therefor set forth on pages ii, iii, and iv of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds of each series , if any Bonds of a series are purchased. The obligation of the Underwriters to purchase any series of Bonds from the City is subject to certain customary conditions to delivery. The Bonds may be offered and sold to certain dealers and others at prices lower than the initial public offering prices set forth on pages ii, iii, and iv of this Official Statement, which may be changed, from time to time, by the Underwriters.

The Purchased Bonds are being purchased with the assistance of the Dealer Managers in connection with the Tender Offer. See "THE BONDS – The Purchased Bonds". For their role as Dealer Managers, the Dealer Managers will be compensated separately from their role as Underwriters for the Bonds, in an amount equal to a percentage of the aggregate principal amount of the Purchased Bonds and will be reimbursed for their reasonable expenses relating to the Tender Offer. The Dealer Managers' fees and expenses are expected to be paid from proceeds of the 2024B Bonds.

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.

Wells Fargo Bank, National Association, one of the Underwriters of the Bonds, receives customary fees and expenses in connection with the services it provides relating to the Original Commercial Paper Program and the Series B Flex Notes as described herein. See "COMMERCIAL PAPER PROGRAMS" and "FLEXIBLE RATE REVOLVING NOTE PRIVATE PLACEMENT PROGRAMS".

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.

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 compensation 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.

PNC Capital Markets LLC, one of the Underwriters of the Bonds, may offer to sell to its affiliate, PNC Investments, LLC ("PNCI"), securities in PNC Capital Markets LLC's inventory for resale to PNCI's customers, including securities such as the Bonds. Additionally, PNC Capital Markets LLC and PNC Bank, National Association are both wholly-owned subsidiaries of PNC Financial Services Group, Inc. PNC Capital Markets LLC is not a bank, and is a distinct legal entity from PNC Bank, National Association.

PNC Bank, National Association currently has and from time to time may have banking and other financial relationships with CPS Energy or the City.

Academy Securities, Inc., one of the Underwriters of the Bonds, has entered into third-party distribution agreements with TD Ameritrade Inc., Commonwealth Financial Network, R. Seelaus & Co., The GMS Group LLC, InspereX LLC, Mountainside Securities LLC, World Equity Group, Inc., CINCaP Investment Group LLC, National Securities Corp, Essex Securities LLC, and Isaak Bond Investments for the retail distribution of certain municipal securities at the original issue prices. Pursuant to these third-party distribution agreements, Academy Securities may share a portion of its underwriting compensation with these firms.

One of the Underwriters of the Bonds is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The Verification Agent will deliver to the City, on or before the settlement date of the Bonds, its Verification Report indicating that it has verified (i) the mathematical accuracy of the purchase price of the Purchased Bonds, (ii) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on Federal Securities to pay, when due, the maturing principal of, interest on the applicable Refunded Obligations, and (iii) the mathematical computations of yields used by Co-Bond Counsel to support their opinion that the interest on the Bonds will be excluded from gross income for federal income tax purposes.

The Verification Agent will rely on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, the Verification Agent will rely on any information provided to it by the City's retained advisors, consultants, or legal counsel.

TAX MATTERS

OPINIONS

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 their opinions 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 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 D – FORMS OF OPINIONS OF CO-BOND COUNSEL".

In rendering their opinions, Co-Bond Counsel to the City will rely upon the Verification Report and (a) the City's federal tax certificate, as well as the Private Letter Ruling (as it relates to the 2024B Bonds), 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 opinions of Co-Bond Counsel to the City are 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 opinions represent their legal judgment based upon their review of Existing Law and the reliance on the aforementioned information, representations, and covenants. Co-Bond Counsel's opinions are 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.

The Private Letter Ruling was sought and obtained from the IRS by the City with respect to a portion of the costs to be refinanced with the proceeds of the 2024B Bonds. A ruling was not otherwise sought from the IRS with respect to the remaining transactions, or portions thereof, described in this Official Statement, or the facilities financed or refinanced with the proceeds of the associated Bonds.

Co-Bond Counsel's opinions represent their legal judgment based upon their review of Existing Law and the representations of the City that they deem relevant to render such opinions and is not a guarantee of a result. No assurances can be given as to whether or not the IRS will commence an audit of the Bonds, or as to whether the IRS would agree with the opinions of Co-Bond Counsel. If an audit is commenced, under current procedures the IRS 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 DISCUSSIONS 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.

Interest on the Bonds may be includable in certain corporations' "adjusted financial statement income" determined under section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

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 IRS. 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 foreign investors, 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 regarding 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

The Bonds of each series are each rated "AA-", "Aa2", and "AA-" by Fitch, Moody's, and S&P, respectively. 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 representation 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.

Periodically, rating agencies will evaluate and, on occasion as a result of these evaluations revise, their rating methodologies and criteria for municipal issuers such as the City. A revision in a rating agency's rating methodology could result in a positive or negative change in a rating assigned by that agency, even if the rated entity has experienced no material change in financial condition or operation. Any of the rating agencies at any time while the Bonds remain outstanding could undertake such an evaluation process.

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 opinions 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, 2024 and 2023. These financial statements included in this Official Statement as APPENDIX B have been audited by KPMG LLP, independent accountants, 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 the provision of annual financial audit and related services, and on July 26, 2021, the Board approved the external auditing firm KPMG LLP as CPS Energy's external auditors, for a term to expire on July 25, 2025, with an option to renew for one additional year.

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 Ordinances and to the complete forms 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, ordinances, and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, ordinances, 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

By: /s/

Mayor, City of San Antonio, Texas

CITY PUBLIC SERVICE BOARD OF SAN ANTONIO, TEXAS

By: /s/

Chair, Board of Trustees
City Public Service Board of San Antonio, Texas

APPENDIX A

CPS ENERGY

CITY OF SAN ANTONIO, TEXAS –
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX A

CITY OF SAN ANTONIO, TEXAS
GENERAL DEMOGRAPHIC AND ECONOMIC INFORMATION

This Appendix contains a brief discussion of certain economic and demographic characteristics of the City 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 2020 Decennial Census ("2020 Census"), prepared by the United States Census Bureau ("U.S. Census Bureau"), found a City population of 1,434,625 [1]. The City's Information Technology Services Department has estimated the City's population to be 1,468,165 [2] for 2024.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 2,009,324 [1] according to the 2020 Census. The City's Information Technology Services Department has estimated Bexar County's population to be 2,061,971 [2] and the San Antonio-New Braunfels Metropolitan Statistical Area ("MSA") population to be 2,655,725 [2] in 2024. 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.

[1] Provided by the 2020 Decennial Census.

[2] Estimates are based on American Community Survey data in years when Decennial Census data are not available.

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
2020	1,434,625	2,009,324	2,558,143 [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 2020 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 contains approximately 511 square miles with a topography that 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 $155.0 billion in tax year 2023.

Changes to State annexation law in 2017 curtailed the annexation powers of Texas municipalities. The City's Annexation Policy was recently updated to reflect these recent changes in the State law, and to provide the guidance necessary to evaluate requests for special districts and development agreements in its ETJ. This Policy update is important as the City has seen an influx in the number of requests for special districts and development agreements in the City's ETJ. The Policy was considered and adopted as a component of the City's Comprehensive Master Plan by the City Council in August of 2023.

Annexations and Municipal Boundary Adjustments

The Planning Department currently is processing two Consent (Owner Initiated) Annexation requests, which should be effective by the end of 2024, for a total of 810.866 acres (1.267 square miles). On January 19, 2024, San Antonio annexed approximately 4,155.46 acres (6.493 square miles) of land because of expiring development agreements between numerous landowners and the city. As a result of that large annexation, San Antonio's corporate land rose to approximately 511 square miles.

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 May 1, 2021, 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 (8) years.

City Charter

See "THE CITY-City Charter" in the City's latest 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, 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 Energy 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 Energy is obligated to transfer a portion of its revenues to the City. CPS Energy revenue transfers to the City for the City's fiscal year ended September 30, 2023 were $ 453,476,849. (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, 2023 were $34,168,940. (See "San Antonio Water System" herein.)

Economic Factors

The City of San Antonio facilitates a favorable business environment that supports economic diversification and growth. San Antonio's economic base is comprised of a variety of strategic industry clusters, including Mobility, IT Security and Infrastructure, Sustainable Energy, Bioscience, and Corporate 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 historical status as one of the top leisure and convention destinations in the country, support a strong and growing economy.

Data from the U.S. Census Bureau's five-year American Community Survey Estimates shows that the San Antonio-New Braunfels Metropolitan Statistical Area's ("MSA") population grew by over 41,000 residents in the past year to over 2.57 million total residents. The MSA has an unemployment rate of 3.8%, slightly lower than the overall Texas rate of 4.1%. The area also experienced a 2.1% growth in nonfarm employment between March 2023 and March 2024, outpacing national trends. The MSA's total nonfarm employment is currently 1.18 million.

The City's Economic Development Department ("EDD") seeks to promote inclusive growth through strategic investments and public-private partnerships. San Antonio's City Council also accepted a five-year Strategic Framework for EDD in October of 2022. The Framework serves to align the City's policy initiatives towards building a more resilient local economy and raising San Antonio's competitiveness for capital and investment. Over the next several years, EDD will work towards expanding business retention and attraction efforts, accelerating place-based real estate development, developing local talent and a strong workforce pipeline, and holistic coordination with economic development partners.

Additionally, the City's Incentive Guidelines adopted in December 2022 require that all full-time employees associated with a project receiving an economic development incentive from the city must earn at least $17.50 per hour. The guidelines also require that 90% of employees must be paid at least $20.54 per hour, equal to 80% of the area's household median wage. These wage standards are intended to drive an incremental increase in wages in San Antonio. Furthermore, EDD has committed $300,000 in fee waiver incentives for business retention and attraction in fiscal year 2023, with an additional $1.1 million in uncommitted funds that can be leveraged for this purpose with future projects.

The San Antonio Economic Development Corporation ("SAEDC") was established by the City as a 501(c)(3) B-Corporation to "promote, assist, and enhance economic development activities for the City." The SAEDC has worked to foster the commercialization of intellectual property in San Antonio through direct equity investment in later stage companies or proven entrepreneurs, supporting the creation of new jobs, investment, and entrepreneurship. In alignment with the Strategic Framework, the SAEDC recently amended its bylaws to also serve as a tool to support place-based real estate development that creates quality spaces for new jobs and investment in San Antonio's regional centers and neighborhood economic nodes.

Major Initiative – Local Business and Workforce Development

San Antonio received $326 million in American Rescue Plan Act ("ARPA") State and Local Fiscal Recovery Funds. On February 3, 2022, City Council approved several major spending pillars for these funds, including COVID-19 testing and vaccination, revenue replacement and operations support, housing assistance programs, digital connectivity, and local business support and development. A total of $33.9 million in ARPA funds, an increase from the original budget of $30.95 million, were allocated by the City Council under the Small Business Support pillar to be overseen by the Economic and Workforce Development Committee, to be used towards improving access to capital, building entrepreneurial capacity, ecosystem enhancements, a Buy Local program, geographic placemaking, as well as additional efforts.

Recognizing the continued impact of the COVID-19 pandemic on San Antonio's small businesses, City Council originally set aside $20.6 million of the ARPA funds, now increased to $23.58 million, to provide enhanced access to flexible capital that could support small business recovery and resilience. To support the distribution of $17 million of these funds, business development organization ("BDO") partners extended technical support to San Antonio's small business community by offering guidance in areas such as startup expansion needs and financial assistance. The efforts of these organizations resulted in more than 1,000 small businesses receiving support in the form of technical assistance. Partners were able to contact over 7,000 businesses and provide technical application assistance to 250. At the program's conclusion in January 2023, 523 grants were distributed with an average award of $29,942.

Furthermore, EDD signed five (5) agreements totaling $5.05 million with community development partners on April 6, 2023, to provide enhancements to San Antonio's small business ecosystem. These initiatives include the Maestro Entrepreneur

Center's Second Stage Program, which will provide four cohorts of business owners individualized training, peer support, and leadership development to help their second stage businesses expand. The program graduated one cohort in December 2023 and began the second in April 2024.

The Façade Improvement Program, with $3 million in ARPA funding, supports improvements to commercial building facades visible from the public right-of-way in targeted areas of the city. Grants will range from $5,000 to $50,000, with a cost-sharing structure based on the Combined Equity Score of the project location. The program received 203 applications which are currently under review with awardees to be notified in Summer 2024.

The Outdoor Spaces Program, with $1.25 million in ARPA funding, will provide grants ranging from $2,000 to $10,000 to small, locally owned food and drinking establishments for the addition or improvement of outdoor spaces. The program includes a cost-sharing requirement based on the Combined Equity Score of the project location's Census Tract. The program had 42 awardees notified in March 2024.

The Digital Presence Program, launched in February 2024, provides free coaching and digital services to those with the greatest need. The first two (2) months of the program saw over 180 small businesses completing the program assessment and receiving a custom educational report.

San Antonio for Growth on the Eastside's Back Office Support program supported 40 Eastside businesses with health assessments, business planning support, and connection to funding resources in its first year.

Personalized outreach, technical assistance, and access to financial resources are the core of the Prosper West Companero Program for Westside small businesses. The program aims to conduct outreach to 250 businesses in the first year of the program.

Several efforts from Local Initiatives Support Corporation ("LISC") San Antonio include expanding access to zero (0) interest microloans, capacity strengthening for BDO Alliance members, and development of a professional service provider referral network to bolster the small business ecosystem.

RevitalizeSA: Corridor Leadership Program, a nine-month training program launched in January 2024 with a cohort of 20 participants to support community-based economic development along commercial corridors. Following training, cohort members receive grants up to $10,000 to execute revitalization projects. Applications for the second cohort open in fall 2024.

In 2023, the City signed a three-year agreement with Geekdom, LC, to oversee and manage operations at Launch SA, the City's entrepreneurship support center. Launch SA provides a variety of services such as business advising, mentorship, and connections to funding opportunities at no cost to business owners and other clients within San Antonio. Started in 2011, Geekdom, LC is a well-established ecosystem leader with the goal of helping launch 500 startups in the next 10 years with at least 75% of them remaining in San Antonio. The partnership will provide innovation-forward support for entrepreneurs at any stage of business from ideation to maturity, and act as a central hub for San Antonio's small businesses.

Additionally, to enhance Launch SA's capacity and to provide valuable market research, the City has signed contracts with EcoMap Technologies, Inc, and SizeUp. Working with EcoMap Technologies, Inc, the City will examine the ecosystem of small business and entrepreneurial support, and create an online platform that provides simplified, easy-to-understand information on the organizations and resources available to small businesses at any stage or within any industry. Additionally, working with SizeUp, the City will provide market research, benchmarking, and business advising through an online platform. Together, Launch SA, EcoMap Technologies, and SizeUp will provide a robust portfolio of resources to small businesses and entrepreneurs at no cost to them, guiding clients through all stages of their business journey.

To provide greater access to flexible capital for small businesses, the City renewed its agreement with LiftFund to administer the Zero Interest Loan Program. This program allows business owners who can't access traditional loans and credit are offered loans from $500 to $100,000 for a variety of uses from payroll to new equipment. With $2 million in total funding over fiscal years 2024 and 2025, this program uses its funding to buy down the interest on loans, offering business owners a line of credit where they pay zero (0) dollars in interest. Over the next two (2) years, the program has a goal of providing accessible, affordable capital to 140 individual businesses, and stimulating job growth and retention among small businesses.

Based on a 2021 study from Drexel University's Nowak Metro Finance Lab, 17 local public agencies in Bexar County spent $4.2 billion on procurement of goods and services. Recognizing government procurement as a powerful tool for economic development, San Antonio led the creation of an interlocal agreement called Supply SA between 14 agencies in Bexar County to streamline and uniform their procurement procedures. This effort, approved by San Antonio's City Council on April 11, 2024, will help fund the creation of a Procurement Service Center at the University of Texas San Antonio ("UTSA"), hire an external firm to track effectiveness, and fund a comprehensive procurement assistance program with staff navigators to assist clients. By improving the small business owner's experience, and enhancing planning and decision-making, Supply SA will increase the availability of local small businesses for procurements and increase their utilization on contracts.

The City of San Antonio also administers various programs that build the capacity of our local small, minority, and woman-owned business ("S/M/WMBE") community. One significant program is the Small Business Economic

Development Advocacy Program ("SBEDA") which applies incentives and requirements for SWMBE participation on City contracts. An independently conducted 2023 Disparity Study on government procurement in San Antonio found that the SBEDA program has been very successful in opening opportunities for minority and woman-owned businesses, as many demographic groups have reached parity or beyond in receiving City contract dollars. In fiscal year 2023, the City of San Antonio, allocated $330 million (57.3% of all contract dollars in which the SBEDA program applied) to 517 unique local S/M/WBEs. Of that, $293 million (50.8%) was allocated to 433 unique minority and woman-owned businesses ("M/WBEs"), exceeding the 24.9% programmatic aspirational goal. Both the S/M/WBE and M/WBE figures represent the largest annual utilization in the history of the SBEDA program. Overall, since 2011, local M/WBE utilization on City contracts has grown from $5.5 million or 13% to $293 million or 51%. Beginning in 2022, the City launched SA: Ready to Work program. SA: Ready to Work is a $200 million training, education, and job placement program funded by a 1/8 local sales tax. SA: Ready to Work is led by employer guidance, and offers tuition assistance, support services, job placement, and job retention services for thousands of unemployed, under-employed, and historically underserved residents through 2027. Since its inception, over 400 employers have pledged to support SA: Ready to Work program.

As of April, 2024, the program has completed over 11,600 interviews to assess needs and eligibility. Over 6,600 participants have been enrolled in approved training courses aligned with 83 target occupations that are well-paid and in high demand. Over 1,200 participants completed their training, and 80% of those have been placed in quality jobs within 12 months of completing training. The median hourly wage of participants placed is $19.00, which equates to an annual salary of over $39,000 per participant. Ready to Work has recently launched a pilot to fund employer on-the-job training and incumbent worker training, which will upskill over 1,300 additional individuals. The most popular categories chosen for training are healthcare, information technology and cybersecurity, and then transportation and warehousing. This historic investment in San Antonio's workforce shows great potential for bolstering San Antonio's workforce and uplifting families.

The SAEDC also promoted enhanced economic development opportunities for S/M/WMBEs. In June 2022, the SAEDC Board approved the Capacity Building & Bonding Assistance Program designed to help eligible local S/M/WMBE owners bid of City of San Antonio construction contracts. As part of the programming, City Council approved a $500,000 revolving pool of funds to offset City bonding requirements for small construction businesses in addition to the various capacity building and training offered. The program has been open to the public since October 2022. Alamo Surety Bonds have administered 34 classes and 78 one-on-one consultation hours. this has resulted in an increase in participant bonding capacity and bid submissions. The overall participant bonding capacity moved from $1.4 million to $7 million (400% Increase). Additionally, participants have requested 20 bid bonds for both the City and other public agencies.

Beyond the City's efforts in local business and workforce development, the City is committed to fostering economic development and investment in five strategic industry clusters identified in EDD's Strategic Framework: Mobility, IT Security and Infrastructure, Sustainable Energy, Bioscience Anchors and Catalysts, and Corporate Services. These sectors represent the strongest opportunities for growth and success in the City and are supported by existing local anchors and assets that can serve as foundations for future support. Furthermore, these target industries are eligible for additional enhanced incentives under the recently adopted incentive guidelines, thus highlighting the City's commitment to fostering these industries. A summary of current economic factors relating to each industry cluster follows.

Mobility

In the City, mobility and manufacturing are closely linked through large employers such as Toyota, Boeing, DeLorean, and Navistar, which embrace the adoption of new manufacturing technologies and innovative methods for product delivery. The Mobility cluster accounted for 99,760 jobs in the MSA, an increase of three (3%) percent over the last 12 months and had an annual economic impact of over $14 billion.

Toyota Motor Manufacturing Texas, Inc. Corporation is one of the largest manufacturing employers in the City with an estimated workforce of over 3,800 in addition to the 5,600 employed by on-site supplier companies., The company expanded its local production in 2010, adding the production of the Tacoma truck. Toyota shifted its Tacoma manufacturing from Fremont, California to the City, 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 Sequoia vehicles, generating an estimated annual impact of $1.7 billion. This will allow the plant to be more flexible to meet market demand, and in 2022 Toyota brought exclusive production of the Sequoia Hybrid SUV to the City. In 2022, Toyota completed the expansion project which is estimated to bring more than $10 billion in economic impact and 40,000 new jobs to the region over 10 years, according to greater:SATX. From the start of its Texas operations until 2035, Toyota is expected to contribute $207.7 billion to Bexar County's GDP, with a total output of $372.5 billion. Sales of the San Antonio-built hybrid Tundra pickup doubled in 2023, but a landmark year for Toyota's fleet of electric-powered vehicles and a jump in year-over year sales was not enough for it to edge ahead of General Motors Corp. as 2023's top selling U.S. automaker. The San Antonio manufacturing plant is increasingly focusing on electric vehicles — which accounted for nearly one-third of the company's annual sales.

Navistar International Corporation, a publicly traded manufacturer of semi-trucks, construction trucks, school buses, and diesel engines for several automobile manufacturers, was acquired by Traton Group, a subsidiary of Volkswagen for $3.7 billion in 2021. Following this acquisition, Navistar built a high-tech $250 million, 900,000-square-foot. factory on the City's south side near Mitchell Lake to expand its diesel engine and fully electric vehicle manufacturing in San Antonio. The project was completed, and the facility opened in March of 2022. With their growing presence, Navistar currently employs over 600 people at the facility. Additionally, Navistar established their Advanced Technology Center at a site near Interstate 37 and 1604 and the center conducts validation, R&D testing on new engines and trucks, 100,000-mile simulations, and after-market modifications. This latter facility also employs an additional 159 workers.

In October 2023, JCB (Joseph Cyril Bamford Excavators Ltd.), a privately held heavy equipment manufacturing company headquartered in the U.K., announced it is expanding in San Antonio. On April 4, 2024, the San Antonio City Council approved an incentive package to support the project's 750,000 square foot facility, investment of $265.7 million in real and personal property, and the creation of 1,580 jobs paying an average annual salary of $54,889.

In November 2023, NASA has awarded $1.3 million, to Exploration Architecture and its subsidiary Astroport Space Technologies based in San Antonio, three (3) Phase 1 awards and one Phase 2 award to develop construction and operations technologies needed to create surface landing/launch pads on the moon. $450,000 will go toward the advancement of Astroport's lunar brick-making technologies and for XArc to develop a robot to survey potential landing/launch sites on the moon. Astroport and its consortium team will use the remaining $850,000, part of a Phase 2 STTR, to refine its concept of operations and system architecture for the landing/launch pad site preparation and construction process. Additionally, Astroport Space Technologies also received funding from the City through the 2024 SBIR/STTR Matching Grant Program.

In December 2023, Boeing announced that it was expanding its presence at Port San Antonio as it's set to open Aerospace Adventure, a new interactive experience highlighting the wonder of science, technology, engineering, and math. The 2,400-square-foot exhibit will allow visitors to design, build, modernize and take flight with hands-on activities showcasing the limitless possibilities of aerospace. Boeing, which has more than 3,000 employees in the Alamo City and a significant presence at Port San Antonio, has funded a range of grants this year through the Kelly Heritage Foundation supporting aerospace education and workforce development in South Texas.

Also in December 2023, StandardAero celebrated the graduation of the company's third and fourth classes from its in-house Aviation Mechanic Training Program at the company's San Antonio site located at Port San Antonio. StandardAero launched its new Training Academy and Mechanic Training Program in June 2023 and has graduated 55 new mechanics. The Mechanic Training Program can support up to 200 new mechanics annually. StandardAero's customized, in-house training program and Academy focuses on training groups of up to 25 employees in each of its cohorts, working through a comprehensive 12-week program featuring a variety of experiences ranging from classroom training to hands-on training with tooling, equipment, and engines. The Academy is located at the San Antonio MRO facility, which houses five (5) major engine MRO programs, serving both commercial and military customers, under more than 810,000 square feet of industrial space. In May 2022, the City of San Antonio presented a $2.5 billion plan to develop a third terminal for its international airport. The centrally located airport has 11 domestic and international airlines that provide commercial services to over 10 million passengers per year, a number which is expected to grow to 18 million passengers by 2040. The addition of a third terminal and 17 new gates will allow San Antonio to meet the demand for air travel, supporting its status as both a popular tourist destination and a business hub. The new terminal is expected to be completed in 2028. To facilitate and attract the addition of new nonstop routes to and from San Antonio, greater:SATX also generated a $3 million Air Service Development Fund from private investments in 2022. In 2023, the San Antonio International Airport (the "Airport" or "SAT") recorded over 10.6 million passengers, marking the busiest year in its 80-year history. The Airport generates an annual economic impact of $5.2 billion and supports approximately 46,000 jobs in the region. The Federal Aviation Administration ("FAA") announced in February 2024, that the Airport will receive $18 million in grant funding for a new terminal, bringing to $30 million the total the airport has received in federal funds in 2024.

IT Security and Infrastructure

With an annual economic impact of nearly $11.4 billion, and a total employment of over 25,000 employees, the Information Technology industry in San Antonio is a major driver of economic activity and innovation. The city is home to numerous IT companies and initiatives across consumer, corporate, and Federal/Department of Defense ("DoD") operations, including Jungle Disk, TrueAbility, Rackspace, Microsoft, Bitdefender, the 16th Air Force, the National Security Agency ("NSA"), and others.

San Antonio boasts some of the most sophisticated uses of IT in the world, even though much of that advanced usage remains confidential 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 Capitol Region. More than 40 entities have headquarters in the cyber and cybersecurity sector in San Antonio. The most prominent organization representing the DoD with cybersecurity missions in San Antonio are the 16th Air Force Information Warfare Numbered Air Force and the National Security Agency-Texas. Other federal entities performing cyber missions are FBI-San Antonio, the U.S. Secret Service, NSA, and the Department of Homeland Security.

Integral to innovation in IT in San Antonio is the University of Texas at San Antonio ("UTSA"), which hosts the nation's top cybersecurity program, and UTSA's National Security Collaboration Center ("NSCC"). The NSCC was developed to better align partnerships and collaboration between UTSA professors, students, and leading public and private partners. Opened in January 2023 as part of the UTSA School of Data Science at San Pedro 1, the NSCC is a Government-University-Industry ecosystem in downtown San Antonio, attracting diverse thinkers and problem solvers to join the national security conversation to uncover interdisciplinary solutions collectively. The NSCC has partners such as Booz Allen Hamilton, Southwest Research Institute ("SwRI"), the DoD, the NSA, Raytheon, Dell, Cisco, and others, that will catalyze further training, collaboration, and IT workforce development in San Antonio. UTSA broke ground in October 2023 on the adjacent $131 million Innovation, Entrepreneurship and Careers building that will introduce additional interdisciplinary programs in business, engineering, and the sciences, and it is expected to open in the Spring of 2026. In October 2023, UTSA broke ground on San Pedro II facility which will introduce more interdisciplinary and collaborative programs in business, engineering and sciences and will also leverage opportunities for academic programming and research collaborations among programs in both buildings. San Pedro II is part of UTSA's larger initiative to strengthen its downtown presence and to serve as a catalyst for bringing more businesses to the city center to spur economic development in San Antonio.

These major initiatives will anchor UTSA to the downtown "Tech District" and spur continued community investments in the area.

Also contributing to the innovation ecosystem in San Antonio is Geekdom, a collaborative co-working space, incubator, and accelerator. With over 50,000 square feet in Downtown San Antonio, Geekdom offers its members co-working space plus programs and opportunities that empower entrepreneurs to ideate, cultivate, shape, and grow ideas into viable businesses ready for the next level. Geekdom's 10-year target is to launch the next 500 startups with at least 75% calling San Antonio home. Currently, Geekdom tracks more than 256 companies of which 164 are minority- or women-led. Geekdom has helped its member companies raise more than $500 million and create more than 3,000 jobs. In November 2021, Geekdom announced the opening of a new cybersecurity accelerator led by gener8tor. The 12-month program launched its first cohort in October 2022, and its second in April 2023. Hosted in Geekdom's downtown office, the program is expected to expand in 2023 and 2024 for a total of 25 startups with each receiving $100,000 in investment along coaching and mentorship to scale their business. Geekdom also has partnerships with the City of San Antonio, Bexar County, UTSA, United Services Automobile Association ("USAA"), Google, and Amazon.

Recently, Geekdom-facilitated startup Parlevel sold to 365 Retail Markets for an undisclosed amount but reported to be in the tens of millions of dollars by news outlets. The SAEDC had previously made a $100,000 investment into Parlevel through its efforts to support the local entrepreneur ecosystem. This sale represents the value and success of having a mature accelerator and incubator program in downtown San Antonio, and the creativity which it can foster from inception to widespread success in the IT sector. Geekdom's work in connecting startups to resources and early-stage investments has helped create over 450 startups and 3,000 jobs in the San Antonio region.

In April 2017, San Antonio 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 I opened in May 2018, and since then, Port San Antonio directors approved an expansion – Project Tech II – which included a new 173,000 square foot office building that opened in March 2022. Altogether, Port San Antonio hosts nearly 2,000 cybersecurity and IT professionals including the 16th Air Force, the Alamo Regional Security Operations Center ("ARSOC"), and the Cybersecurity Manufacturing Innovation Institute.

Altogether, Port San Antonio serves as an innovation center focused on supporting military and commercial solutions for applied technologies in critical infrastructure, manufacturing, transportation, and related sectors. In April 2023, the Port's board of directors approved an agreement to develop a 300,000 square foot office tower of Class A++ office space. The building is expected to be completed in 2028. Having already developed and leased over 700,000 square feet of new facilities in the last six years, investments in Port San Antonio will further bolster the Port's operations and importance for the IT and cybersecurity industry, along with the over 80 companies and 17,000 people already working at the Port. Port San Antonio is also home to companies in the manufacturing and IT sectors such as Boeing, Plus One Robotics, and DeLorean, has a 350-acre rail port serving businesses across various industries, and the entire site is covered by a General Purpose Foreign Trade Zone designation.

The ARSOC is an initiative led by the City and its partners at San Antonio Water Systems ("SAWS") and CPS Energy. The initiative created a centralized security operations facility for real-time, collaborative cybersecurity information sharing among municipally owned entities in the San Antonio Area. 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, which officially launched in December 2021 with the goal of becoming the model Urban Cyber Security Center of Excellence. By consolidating members from both the City and CPS Energy security teams, San Antonio will be better positioned to coordinate against cyber threats.

In December 2023, Denver-based Vantage Data Centers is planning to deliver a 242,000-square-foot location on San Antonio's Far West Side. The two-story, 32-megawatt capacity structure is expected to cost about $95.8 million, according to a filing with the Texas Department of Licensing and Regulation. The site at the Texas Research Campus has been dubbed "TX11". Construction on the San Antonio campus is expected to wrap up in the second half of 2026.

SBIR Advisors, a veteran-run consulting company, has secured $157 million in Department of Defense contracts for its clients in 2023. Nearly $50 million of the $160 million in defense contracts the firm helped secure for its clients in 2022 went to San Antonio companies, including Braingu, Knight Aerospace, Elevate Systems, Renu Robotics and Forward Edge. San Antonio has historically been a formidable player in the government contracting space. That trend carried on in 2023 with San Antonio companies seeing more than $2.75 billion in government work last year, according to Business Journal data from November 2023.

Peraton Inc., a national, multibillion-dollar IT service provider based in Herndon, Virginia, has opened an office in the Capital Factory at Port San Antonio. The office, which is strategically located near defense contractors, cybersecurity providers and the 16thAir Force, a United States Air Force organization focused on information warfare, will help deepen its existing relationships in the Alamo City and "fuel synergies with federal agencies, industry, academia, and San Antonio's tech corridor", company officials say. Peraton is seeking to expand its work in San Antonio to include cybersecurity, systems engineering and developing capabilities for the Air Force, U.S. Cyber Command, and the intelligence community. In support of this expansion, the company is actively recruiting for 35 positions in San Antonio, with an emphasis on cybersecurity, systems engineering, software development and intelligence analysis.

Sustainable Energy

Employing almost 20,000 jobs and an annual economic impact of over $8 billion, the Sustainable Energy Cluster promises to be a major driver of domestic investment and economic activity over the coming decades with the growing electrification of vehicles, a national recognition of the need for sustainable energy, and large Federal investments through the Creating Helpful Incentives to Produce Semiconductors and Science Act, the Bipartisan Infrastructure Law, and the Inflation Reduction Act. Texas is already a leader in the generation of power from renewable energy sources, and San Antonio is positioned well to compete for jobs and investments in this industry sector due to its diversified economy, workforce development programs, established advanced manufacturing industries, and access to transportation infrastructure. Aligned with the EDD's Strategic Framework, the City is seeking to attract new investments in sustainable energy, as well as support the expansion of existing companies into this sector.

The City's municipally owned electric utility, CPS Energy, is one of the largest in the United States. CPS Energy serves over 900,000 customers and generates $3.5 billion in annual revenue. As part of the company's 2019 Climate Action and Adaptation Plan, CPS Energy set the goal of reducing its greenhouse gas emissions by 41% by 2030 through the adoption of existing technologies such as solar power, and the exploration of new technologies such as Geomechanically Pumped Storage ("GPS") to provide sustainable, on-demand energy generation. San Antonio is first in Texas for solar power generation capacity, and fifth nationally. In 2021, CPS Energy signed a 15-year agreement with Quidnet for a pilot program to develop its GPS technology. Noting the potential of this technology, the Department of Energy's Advanced Research Projects Agency-Energy ("ARPA-E") selected Quidnet's San Antonio pilot for $10 million in additional funding to expand its generation capacity to a 1-megawatt, 10-megawatt hour system. As a leader in the development of innovative energy production and distribution technologies, CPS Energy's public sector investments promise to catalyze job growth and creation in the region.

In February 2024, the City, CPS Energy, and the United States Air Force signed a Memorandum of Understanding ("MoU") titled, "Establishing Long Lead Time Sources of Resilient Carbon Free Electricity on Joint Base San Antonio". This document is yet another tangible example of the strong partnership between the City and the military. This MoU demonstrates Military City USA's collaborative partnership with the Air Force to evaluate long lead time resilient carbon-free electricity such as green hydrogen, geothermal, and new nuclear on JBSA. The intent of this MoU is to serve as a planning document. The strategic planning output will certainly support our City's pledge to be carbon net zero (0) by 2050.

Johnson Controls, a multinational sustainable building company, was awarded a $33 million grant from the U.S. Department of Energy Office of Manufacturing and Energy Supply Chains to help increase domestic production of electric heat pumps in November 2023. Johnson will use the grant to expand its manufacturing in other locations and San Antonio to scale production of its York line of heat pumps, creating approximately 1,000 new jobs – including up to 200 new jobs in San Antonio. Updated plants will produce an estimated 200,000 residential, commercial, and industrial heat pumps combined – a production increase of 200%, the company estimates, adding that the increased production will cut an estimated 25 million metric tons of CO_2 per year.

Howard Energy Partners of San Antonio closed out 2023 with about $800 million in completed growth projects. Howard Energy Partners, which transports bulk liquids for leading energy companies, reported achieving record volumes this year, with a current average natural gas throughput of over 2.5 billion cubic feet per day and a current average terminal throughput of more than 160,000 barrels per day. They achieved this volume while maintaining a perfect safety record and earning a GRESB five-star ESG rating for the second year in a row. This growth was highlighted by two major projects: expansion projects at HEP's Port Arthur terminal facility to accommodate renewable diesel transportation and the completion of its new South Texas natural gas pipeline, a 62-mile, 36-inch pipeline that can transport natural gas from the Eagle Ford to LNG facilities on the Gulf Coast.

San Antonio's Atma Energy, in partnership with Bandera Electric Cooperative ("BEC"), completed the first successful test of its virtual power plant pilot program in January 2024. Through the program, BEC members will purchase a solar system and the utility would provide them with an energy storage system at no cost. Members are compensated for any excess energy stored by the batteries, which BEC can discharge into the grid as needed through Atma's smart grid hardware and software that allow for bidirectional energy flow. Eventually Atma Energy will expand the program to include another 70 homes for a total of 80 homes by the end of 2024.

Synthica Energy LLC, a renewable fuels and energy company that designs, builds, owns, and operates large-scale, contracted anaerobic digestion facilities, has purchased a $2.5 million property on San Antonio's East Side, as it plans to build a nearly $70 million renewable natural gas facility. Synthica expects to break ground on the facility sometime in the second quarter of 2024. Once up and running, the facility will have the capacity to accept 300,000 tons of food-derived feedstock per year and produce 260 million cubic feet of renewable natural gas ("RNG"), which Schutte says is enough to power thousands of homes.

NuStar Energy LP, San Antonio-based pipeline and terminal operator has agreed to be acquired by Dallas-based fuel distributor Sunoco LP for $7.3 billion. NuStar is one of the largest independent liquids terminal and pipeline operators in the nation. NuStar owns 8,700 miles of pipeline and 79 terminal and storage facilities that store and distribute crude oil, refined products, and specialty liquids.

Bioscience Anchors and Catalysts

Employing nearly 1 in 5 workers in San Antonio, the bioscience and healthcare industry continues to be a significant driver of economic activity in the region, with over 150,000 employees and an economic impact of over $18 billion. Over 50,000 jobs have been added in bioscience and healthcare over the last decade, with an average salary of $83,000. San Antonio has several major employers in this industry cluster such as the Texas Biomedical Research Institute, BioBridge Global, three (3) million KCI (now Solventum) and four (4) hospital systems. Driving innovation in this segment are over 20 academic, independent, and DoD biomedical research organizations. The San Antonio Market is the largest military health complex in the United States.

UT Health Science Center San Antonio ("UTHSCSA"), a primary driver of San Antonio's $44.1 billion health care and biosciences sector, is the largest academic research institution in South Texas, sustaining an annual research portfolio of more than $400 million. UTHSCSA drives a substantial economic impact with its six (6) professional schools, a diverse workforce of 7,900, an annual operating budget of $1.5 billion, clinical practices that provide 2.6 million patient visits each year, the largest medical practice in South Texas and more than 450 ongoing clinical trials. UTHSCSA plans to add 1,500 higher-wage jobs over the next five years to serve San Antonio, Bexar County and South Texas.

Additionally, over the next three years, the university will invest more than $1 billion reflecting unprecedented growth of its clinical mission, with the launch of the UT Health San Antonio Multispecialty and Research Hospital (opening December 2024) and UT Health at Kyle Seale Parkway which opened March 2024; its education mission, with the addition of The University of Texas School of Public Health San Antonio; and its research mission, with the building of the UT Health San Antonio Center for Brain Health adjacent to its patient-care flagship, the Medical Arts and Research Center.

University of the Incarnate Word opened their school of osteopathic medicine in 2015, received full accreditation in 2021, and has since matriculated over 648 students and will be expanding at the Brooks City Base campus by investing $70 million in transforming an 8-story tower, previous build by USAA and used by Southwestern Bell, with an expected completion in late November 2024.

Ground was broken in January 2024, for the University Health's Palo Alto Hospital. Located next to Texas A&M-San Antonio's campus, the 68-acre and five-story complex is slated to open in 2027 and carry 166 inpatient beds. The hospital will also have a 24/7 emergency department, labor, and delivery units, a NICU, operating rooms, and radiology and lab services.

Specialists and family medicine physicians will work in an office building connected to the hospital. The 68-acre property will also be home to University Health's Institute for Public Health. Palo Alto Hospital is slated to open in 2027.

As the result of medical services consolidation and realignment under Defense Health Agency ("DHA") over the last several years, the former San Antonio Military Health System is now known as DHA's San Antonio Market - one of twenty such markets. The San Antonio Market comprises the 59th Medical Wing, Brooke Army Medical Center ("BAMC"), the US Army Institute for Surgical Research ("USAISR"), the Naval medical Research Unit- San Antonio ("NAMRU"), the Center of the Intrepid, and the Audie Murphy VA Medical Center which are staffed by approximately 11,000 Air Force, Army, Navy, civilian, and contract personnel. The San Antonio Market provides care to more than 250,000 military beneficiaries across its area of responsibility.

BAMC contains the largest inpatient medical facility (425 beds -- Joint Commission accreditation) in the DoD, has the only DoD Burn Center, and the DoD's only accredited Level 1 Trauma Center in the U.S. In late 2022, BAMC celebrated the 25th anniversary of receiving its Level I trauma accreditation. The facility can be expanded to 653 beds in the event of disaster. BAMC's services include general medical and surgical care, adult, and pediatric primary care clinics, 24-hour Emergency department, specialty clinics, clinical services, wellness and prevention services, veterinary care, and environmental health services. BAMC is also a UTSA and Uniformed Services University of the Health Sciences teaching hospital. The U.S. Army Medical Center of Excellence, or MEDCoE, is located at Fort Sam Houston. The Army Medicine proponent responsible to envision and design responsive Army Medicine capabilities and structure that support the fielded force and the future force.

Wilford Hall Ambulatory Surgical Center, operated by the United States Air Force's 59th Medical Wing ("59 MDW"), at JBSA-Lackland is the largest outpatient ambulatory surgical center in the DoD. The 59 MDW is the Air Force's premier healthcare, medical education and research, and readiness wing. It is the largest of 15 clinical training sites in the Air Force, graduating an average of 750 officer and enlisted students in various dental and allied health programs each year. The 59 MDW has the largest DoD dental education program, providing 85-percent of the Air Force's total dental training capacity. Moreover, the wing's postgraduate medical education function is merged with that of BAMC under the San Antonio Uniformed Services Health Education Consortium ("SAUSHEC"). The two (2) facilities, in close cooperation with UTHSCSA, provide a wide array of training programs ranging from general surgery to emergency medical services administration. At any given time, SAUSHEC has roughly 700 residents enrolled in 38 graduate medical education programs, of which 60 percent are Air Force with an additional 24 Graduate Allied Health Education programs.

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 National Institutes of Health primate center co-located with a 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 bioterror agents and emerging diseases. Texas Biomed has history of success, including work on the first COVID-19 vaccine, the first Ebola treatment, the first Hepatitis-C therapy, and thousands of developmental discoveries. Texas Biomed was also designated as a prime contractor in late 2022 by the Biomedical Advanced Research and Development Authority, a federal office that oversees advanced research and development of medical countermeasures for public health emergencies. This will expand Texas Biomed's availability for federal funds and enable it to receive up to $100 million in federal funding over the next five (5) years.

UTSA houses several research institutes, had an enrollment of 32,405 students and spent $152.3 million in research in 2023 On December 16, 2021, UTSA announced that it had achieved R1 Classification from the Carnegie Classification Institute of Higher Education. This classification highlights and validates the significant level of research activity and aligns UTSA with the nation's top public and private research institutions. Housed at UTSA, the Neurosciences Research Institute (previously the Neuroscience Research Center) is tasked with training students in research skills while they perform neuroscience research on subjects such as aging and Alzheimer's disease. UTSA is also a partner in Morris K. Udall Centers of Excellence for Parkinson's Disease Research. A partnership between UTSA, UTHSA and the participation of Texas Biomed's Southwest National Primate Research Center, led to the formation of the San Antonio Institute of Cellular 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. UTSA has extensive research collaborations with local research organizations that reinforce and accelerate the research in each. These collaborations include UTHSA, SwRI, BAMC, and Joint Base San Antonio. UTSA contributed $2.6 billion to the San Antonio region's economy in 2023.

SwRI is a nonprofit research and development organization headquartered in San Antonio. In 2022, SwRI initiated 89 new projects representing $7 million of internal research spending. SwRI has a 75-year long history of conducting cutting-edge research across pharmaceuticals, materials sciences, microbiology, manufacturing, and space engineering, and holds numerous patents.

In December 2023, UTSA entered into a deal with GenCure. BioBridge Global's GenCure and UTSA's Stem Cell Core Lab will include work in multiple major areas of stem cell research and collaborate on the development of cellular therapy products, services, and testing. GenCure will provide starting materials for UTSA researchers to facilitate the isolation and subsequent reprogramming of adult stem cells to generate induced Pluripotent Stem Cells. UTSA will provide testing services for materials manufactured by GenCure's process development facilities. The collaboration will facilitate training development, consulting services, and access to equipment and related-research services unique to each site. The agreement is an expansion of an existing relationship between the UTSA Stem Cell Core Lab and GenCure born out of their involvement in RegenMedSA, a San Antonio consortium.

In October 2023, UTSA MATRIX AI Consortium received $2 million each from the National Science Foundation. The UTSA AI Consortium for Human Well-Being to bolster research capacity in the field of neuro-inspired artificial intelligence. Neuro-inspired AI stands as a strategic research area at UTSA, with researchers leveraging insights from the human brain to inform and advance artificial intelligence.

VelocityTX is a non-profit organization founded in 1984 to advance San Antonio's life science industry and promote sustainable economic growth. In August 2017, the organization acquired the 5-acre Merchant's Ice complex, where it would establish the core of a life science Innovation District. Envisioned as a place of industry clustering, entrepreneurial development, and workforce development, the community project is estimated to create 10,000 jobs and $3.2 billion in economic impact over the next 20 years. In November 2023, TransPecos Bank announced plans to relocate its corporate office to the site, which will serve as the corporate offices of TransPecos and all its affiliates including TransPecos Financial Corp, the bank's holding company, Kennedy Sutherland, Attorneys, TransPecos Development Corp, KSD Capital, Kohm & Associates, Full Skope and others.

As part of the organization's efforts to support early-stage bioscience companies launch innovative breakthroughs, VelocityTX offers entrepreneurial support programming to lead them successfully over the "Valley of Death". This programming includes business support educational seminars, networking events, two-to-five-year business incubator programs, six-week business accelerator programs, SBIR/STTR Workshops and Bootcamps, and CEO Roundtables.

VelocityTX is uniquely qualified to assist early-stage bioscience companies that have technologies that are critical to both military and civilian medicine (i.e., dual-use medical technologies). They have agreements with the tri-service DoD medical research units (US Army Institute of Surgical Research, Air Force 59th Medical Wing/S&T and Naval Medical Research Unit-San Antonio). Through these agreements, VelocityTX can facilitate introductions between military and civilian researchers and companies to accelerate the development transition of dual-use technology. Special educational programming has been designed around teaching dual-use bioscience companies how to work with DoD military medicine; including the annual AIM: Health R&D Summit. The AIM Health R&D Summit brings together academia, industry, and the military to promote collaboration in the development of life-saving battlefield technologies. Combining three events–Military Medical Industry Day, BexarBio pitch competition, and the San Antonio Military Health and Universities Research Forum–AIM brings together top minds from across the life sciences ecosystem to advance the military's medical mission.

VelocityTX's planned $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 is in the process of developing an additional 700,000 square feet of commercial and research space near the current VelocityTX campus as its current space is completely leased to tenants such as GenCure, Scorpius Biological Services, and Co-Labs, a Biological Safety Level 2 research space. Collectively, the public-private partnerships in the Innovation District will spur the creation of an estimated 10,000 jobs and an economic impact of $3.2 billion over 20 years.

Historically, the SAEDC has supported several projects within the technological, bioscience, and military-medical sectors. Based on the San Antonio Military Life Science Commercialization Action Plan's recommendations developed by local military, academic, and private life science industry leaders, the SAEDC established the San Antonio Military Medical Innovation ("SAMMI") Fund with the goal of providing financial assistance to early-stage local companies that engage in the development of products and technologies that support military medicine with the potential application for broader civilian markets. This SAMMI fund has led to the investment of $205,000 in five (5) entrepreneurial startup companies in the bioscience and tech field. Continuing the SAMMI programming via a professional service agreement with VelocityTX that was finalized in August 2022, the SAEDC hosted the fourth-annual Military Medical Industry Day ("MMID") on May 2, 2023, which brought together over 266 stakeholders from military researcher organizations, industry, academics, nonprofit organizations, and other organizations. During the day, they exchanged ideas to enable collaborative medical research and development, discuss military needs, obtain information on funding opportunities, and enable community commercialization opportunities to address needs and create life-saving technologies. Leading up to the event, VelocityTX held three monthly symposiums. Each event brought together between 29 and 75 participants in discussions on public-private sector collaborations, licensing, and regulatory strategy.

In 2023, VelocityTX also expanded on the "industry" aspect of Military Medical Industry Days ("MMID") to include the BexarBio Pitch Competition that awarded a total of $110,000 in non-dilutive funding to support four bio-tech companies. This year, the conference has expanded under the AIM umbrella – Academia, Industry, and Military Health R&D Summit with the inclusion of the San Antonio Military Health and Universities Research Forum ("SURF"). SURF is the academic and research military medical conference that has been hosted by the local universities that will celebrate its tenth year during the AIM conference.

Founded in 2005, BioMedSA serves as a hub for the healthcare and bioscience industry, providing industry programming, convening industry leaders to conquer challenges, communicating opportunities and resources, and facilitating key collaborations throughout San Antonio. BioMedSA was founded with the purpose of accelerating growth of the healthcare and bioscience sector, creating regional economic benefit, and contributing to the health of San Antonio and beyond. In 2023, BioMedSA held their third annual BioFest Invest event, and garnered support from over 40 sponsors. The event brought together potential investors from across the nation and Texas bioscience companies seeking investment funding, while also providing a forum for sharing best practices, connections, and valuable guidance. Over 250 people registered for the event which featured a pitch competition with 14 companies that were selected to participate from across Texas. San Antonio companies participating in the Biofest Invest pitch competition to date have received $59 million in investments. Biofest Invest is part of a 10-day series of biomedical related events (Biofest Days), organized by BioMedSA, including industry open houses and tours, career counseling, R&D, and thought leadership.

A key function of BioMedSA's work is making valuable connections needed to fuel economic growth. The organization maintains a database and relationship to facilitate company-specific resource connections. BioMedSA has also created numerous targeted networking opportunities for subsectors of the life science ecosystem to connect and collaborate on various topics. BioTX Corridor events are held in San Marcos to connect ~100 attendees in the bioscience sector from Austin to San Antonio. BioMedSA also hosts a booth promoting at the largest international conference in the world, BIO, and promotes the region by speaking at smaller conferences locally, nationally, and internationally. BioMedSA convenes industry leaders to ensure up-to-date talking points for the industry and collateral are available online and in print.

In 2023, BioMedSA distributed over 1000 healthcare and bioscience career marketing booklets in English and Spanish to area high schools and adult workforce centers. These 50-page booklets present career opportunities, pathways, training requirements and salaries in an easy-to-read format. A QR code/website was developed for job seekers of all educational backgrounds to register for more information. Workforce Solutions Alamo is performing the follow-up for the job seekers.

Also in 2023, BioMedSA realized its goal of the new federal biomedical funding agency, ARPA-H, to be located in Texas (Customer Experience Hub). Due to this advocacy effort and the value of San Antonio's assets, BioMedSA serves as the immersive experience coordinator for the hub nationally and provides information to San Antonio's ecosystem about the funding opportunities. BioMedSA organizes collaborative teams to apply for these grants. To help startups obtain funding also, BioMedSA sends startup pitch decks to national investors multiple times throughout the year. A key program, started in 2023, is Bridge to Bio, which provides training and mentorship for local start-ups in 4 areas: business strategy, military health market access, SBIR grant writing, and investor relations/pitching. BioMedSA also maintains a free SBIR proposal review process for local area startups.

Owl Therapeutics struck a licensing and collaboration deal with Abliva AB, a Swedish entity, for the treatment of moderate to severe traumatic brain injury in November 2023. Under the agreement, Owl Therapeutics will secure a global license, excluding China and South Korea, to develop, manufacture and commercialize Abliva's NeuroSTAT, an intravenous formulation expected to counteract the neurological and functional secondary brain damage that occurs after a traumatic brain injury, or TBI. With this agreement, San Antonio will be at the forefront in efforts to address traumatic brain injuries.

Corporate Services

San Antonio has a robust corporate services industry base consisting of major employers spanning professional services, insurance, finance providers, and corporate headquarters, having an economic impact of over $19 billion annually and employing over 60,000 individuals. The largest private-sector entity in the corporate services industry in San Antonio is USAA. The company's headquarters in San Antonio has over 18,000 employees, and nationally USAA serves approximately 13 million customers, comprised of military members, veterans, and their families. Although USAA this year reported its first loss since its founding in 1923, this is likely the result of transient, secular economic trends. While this sector is led by USAA, San Antonio is home to other company headquarters and regional operations centers for insurers. Insurers with substantial regional operations centers in San Antonio include Nationwide Mutual Insurance Company, Caremark, United Health, and Pacificare.

San Antonio is home to the National Basketball Association's San Antonio Spurs. As part of a broader commitment to human performance, the Spurs are investing $510 million in building a roughly 45-acre development at the northwest corner of Loop 1604 and Interstate 10 dubbed The Rock at La Cantera. The organization opened the centerpiece of it in Fall of 2023: the

Victory Capital Performance Center, a new practice facility for the Spurs. It will include office and medical space and partnerships with research groups, academic institutions, technology companies, the military, health care providers and sports organizations. Spurs Sports & Entertainment is contributing at least $100 million, and the city of San Antonio is providing $17 million. Bexar County is kicking in $15 million in exchange for a dog park at the site. The rest is expected to come from private investors. No date has been set for the project's completion.

San Antonio is also home to several regional banking operations centers and financial services headquarters, such as Frost Bank, Broadway National Bank, Credit Human, Security Service Federal Credit Union ("SSFCU"), and USAA Federal Savings Bank. In December 2014, SSFCU, the largest credit union in San Antonio Texas and one of the largest credit unions 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, and 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, PNC Bank, Pentagon Federal Credit Union, and Victory Capital Management ("Victory Capital").

Headquartered in San Antonio, Victory Capital is a diversified global asset management firm with $158.6 billion in assets under management as of March 31, 2023. The company has been named to the Fortune 100 Fastest-Growing Companies list for two consecutive years, and about half of its 500 employees are based in San Antonio. The company shows consistent growth after acquiring three asset management and investment companies in 2021: THB Asset Management, New Energy Capital, and WestEnd Advisors.

Additionally, Frost Bank, founded in 1868 and one of the United States' largest banks, completed its new headquarters in downtown San Antonio in 2022. The tower contains 460,000 square feet of Class A++ office and retail space and hosts approximately 660 of Frost Bank's employees. Another 1,900 employees work at their One Frost/Technology Center on Rogers Ranch Road containing 435,000 square feet in Northwest San Antonio. In total employing over 2,900 employees in the Greater San Antonio area. Frost Bank has had consistent growth in recent years, with $51.8 billion in assets on December 31, 2023. The bank provides a wide range of banking, investments, and insurance services to businesses and individuals across Texas.

Major Initiative - Placemaking and Real Estate

EDD's Strategic Framework outlines the strategic use of tools for placemaking initiatives, such as the SAEDC, to build a more resilient local economy. The City is committed to making investments in, and furthering the goal of geographic placemaking that strengthens the connection between people and the places they share. Aiming to stimulate new, private investment, a portion of the City's ARPA funds will specifically fund programs that support the creation of outdoor spaces for customers by businesses, support the revitalization of commercial corridors that have seen historic underinvestment, and reverse the deterioration of commercial structures in targeted areas.

A sign of recovery of the COVID-19 pandemic, both public and private entities in San Antonio are making historic investments into the City's businesses, housing, and infrastructure. As of March 2024, there are 66 separate projects proposed or in-progress, representing a total investment of $3.3 billion into just the City's central business district. As these projects are completed, they will add 160,400 square feet of office space, 2558 residential units, 10 street improvements, and 14 cultural and public amenities such as parks.

Weston Urban purchased the historic Continental hotel to build an $80 million mixed-use development site. The approved plans include the building of a 16-story residential tower with 318 apartments and about 22,000 square feet of commercial space. Continental hotel is projected to be completed in late 2025. Additionally, the 300 Main Tower project broke ground in 2022 and is expected to be completed in 2024. The 32-story tower, when complete, will house 354 apartment units and 6,275 square feet of retail space.

Further investments in downtown include the 16-story Floodgate Apartments along the historic Riverwalk which will add 63 luxury apartments in the downtown core, the Travis Building office-to-residential conversion of 63 units, and a proposed 234 units at Tower Life, one of downtown's most iconic buildings. Finally, a mixed-use development is under construction around the Civic Park at Hemisfair. Zachry Hospitality is building a 200-room hotel at East Market and Alamo streets and is expected to be finished in late 2025.

The historic Alameda Theater is set to be restored to its former glory. The roughly $52 million project includes upgrading electrical and plumbing systems, building a new stage, installing an elevator and ramps, repairing the roof, and restoring black-light murals in the auditorium. Texas Public Radio also moved its headquarters to the back area of the theater. The City and Bexar County have contributed $25 million and another $12 million will come from tax credits. The Alameda Theater Conservancy is fundraising to cover the rest. The theater along Houston Street downtown is expected to reopen in January 2026, with programming beginning that spring.

Alamo Plaza is undergoing a $550 million makeover. The City, Texas General Land Office and Alamo Trust are lead partners in the public-private project at the historic plaza that provides a place of reverence within the footprint of the 1700s Mission San Antonio de Valero and 1836 Alamo fort, site of a 13-day siege and battle for Texas independence. Plans include a $140 million museum and visitor center, incorporating portions of the historic Crockett and Woolworth buildings into the design on the west side of the plaza, set to open in 2027. Other elements of the project include storytelling by trained re-enactors in period dress, replicated features of the historic mission-fort, a new exhibit hall and collections building with 10,000 square feet of display space, an education center for school field trips and distance learning and adjacent pedestrian plazas.

In April 2024, seeking to capitalize on proximity to the River Walk and future Alamo Visitor Center and Museum, Sunstone Hotel investors Inc, a California company is buying the Hyatt Regency San Antonio Riverwalk for $230 million. Sunstone is buying the 630-room hotel at 123 Losoya St. in a deal that includes nearly 2 acres along the river and a 516-space parking garage near the Alamo facilities that are being developed. The guest rooms at the Hyatt Regency recently underwent a $37 million renovation.

The San Antonio African American Community Archive and Museum ("SAAACAM") will have a new home in the historic Kress-Grant building downtown by mid-2026. SAAACAM purchased the Kress-Grant Building on Houston Street with a $5.35 million loan from the Houston Street Tax Increment Reinvestment Zone. The Museum will showcase stories about Black people in San Antonio that will include exhibitions, event space, a research library, a 12-room boutique hotel and a re-creation of a lunch counter with a Black chef residency program. The move will increase the size of the museum from 715 square feet of exhibition space at its current location in La Villita to over 20,000 square feet.

The San Antonio Housing Trust Public Facility Corp. ("SAHTPFC") is partnering with Dallas-based Provident Realty Advisors to raze most of the buildings making up the Friedrich complex at Commerce, Pine, Olive, and Gibbs streets and build 358 apartments. The SAHTPFC provides a property tax exemption in exchange for the developer including units at lower income levels. The $92.9 million complex, dubbed Friedrich Lofts, will include 179 market-rate units, 155 units for residents making up to 80 percent of the area median income and 24 units for residents earning up to 60 percent of the area median income. Demolition began in spring 2023 and Friedrich Lofts will likely be completed by 2027.

The first residents of Towne Twin Village, San Antonio's first permanent, single-site housing community with services for older homeless people, began moving in Spring 2024 after construction started in November 2023. The $41 million project is spearheaded by the nonprofit Housing First Community Coalition, which is turning about 17 vacant acres at 4711 Dietrich Road into 204 units — 100 tiny homes, 24 RV trailers and 80 apartments — as well as laundry facilities, a multi-use center with an amphitheater, a community garden, a dog park, and a chapel. Towne Twin Village is being built in phases and receiving funding from the city of San Antonio, Bexar County, the San Antonio Housing Trust, and philanthropic donations. It is expected to be complete by the end of 2024.

Port San Antonio, the former Kelly Air Force base, plans to work with private developer Trammell Crow Co. to build a modern, wing-shaped office tower at the entrance to the campus. The building could range from 12 to 15 stories and include at least 300,000 square feet of space for current and new tenants. It is expected to house DeLorean Motor Co. and other businesses. The cost is still being determined, but it is expected to be operational by 2025.

Morgan's Wonderland, a first-of-its-kind, fully accessible theme park, reopened March 11, 2024 after a nearly $7 million expansion that includes new rides and attractions. The new attractions include 4D Magic Cinema theater in Sensory Village that will offer park guests a virtual roller coaster experience, Pirate Island Cruises boat ride, Jette's Wonder Bikes, a wheelchair-accessible ride featuring six (6) hang-glider-style cars that gently fly in a circular pattern, and Rocket's Sky Flight Adventure, and a four-seat zip line soaring 130 feet above the park's 8-acre lake. Morgan's Wonderland anchors Morgan's, a nonprofit umbrella organization that includes other venues and programs with inclusion as their core mission.

In April 2024, Icon Experiences proposed developing a new elevated entertainment experience anchored by a 200-foot-tall observation wheel. The observation wheel, branded Grandisimo, would feature more than 40 climate-controlled gondolas providing riders with rare views of the City spanning more than 20 miles. The site for the observation wheel is the previous Days Inn, is immediately west of Interstate 37 and east of the Alamo. It's near the Shops at Rivercenter and a large surface parking lot where the UTSA is exploring the possible development of a new Institute of Texan Cultures Museum to replace its aging Hemisfair structure. Icon Experiences has not disclosed expected development costs and the City Council will consider the company's plan in early May 2024.

Brooks is a 1,308-acre mixed use community located in Southeast San Antonio, Texas. It is one of only three (3) Development Authorities across the State of Texas and was created in 2001 by the United States Congress, the State of Texas, and the City to redevelop the former Brooks Air Force Base. The public-private partnership is governed by an 11-member board of directors that is appointed by the City Council. The Brooks Mission is to promote and develop a dynamic, sustainable, and inclusive community by serving as a catalyst for transformative economic development and regional prosperity.

Today, there are more than 50 businesses, 5,300 employees, 1,700 residents, 2,500 students, and 1,200 residential units at the growing Brooks community. Over the next three (3) years, those who live at Brooks will more than double. The Brooks campus is a part of several locally and federally designated zones, including the SA Tomorrow: Brooks Regional Center, a City of San Antonio Innovation Zone, and an Opportunity Zone. From 2016 to 2020, the Brooks Regional Center saw a 24% increase in household income and seven (7%) percent decrease in poverty rate.

Within the last year, Brooks has seen incredible growth, including the region's only hospital, Mission Trail Baptist Hospital, completion of a $1.9 million expansion to its NICU to meet the high demand for preemie care on the south side and surrounding area. Brooks is also home to six (6) international businesses, including two (2) from South Korea and two (2) from France. The newest French-based company, Bakerly, is a pastry maker who celebrated the grand opening of their 137,350-square-foot production facility in February 2023. Additionally, Bakerly, HOLT Renewables, and Forth Energy unveiled an innovative 1.036 megawatt (MW) solar power system on a contiguous parking structure. The largest in the City, the solar structure provides enough power to charge more than 133 million smart phones a year.

Moreover, the Alamo Area Metropolitan Planning Organization awarded Brooks $9.3 million for an 8-mile trail to connect the future Arboretum San Antonio and Salado Creek through Brooks to the Greenline Park and the San Antonio Mission Reach. This will provide a safe connection for visitors, residents, employees, and students to current and future regional amenities, such as the future Arboretum San Antonio. To date, Brooks has completed $1.34 billion in development with another $680 million underway.

Another example of successful mixed-use development, the Port San Antonio campus not only hosts some of the region's most innovative and impactful cybersecurity and manufacturing firms, but also boasts several hundred units of on-site workforce housing. A centerpiece of the campus is the 130,000 square foot Boeing Center at Tech Port arena which opened in May 2022. The campus showcases capabilities and new technologies, offers education space, office, and lab facilities, house the San Antonio Museum of Science and Technology, and serve as the hub for new and developing cybersecurity ideas and innovations. Additionally, the dynamic Boeing Center offers one of the biggest Esports arenas in Texas, a LAN gaming space, food hall, and an arena/convention center space.

Adopted in December 2021, The City's Neighborhood & Housing Services Department's ("NHSD") Strategic Housing Implementation Plan sets out a 10-year plan that moves towards achieving the vision of quality, accessible, and affordable housing choices for all San Antonians. Over 10 years, NHSD aims to support the production and preservation of over 28,000 housing units, and already has supported nearly 10,500 completed and in-progress units, with a majority of those available to renters making less than 60% of the area median income. As part of NHSD's efforts to support Affordable Housing, the department manages the Fee Waiver Program that waives City development fees and/or water and sewer development impact fees for eligible projects. The goals of the program is to support the creation and preservation of affordable housing citywide, and increase redevelopment of underutilized buildings through the rehabilitation, upgrade, and adaptive reuse of existing structures. In fiscal year 2023, the City's Fee Waiver Program assisted in the development and rehabilitation of 1,368 affordable housing units.

Hospitality Industry

The City's diversified economy includes a significant sector relating to the hospitality industry. An Economic Impact Report of San Antonio's Hospitality Industry found that the hospitality industry had an economic impact of $19 billion in 2022. The estimated annual payroll for the industry was $4.1 billion, and the industry provided an estimated 140,160 jobs.

In 2023, lodging statistics continued to rebound from the circumstances associated with the COVID-19 pandemic. As compared to 2022, the City's overall level of hotel occupancy was down –1.0%; room supply was up 1.6%; total room nights sold increased .5%; the average daily room rate increased .1%; revenue per available room decreased -1.0%; and overall revenue increased .6%.

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 three (3) major theme parks, SeaWorld San Antonio, Six Flags Fiesta Texas and Morgan's Wonderland, the Only Ultra-Accessible Park in the World. San Antonio attracts 34.8 million visitors a year. Of these, over 19.1 million are overnight visitors, historically placing San Antonio as one of the top U.S. destinations in Texas. For fiscal year 2023, Visit San Antonio was able to achieve the following results: (1) obtained 112 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 $26 million in earned media. Visit San Antonio focused on Texas and regional media while being opportunistic and taking advantage of any national and international media that may come on a reactive basis.

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 hosts 5.3 million business visitors a year to the area for a convention, meeting, or other business purpose. Total group sales production for fiscal year 2023 resulted in 656 group and meeting events with 647,332 group room nights booked all of which had an economic impact of $531 million. Visit San Antonio also saw an increase in corporate events that chose San Antonio for their conventions. Forty-four percent of the events booked in fiscal year 2023 were corporate programs, which is a significant increase from years past. These corporate groups tend to book short-term and have a higher per person spend, all helping San Antonio's hotel community recover faster from the pandemic. Visit San Antonio will continue to be proactive in attracting convention business through its management practices and marketing efforts.

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]	Hotel (RevPAR) [1]	Room Nights Sold [1]	Convention Attendance [2]	Convention Room Nights [2]
2014	65.3%	$67.03	8,874,090	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 [4]	42.10%	$37.10	5,986,600	218,957	181,737
2021	59.10%	$64.04	8,727,861	238,192	287,167
2022	62.60%	$79.61	9,250,267	541,587	596,512
2023	61.50%	$78.18	9,239,945	548,953	538,322

[1] Data obtained from Smith Travel Research ("STR") based on hotels in the San Antonio selected zip code reports produced for December 2023 (reporting 2023 numbers), and historical annual reports for prior years.

[2] Reflects only those conventions hosted by Visit San Antonio.

Source: Visit San Antonio

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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 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 $39.1 billion to the State of Texas. In addition, the property of the former Brooks Air Force Base, a fourth major military installation, was transferred from the U.S. Air Force to the City, who created Brooks Development Authority 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, BAMC, the DoD's only accredited 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.

BAMC also trains future healthcare providers for their wartime mission. 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.

On September 1, 2021, Texas House Bill 2365 took effect and recognized BAMC as a participating Medicaid provider. This bill eliminates financial burdens placed on the significant number of civilian trauma patients who are treated at BAMC every year. Military trauma teams continue to benefit as they develop invaluable surgical skills and competency due the high volume of civilian trauma patients treated at BAMC – a number that cannot be duplicated with the active-duty military population. This civil-military relationship is mutually beneficial as it saves lives, both on the battlefield and in our community.

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 (2) other buildings at Fort Sam Houston. These three (3) 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 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 at a daily average of 180 students. Mission growth saw five (5) 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 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, is again on track after some of the funding was diverted from the DoD fiscal year 2020 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 fiscal year 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 (2) ATCs. The ATC program has 50% of the new dorms in operational status, 25% are under construction, and 25% are programmed for future years. The BMT replacement program is estimated to be complete in 2029/2030.

Projected growth could also come in the form of the completed merger of the 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 Force's 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 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 (7) 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 (8) 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 fiscal year 2020 Defense Appropriations Bill included $69 million for a new aquatics tank to support the SWTW mission. The aquatics tank officially opened in April of 2024.

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 and the Air Force Personnel Center ("AFPC"). Other major tenant organizations include the Air Force Manpower Agency, the 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 ("12 FTW") which equips and trains aviators and supports worldwide contingency operations. The 12 FTW 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 fiscal year 2013 and fiscal year 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 fiscal year 2020 Defense Appropriations Bill provided $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 (2) large projects which serve all 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 can provide 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 UTHSC, and the U.S. Army Institute of Surgical Research. The NTI coordinates resources from the institutions to treat trauma victims and their families most effectively.

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 provides 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”). And, in early 2022 the City elevated the OMVA from and “Office” to a “Department” within the City’s organizational structure. OMVA became the Military and Veteran Affairs Department (“MVAD”). The mission of MVAD remains unchanged, which 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. MVAD is close to completing a project to refocus the MTTF by updating and codifying its mission, vision, membership, leadership, chain of command, branding and measures of effectiveness. The planned result is a “conversion” of the MTTF into the “converted” into a formal City of San Antonio committee/commission which will be co-chaired by a City of San Antonio City Council member and a commissioner from Bexar County. This new body is notionally titled the, Regional Military Value Commission.

For the past several years, MVAD 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. MVAD advocates on behalf of the military at the local, state, and national level. Through advocacy and close relationships with JBSA leadership, MVAD 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.

MVAD works closely with the military to address compatible land-use issues around the installations 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, MVAD, 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. The 87th Texas Legislature saw the successful defeat of three (3) bills which would have given authority for development in the City’s Extra-Territorial Jurisdiction that is incompatible with select JBSA military missions. MVAD continued its collaboration with JBSA, other City departments, and external partners to shape legislation in the 88th Texas Legislature on items that could have negatively impact JBSA missions and mission partners. MVAD also assists the Mayor with the Veterans Advisory Commission. Chartered in 2001, this 11-member board serves the Mayor and 10 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 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.

Since 1998, the City of San Antonio has aggressively pursued, and consistently received, just over $33 million in grants from the Texas Military Preparedness Commission’s Defense Economic Adjustment Assistance Grant (“DEAAG”) program. This program assists defense communities who have either been negatively or positively impacted by BRAC decisions. The grant money is invested in infrastructure projects and other initiatives to increase the military value of IBSA installations, thereby mitigating the potential negative effects of future BRAC round(s). The $33 million plus funded a total of 12 projects. The most recent DEAAG award–- the first for the City since 2009–- was for $5 million and is funding three (3) individual projects as part of a collaborative effort between the City, JBSA, San Antonio Water System and CPS Energy. These projects will individually complete between the summer of 2023 and late summer of 2024.

It consists of three (3) distinct parts which improve installation resiliency, enhance physical security, and reduce risks associated with aircraft mishaps. The primary level of effort provides backup power generation to two (2) critical potable water production facilities serving JBSA-Lackland and a Department of Defense Combat Support Agency. The second component of this proposal includes installation of stormwater crossings at five (5) locations along JBSA's perimeter. The final component of this proposal involves replacement of overhead electrical lines with underground distribution lines in the southwest clear zone of JBSA-Randolph.

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 $52,000, and a second project on JBSA-Ft. Sam Houston was completed in the summer of 2020. This IGSA was amended in the spring of 2020 to allow the City to support more complex roadway repairs for JBSA. The City and JBSA representatives met at JBSA-Randolph in early April 2022 to conduct a site visit of a possible third project under this IGSA. In September of 2020, the 502nd Civil Engineer Squadron made its first three (3) 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. A third IGSA, for 911/Emergency Medical Service ("EMS") services, was signed in June 2023 between JBSA and San Antonio Fire Department ("SAFD"). Through this IGSA, SAFD will provide 911/EMS service to JBSA-Fort Sam Houston and JBSA-Camp Bullis. The JBSA commander announced in February 2024 that this IGSA thus far provided 12.4% savings over its previous 911/EMS services contract. Additionally, JBSA notified CoSA that it desires to execute the first one-year option on this IGSA.

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 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 (5) 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.

This trademark is also becoming a contributing factor in the City's effort to meet the challenge of military spouse unemployment, which was estimated to be as high as 24% nation-wide prior to the COVID pandemic. In 2019, the City budgeted $150,000 to fund up to 40 fellowships over a two (2) year period through a partnership with the U.S. Chamber of Commerce's Hiring Our Heroes ("HOH") Foundation. This partnership created a San Antonio Military Spouse Fellowship Program ("MSFP"). San Antonio was one of the first trailblazers in the nation, and the first municipality in Texas, to provide funding for the HOH MSFP program.

With over 60 companies now participating, we are proud to report that in addition to the 40 fellowships funded by the City, an additional 45 spouse fellowships were funded through other corporate financial contributions. A total of 85 military spouses completed the fellowship with 78 being hired by their host employer–- a 92% hiring rate. Moreover, the average annual salary of a MSFP fellow is greater than $60,000, which exceeds the San Antonio-New Braunfels Metropolitan Statistical Area average annual salary of $49,500 and equates to a combined annual income of over $4.5 million. The City completed a second $150,000 agreement (fiscal year 2023) with HOH (one-year period of performance), is currently executing a third agreement (also $150,000) as part of the fiscal year 2024 budget. MVAD is requesting another $150,000 to support a fourth agreement with HOH.

Because of the success of the two (2) year program, the City continues to explore innovative ways to fund additional fellowships such as, leveraging its "Military City USA" trademark. For example, when for-profit entities request Military City USA trademark license agreements, the City will include a fee structure aimed to cover the costs of additional military spouse fellowships ($5,000 per fellowship). Spouse employment is a key quality of life factor that directly impacts military retention rates and readiness. Moreover, the Department Defense and military service branches consider community military family support when making basing decisions.

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 the City. The aerospace industry in the City 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.

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Growth Indices

San Antonio Average Electric and Gas Customers

For the Month of December	Average Electric Customers	Average Gas Customers
2014	770,588	336,367
2015	783,767	337,920
2016	802,712	342,928
2017	819,333	346,247
2018	823,153	348,313
2019	857,559	357,189
2020	883,026	366,019
2021	896,251	370,171
2022	928,915	380,771
2023	948,756	388,514

Source: CPS Energy.

SAWS Average Customers per Fiscal Year

Fiscal Year Ended December 31	Water Customers [1]
2014	371,573
2015 [2]	479,100
2016 [2]	486,649
2017 [2]	493,768
2018 [2]	502,024
2019 [2]	511,361
2020 [2]	522,515
2021 [2]	537,813
2022 [2]	552,005
2023 [2]	552,005

[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.

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Construction Activity

Set forth below is a table showing building permits issued for construction within the City at December 31 for the years indicated:

	New Residential Single Family [1]		Residential Multi-Family [2]		Other [3]	
Calendar Year	Permits	Valuation	Permits	Valuation	Permits	Valuation
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 [4]	3,908	N/A	284	$633,871,049	18,362	$3,107,728,887
2021 [5]	6,235	N/A	352	N/A	22,972	N/A
2022	4,618	N/A	297	N/A	21,832	N/A
2023	4,348	N/A	175	N/A	20,417	N/A

Source: City of San Antonio, Development Services Department.

[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.
[4] As of September 1, 2019, Development Services no longer captures valuation for new single family home construction per HB 852.
[5] As of November 30, 2020, Development Services reports from a new permitting platform that introduced new permit record types with associated new business and technical reporting processes. Development of reports to produce accurate valuation data is ongoing and figures as of CY 2021 use current reporting methodology.

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:

	2023	2022	2021	2020	2019
Arlington	$192,752,363	$192,792,412	$157,711,765	$119,943,322	$120,966,239
Austin	346,506,960	335,448,823	278,311,232	237,342,567	240,562,938
Dallas	426,748,146	408,638,487	358,215,983	307,328,803	315,186,746
El Paso	132,615,536	138,161,603	114,356,341	98,270,890	95,909,987
Fort Worth	231,940,150	219,947,155	189,968,733	165,429,875	165,687,273
Frisco	136,588,801	127,550,767	111,487,858	90,690,027	90,036,003
Houston	892,880,233	848,613,073	747,671,385	666,921,075	698,992,969
Plano	113,984,729	108,687,974	95,385,916	86,785,467	88,612,905
SAN ANTONIO	479,106,605	466,369,905	415,149,253	362,813,047	370,289,324
Round Rock	118,640,963	116,966,437	103,903,015	86,389,824	87,293,806

Source: State of Texas, Comptroller's Office.

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Education

As of October 2023, there are 15 independent school districts within Bexar County with a combined enrollment of 298,661 encompassing 62 high schools, 86 middle/junior high schools, 294 early education/elementary schools, 24 magnet schools, and 18 alternative schools. There are an additional 27 charter school districts with 125 open enrollment charter schools at all grade levels. In addition, Bexar County has 104 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 eight (8) largest accredited and degree-granting universities, which include a school of medicine, a school of nursing, a dental school, a law school, and five (5) public community colleges, had combined enrollments of 133,794 for Fall 2023.

Sources: Texas Education Agency; Texas Higher Education Coordinating Board; and Texas Private School Accreditation Commission.

Employment Statistics

The following table shows current non-agricultural employment estimates by industry in the San Antonio-New Braunfels MSA for the period of March 2024, as compared to the prior periods of February 2024 and March 2023, respectively.

Employment by Industry

San Antonio-New Braunfels MSA [1]	March 2024	February 2024	March 2023
Mining, Logging, and Construction[2]	73,300	73,200	70,600
Manufacturing	61,800	61,900	60,300
Trade, Transportation, and Utilities	207,100	208,400	204,500
Information	17,100	17,100	17,900
Financial Activities	100,300	100,300	98,900
Professional and Business Services	160,800	162,100	161,300
Education and Health Services	180,200	180,000	175,900
Leisure and Hospitality	145,800	144,400	141,300
Other Services	42,400	42,000	40,100
Government	187,500	187,300	180,800
Total Nonfarm	1,176,300	1,176,700	1,151,600

[1] Based 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 March 2024, as compared to the prior periods of February 2024 and March 2023, respectively.

Unemployment Information *(all estimates in thousands)*

San Antonio-New Braunfels MSA [1]	March 2024	February 2024	March 2023
Civilian Labor Force	1,304.9	1,307.5	1,281.6
Number of Employed	1,255.7	1,253.9	1,233.6
Number of Unemployed	49.2	53.6	48.1
Unemployment Rate (%)	3.8	4.1	3.8
Texas (Actual) [1]	**March 2024**	**February 2024**	**March 2023**
Civilian Labor Force	15,276.9	15,295.4	15,058.5
Number of Employed	14,654.0	14,629.7	14,453.7
Number of Unemployed	622.9	665.7	604.8
Unemployment Rate (%)	4.1	4.4	4.0
United States (Actual) [1]	**March 2024**	**February 2024**	**March 2023**
Civilian Labor Force	167,960.0	167,285.0	166,783.0
Number of Employed	161,356.0	160,315.0	160,741.0
Number of Unemployed	6,604.0	6,970.0	6,043.0
Unemployment Rate (%)	3.9	4.2	3.6

[1] *Based on Labor Market Information Department, Texas Workforce Commission (model-based methodology).*

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 (7) members, including the City's Mayor and six (6) 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 (4) different quadrants in the City, and two (2) 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 1.47 million residents. SAWS employs approximately 1,930 personnel and maintains a combined 13,793 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]

						Total Direct Rate			
						Water		Sewer	
Fiscal Year	Gallons of Water Production [a]	Gallons Water Usage	Gallons Water Unbilled	Average Percent Unbilled	Gallons of Wastewater Treated [b]	Base Rate [c]	Usage Rate [d]	Base Rate [e]	Usage Rate [f]
2023	91,962	69,299	22,663	24.64%	55,380	$11.21	$23.72	$10.06	$15.65
2022	91,035	71,194	19,841	21.79%	54,474	13.03	24.83	14.59	14.24
2021	81,460	64,020	17,440	21.41%	52,435	13.03	24.88	14.59	14.24
2020	83,321	67,193	16,128	19.36%	49,891	13.03	24.88	14.59	14.24
2019	80,271	65,665	14,616	18.21%	50,142	13.02	19.63	14.59	14.24
2018	78,665	63,660	15,005	19.07%	50,775	12.97	19.16	13.51	13.18
2017	79,256	65,381	13,938	17.59%	50,945	11.82	18.15	13.04	12.72
2016	76,857	63,934	12,923	16.81%	49,282	10.90	17.44	12.35	12.05
2015 [g]	76,227	62,896	13,331	17.49%	48,563	7.75	16.75	12.75	11.97
2014	68,265	57,261	11,004	16.12%	50,689	7.49	16.12	11.99	11.25

[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 and assumes monthly usage of 6,275 gallons. Includes the State-Imposed Texas Commission on Environmental Quality ("TCEQ") fee.

[d] Represents standard (non-seasona) usage charge for monthly residential water usage of 6,275 gallons per month. Includes water supply, Uplift Assistance Program, and Edwards Aquifer Authority ("EAA") fees.

[e] Minimum service availability charge (prior to 2023 included 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 5,052 gallons per month. Includes Uplift Assistance Program fee.

[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]

	2023	2022	2021 [e]	2020	2019	2018	2017	2016	2015 [a]	2014
Water Sales:										
Residential Class	35,866	39,641	35,246	38,947	36,084	35,325	36,566	35,360	35,769	29,310
Residential Uplift Class	2,251	-	-	-	-	-	-	-	-	-
General Class	26,958	26,917	24,756	23,719	25,011	24,498	24,408	24,159	23,212	20,870
Wholesale Class	282	326	386	347	352	337	344	393	354	3,861
Irrigation Class	3,942	4,311	3,632	4,179	4,208	3,500	4,000	4,022	3,561	3,220
Total Water	69,299	71,195	64,020	67,193	65,655	63,600	65,381	63,934	62,896	57,261
Wastewater Sales:										
Residential Class	26,372	27,426	26,908	26,062	25,263	26,318	26,809	26,462	26,048	27,896
Residential Uplift Class	1,920	-	-	-	-	-	-	-	-	-
General Class	24,219	23,928	22,328	21,213	22,393	21,873	21,654	20,503	20,281	20,502
Wholesale Class	2,868	3,120	3,199	2,616	2,486	2,584	2,482	2,317	2,234	2,291
Total Wastewater	55,379	54,474	52,435	49,891	50,142	50,775	50,945	49,282	48,563	50,689
Conservation – Residential Class [b, c, d]	10,049	10,808	7,969	10,358	9,189	8,658	9,572	6,611	2,284	2,296
Recycled Water Sales	20,276	19,127	17,919	18,172	18,208	18,346	18,949	18,436	18,421	18,323

[1] Unaudited.

[a] Amounts reflect the merger with SAWS DSP effective January 1, 2015.

[b] Gallons billed for conservation are included in the gallons billed for potable water sales.

[c] As part of a rate restructuring which took place on January 1, 2023, a portion of all monthly residential water sales in excess of 7,001 gallons is allocated to fund conservation related programs. Prior to 2016 through 2022, this allocation was limited to monthly sales in excess of 7,482 gallons, while prior to 2016, it was limited to monthly sales in excess of 17,205 gallons.

[d] Effective January 1, 2017, 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.

[e] The February Winter Storm Uri event resulted in significant leak adjustments, which impacted Water Sales, including Conservation Sales.

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 https://www.saws.org/service/water-sewer-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, 2023, SAWS provided potable water service to approximately 565,595 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 307.2 million gallons. As of December 31, 2023, the waterworks system had approximately 7,776 miles of distribution mains, ranging in size from four to 61 inches in diameter (the majority being between six (6) 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, 2023, SAWS provided wastewater services to approximately 505,846 customer connections.

In addition to the treatment facilities owned by SAWS, there are seven other entities who operated sewage and treatment plants within the City's ETJ.

The wastewater system is composed of approximately 5,997 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.

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.

Combined with the 50,000 acre-feet per year used by CPS Energy, this is the largest recycled water system in the United States. The System amended its contract with CPS Energy to provide such recycled water through 2060. The revenues derived from the CPS Contract have been excluded from the calculation of Gross Revenues and are not included in any transfers by SAWS to the City.

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 $12.1 million in fiscal year 2023.

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 fiscal year 2024 is approximately $4.8 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 Springs and San Marcos Springs in New Braunfels and San Marcos, respectively, which depend upon spring flow 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 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 spring flow 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 spring flow 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 Edward 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 spring flow 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 AND REFUNDING BONDS, SERIES 2023A (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 spring flows 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 spring flows 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 spring flow 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.

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Water Production

The table below provides a summary of the annual potable water production by source for distribution to SAWS customers.

Total Distribution to Customers by Year (acre-feet)	2019	2020	2021	2022	2023
Edwards Aquifer	191,941	171,955	146,974	177,624	162.959
Vista Ridge	-	26,392	50,939	50,778	51,527
Aquifer Storage and Recovery Production	3,930	12,184	5,215	14,876	28,285
Trinity Aquifer	17,141	6,601	9,685	5,780	3,421
Medina Lake and River System	-	-	-	-	-
Regional Carrizo Aquifer	11,404	11,347	10,749	10,496	9,266
Brackish Groundwater Desalination	4,593	6,706	6,089	4,337	5,674
Local Carrizo Aquifer	6,504	6,149	6,009	4,156	7,693
Western Canyon	8,038	8,072	7,968	6,670	5,704
Canyon Regional Water Authority	7,793	6,288	6,361	4,659	5,711
Total Distribution	**246,344**	**255,694**	**249,990**	**279,376**	**280,239**

For additional information regarding the SAWS water supply sources, see the official statement for the **CITY OF SAN ANTONIO, TEXAS WATER SYSTEM JUNIOR LIEN REVENUE AND REFUNDING BONDS, SERIES 2023A (NO RESERVE FUND) and the section therein entitled WATER SUPPLY filed with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") system.**

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 Board approved a Consent Decree ("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 10-to-12-year term of the Consent Decree, SAWS estimated 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 term of the Consent Decree, 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 on current and remaining costs, SAWS is estimating that the total capital expenditures associated with the requirements of the Consent Decree will be approximately $1.3 billion. As with any estimate, the actual amounts incurred could differ materially.

Through December 31, 2023, capital expenditures related to the Consent Decree totaled approximately $1.2 billion which includes certain work which was previously planned prior to entry into the Consent Decree. 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 146 in 2023.

Until December 2021, SAWS operated the Mitchell Lake Site Wastewater Treatment Facility ("Mitchell Lake") pursuant to a Texas Pollutant Discharge Elimination Permit (the "Permit") issued by the TCEQ under a delegation of authority from the EPA. At the direction of the EPA, SAWS explored the conversion of Mitchell Lake from its classification as a wastewater treatment facility to a new classification as a Best Management Practice in a Municipal Separate Storm Sewer System permit ("MS4") held jointly by SAWS and the City. This conversion of the Permit to the MS4 was completed on December 17, 2021.

Mitchell Lake is not a standard brick and mortar wastewater treatment facility. Instead, the approximately 425-acre lake and adjacent wetland complex of 125 acres are legacy remnants of 19th-century wastewater reuse and disposal practices by irrigation of adjacent croplands. Also, Mitchell Lake is a unique and environmentally sensitive natural facility that has become a wildlife refuge and an active destination attraction within the City. The site provides essential habitats where more than 330 species of migratory birds can rest and feed and was declared to be a "Refuge for Shore Birds and Waterfowl" by the City in 1973. Since 2004, the site has been operated by the National Audubon Society as a Nature Center.

The EPA regulated discharges from Mitchell Lake, which can occur after significant rainfall events, and on August 18, 2016, SAWS received an Administrative Order from the EPA that alleged SAWS violated the Permit by failing to meet effluent limitations for discharges from the lake as required by the Permit.

Upon receiving the Administrative Order, SAWS began working with consulting experts and conducted preliminary feasibility evaluations of a proposed solution that would entail the use of constructed treatment wetlands to meet water quality objectives while protecting and enhancing the existing natural resources and aquatic waterfowl habitats. The proposal has two major components: (a) modifications to the existing dam with the construction of a new spillway, and (b) constructing treatment wetlands of approximately 83 acres below Mitchell Lake. SAWS was also successful in changing the wastewater permit to a Municipal Separate Storm Sewer System (stormwater) permit.

The EPA had accepted SAWS' proposed solution and established a deadline for completion of March 31, 2026; however, in early 2024, the EPA provided notice that it was withdrawing the Administrative Order. The EPA also advised that with the withdrawal of the Administrative Order, oversight of the wetlands project would transition to the TCEQ pursuant to its authority under the stormwater permit. Withdrawal of the Administrative Order removes EPA's enforcement authority, ability to assess penalties, and SAWS' potential liability associated with the Administrative Order. At this time, SAWS has provided notice to TCEQ of the withdrawal of the Administrative Order and will work with EPA and TCEQ to develop an appropriate schedule of activities for the project going forward. Projected costs for the wetlands project are estimated to be approximately $72 million.

SAWS Summary of Pledged Revenues for Debt Coverage (Dollars in Thousands) [1]

			Net					Annual Debt Service Requirements			
	Gross	Operating	Available	Revenue Bond Debt Service[a]				Total		Senior Lien	
Year	Revenues[b]	Expenses[c]	Revenue	Principal	Interest[d]	Total	Coverage	Debt[e]	Coverage	Debt[e]	Coverage[f]
2023	$888,546	$492,841	$395,705	$73,745	$124,708	$198,453	1.99	$232,362	1.70	$11,749	33.68
2022	885,326	459,306	426,020	80,910	112,556	193,466	2.20	227,195	1.88	14,111	30.19
2021(*)	781,304	436,077	345,227	90,260	113,989	204,249	1.69	219,263	1.57	33,532	10.30
2020	804,258	401,961	402,297	86,445	104,566	191,011	2.11	210,885	1.91	41,548	9.68
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	81,440	4.30
2016	622,947	315,395	307,552	78,570	98,158	176,728	1.74	185,149	1.66	84,009	3.66
2015	555,712	291,246	264,466	71,355	101,064	172,419	1.53	178,516	1.48	114,320	2.31
2014	498,334	245,055	253,279	57,850	91,704	149,554	1.69	160,510	1.58	117,126	2.16

[1] Unaudited.
(*) The 2021 Maximum Annual Debt Service Senior Lien Debt reflects the 2021 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. Beginning in 2018, investment mark to market adjustments were also excluded.
[c] Operating Expenses reflect operating expenses before depreciation as shown on the Statement of Revenues, Expenses, and Changes in Net Position adjusted for any non-cash expenses.
[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 (3) runways with the main runway measuring 8,502 feet and able to accommodate the largest commercial passenger aircraft. Its two (2) terminal buildings contain 24 second-level gates. At the end of 2022 three (3) additional gates were constructed and added to the existing terminal building increasing the total number of gates to 27. Pre-pandemic, the Airport offered an average of 138 daily departures to 39 nonstop destinations across 11 airlines. As of the end of 2023, the Airport offered nonstop service to 41 destinations both seasonal and year-round across 13 airlines. In 2022, SAT welcomed JetBlue Airways. The Airport experienced incredible growth in both demand and seats offered to Mexico throughout 2022. International passenger numbers for 2023 were up nearly 33% compared to 2019. The Airport continues to work with airlines to add and expand their nonstop service from SAT and fully anticipates continuing the growth trajectory seen pre-pandemic throughout the coming months and years.

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. For the calendar year ended December 31, 2023, the Airport enplaned over 5.4 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 ("STP") 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 focused on the development of preferred alternatives for airfield, terminal facilities, and roadway. In December 2020, the Department of Aviation (the "Department") presented an update on the SDP which included the preferred airfield alternative. This alternative will enhance airfield safety; enable service to farther international destinations; and accommodate long-term projected growth. In March 2021, the proposals for future terminal facilities and roadway alternatives to address the long-term projected growth of the region was presented.

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 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 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 (fiscal years 2024 – 2029) Capital Improvement Plan (the "CIP") totals approximately $2 billion 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.

The CIP consists of the following:

<u>Terminal Facilities</u>

- New Terminal Project: This project provides for the construction of a new terminal and related facilities at the San Antonio International Airport including but not limited to a new terminal, triturator, commercial apron, hydrant system, ground transportation center, parking, pedestrian bridge, badging office, Airport access roadway improvements, terminal curbside roadway improvements, central utility plant upgrades, and utility corridor relocation.

- Terminal A Ground Load Facility: This project of a new ground load facility gate off the south concourse of Terminal A will be designed and constructed for both domestic and international carriers. The new facility will connect to the Federal Inspection Station (Customs) to allow for arrivals from international locations.
- Terminal A Electrical System Expansion: This project includes the design and Installation of new 4,000 amp Fuse Type Switch Boards with Breaker Type Switch Boards to the general electrical service for Terminal "A". This project will add to an already maximized electrical system designed and installed more than 30 years ago.
- Terminal A New IDF Room: This project will construct a new communications room located on the nonsecure side of the ticketing lobby. This project will install new horizontal cabling routed to new communications rooms and decommissions legacy communications rooms.
- Baggage Handling System Expansion: This project develops an area to accommodate up to three (3) in-line security processing lanes, Checked Baggage Inspection System room, mechanical support space, equipment (conveyors) electrical motor apparatus, distribution systems, and other critical devices and systems. The scope includes modifying of existing line and systems to meet the demand for a comprehensive complex passing all system test. The scope will include surveillance, access control, electrical notification, mechanical (HVAC), and IT infrastructure.

Airfield Improvements

- Airfield Lighting Control and Monitoring System: This project includes the designs and installation of a new Airport Lighting Control & Monitoring System that allows for the control of all airfield lighting from the FAA Tower. This requirement is in accordance with FAA standards to ensure safe airfield operating conditions.
- Taxiway H Reconstruction: This project scope includes the design and construction of a portion of aircraft apron taxi lane, installation of "No Taxi" islands and shoulders, removal of Taxiway "A" between Taxiways "G" and "H", installation of guidance signage to allow the taxi lane to be designated as Taxiway "H'; and the installation of a new connecting Taxiway including the removal of Taxiways "V" and "B" between Taxiways "G" and "H". All new taxiways created as part of this project will include standard shoulder pavements. All work will be accomplished in accordance with FAA Taxiway Design Standards. All work will bring airport airfield facilities in compliance with current requirements. This project will have a useful life of more than 30-years.
- Perimeter Road Reconstruction Packages 4 & 5: These two (2) projects include design and construction of 63,000 and 78,000 square feet of new airfield perimeter road pavement. The FAA requires a service road around the perimeter of the airfield to provide access for airfield tenants, Airport emergency Rescue Firefighting Equipment, airport operations and permitted users to gain access from one side of the airport to another without crossing active runways and movement areas.
- 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 with the FAA.
- Reconstruct Keel Section of RW 13R/31L: Reduction: This project completes the reconstruction of center panels of Runway 13R/31L with select reconstruction and rehabilitation of outboard panels and cross taxiway pavement within the Runway Safety Area. This includes the restriping of the runway.

Technology and Other Projects

- Computerized Maintenance Management System: This software enhances the tracking capabilities for critical assets for accurate reporting of maintenance and performance.
- Terminal A & B Common Use: This project expands the Common Use Passenger Processing Systems (CUPPS) services and technologies to all terminal A&B Gates, ticket counters and operational locations.
- Network End of Life Replacement: This project will replace end of life technology such as data networks, storage, and server IT infrastructure for the San Antonio International Airport and Stinson Municipal Airport.
- Other Capital Projects: Miscellaneous projects at the Airport and at Stinson.

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The anticipated sources of funding for the CIP are as follows:

Funding Sources	Projected Funding ($)
Federal Grants	
Entitlement Grants	42,499,000
Discretionary Grants	239,469,000
TxDOT Grant	300,000
Other Funding	
Airport Improvement & Contingency Funds	2,579,000
Stinson Revolving Fund	300,000
CFC Funds	673,000
PFC Funds	32,644,000
Interim Financing	157,105,000
General Airport Revenue Bond	1,524,669,000
Total	**2,000,238,000**

The CIP includes capital improvements, which are generally described as follows:

Improvement	Amount ($)
Airport	
Airfield	419,135,000
Terminal Development Program	1,403,954,000
Terminal	132,766,000
Common Use and IT Upgrade	30,359,000
Transit/Roadways	1,000,000
Parking	2,330,000
Other Projects	2,495,000
Stinson	8,199,000
Total	**2,000,238,000**

PFC Projects. Public agencies wishing to impose a 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 (2) 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 amendments to PFC Applications 01-01-C-03-SAT, 05-04-C-02-SAT, and 07-05-C-01-SAT. The approved impose authority decreased in Application 01-01-C-04-SAT by $48,338,011 from $284,968,912 to $236,630,901. This amendment is referenced as 03-02-U-04-SAT. The approved imposed and use authority decreased in Application 01-01-C-04-SAT by $87,517 from $552,357 to $464,840. Also as a result of this amendment, the approved impose and use authority decreased in 05-04-C-03-SAT by $34,154,019 from $113,050,349 to $78,896,330 and 07-05-C-02-SAT by $27,479,278 from $68,169,573 to $40,690,295. These reductions were 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 and reducing the PFC use authority to $463,710,203.

On December 17, 2020, the City submitted amendments to PFC Application Numbers 01-01-C-04-SAT (Application 1), 05-04-C-03-SAT (Application 4), and 07-05-C-02-SAT (Application 5) to the FAA to reflect a decrease in PFC authority at San Antonio International Airport due to the issuance of refunding bonds, resulting on lower interest costs, as well as additional funding sources received (CARES Act). On February 24, 2021, the FAA confirmed approval of the City's amendment request and issued Final Agency Decisions. The total PFC impose and use authority for the City's PFC Program has decreased by $25,546,100, from its prior impose and use authority of $463,710,203 to $438,164,103.

On June 6, 2023, the FAA approved an amendment to PFC Applications 05-04-C-04-SAT and 07-05-C-03-SAT. The approved impose and use authority decreased in Application 05-04-C-05-SAT by a total net effect of $409,405 from $93,974,314 to $93,564,909. The approved impose and use authority decreased in Application 07-05-C-04-SAT by $6,474,523 from $52,944,581 to $46,470,058. The City will maintain a four dollar and fifty cent ($4.50) charge on eligible passengers enplaned at the Airport. The table below illustrates the current collection and use authority by Application Number.

Application	Current Collection Authority	Current Use Authority
Application 1	$291,245,208	$32,639,345
Application 2	$0	$224,153,828
Application 3	$0	$34,452,035
Application 4	$93,564,909	$93,564,909
Application 5	$46,470,058	$46,470,058
Total PFC Program	**$431,280,175**	**$431,280,175**

Note: Applications 2 and 3 are use-only applications, with no associated PFC collection authority.

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, 2023, the City has collected $320,334,259 (unaudited) in PFC Revenues since authority to impose and collect the PFC was received. The estimated PFC collection expiration date is June 1, 2032.

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
- Runway Safety Action Team (RSAT) Airfield Improvement
- Extension of Runway 21
- Extension to Taxiway R

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 most recent increase to $6.50 became effective November 1, 2023. As of December 31, 2023, the City has received $125,698,793 (unaudited) in CFC Revenues since the April 1, 2012 inception of the CFC.

ConRAC. The ConRAC opened for business on January 17, 2018. This 1.8 million square foot state of the art facility currently houses nine (9) rental car companies. The 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 and increasing the customer' experience.

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, 2023, the Airport System had approximately 501 authorized positions as follows:

Administration	114	Parking/GT	63
Police/Security	95	Airport Operations	70
Fire Rescue	33	Stinson Airport	8
Facilities Maintenance	118		

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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 (5) fiscal years:

	2019	2020	2021	2022	2023
Gross Revenues [1]	$116,003,603	$94,101,394	$101,945,437	$153,084,998	$149,556,541
Expenses	(66,246,817)	(64,437,541)	(66,137,262)	(80,929,662)	(86,111,216)
Net Revenues	$49,756,786	$29,663,853	$35,808,175	$72,155,336	$63,445,325

[1] As reported in the City's audited financial statements.
Source: City of San Antonio, Department of Finance.

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
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]	1,999,488	(3,193,502)	(61.5)
2021	3,747,110	1,747,622	87.4
2022	4,837,238	1,090,128	29.1
2023	5,425,065	587,827	12.2

[1] In 2020, the enplaned passengers decreased due to a result of the COVID-19 Pandemic.
Source: City of San Antonio, Department of Aviation.

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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
2014	464,765	(9,844)	(2.07)
2015	511,076	46,311	9.96
2016 [1]	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 [2]	207,684	(259,791)	(55.6)
2021	741,572	533,888	257.1
2022	555,808	(185,764)	(25.1)
2023	621,321	65,513	11.8

[1] The 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.

[2] In 2020, the enplaned and deplaned passengers decreased due to a result of the COVID-19 Pandemic.

Source: City of San Antonio, Department of Aviation.

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.

Calendar Year	Total	Increase/ (Decrease)	Percent (%) Change
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 [1]	3,944,499	(2,810,190)	(41.6)
2021	5,189,666	1,245,167	31.6
2022	6,085,890	896,224	17.3
2023	6,871,882	785,992	12.9

[1] In 2020, the air carrier landed weight decreased due to a result of the COVID-19 Pandemic.

Source: City of San Antonio, Department of Aviation.

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APPENDIX B

CPS ENERGY

CITY PUBLIC SERVICE –

BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
JANUARY 31, 2024 AND 2023
AND INDEPENDENT AUDITORS' REPORT

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CITY PUBLIC SERVICE
OF SAN ANTONIO, TEXAS

(A Component Unit of the City of San Antonio)

BASIC FINANCIAL STATEMENTS

Fiscal Year Ended January 31, 2024 and 2023

(With Independent Auditors' Report Thereon)

City Public Service of San Antonio, Texas

(A Component Unit of the City of San Antonio)

Basic Financial Statements

For the Fiscal Year Ended January 31, 2024 and 2023

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KPMG LLP
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San Antonio, TX 78257-2508

Independent Auditors' Report

Board of Trustees of
City Public Service of San Antonio, Texas:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and fiduciary 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, 2024 and 2023, and the related notes to the financial statements, which collectively comprise CPS Energy's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of CPS Energy, as of January 31, 2024 and 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of the CPS Energy Pension Plan, the CPS Energy Group Health Plan, the CPS Energy Group Life Plan, and the CPS Energy Long-Term Disability Income Plan, which represent 100% of the fiduciary activities as of December 31, 2023 and 2022 and for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the CPS Energy Pension Plan, the CPS Energy Group Health Plan, the CPS energy Group Life Plan, and the CPS Energy Long-Term Disability Income Plan, are based solely on the reports of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CPS Energy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

The financial statements of the CPS Energy Pension Plan, the CPS Energy Group Health Plan, the CPS Energy Group Life Plan, and the CPS Energy Long-Term Disability Income Plan, which represent 100% of the fiduciary activities as of December 31, 2023 and 2022 and for the years then ended included in the financial statements of CPS Energy were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CPS Energy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CPS Energy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, the Schedules of Changes in CPS Energy Net Pension Liability and Related Ratios, the Schedules of Employer Contributions to CPS Energy Pension Plan, the Schedules of Changes in CPS Energy Net OPEB Liability and Related Ratios, the Schedules of Employer Contributions to CPS Energy OPEB Plans, and the Schedules of Investment Returns for CPS Energy Fiduciary Funds be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated April 25, 2024 on our consideration of CPS Energy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CPS Energy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CPS Energy's internal control over financial reporting and compliance.

KPMG LLP

San Antonio, Texas
April 25, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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"), a component unit of the City of San Antonio ("City"). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the fiscal year ended January 31, 2024 ("FY2024"), compared to the fiscal year ended January 31, 2023 ("FY2023"). It also provides an overview of CPS Energy's general financial condition and results of operations for FY2023, compared to the previous fiscal year ended January 31, 2022 ("FY2022"). The MD&A should be read in conjunction with the basic financial statements, notes to the basic financial statements, and the required supplemental information that follows.

BASIC FINANCIAL STATEMENTS OVERVIEW

In accordance with generally accepted accounting principles ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"), 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, 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, fuel costs 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 fuel hedges, unamortized losses on debt refundings, 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, fuel costs liability, and other noncurrent liabilities.

Deferred inflows of resources include unrealized gains on fuel hedges, unrealized gains related to pension and OPEB, unrealized future revenues, unamortized gains on debt refundings, and deferred inflows related to leases. 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 total assets plus deferred outflows of resources and (b) the sum of total liabilities plus 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 and capital contributions 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.

See accompanying Independent Auditors' report.

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. 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 notes to basic financial statements are an integral part of CPS Energy's financial statements and provide additional information on certain components of these statements.

OPERATIONAL HIGHLIGHTS

Vision 2027 – In May 2022, CPS Energy launched a multi-year initiative focused on five strategic objectives to meet the company's mission in the rapidly changing utility industry. CPS Energy's mission statement reads "Serving our community through reliable, competitively priced, and sustainable energy services in an equitable manner." The initiative's five strategic objectives are: operational evolution, financial stability, customer experience, team culture and community partnership and growth.

Customer accounts receivables – CPS Energy continues to see lingering impacts of COVID-19, most notably related to past due customer accounts receivables. In October 2021, CPS Energy resumed disconnects for those customers not enrolled in a payment plan. However, disconnects were temporarily paused during the FY2023 summer months due to experiencing extreme temperatures but were resumed in September 2022 and continued through January 31, 2023. In FY2024, disconnects were paused due to the extreme summer temperatures but resumed as weather conditions improved and continued through fiscal year-end. The continuation of the standard collections and disconnects is part of the Vision 2027 customer experience core objective to develop a timely and effective communication with the customers and connect customers with support through the customer assistance programs available.

In November 2021, City Council approved a new $30.0 million utility program funded using American Rescue Plan Act ("ARPA"), of which $20.0 million was allocated to assist CPS Energy customers. CPS Energy administered the funds to eligible customers and assisted with past due bills incurred from March 1, 2020, through September 30, 2021. In September 2023, CPS Energy received an additional $1.3 million from the City related to ARPA, which assisted with past due bills incurred. As of January 31, 2024, all funds had been applied to qualifying past due customer accounts.

Grant awards – In October 2023, the U.S. Department of Energy ("DOE") selected CPS Energy to receive approximately $30.2 million to enhance the utility’s ongoing efforts to maintain grid reliability and resiliency. The DOE funds will advance CPS Energy’s Community Energy Resiliency Program, focused on grid innovation such as installing microgrids to sustain the evolving needs of customers and businesses in the south and southwest portions of San Antonio. This federal fund includes a required CPS Energy matching commitment of $30.2 million for an approximate combined total investment of $60.4 million.

In May 2023, CPS Energy received an award of approximately $5.0 million from the Federal Emergency Management Agency ("FEMA") to assist with COVID-19 related expenses. The FEMA award was recorded as other receivable and funds are expected to be received in calendar 2024.

Wholesale revenue – The summer of 2023 was the hottest summer on record in San Antonio with 74 days of triple digit temperatures, beating the previous record of 59 days set back in 2009. Additionally, the Electric Reliability Council of Texas ("ERCOT") set 10 new all time peak demand records and an all time peak demand record of 85,464 MW on August 10, 2023; however, despite the strain, CPS Energy's system performed reliably. As a result of the increased energy demand, CPS Energy's nonfuel wholesale revenue increased significantly during the FY2024 summer months due to the higher temperatures and greater opportunities to sell into the market at higher prices. The revenues are expected to be used to reinvest into CPS Energy, to provide direct assistance to customers via the Residential Energy Assistance Program, and to comply with regulatory requirements.

CPS Energy rate case – On December 7, 2023, City Council approved a 4.25% rate increase, which will be effective February 1, 2024, for both CPS Energy's electric and natural gas base rates. The rate increase will address CPS Energy's infrastructure resiliency, growth, technology and security needs, and workforce planning. This rate increase is part of the Vision 2027 multi-year financial stability core objective necessary to maintain and improve the utility for the community now and in the future.

RESULTS OF OPERATIONS

Summary of Revenues, Expenses and Changes in Net Position

(In thousands)

	January 31,		
	2024	2023	2022
Revenues and nonoperating income			
Operating revenues	**$ 3,359,249**	$ 3,383,403	$ 2,762,548
Nonoperating income, net	**97,040**	62,301	34,250
Total revenues and nonoperating income	**3,456,289**	3,445,704	2,796,798
Expenses			
Operating expenses	**2,503,976**	2,738,146	2,196,293
Nonoperating expenses	**709,682**	636,767	513,340
Total expenses	**3,213,658**	3,374,913	2,709,633
Income before other changes in net position	**242,631**	70,791	87,165
Other payments to the City of San Antonio	**(12,853)**	(11,524)	(11,600)
Capital contributions	**103,062**	81,225	74,403
Change in net position	**332,840**	140,492	149,968
Net position – beginning	**4,031,215**	3,890,723	3,740,755
Net position – ending	**$ 4,364,055**	$ 4,031,215	$ 3,890,723

Total Revenues and Nonoperating Income

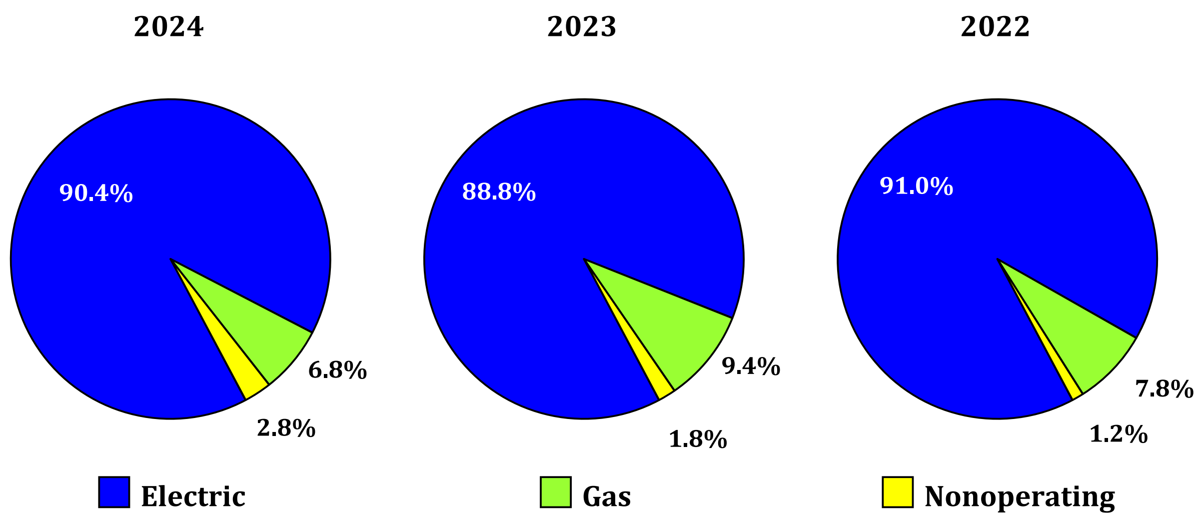
<u>FY2024</u> – Representing 97.2% of total revenues and nonoperating income, electric and gas revenues of $3,359.2 million decreased by $24.2 million, or 0.7%, compared to FY2023. This decrease was primarily due to lower electric retail and gas fuel recoveries partially offset by higher electric wholesale nonfuel recoveries. Even though San Antonio experienced record heat in the summer of FY2024, the hotter summer weather and the associated increase in electric consumption was not enough to offset the electric retail and gas fuel recoveries that were significantly lower in FY2024 as compared to FY2023 due to drastically lower electric retail and gas fuel prices which led to lower operating revenue in FY2024 as compared to FY2023.

Net nonoperating income of $97.0 million increased $34.7 million from FY2023. This increase was primarily due to a positive change in the fair value of CPS Energy's investments as compared to a negative change in the fair value of CPS Energy's investments in FY2023.

<u>FY2023</u> – Representing 98.2% of total revenues and nonoperating income, electric and gas revenues of $3,383.4 million increased by $620.9 million, or 22.5%, compared to FY2022. This increase was primarily due to higher electric retail and gas recoveries in FY2023 coupled with an increase in sales. The higher fuel recoveries are due to an increase in the cost of electric fuel and distribution gas purchased for resale to consumers that directly impacts electric and gas fuel recoveries. Additionally, the incredibly hot temperatures in the summer of FY2023 led to significantly higher electric sales as compared to FY2022.

Net nonoperating income of $62.3 million increased $28.1 million from FY2022 due to $20.0 million in American Rescue Plan Act funds received from the City. Other factors contributing to the increase include proceeds from the sale of properties, and an increase in investment income offset by a decrease in the fair value of investment holdings due to the higher interest rate environment in the current year.

Total Revenues and Nonoperating Income
Fiscal Year Ended January 31,

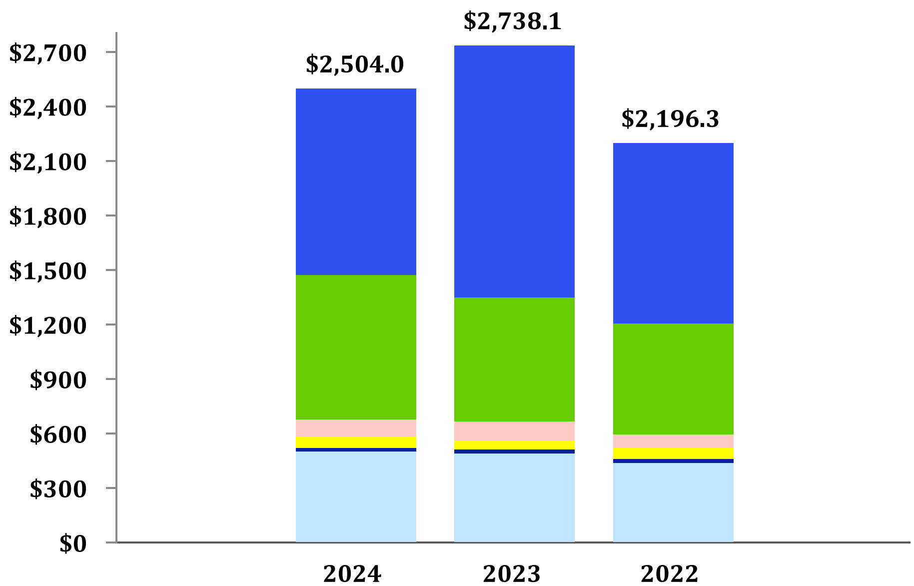


Operating Expenses

FY2024 – Operating expenses of $2,504.0 million were approximately $234.2 million, or 8.6%, below the FY2023 total of $2,738.1 million. The variance is due to lower fuel costs of $347.9 million due to lower fuel market prices, partially offset by higher operation and maintenance ("O&M") of $98.9 million, depreciation expense of $11.6 million and other expenses totaling $3.2 million.

FY2023 – Operating expenses of $2,738.1 million were approximately $541.9 million, or 24.7%, above the FY2022 total of $2,196.3 million. The variance is primarily due to higher fuel costs of $390.4 million, higher O&M of $85.3 million, depreciation expense of $49.6 million and other expenses totaling $16.5 million.

Total Operating Expenses
Fiscal Year Ended January 31,
(In millions)



		2024		2023		2022
Fuel, purchased power and distribution gas	$	**1,031.6**	$	1,379.5	$	989.1
Operation and maintenance		**787.6**		688.7		603.4
Regulatory assessments		**99.8**		99.9		79.5
Energy efficiency and conservation (STEP) & STEP net costs recoverable		**54.8**		49.9		55.7
Decommissioning		**21.8**		23.3		21.4
Depreciation and amortization		**508.4**		496.8		447.2

Nonoperating Expenses

FY2024 – Nonoperating expenses of $709.7 million were approximately $72.9 million higher than FY2023 due to higher payments to the City of $10.8 million due to increased electric revenues, higher interest expense and other debt related costs of $28.7 million due to current year bond issuances, and by the effect of the South Texas Project ("STP") defined benefit plan funding obligation of $33.4 million in the current fiscal year.

FY2023 – Nonoperating expenses of $636.8 million were approximately $123.4 million higher than FY2022 primarily due to higher payments to the City of $86.0 million due to increased electric and gas revenues, higher interest expense and other debt-related costs of $20.2 million due to higher interest costs related to bond issuances, and by the effect of the STP defined benefit plan funding obligation of $17.3 million higher than FY2022.

Other Changes in Net Position

FY2024 – Other payments to the City totaled $12.9 million and were comparable to FY2023. Capital contributions of $103.1 million were approximately $21.8 million higher than FY2023 due to an increase in customer growth projects.

FY2023 – Other payments to the City totaled $11.5 million and were comparable to FY2022. Capital contributions of $81.2 million were approximately $6.8 million higher than FY2022 due to an increase in customer growth projects.

See accompanying Independent Auditors' report.

FINANCIAL POSITION

Statements of Net Position Summary
(In thousands)

	January 31,		
	2024	2023	2022
Assets			
Current assets	**$ 1,204,611**	$ 1,285,994	$ 1,157,287
Noncurrent assets	**3,095,301**	2,830,996	2,971,932
Capital assets, net	**9,763,110**	9,272,283	8,935,099
Total assets	**14,063,022**	13,389,273	13,064,318
Deferred outflows of resources	**747,712**	754,235	742,681
Total assets plus deferred outflows of resources	**$ 14,810,734**	$ 14,143,508	$ 13,806,999
Liabilities			
Current liabilities	**$ 977,821**	$ 995,805	$ 920,535
Long-term debt, net	**7,175,452**	6,930,755	6,537,067
Noncurrent liabilities	**2,101,005**	1,874,430	2,187,245
Total liabilities	**10,254,278**	9,800,990	9,644,847
Deferred inflows of resources	**192,401**	311,303	271,429
Total liabilities plus deferred inflows of resources	**10,446,679**	10,112,293	9,916,276
Net position			
Net investment in capital assets	**2,682,503**	2,672,442	2,593,090
Restricted	**965,197**	813,194	736,380
Unrestricted	**716,355**	545,579	561,253
Total net position	**4,364,055**	4,031,215	3,890,723
Total liabilities plus deferred inflows of resources plus net position	**$ 14,810,734**	$ 14,143,508	$ 13,806,999

Current Assets

FY2024 – Current assets totaled $1,204.6 million as of January 31, 2024, a decrease of $81.4 million compared to January 31, 2023, due to decreases of $56.0 million in the General Fund primarily due to lower accounts payable, decreases in payables due to the City and STP payables, as well as customer advances for construction. Other impacts include decreases of $36.2 million in customer accounts receivable related to suspending disconnects and an increase of $4.7 million in Inventory and Prepayments.

FY2023 – Current assets totaled $1,286.0 million as of January 31, 2023, an increase of $128.7 million compared to January 31, 2022, due to increases of $48.7 million in the General Fund primarily due to higher accounts payable, an increase in payables due to the City and STP payables, as well as customer advances for construction. Other impacts include an increase of $20.5 million in customer accounts receivable related to suspending disconnects and an increase of $45.7 million in contract deposits.

Noncurrent Assets

FY2024 – Noncurrent assets totaled $3,095.3 million as of January 31, 2024, an increase of $264.3 million compared to January 31, 2023. The overall variance was due to increases of $132.4 million in the Repair and Replacement Account, $64.1 million in the Decommissioning Trusts balance due to favorable market conditions, $31.8 million in the debt service balance, $26.1 million in regulatory assets related to the pension and OPEB regulatory asset, and $25.2 million in prepayments and other accounts. These increases were partially offset by a decrease of $18.4 million due to the inventory related to the long-term service agreement being placed in service.

FY2023 – Noncurrent assets totaled $2,831.0 million as of January 31, 2023, a decrease of $140.9 million compared to January 31, 2022. The overall variance was due to decreases of $114.0 million in the Decommissioning Trusts balance due to unfavorable market conditions, $51.1 million in the Capital Projects Fund due to construction funding, partially offset by tax-exempt commercial paper issuances, as well as $34.7 million in noncurrent prepayments primarily due to fuel hedges, and $30.0 million in the fuel costs regulatory asset related to Winter Storm Uri due to settlements with vendors. These decreases were partially offset by an increase of $87.7 million in the Repair and Replacement Account.

Capital Assets, Net

FY2024 – As of January 31, 2024, net capital assets of $9,763.1 million increased $490.8 million from $9,272.3 million at January 31, 2023. The increase was primarily due to a $202.8 million increase in nondepreciable assets, a $228.4 million increase in electric plant, and a $91.7 million increase in gas plant. The increase was partially offset by a $8.3 million decrease in general plant, a $4.1 million decrease in nuclear fuel, and a $29.0 million decrease in intangibles. Total depreciable/amortizable assets increased $288.0 million.

Of the total plant-in-service and construction-in-progress additions, $1,004.6 million was related to new construction and net removal costs. These additions included funding with $531.7 million of debt, $97.7 million from capital contributions and $375.2 million from the Repair and Replacement Account. Included in capital assets is CPS Energy's 40% interest in STP Units 1 and 2.

FY2023 – As of January 31, 2023, net capital assets of $9,272.3 million increased $337.2 million from $8,935.1 million at January 31, 2022. The increase was primarily due to a $307.2 million increase in nondepreciable assets, a $34.8 million increase in general plant, and a $34.4 million increase in gas plant. The increase was partially offset by a $40.3 million decrease in electric plant, and a $29.8 million decrease in intangibles. Total depreciable/amortizable assets increased $30.0 million.

Of the total plant-in-service and construction-in-progress additions, $788.3 million was related to new construction and net removal costs. These additions included funding with $461.8 million of debt, $75.3 million from capital contributions and $251.2 million from the Repair and Replacement Account. Included in capital assets is CPS Energy's 40% interest in STP Units 1 and 2.

Deferred Outflows of Resources

FY2024 – Deferred outflows of resources decreased $6.5 million, from $754.2 million as of January 31, 2023, to $747.7 million as of January 31, 2024, due to decreases of $80.6 million in unamortized asset retirement obligation costs to reflect decommissioning cost study, $14.4 million in unamortized losses on debt refundings, and $5.5 million in unrealized losses on fuel hedges, partially offset by an increase of $94.1 million of outflows related to pension and OPEB as a result of the new regulatory asset adoption.

FY2023 – Deferred outflows of resources increased $11.6 million, from $742.7 million as of January 31, 2022, to $754.2 million as of January 31, 2023, due to increases of $20.6 million in unrealized losses on fuel hedges, $4.5 million in unamortized asset retirement obligation costs, partially offset by a decrease of $13.0 million in unamortized losses on debt refundings.

Current Liabilities

FY2024 – Excluding current maturities of debt of $181.3 million, current liabilities decreased $37.5 million, from $834.0 million as of January 31, 2023, to $796.5 million as of January 31, 2024. The decrease was primarily due to decreases of $51.5 million in accounts payable and accrued liabilities, $6.6 million in STP operating, maintenance and construction payables, and $4.0 million in pollution remediation. These were partially offset by increases of $12.3 million in interest and other debt-related payables, and $7.0 million in current customer advances reclassified to long-term customer advances.

FY2023 – Excluding current maturities of debt of $161.8 million, current liabilities increased $178.0 million, from $656.0 million as of January 31, 2022, to $834.0 million as of January 31, 2023. The increase was primarily due to increases of $107.9 million in accounts payable and accrued liabilities, $27.4 million in STP operating, maintenance and construction payables due to an increase in nuclear fuel, in $19.4 million in current customer advances reclassified to long-term customer advances, and $12.3 million in interest and other debt-related payables.

Noncurrent Liabilities

FY2024 – Excluding the noncurrent portion of debt of $7,175.5 million, noncurrent liabilities increased $226.6 million to $2,101.0 million as of January 31, 2024, primarily due to an increase of $237.9 million in net pension liability due to the annual updated actuarial study and an increase of $41.5 million in decommissioning net costs refundable due to the favorable impact of the updated STP Units 1 and 2 decommissioning cost study. These increases were partially offset by a $59.0 million decrease in asset retirement obligations due to the favorable impact of the updated decommissioning cost study and a $14.1 million decrease in long-term service agreement payables due to a milestone payment becoming current.

FY2023 – Excluding the noncurrent portion of debt of $6,930.8 million, noncurrent liabilities decreased $312.8 million to $1,874.4 million as of January 31, 2023, primarily due to decreases of $137.7 million in decommissioning net costs refundable due to unfavorable market conditions, $136.1 million in net pension liability due to an updated actuarial study, $39.1 million in STP OPEB and pension liability due to adjustments for market data, $18.5 million in long-term service agreement liability is due primarily to a large milestone payment becoming current at year end, and $13.3 million in deferred fuel related to disputed costs as a result of Winter Storm Uri. These decreases were partially offset by an increase of $28.2 million in asset retirement obligations primarily due to inflation adjustments for projected decommissioning costs for STP Units 1 and 2.

Deferred Inflows of Resources

FY2024 – Deferred inflows of resources decreased $118.9 million, from $311.3 million as of January 31, 2023, to $192.4 million as of January 31, 2024, primarily due to decreases of $126.7 million in deferred inflows related to pension and OPEB as a result of the updated actuarial studies, $20.1 million in unrealized losses on fuel hedges, partially offset by an increase of $32.6 million in unamortized gains on debt refundings due to the debt refunding transactions in FY2024.

FY2023 – Deferred inflows of resources increased $39.9 million, from $271.4 million as of January 31, 2022, to $311.3 million as of January 31, 2023, primarily due to an increase of $83.1 million in deferred inflows related to pension and OPEB, partially offset by a decrease of $39.4 million in unrealized losses on fuel hedges.

FINANCING AND DEBT COVENANTS COMPLIANCE

Long-Term Debt (Excluding Commercial Paper and Flexible Rate Revolving Notes)

FY2024 – As of January 31, 2024, CPS Energy's total debt outstanding was $6,579.5 million, excluding commercial paper, the flexible rate revolving note ("FRRN"), discounts and premiums. This long-term debt was composed of $5,768.1 million in fixed-interest-rate instruments and $811.4 million in variable-interest-rate instruments. Fixed-interest-rate long-term debt had an overall weighted-average yield of 4.0%. Separately, the variable-rate bonds had an annual weighted-average yield of 2.4%.

Issuances – CPS Energy issued a total of $899.6 million in bonds in FY2024 through refunding and tender transactions.

Reductions – CPS Energy made principal payments of $161.8 million in FY2024. Additional principal paydowns related to refunding transactions during the year totaled $388.2 million.

Summary of Debt Rollforward Activity[1]

(In thousands)

Balance Outstanding February 1, 2023	Additions During Year	Decreases During Year	**Balance Outstanding January 31, 2024**
$ 6,229,780	$ 899,635	$ (549,940)	**$ 6,579,475**

[1]Excludes commercial paper, the FRRN, discounts and premiums.

FY2023 – As of January 31, 2023, CPS Energy's total debt outstanding was $6,229.8 million, excluding commercial paper, the FRRN, discounts and premiums. This long-term debt was composed of $5,518.8 million in fixed-interest-rate instruments and $711.0 million in variable-interest-rate instruments. Fixed-interest-rate long-term debt had an overall weighted-average yield of 3.9%. Separately, the variable-rate bonds had a weighted-average yield of 1.9%.

Issuances – CPS Energy issued a total of $1,017.7 million in bonds in FY2023 through refunding and remarketing transactions.

Reductions – CPS Energy made principal payments of $164.5 million in FY2023. Additional principal paydowns related to refunding and remarketing transactions during the year totaled $263.5 million.

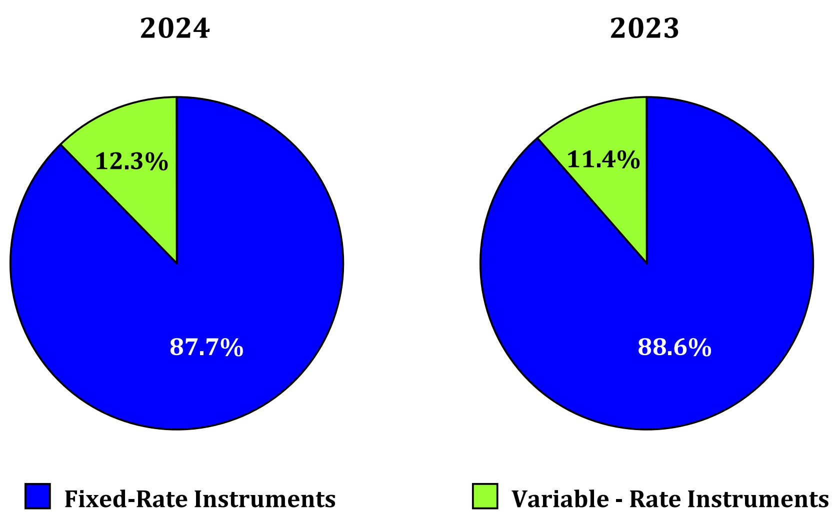
Summary of Debt Rollforward Activity[1]

(In thousands)

Balance Outstanding February 1, 2022	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2023
$ 5,640,095	$ 1,017,675	$ (427,990)	$ 6,229,780

[1]Excludes commercial paper, the FRRN, discounts and premiums.

Allocation of Debt at January 31,



Note: Graphs exclude commercial paper and the FRRN.

See accompanying Independent Auditors' report.

Commercial Paper

FY2024 – *Issuances* – CPS Energy issued a total of $530.9 million in commercial paper during the fiscal year ended January 31, 2024, to fund construction costs.

Reductions – CPS Energy made reductions of $635.0 million related to commercial paper refunding transactions and paydowns during the fiscal year ended January 31, 2024.

As of January 31, 2024, the outstanding commercial paper balance was $351.4 million, all of which was issued tax-exempt.

Summary of Commercial Paper Rollforward Activity

(In thousands)

Balance Outstanding February 1, 2023	Additions During Year	Decreases During Year	**Balance Outstanding January 31, 2024**
$ 455,500	$ 530,900	$ (635,000)	**$ 351,400**

FY2023 – *Issuances* – CPS Energy issued a total of $601.9 million in commercial paper during the fiscal year ended January 31, 2023, to fund construction and fuel costs.

Reductions – CPS Energy made reductions of $806.4 million related to commercial paper refunding transactions and paydowns during the fiscal year ended January 31, 2023.

As of January 31, 2023, the outstanding commercial paper balance was $455.5 million, of which $420.5 million was issued as tax-exempt, and $35.0 million was issued as taxable.

Summary of Commercial Paper Rollforward Activity

(In thousands)

Balance Outstanding February 1, 2022	Additions During Year	Decreases During Year	Balance Outstanding January 31, 2023
$ 660,000	$ 601,927	$ (806,427)	$ 455,500

The weighted-average interest rate on outstanding commercial paper was 3.4% as of January 31, 2024, and 1.8% as of January 31, 2023. The weighted-average maturity of commercial paper as of January 31, 2024 and 2023, was 360 and 352 days, respectively.

Flexible Rate Revolving Notes

FY2024 – There were no note issuances or reductions under the FRRN programs during FY2024. As of January 31, 2024, there was no outstanding FRRN balance.

FY2023 – On April 13, 2022, the outstanding balance of $100.0 million was paid down through a revenue refunding bond transaction. As of January 31, 2023, there were no outstanding amounts under the FRRN program.

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
as of January 31, 2024

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	4.03x	3.89x
Senior and Junior lien debt	3.31x	3.18x

Debt Service Coverage Ratios
as of January 31, 2023

	With BABs Subsidy	Without BABs Subsidy
Senior lien debt	3.60x	3.47x
Senior and Junior lien debt	2.94x	2.82x

The ratio of debt to debt and net position was 60.8% and 61.8% as of January 31, 2024 and 2023, respectively.

Summary of CPS Energy's Bond and Commercial Paper Ratings
as of January 31, 2024

	Senior Lien Debt	Junior Lien Debt	Commercial Paper
Fitch Ratings	AA-	AA-	F1+
Moody's Investors Service,	Aa2	Aa3	P-1
S&P Global Ratings	AA-	A+	A-1

During the fiscal year, Fitch Ratings, Moody's Investors Service, and S&P Global Ratings affirmed the ratings of CPS Energy; which reflect negative outlooks from Fitch Ratings and S&P Global Ratings, while, Moody's Investors Service reflects a stable outlook.

CURRENTLY KNOWN FACTS

Strategic Initiatives – CPS Energy’s mission is to serve our community through reliable, competitively priced, and sustainable energy services in an equitable manner. Our five strategic objectives are: Operational Evolution, Financial Stability, Customer Experience, Team Culture, and Community Partnership & Growth. We live our core values of Safety & Well-being, Transparency, One Team, Accountability, Integrity, and Excellence. We are connecting, listening, and engaging transparently with our community and stakeholders.

CPS Energy aims to address San Antonio’s growing energy needs while transforming power generation to cleaner sources with a deliberately blended approach to power generation through which CPS Energy will consider adding more solar capacity, energy battery storage, new technologies, and firming capacity to replace energy production from aging power plants. Today's renewable technology, alone, cannot support all of the community's customers consistently and reliably, 24/7/365. The multi-faceted approach of the diversified generation solution will ensure the community has the power to thrive while maximizing the existing community-owned generation assets.

We will continue our legacy of enhancing quality of life by providing equitable, affordable, reliable, and sustainable energy. San Antonio is one of the fastest-growing cities in America, and the utility industry is faced with integrating new technology while balancing societal and regulatory expectations, managing severe weather events, and remaining competitive in retaining and attracting talent.

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 derivative instruments 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" under the Dodd-Frank Act, CPS Energy is exempt from clearing and margining its over-the-counter positions and from capital requirements related to its commodities activities.

The Environment Protection Agency ("EPA") proposed a carbon rule on May 23, 2023. The EPA is proposing to update and establish more stringent new source performance standards ("NSPS") for greenhouse gas ("GHG") emissions from new and reconstructed fossil fuel-fired stationary combustion turbine electric generating units ("EGUs") that are based on highly efficient generation, hydrogen co-firing, and carbon capture and sequestration ("CCS"). The EPA is also proposing to establish new emission guidelines for existing fossil fuel-fired steam-generating EGUs that reflect the application of CCS and the availability of natural gas co-firing. Simultaneously, the EPA proposes repealing the Affordable Clean Energy ("ACE") rule because the emissions guidelines established in the ACE do not reflect the best emissions reduction ("BSER") system for steam generating EGUs and are inconsistent with further aspects of section 111 of the Clean Air Act. To address GHG emissions from existing fossil fuel-fired stationary combustion turbines, the EPA is proposing emissions guidelines for large and frequently used existing stationary combustion turbines. Further, the EPA is soliciting comments on how the agency should approach its legal obligation to establish emissions guidelines for the remaining existing fossil fuel-fired combustion turbines not covered by this proposal, including smaller, frequently used, and less frequently used, combustion turbines. CPS Energy is actively participating with American Public Power Association ("APPA") and Large Public Power Council ("LPPC") in reviewing the rule. On February 29 2024, the EPA announced that it would be dropping the requirements covering existing natural gas-fired stationary combustion turbines in its final rule. The requirements for existing coal and natural gas steam boilers and new gas units are expected to be finalized in April 2024.

The Steam Electric Power Generating Effluent Guidelines and Standards for power plant wastewater was finalized in 2016, with a compliance date of December 31, 2023, for flue gas desulfurization discharges related to coal. In October 2020, the final deadline for Voluntary Incentive Program ("VIP") treatment including zero liquid discharge technology was extended to December 31, 2028, which is CPS Energy's preferred option. Additionally, options were provided in the rule for repowering or shutting down coal units by December 31, 2028. The EPA added further regulations on coal combustion wastewater in 2022; however, there was little impact as CPS Energy had chosen to eliminate these discharges.

The EPA designated Bexar County as Marginal Nonattainment on September 24, 2018. 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. CPS Energy developed an internal Ozone Action Plan. On April 13, 2022, the EPA proposed to change San Antonio area (Bexar County) from Marginal to Moderate nonattainment for the 2015 Ozone standard of 70 parts per billion ("ppb"). On November 7, 2022, the EPA published San Antonio as Moderate for Ozone Nonattainment. On May 31, 2023, the Texas Commission on Environmental Quality ("TCEQ") issued rules addressing the Moderate nonattainment designation for Bexar County. The TCEQ proposed to add Bexar County to the existing list of counties affected by the vehicle inspection and maintenance (I/M) program codified in Title 30 Texas Administrative Code (30 TAC) Chapter 114. These rules were adopted on November 29, 2023. Beginning November 1, 2026, all gasoline vehicles registered in Bexar County that are two to 24 years old must be subjected to an on-board diagnostics ("OBD") inspection and a gas cap integrity inspection as part of the annual safety and emissions inspection. This is in addition to the anti-tampering checks performed as part of the annual safety and emissions inspection. All inspection stations would be required to offer the OBD test. The attainment date for the Bexar County 2015 ozone National Ambient Air Quality Standards ("NAAQS") moderate nonattainment area is September 24, 2024. On December 15, 2023, the TCEQ published proposed rules for nonattainment areas classified as moderate and above are required to meet the mandates of the federal Clean Air Act ("FCAA"). FCAA requires that the State Implementation Plan ("SIP") incorporate all reasonably available control measures ("RACM"), including reasonably available control technology ("RACT"), as expeditiously as practicable. The TCEQ is required to implement RACT requirement rules for all categories of stationary sources classified as major stationary sources of nitrogen oxides ("NOx") or volatile organic compounds ("VOC"). This proposed rulemaking would implement RACT requirements for major sources of NOx in Bexar County. This would include our generation facilities at Calaveras, Braunig, and Leon Creek. The rule would require a system wide NOx 30-day rolling average on all of our generation units located in Bexar County. CPS Energy submitted comments on the proposed NOx rules to the TCEQ on January 12, 2024.

On October 12, 2023, the Texas Governor sent a letter to the EPA requesting to voluntarily designate San Antonio, Dallas, and Houston Areas as Serious for Ozone Nonattainment ahead of schedule. Following this letter, the EPA published the Serious designation for Bexar County on January 26, 2024. Comments are due February 26, 2024. The attainment date for Bexar County remains September 24, 2027. Failure to attain the NAAQS by that date, or effectively the end of the 2026 ozone season, will result in Bexar County being designated up to Severe nonattainment.

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 CCR impoundments. The EPA issued a proposed rule in December 2019 and finalized the rule in August 2020. The revised rule changed the compliance dates to stop placing CCR materials into existing impoundments meeting certain criteria and to initiate closure by April 11, 2021, instead of August 31, 2020. The latest date allowed to complete site-specific alternate closure was October 15, 2023. Prior to October 15th, CPS Energy completed construction of a new replacement CCR impoundment and ceased use/placement of material into the older CCR impoundment. In addition, Initiation of Closure Notification for each of the older CCR impoundments have been provided to the TCEQ and placed on the CPS Energy CCR public webpage. The EPA proposed the Legacy CCR Impoundments Rule and placed in Federal Register on May 18, 2023. The proposed rule does not affect the operation of the Spruce generating Units but would require additional ground water monitoring wells and reporting. In addition, four currently closed CCR landfills located on the Calaveras Power Station property may require additional cover requirements. Final version of the proposed Legacy CCR Impoundments Rule is expected in May 2024.

Federal Budget Developments – In December 2017, the U.S. Congress passed the Tax Cuts & Jobs Act ("Act"). The Act preserved tax-exempt financing for municipal bonds but eliminated the use of advanced refunding on a tax-exempt basis for issuers at the end of calendar year 2017. During the 116th Congress in 2020, proposals were introduced to reinstate advanced refundings but none have passed into law. Additionally, subsidy payments to BABs issuers were reduced by 5.7% from October 1, 2020, through September 30, 2030.

In August 2022, Congress passed the Inflation Reduction Act ("IRA"). The IRA included several energy tax provisions, including extensions of the Production Tax Credit ("PTC"), Investment Tax Credit ("ITC"), and Carbon Capture Tax Credit, among others. The ITC was also expanded to additional types of renewable energy. The IRA further includes a variety of different tax incentives for existing nuclear, energy efficiency, clean fuels, electric vehicles, and environmental justice, among other provisions. Of particular importance, the IRA gives public power utilities and other tax-exempt entities access to refundable direct payment tax credits. The U.S. Department of the Treasury and Internal Revenue Service have initiated a series of Requests for Information ("RFI"s) to implement the various tax provisions within the IRA. CPS Energy is participating in this process through our national trade associations.

REQUESTS FOR INFORMATION

For more information about CPS Energy, contact Corporate Communications & Marketing at (210) 353-2344 or at P.O. Box 1771, San Antonio, Texas 78296-1771.

STATEMENTS OF NET POSITION

	January 31, 2024	January 31, 2023
	(In thousands)	
Assets		
Current assets		
Cash and cash equivalents	**$ 394,213**	$ 480,957
Customer accounts receivable, less allowance for doubtful accounts of $122.0 million at January 31, 2024, and $138.8 million at January 31, 2023	**323,114**	359,265
Interest and other accounts receivable	**119,256**	101,462
Inventories, at average costs		
Materials and supplies, net	**144,728**	125,721
Fossil fuels	**72,176**	57,474
Prepayments and other	**151,124**	161,115
Total current assets	**1,204,611**	1,285,994
Noncurrent assets		
Restricted		
Cash and cash equivalents	**454,945**	452,476
Investments	**1,361,837**	1,136,832
Interest and other accounts receivable	**8,645**	6,452
Pension regulatory asset	**244,586**	218,490
Fuel costs regulatory asset	**763,167**	759,623
Other noncurrent assets	**262,121**	257,123
Capital assets, net	**9,763,110**	9,272,283
Total noncurrent assets	**12,858,411**	12,103,279
Total assets	**14,063,022**	13,389,273
Deferred outflows of resources		
Pension and OPEB related	**235,270**	141,187
Fuel hedges	**30,243**	35,783
Unamortized losses on debt refundings	**47,459**	61,890
Asset retirement obligations	**434,740**	515,375
Total deferred outflows of resources	**747,712**	754,235
Total assets and deferred outflows of resources	**$ 14,810,734**	$ 14,143,508

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF NET POSITION

	January 31, 2024	January 31, 2023
	(In thousands)	
Liabilities		
Current liabilities		
Current maturities of debt	**$ 181,295**	$ 161,775
Accounts payable and accrued liabilities	**796,526**	834,030
Total current liabilities	**977,821**	995,805
Noncurrent liabilities		
Long-term debt, net	**7,175,452**	6,930,755
Asset retirement obligations	**1,054,040**	1,112,389
Decommissioning net costs refundable	**96,237**	54,727
Net pension liability	**349,979**	112,055
Fuel costs liability	**362,251**	362,251
Other noncurrent liabilities	**238,498**	233,008
Total noncurrent liabilities	**9,276,457**	8,805,185
Total liabilities	**10,254,278**	9,800,990
Deferred inflows of resources		
Fuel hedges	**—**	20,083
Pension and OPEB related	**59,752**	186,490
Unrealized future revenues	**70,481**	74,016
Leases	**10,763**	11,878
Unamortized gains on debt refundings	**51,405**	18,836
Total deferred inflows of resources	**192,401**	311,303
Total liabilities and deferred inflows of resources	**10,446,679**	10,112,293
Net position		
Net investment in capital assets	**2,682,503**	2,672,442
Restricted		
Debt service	**173,427**	153,856
Ordinance	**791,770**	659,338
Unrestricted	**716,355**	545,579
Total net position	**4,364,055**	4,031,215
Total liabilities, deferred inflows of resources and net position	**$ 14,810,734**	$ 14,143,508

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year Ended January 31,	
	2024	2023
	(In thousands)	
Operating revenues		
Electric		
Retail	**$ 2,744,093**	$ 2,819,575
Wholesale	**380,982**	239,067
Total electric operating revenues	**3,125,075**	3,058,642
Gas	**234,174**	324,761
Total operating revenues	**3,359,249**	3,383,403
Operating expenses		
Fuel, purchased power and distribution gas	**1,031,560**	1,379,474
Operation and maintenance	**787,631**	688,700
Energy efficiency and conservation (STEP)	**58,725**	56,787
STEP net costs recoverable (refundable)	**(3,979)**	(6,854)
Regulatory assessments	**99,828**	99,948
Decommissioning	**21,790**	23,286
Depreciation and amortization	**508,421**	496,805
Total operating expenses	**2,503,976**	2,738,146
Operating income	**855,273**	645,257
Nonoperating income (expense)		
Interest and other income, net	**75,250**	39,015
Decommissioning Trusts investment income (loss)	**64,086**	(113,985)
Decommissioning net costs recoverable (refundable)	**(42,296)**	137,271
Interest and other expense	**(287,828)**	(257,661)
Amortization of debt-related costs	**34,784**	33,284
Effect of defined benefit plan funding obligations – STP	**(7,287)**	26,138
Payments to the City of San Antonio	**(449,351)**	(438,528)
Total nonoperating income (expense)	**(612,642)**	(574,466)
Income before other changes in net position	**242,631**	70,791
Other payments to the City of San Antonio	**(12,853)**	(11,524)
Capital contributions	**103,062**	81,225
Change in net position	**332,840**	140,492
Net position – beginning	**4,031,215**	3,890,723
Net position – ending	**$ 4,364,055**	$ 4,031,215

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 31,	
	2024	2023
	(In thousands)	
Cash flows from operating activities		
Cash received from customers	**$ 3,377,597**	$ 3,346,431
Cash received from City services billed	**149,722**	140,039
Cash payments to suppliers for goods and services	**(1,734,842)**	(1,844,218)
Cash payments to employees for service	**(297,730)**	(247,959)
Cash payments to the City for services billed	**(147,534)**	(140,169)
Net cash provided (used) by operating activities	**1,347,213**	1,254,124
Cash flows from capital and related financing activities		
Cash paid for additions to utility plant and net removal costs	**(1,050,256)**	(900,371)
Capital contributions	**97,743**	75,342
Proceeds from the sale of capital assets	**5,169**	29,500
Proceeds from issuance of revenue bonds and commercial paper	**1,144,612**	867,865
Principal payments on revenue bonds and cash defeasance of debt	**(761,775)**	(609,495)
Interest paid	**(279,098)**	(248,890)
Debt issue and cash defeasance costs paid	**(7,244)**	(7,798)
Net cash provided (used) by capital and related financing activities	**(850,849)**	(793,847)
Cash flows from noncapital financing activities		
Cash payments to the City of San Antonio	**(457,098)**	(443,895)
Proceeds from issuance of revenue bonds	**—**	411,156
Proceeds from issuance of commercial paper	**—**	181,427
Cash payments on commercial paper	**(35,000)**	(396,427)
Cash payments on flexible rate revolving note	**—**	(100,000)
Grant proceeds	**6,346**	24,295
Net cash provided (used) by noncapital financing activities	**(485,752)**	(323,444)
Cash flows from investing activities		
Purchases of investments	**(469,654)**	(503,377)
Proceeds from sales and maturities of investments	**294,758**	451,647
Interest and other income	**80,009**	67,823
Net cash provided (used) by investing activities	**(94,887)**	16,093
Net increase (decrease) in cash and cash equivalents	**(84,275)**	152,926
Cash and cash equivalents at beginning of period	**933,433**	780,507
Cash and cash equivalents at end of period	**$ 849,158**	$ 933,433

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CASH FLOWS

	Fiscal Year Ended January 31,	
	2024	2023
	(In thousands)	
Reconciliation of operating income to net cash provided (used) by operating		
Cash flows from operating activities		
Operating income	**$ 855,273**	$ 645,257
Noncash items included		
Depreciation and amortization	**508,422**	496,805
Nuclear fuel amortization	**49,941**	49,440
Provision for doubtful accounts	**27,689**	86,305
Changes in current assets and liabilities		
(Increase) decrease in customer accounts receivable, net	**8,461**	(106,839)
(Increase) decrease in other receivables	**(18,435)**	(17,412)
(Increase) decrease in materials and supplies	**(19,007)**	(12,289)
(Increase) decrease in fossil fuels	**(14,702)**	23,093
(Increase) decrease in prepayments and other	**(15,060)**	(26,989)
Increase (decrease) in accounts payable and accrued liabilities	**(47,438)**	144,913
Changes in noncurrent and other assets and liabilities		
(Increase) decrease in other noncurrent assets and prepaid costs	**(2,995)**	14,106
(Increase) decrease in fuel costs recoverable	**(3,544)**	30,036
Increase (decrease) in customer service deposits payable	**633**	974
Increase (decrease) in asset retirement obligation	**(58,349)**	28,249
Increase (decrease) in deferred fuel	**—**	(13,328)
Increase (decrease) in noncurrent liabilities	**217,625**	(166,254)
Changes in deferred outflows of resources	**(13,448)**	(3,928)
Changes in deferred inflows of resources	**(127,853)**	81,985
Net cash provided (used) by operating activities	**$ 1,347,213**	$ 1,254,124
Noncash financing activities		
Bond proceeds deposited into an escrow account for purposes of refunding long-term debt	**$ 365,704**	$ 131,354
Donated assets received and recorded	**$ 5,319**	$ 5,883

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF FIDUCIARY NET POSITION

	December 31,	
	2023	2022
	(In thousands)	
Assets		
Cash and cash equivalents	**$ 39,506**	$ 19,747
Receivables		
Accrued interest and dividends receivable	**4,063**	3,914
Receivable from federal government under Medicare Part D	**170**	135
Investment trades pending receivable	**10,300**	10,660
Receivable from property managers and others	**919**	922
Allowance for bad debt expense	**(919)**	(919)
Total receivables	**14,533**	14,712
Investments		
U.S. Government securities	**94,115**	105,285
Corporate bonds	**227,815**	227,717
Investment grade bond funds	**36,220**	—
Senior loan fund	**105,725**	93,495
Emerging market debt	**54,469**	50,190
Domestic equities	**1,024,508**	852,773
Low-volatility equities	**194,290**	182,301
International equities	**228,967**	197,462
Master limited partnerships	**205,586**	194,815
Alternative investments	**123,078**	114,202
Real estate	**153,976**	176,859
Investment in partnership	**45,000**	49,000
Total investments	**2,493,749**	2,244,099
Total assets	**$ 2,547,788**	$ 2,278,558
Liabilities		
Accounts payable and other liabilities	**$ 463**	$ 453
Investment trades pending payable	**25,827**	1,783
Investment and administrative expenses payable	**552**	596
Accrued health claims payable	**5,207**	5,022
Total liabilities	**32,049**	7,854
Net position restricted for pension and other postemployment benefits	**2,515,739**	2,270,704
Total liabilities and net position	**$ 2,547,788**	$ 2,278,558

See accompanying Notes to Basic Financial Statements.

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

	December 31,	
	2023	2022
	(In thousands)	
Additions		
Contributions		
Employer	**$ 94,307**	$ 94,929
On-behalf payments from federal government	**996**	985
Participants	**29,250**	27,188
Total contributions	**124,553**	123,102
Investment income (loss)		
Interest and dividend income	**32,567**	24,765
Real estate rental income	**5,153**	4,820
Net realized and unrealized gain (loss) on investments	**295,617**	(287,212)
Miscellaneous income	**24**	94
Total investment income (loss)	**333,361**	(257,533)
Investment expenses	**(6,764)**	(6,229)
Net investment income (loss)	**326,597**	(263,762)
Total additions	**451,150**	(140,660)
Deductions		
Benefits paid	**201,573**	187,533
Administrative expenses	**4,542**	4,280
Bad debt expense	**—**	519
Total deductions	**206,115**	192,332
Change in fiduciary net position	**245,035**	(332,992)
Fiduciary net position – beginning	**2,270,704**	2,603,696
Fiduciary net position – ending	**$ 2,515,739**	$ 2,270,704

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS
January 31, 2024 and 2023

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 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 annual comprehensive financial report of the City.

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34,* the following legally separate entities, for which CPS Energy is financially accountable and there exists a financial benefit/burden relationship, 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".

In accordance with GASB Statement No. 84*, Fiduciary Activities,* 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.

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.

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. In accordance with the revenue bond ordinances, CPS Energy 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.

CPS Energy presents its financial statements in accordance with GASB pronouncements that establish standards for external financial reporting for all state and local governmental entities that include a statement of net position, a statement of revenue, expenses and changes in net position, and a statement of cash flows. It requires classification of net position into three components - net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

- Net investment in capital assets consists of capital assets, leases and subscription based information technology agreements ("SBITAs"), net of accumulated depreciation/amortization, reduced by the outstanding balances of any debt or liability attributable to those assets and increased/reduced by costs to be recovered from future revenues or revenues to be used for future costs and any unspent bond construction funds or tax-exempt commercial paper proceeds to be used to fund future construction costs.
- Restricted consists of assets that have constraints placed upon their use imposed either by creditors (such as debt covenants) or through laws, regulations or constraints imposed by law through constitutional provisions or enabling legislation, reduced by any liabilities to be paid from these assets.
- Unrestricted consists of net position that does not meet the definition of restricted or net investment in capital assets.

CPS Energy's bond resolutions specify the flow of funds from revenues and specify the requirements for the use of certain restricted and unrestricted assets.

The fiduciary financial statements of the Pension Plan and the Employee Benefit Plans are reported using the economic resources measurement focus and prepared on the accrual basis of accounting in conformity with 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.

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 deferred outflows of resources, liabilities and deferred inflows of resources, 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.

Reclassifications – Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the reported results of operations.

Classification of Revenues and Expenses – Revenues and expenses related to providing energy services in connection with the Company's principal ongoing operations of the systems are classified as operating. All other revenues and expenses are classified as nonoperating and reported as nonoperating income (expense) on the Statements of Revenues, Expenses and Change in Net Position.

Revenues – Revenues are recorded when earned. Customers' meters are read, or periodically estimated, and bills are prepared monthly based on billing cycles. 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 month. Also included in unbilled revenue are the (over)/under-recoveries of electric and gas fuel costs and regulatory assessments. Unbilled revenue recorded as of January 31, 2024 and 2023 including estimates for electric fuel and gas costs, were $28.4 million and $50.7 million, respectively.

An adjustment clause in CPS Energy's rate tariffs also permits recovery of regulatory assessments. CPS Energy recovers assessments from the Public Utility Commission of Texas ("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, 2024 and 2023, were $99.8 million and $99.9 million, respectively.

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 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, the flexible rate revolving note ("FRRN") 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. Unrestricted funds are generally used for current operations.

CPS Energy sets aside 1% of prior fiscal year electric base rate revenue, which is remitted 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 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.

Customer Accounts Receivables - The allowance for uncollectible accounts is management's best estimate of the amount of probable credit losses based on account delinquencies, historical write-off experience and current energy market conditions. Account balances are written off against the allowance when it is probable the receivable will not be recovered. The allowance for uncollectible accounts totaled $122.0 million and $138.8 million for fiscal years ended January 31, 2024 and 2023, respectively.

In June 2020, CPS Energy established the Customer Outreach Resource Effort program to expand efforts to contact customers by proactively calling those largely impacted by the pandemic and educating them on various discounts and affordability programs offered. Customers who applied or have been approved for financial assistance through an approved CPS Energy program or reside in a Housing and Urban Development low income qualified census tract will not be scheduled for disconnect. In FY2023, CPS Energy began residential customer disconnects and continued through the entire fiscal year to mitigate outstanding past due accounts. In FY2024, CPS Energy paused residential customer disconnects during the extreme summer weather conditions, but they were resumed as conditions improved and continued through the end of the fiscal year.

CPS Energy records bad debts for its estimated uncollectible accounts related to electric and gas services as a reduction to the related operating revenues in the Statements of Revenues, Expenses, and Changes in Net Position. CPS Energy's bad debt provision totaled $27.7 million and $86.3 million for the periods ended January 31, 2024 and 2023, respectively. As of January 31, 2024 and 2023, customer accounts receivables, net were $323.1 million and $359.3 million, respectively.

Inventories – CPS Energy maintains inventories for its materials, supplies and fossil fuels. In total, CPS Energy reported ending inventories of $216.9 million and $183.2 million as of January 31, 2024 and 2023, 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 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 $7.3 million and $6.9 million as of January 31, 2024 and 2023, respectively.

Regulatory Accounting – Regulatory accounting applies to governmental entities with rate-regulated operations, such as CPS Energy, that fall within the scope of the GASB Codification Section RE10, *Regulated Operations*. 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. CPS Energy applies the accounting requirements of the GASB Codification Section RE10. Accordingly, certain costs may be capitalized as a regulatory asset that otherwise would be charged to expense. These regulatory assets will be recovered through rates in future years, and consist of costs related to outstanding debt, costs related to pension/other postemployment benefits ("OPEB"), Save for Tomorrow Energy Plan ("STEP") net costs recoverable and fuel costs regulatory asset. See Note 5 – Regulatory Assets for further discussion.

Other Noncurrent Assets – Other noncurrent assets include purchased power and gas prepayments, STEP net costs recoverable, inventory relating to long-term service agreements ("LTSA"), net OPEB (asset) liability, and assets held for sale. This section also includes a pension regulatory asset and unamortized bond expense discussed within the Regulatory Accounting topic above.

Purchased Power 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. As of January 31, 2024, $3.1 million was classified as current and $38.3 million was classified as noncurrent of the remaining prepayment balance. As of January 31, 2023, $3.1 million was classified as current and $41.4 million was classified as noncurrent of the remaining prepayment balance. The balance of the output is purchased on a pay-as-you-go basis.

Purchased Gas Prepayments – In FY2024 and FY2023, the Company entered into agreements for natural gas that require prepayments. In connection with these agreements, CPS Energy made prepayments of $3.4 million in FY2024 and $15.1 million in FY2023. As of January 31, 2024 and 2023, CPS Energy had net prepaid balances of $8.5 million and $31.4 million, respectively. Of the prepaid amount, $5.2 million and $23.1 million, respectively, were classified as current assets and $3.3 million, respectively, were classified as other noncurrent assets. Each advance payment has been recorded as a prepaid asset and is amortized monthly to fuel expense over each agreed upon contract term, with the last one ending in June 2026.

Sustainable 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 original STEP goal of reducing demand by an estimated 845 MW and approximately 15% below the original STEP budget. Due to the success of the STEP program, the City authorized continuation of the STEP Bridge program in January 2020, which allowed for the existing customer programs to continue for an additional year through January 31, 2021, to reach a targeted additional reduction of 75 MW. On June 29, 2020, the CPS Energy's Board of Trustees ("Board") approved the expenditure of up to $31.0 million from the authorized $70 million STEP Bridge budget for continued delivery of energy efficiency and weatherization programs. In January 2021, the City Council approved an additional extension of the STEP Bridge program until July 2022 to allow additional time to recover from COVID-19 pandemic related program impacts and to continue gathering public and stakeholder input for CPS Energy's next generation of energy efficiency and conservation programs. In June 2022, the City authorized the funding of a new energy efficiency and conservation program STEP to reduce 410 MW customer demand through energy efficiency and conservation programs by calendar year 2027.

Annually, approximately $10 million of STEP expenses are funded through the electric base rate and reported as operation and maintenance ("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 independently validated. These STEP recoveries are accrued as a regulatory asset referred to as STEP net costs recoverable. As of January 31, 2024 and 2023, the net costs recoverable was $58.7 million and $56.8 million, respectively.

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 13 – Other Obligations and Risk Management.

Net OPEB (Asset) Liability – A net OPEB (asset) liability is recorded in accordance with the 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 was $41.4 million and $50.4 million as of 2024, and 2023. For additional information, see Note 12 – Other Postemployment Benefits.

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.

Proceeds from customers to partially fund construction expenditures are reported as capital contributions 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*. Capital contributions consist of donated assets and contributions received from customers as payments for utility extensions and services, as well as funding for community initiatives and other local partnership projects.

Capital Contributions

(In thousands)

	January 31,	
	2024	2023
Donated assets	**$ 5,319**	$ 5,883
Contributions	**97,743**	75,342
Total capital contributions	**$ 103,064**	$ 81,227

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 3.2% and 3.3% for FY2024 and FY2023, respectively.

The estimated useful lives of depreciable capital assets for FY2024 and FY2023 were as follows:

Depreciable Capital Asset	Estimated Useful Life
Buildings and structures	45 years
Systems and improvements	
Generation	34–59 years
Transmission and distribution	6–63 years
Gas	30–65 years
Intangibles - software	8 years
Intangibles - other	20–30 years
Machinery and equipment	4–20 years
Mineral rights and other	20–40 years
Nuclear fuel	Units of Production

In FY2023, CPS Energy engaged an independent third-party consulting firm to conduct a depreciation study, which is performed generally every five years. The new depreciation rates resulting from the study were retroactively applied to the beginning of FY2023. As a result of the study, based on the plant in service as of January 31, 2022, total annual depreciation increased by approximately 7.6% based on the updated estimated useful lives and increases in plant-in-service balances.

Separately, right-to-use lease assets and subscription assets are amortized over the lesser of the life of the assets or the term of the lease, using the straight-line method.

Thresholds contained in the Company's capitalization policy, procedures and guidelines for FY2024 and FY2023 were as follows:

Asset Class	Threshold
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

Leases – CPS Energy adopted GASB Statement No. 87, *Leases*, in FY2022, which no longer differentiates between capital and operating leases. GASB Statement No. 87 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 this statement, CPS Energy as a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and as a lessor is required to recognize a lease receivable and a deferred inflow of resources. See Note 17 – Leases and SBITAs for additional information regarding leases.

Subscription Based Information Technology Agreements – CPS Energy adopted GASB Statement No. 96, *Subscription Based Information Technology Agreements ("SBITAs")*, during FY2023. GASB Statement No. 96 establishes an accounting model for subscription assets. Under this statement, CPS Energy is required to recognize a SBITA liability and an intangible right-to-use subscription asset. See Note 17 – Leases and SBITAs for additional information regarding subscription assets.

Compensated Absences – Employees earn vacation benefits based upon their employment status and years of service. As of January 31, 2024 and 2023, the accrued liabilities for those vested benefits were $29.5 million and $26.0 million, respectively, which were included in accounts payable and accrued liabilities on the Statements of Net Position. CPS Energy does not accrue a liability for sick leave since there is no cash payment made for sick leave when an employee terminates or retires.

Long-Term Debt – To support its long-term capital financing needs, CPS Energy uses several types of debt instruments. As of January 31, 2024 and 2023, 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 8 – 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.

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 by 5.9% for the period of October 1, 2020, through September 30, 2021, and 5.7% for the period October 1, 2021, through September 30, 2030.

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 included in Note 8 – Revenue Bonds.

Decommissioning – CPS Energy accounts for its legal obligation to decommission STP Units 1 and 2 in accordance with GASB Statement No. 83. The Company recognized its pro rata share of an asset retirement obligation ("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 performed in May 2023. 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, at least annually, for the effects of inflation or deflation. In addition to the ARO, the Company recorded deferred outflows of resources that are being amortized over the remaining useful life of the plant. See Note 18 – Asset Retirement Obligations for the criteria for determining the timing and pattern of recognition for the decommissioning liability. See Note 15 – 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, a deficit would be reported as decommissioning net costs recoverable and would be receivable from customers.

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 $350.0 million and $112.1 million as of January 31, 2024 and 2023, respectively. For additional information, see Note 11 – Employee Pension Plan.

Other Noncurrent Liabilities – Other noncurrent liabilities include the unrealized change in fair value of fuel hedges, communication towers liability, note payable, LTSA obligations and other liabilities for balances payable and deposits received.

Deferred Outflows and Deferred Inflows of Resources – Certain items applicable to future reporting periods are reported as deferred outflows of resources (consumption) and deferred inflows of resources (acquisition).

Pension and OPEB – CPS Energy reports as deferred inflows or deferred outflows of resources as the differences between expected and actual experience, projected and actual investment earnings on pension plan investments, and CPS Energy's contributions to the pension system subsequent to the measurement date. See Note 11 – Employee Pension Plan.

CPS Energy reports the changes in CPS Energy's net OPEB liability (asset) that have not been included in OPEB expense as deferred inflows or deferred outflows of resources. Amounts included would result from changes of assumptions, the net difference between projected and actual earnings on the OPEB Trusts, and CPS Energy's contributions subsequent to the measurement date. See Note 13 – Other Postemployment Benefits.

Fuel Hedges – 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.

Unamortized gains/losses on refundings – Deferred charge on refunding represents the difference between the reacquisition price and the net carrying amount of the old debt that 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.

Asset Retirement Obligations – CPS Energy accounts for AROs in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations*, 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. CPS Energy reports AROs associated with the decommissioning of STP Units 1 and 2, and the retirement of the fuel storage tanks, and vaults. See Note 18 – Asset Retirement Obligations.

Unrealized Future Revenues – Primarily related to future recoveries associated with the FY2020 Joint Base San Antonio ("JBSA") agreement, which totaled $70.4 million and $73.9 million as of January 31, 2024 and 2023, respectively.

Leases – GASB Statement No. 87, *Leases,* requires CPS Energy, as a lessor, to recognize leases related to future revenue as a deferred inflow.

Rates – Rates are set by the Board and approved by the San Antonio City Council. On December 7, 2023, City Council approved a 4.25% increase in both CPS Energy's electric and natural gas base rates, which became effective February 1,
2024.

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 FY2024, 69% of distribution and 30% of generation natural gas volumes were hedged. In FY2023, 49% of distribution and 31% of generation natural gas volumes were hedged. See Note 14 – Derivative Instruments.

Pension Plan – The financial statements of the Pension Plan are separately audited and reported as of December 31, 2023, with comparative totals as of December 31, 2022. The financial results of the Pension Plan are included as part of the basic financial statements and 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 included in Note 11 – Employee Pension Plan and in Required Supplementary Information.

Postemployment Benefits Other Than Pension – The Employee Benefit Plans are separately audited and reported as of December 31, 2023, with comparative totals as of December 31, 2022. The financial results of the Employee Benefit Plans are included as part of the basic financial statements and 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 included in Note 12 – Other Postemployment Benefits and in Required Supplementary Information.

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 allowable costs incurred in the administration of the program. This accounting treatment results in no impact to the Company's net position. Federal or state grants that subsidize capital assets are recognized as capital contributions on the Statements of Revenues, Expenses, and Changes in Net Position and reflected as part of Capital Assets, net on the Statements of Net Position. 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.

FY2023 GASB pronouncement implementations:

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements ("SBITAs")*, requires the recognition of an intangible right-to-use subscription asset with a corresponding subscription liability for contracts that convey control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this statement, a SBITA lease liability and an intangible right-to-use SBITA lease asset, and a deferred inflow of resources have been reported.

Future GASB pronouncement implementations:

- GASB Statement No. 101, *Compensated Absences*, establishes accounting and financial reporting requirements for compensated absences and associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB). This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2025. CPS Energy has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.

- GASB Statement No. 102, *Certain Risk Disclosures,* requires a government to assess whether a concentration or constraint makes the primary government reporting unit that reports a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, a government is required to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact has occurred. This standard will be adopted by CPS Energy in the fiscal year ending January 31, 2025. CPS Energy has initiated an evaluation of the impact that adoption of this Statement will have on its financial statements.

2. Cash, Cash Equivalents and Investments

CPS Energy's cash deposits as of January 31, 2024 and 2023, 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.

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,	
	2024	2023
Cash		
Petty cash funds on hand (current)	**$ 43**	$ 43
Deposits with financial institutions		
Unrestricted CPS Energy deposits (current)	**23,903**	52,506
Restricted CPS Energy deposits (noncurrent)		
Capital projects	**72**	153
Debt service	**318,295**	287,069
Total cash	**342,313**	339,771
Cash equivalents		
Investments with original maturities of 90 days or less		
CPS Energy unrestricted (current)	**370,267**	428,408
CPS Energy restricted (noncurrent)	**108,275**	140,965
Decommissioning Trusts – restricted (noncurrent)	**28,303**	24,289
Total cash equivalents	**506,845**	593,662
Total cash and cash equivalents	**$ 849,158**	$ 933,433

Summary of Cash, Cash Equivalents and Investments

(In thousands)

	January 31,	
	2024	2023
Cash and cash equivalents		
CPS Energy – unrestricted and restricted	**$ 820,855**	$ 909,144
Decommissioning Trusts – restricted	**28,303**	24,289
Total cash and cash equivalents	**849,158**	933,433
Gross investments – current and noncurrent CPS Energy – unrestricted and restricted	**1,161,405**	1,087,182
Decommissioning Trusts – restricted	**707,277**	643,312
Total gross investments	**1,868,682**	1,730,494
Investments with original maturities of 90 days or less included in cash and cash equivalents		
CPS Energy – unrestricted and restricted	**(478,542)**	(569,373)
Decommissioning Trusts – restricted	**(28,303)**	(24,289)
Total cash equivalents	**(506,845)**	(593,662)
Total gross investments less cash equivalents	**1,361,837**	1,136,832
Total cash, cash equivalents and investments	**$ 2,210,995**	$ 2,070,265

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 brokers/dealers and investment managers.

Investments of CPS Energy – CPS Energy's allowable investments are defined by Board resolution, CPS Energy Investment Policy, the Investment Committee, bond ordinances, commercial paper ordinances, a revolving financial program ordinance, 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% fixed income, 27% equities and 9% 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, 2024	January 31, 2023
Unrestricted		
Cash and cash equivalents	**$ 394,213**	$ 480,957
Total unrestricted (current)	**394,213**	480,957
Restricted		
Debt service		
Cash and cash equivalents	**320,431**	288,594
Total debt service	**320,431**	288,594
Capital projects		
Cash and cash equivalents	**1,337**	17
Total capital projects	**1,337**	17
Ordinance		
Cash and cash equivalents	**104,874**	139,576
Investments	**682,863**	517,809
Total ordinance	**787,737**	657,385
Decommissioning Trusts		
Cash and cash equivalents	**28,303**	24,289
Investments	**678,974**	619,023
Total Decommissioning Trusts	**707,277**	643,312
Total restricted		
Cash and cash equivalents	**454,945**	452,476
Investments	**1,361,837**	1,136,832
Total restricted (noncurrent)	**1,816,782**	1,589,308
Total cash, cash equivalents and investments (unrestricted and restricted)	**$ 2,210,995**	$ 2,070,265

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. 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 Type[1]

(In thousands)

	January 31, 2024	January 31, 2023
CPS Energy investments		
U.S. Treasuries, U.S. Agencies, municipal bonds, CDs, commercial paper, investment pools and money market mutual funds	**$ 1,161,405**	$ 1,087,182
Decommissioning Trusts		
U.S. Treasuries, U.S. Agencies, municipal bonds and money market mutual funds	**316,704**	283,483
Corporate bonds	**112,558**	121,259
Foreign bonds	**12,640**	12,311
Subtotal	**441,902**	417,053
Common stock	**201,703**	168,740
Real estate investment trusts	**62,895**	56,746
Preferred stock	**777**	773
Total Decommissioning Trusts	**707,277**	643,312
Total investments	**$ 1,868,682**	$ 1,730,494

[1] Excludes cash of $342.3 million and $339.8 million as of January 31, 2024 and 2023, 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 and investment pools that have maturities of one year or less.

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, 2024				January 31, 2023			
Investment Type	Carrying Value	Fair Value	Allocation	WAM[1]	Carrying Value	Fair Value	Allocation	WAM[1]
U.S. Treasuries	**$ 13,701**	$ 13,701	1.18%	2.6	$ 18,157	$ 18,157	1.67%	2.9
U.S. Agencies								
Federal Agriculture Mortgage Corp	**9,701**	9,701	0.84%	0.9	11,482	11,482	1.06%	1.4
Federal Farm Credit Bank	**282,571**	282,571	24.32%	3.5	109,109	109,109	10.04%	4.1
Federal Home Loan Bank	**131,025**	131,025	11.28%	2.7	118,531	118,531	10.90%	2.5
Federal Home Loan Mortgage Corp	**51,932**	51,932	4.47%	2.7	30,608	30,608	2.82%	3.1
Federal National Mortgage Assn	**56,876**	56,876	4.90%	2.4	68,922	68,922	6.34%	2.8
Small Business Administration	**2,981**	2,981	0.26%	5.8	5,364	5,364	0.49%	5.1
Municipal bonds	**134,076**	134,076	11.54%	2.6	155,636	155,636	14.32%	2.8
Investment pools	**452,117**	452,117	38.93%	—	534,151	534,151	49.12%	—
Money market mutual funds	**26,425**	26,425	2.28%	—	35,222	35,222	3.24%	—
Total fixed-income portfolio	**$1,161,405**	$ 1,161,405	100.00%	1.6	$ 1,087,182	$ 1,087,182	100.00%	1.5

[1]CPS Energy invests in money market mutual funds and investment pools that are assumed to have maturities of one year or less.

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, 2024 and 2023, 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, 2024			January 31, 2023		
Credit Rating	Carrying Value	Fair Value	Allocation	Carrying Value	Fair Value	Allocation
U.S. Treasuries (AA+)	**$ 13,701**	$ 13,701	1.20%	$ 18,157	$ 18,157	1.70%
AAA / Aaa	**533,333**	533,333	45.90%	633,945	633,945	58.30%
AA+ / Aa1	**559,744**	559,744	48.20%	368,797	368,797	33.90%
AA / Aa2	**28,048**	28,048	2.40%	37,972	37,972	3.50%
AA- / Aa3	**6,462**	6,462	0.60%	8,069	8,069	0.70%
Not rated[1]	**20,117**	20,117	1.70%	20,242	20,242	1.90%
Total fixed-income portfolio	**$ 1,161,405**	$ 1,161,405	100.00%	$ 1,087,182	$ 1,087,182	100.00%

[1]Interest bearing deposit accounts 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, 2023 and 2022. 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 6.24 years and 6.17 years for the period ending December 31, 2023 and 2022, 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 29.3% and 32.7% of the fixed-income portfolio for the 28% Decommissioning Trust as of December 31, 2023 and 2022, respectively. Total other debt securities (corporate and foreign issuers) amounted to 25.8% and 30.3% of the fixed-income portfolio for the 12% Decommissioning Trust as of December 31, 2023 and 2022, respectively.

The following table lists the fixed-income investment holdings by type:

(Dollars in thousands)	**December 31, 2023**			December 31, 2022		
Investment Type – 28% Trust	**Fair Value**	Allocation	*WAD	Fair Value	Allocation	WAD
U.S. Treasuries	**$ 83,406**	26.00%	8.6	$ 69,296	22.91%	5.3
U.S. Agencies						
Federal Home Loan Mortgage Corp	**46,008**	14.34%	5.6	45,375	15.00%	3.1
Federal National Mortgage Assn	**54,095**	16.87%	5.5	53,287	17.62%	4.4
Government National Mortgage Assn	**7,723**	2.41%	2.6	6,846	2.26%	2.5
Small Business Administration	**7,840**	2.45%	4.8	4,698	1.56%	4.1
Municipal bonds – Texas	**859**	0.27%	8.2	575	0.19%	8.9
Municipal bonds – other states	**6,932**	2.16%	7.6	6,767	2.24%	8.4
Corporate bonds	**82,914**	25.84%	5.7	88,231	29.17%	5.0
Foreign bonds	**11,043**	3.45%	4.4	10,602	3.51%	4.7
Money market mutual funds	**19,933**	6.21%	—	16,758	5.54%	—
Total 28% Trust fixed-income portfolio	**320,753**	100.00%	6.4	302,435	100.00%	4.7
Investment Type – 12% Trust						
U.S. Treasuries	**37,085**	30.61%	8.3	29,794	25.99%	5.6
U.S. Agencies						
Federal Home Loan Mortgage Corp	**14,322**	11.82%	5.5	13,906	12.13%	2.7
Federal National Mortgage Assn	**21,154**	17.46%	5.5	21,565	18.81%	3.4
Government National Mortgage Assn	**1,764**	1.46%	5.3	1,630	1.42%	4.6
Small Business Administration	**4,013**	3.31%	4.9	2,539	2.22%	4.3
Municipal bonds – Texas	**412**	0.34%	8.2	270	0.24%	8.9
Municipal bonds – other states	**2,789**	2.30%	7.4	2,646	2.31%	8.2
Corporate bonds	**29,644**	24.47%	5.4	33,028	28.82%	4.5
Foreign bonds	**1,597**	1.32%	5.7	1,709	1.49%	6.0
Money market mutual funds	**8,369**	6.91%	—	7,531	6.57%	—
Total 12% Trust fixed-income portfolio	**121,149**	100.00%	6.4	114,618	100.00%	4.5
Total Trusts fixed-income portfolio	**$ 441,902**			$ 417,053		

* The aggregate portfolio of debt securities of the trusts are limited to + / - 1.5 years of the effective durations of the specified debt security index.

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, 2023 and 2022.

The following table lists the fixed-income investment holdings by credit rating:

(Dollars in thousands)	December 31, 2023		December 31, 2022	
Credit Rating – 28% Trust	Fair Value	Allocation	Fair Value	Allocation
U.S. Treasuries (AA+)	**$ 83,406**	26.00 %	$ 69,296	22.91 %
AAA / Aaa	**25,555**	7.97 %	22,213	7.34 %
AA+ / Aa1	**119,063**	37.11 %	113,087	37.42 %
AA/Aa2	**2,013**	0.63 %	2,101	0.69 %
AA- / Aa3	**2,019**	0.63 %	2,100	0.69 %
A+ / A1	**1,791**	0.56 %	2,492	0.82 %
A/A2	**4,050**	1.26 %	4,108	1.36 %
A-/A3	**19,379**	6.04 %	22,236	7.35 %
BBB+/Baa1	**24,856**	7.75 %	24,847	8.22 %
BBB / Baa2	**24,216**	7.55 %	21,330	7.05 %
BBB-/Baa3	**7,152**	2.23 %	8,813	2.91 %
BB+/Ba1	**916**	0.29 %	2,023	0.67 %
B+/B1	**153**	0.05 %	125	0.04 %
Not Rated[1]	**6,184**	1.93 %	7,664	2.53 %
Total 28% Trust fixed-income portfolio	**320,753**	100.00 %	302,435	100.00 %
Credit Rating – 12% Trust				
U.S. Treasuries (AA+)	**37,085**	30.61 %	29,796	26.00 %
AAA /Aaa	**10,851**	8.96 %	9,856	8.60 %
AA+/Aa1	**42,986**	35.47 %	41,076	35.84 %
AA / Aa2	**1,418**	1.17 %	1,150	1.00 %
AA-/Aa3	**251**	0.21 %	328	0.29 %
A+/A1	**194**	0.16 %	566	0.49 %
A/A2	**1,353**	1.12 %	1,662	1.45 %
A-/A3	**8,376**	6.91 %	10,661	9.30 %
BBB+/Baa1	**7,653**	6.32 %	7,496	6.54 %
BBB/Baa2	**6,767**	5.59 %	5,981	5.22 %
BBB-/Baa3	**1,146**	0.95 %	1,844	1.61 %
BB+/Ba1	**29**	0.02 %	28	0.02 %
Not Rated[1]	**3,040**	2.51 %	4,174	3.64 %
Total 12% Trust fixed-income portfolio	**121,149**	100.00 %	114,618	100.00 %
Total Trusts fixed-income portfolio	**$ 441,902**		$ 417,053	

[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 – 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 $12.6 million at December 31, 2023, and $12.3 million at December 31, 2022. 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 14.4% and 13.4% of the 28% Trust's total portfolio as of December 31, 2023 and 2022, respectively.

Total foreign equity securities held by the 12% Trust amounted to 12.7% and 12.1% of the Trust's portfolio as of December 31, 2023 and 2022, respectively.

Fiduciary Funds' Investments

As mentioned previously, the fiduciary financial statements include the CPS Energy Pension Plan, the CPS Energy Group Health Plan, the 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, 2023 and 2022.

Employee Benefit Plans cash and cash equivalents – Deposits consist of cash and cash equivalents held through irrevocable trusts and through approved depository institutions. Beginning, in calendar 2023, the Plans invest most of their temporary cash surpluses overnight in money market mutual funds that meet the requirements of the investment policy of the Plans.

Custodial credit risk – Custodial credit risk for deposits is the risk that, in event of a failure of a depository institution, the Plans would not be able to recover deposits. Deposits not held through the trusts are covered by federal depository insurance through the Federal Deposit Insurance Corporate.

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 used as a benchmark. Certain investments included below, which include the global bond fund, are managed through mutual funds or commingled funds that are not subject to the investment manager limitation noted above. The specified debt securities indices used as benchmarks are presented in the following table:

Debt Securities Indices Benchmarks

	December 31,	
	2023	2022
Barclays Aggregate (Total investment grade)	**6.20**	6.20
Bloomberg U.S. Aggregate Index (Investment grade bond funds)	**6.10**	—
Bloomberg Barclays High-yield (High-yield corporate bonds)	**3.20**	3.90
Bloomberg U.S. Corporate High-yield	**3.29**	4.05
Credit Suisse Leveraged Loan Index (Senior loan funds)	**0.25**	0.25
JPMorgan Emerging Market Bond Index Global Diversified Index	**6.90**	6.80

The following table presents the weighted-average effective duration of debt security asset classes:
(Dollars in thousands)

Investment Type – Pension Plan	December 31, 2023 Fair Value	December 31, 2023 WAD	December 31, 2022 Fair Value	December 31, 2022 WAD
U.S. Treasury and Agency:				
Notes and bonds	**$ 38,647**	9.82	$ 36,285	8.27
Collateralized mortgage obligations	**8,360**	4.28	7,722	3.50
Mortgage pass-through securities	**42,629**	4.64	28,578	5.86
Commercial mortgage-backed securities	**3,869**	3.06	11,325	2.97
Municipal bonds	**610**	9.93	413	13.62
Asset-backed securities	**14,476**	2.25	12,845	1.88
Collateralized debt obligations	**656**	0.03	688	0.02
Corporate bonds	**37,018**	6.39	43,694	6.45
High-yield corporate bonds	**147,738**	3.16	131,325	3.85
Emerging market debt fund	**44,436**	6.97	39,851	6.80
Senior loan fund (floating rate)	**87,899**	0.64	77,321	0.67
Total Pension Plan investments in debt securities	**426,338**		390,047	
Investment Type – Health Plan				
U.S. Treasury and Agency:				
Notes and bonds	**$ —**	—	$ 5,930	7.46
Collateralized mortgage obligations	**—**	—	574	3.14
Mortgage pass-through securities	**—**	—	7,217	6.11
Commercial mortgage-backed securities	**—**	—	2,885	2.90
Asset-backed securities	**—**	—	1,045	1.06
Investment grade bond fund	**29,152**	5.92	—	—
Corporate bonds	**—**	—	10,485	6.33
High-yield corporate bonds	**12,324**	2.97	11,100	3.85
High-yield bond fund	**11,102**	3.30	9,891	4.20
Emerging market debt fund	**8,661**	6.90	8,691	6.80
Senior loan fund (floating rate)	**15,551**	0.64	13,680	0.67
Total Health Plan investments in debt securities	**76,790**		71,498	

(Dollars in thousands)

	December 31, 2023		December 31, 2022	
Investment Type – Life Plan	**Fair Value**	WAD	Fair Value	WAD
U.S. Treasury and Agency:				
Notes and bonds	—	—	1,742	7.04
Collateralized mortgage obligations	—	—	156	2.97
Mortgage pass-through securities	—	—	1,442	6.07
Commercial mortgage-backed securities	—	—	580	2.94
Asset-backed securities	—	—	212	1.06
Investment grade bond fund	**6,381**	5.92	—	—
Corporate bonds	—	—	2,048	6.33
Senior loan fund (floating rate)	**2,018**	0.64	2,266	0.67
Emerging market debt fund	**1,155**	6.90	1,455	6.80
High-yield corporate bonds	**2,019**	2.98	1,880	3.87
High-yield bond fund	**2,026**	3.30	1,868	4.20
Total Life Plan investments in debt securities	**13,599**		13,649	
Investment Type – Disability Plan				
U.S. Treasury and Agency:				
Notes and bonds	—	—	288	6.23
Collateralized mortgage obligations	—	—	20	3.10
Mortgage pass-through securities	—	—	129	6.06
Asset-backed securities	—	—	20	1.00
Corporate bonds	—	—	209	6.09
Investment grade bond fund	**687**	5.92	—	—
Senior loan fund (floating rate)	**257**	0.64	228	0.67
Emerging market debt fund	**217**	6.90	193	6.80
High-yield bond fund	**456**	3.30	406	4.20
Total Disability Plan investments in debt securities	**1,617**		1,493	4.20
Total investments in debt securities for the Plans	**$ 518,344**		$ 476,687	

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. As of December 31, 2023 and 2022, 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)

	December 31, 2023		December 31, 2022	
Credit Rating – Pension Plan	**Fair Value**	Allocation	Fair Value	Allocation
AAA	**$ 10,556**	2.50 %	$ 16,243	4.20 %
AA	**99,976**	23.40 %	82,150	21.10 %
A	**27,529**	6.50 %	30,482	7.80 %
BBB	**38,096**	8.90 %	35,057	9.00 %
Less than BBB	**247,571**	58.10 %	222,110	56.90 %
Not Rated	**2,610**	0.60 %	4,005	1.00 %
Total Pension Plan investments in debt securities	**426,338**	100.00 %	390,047	100.00 %
Credit Rating – Health Plan				
AAA	**14,987**	19.50 %	5,189	7.30 %
AA	**7,370**	9.60 %	14,864	20.80 %
A	**4,518**	5.90 %	6,629	9.20 %
BBB	**8,506**	11.10 %	7,468	10.40 %
Less than BBB	**40,233**	52.40 %	36,440	51.00 %
Not Rated	**1,176**	1.50 %	908	1.30 %
Total Health Plan investments in debt securities	**76,790**	100.00 %	71,498	100.00 %
Credit Rating – Life Plan				
AAA	**3,220**	23.70 %	994	7.28 %
AA	**1,569**	11.50 %	3,548	25.99 %
A	**893**	6.60 %	1,296	9.50 %
BBB	**1,538**	11.30 %	1,375	10.07 %
Less than BBB	**6,185**	45.50 %	6,277	45.99 %
Not Rated	**194**	1.40 %	159	1.16 %
Total Life Plan investments in debt securities	**13,599**	100.00 %	13,649	100.00 %
Credit Rating – Disability Plan				
AAA	**372**	23.00 %	82	5.50 %
AA	**174**	10.80 %	447	29.90 %
A	**106**	6.60 %	138	9.20 %
BBB	**204**	12.60 %	164	11.00 %
Less than BBB	**728**	45.00 %	640	42.90 %
Not Rated	**33**	2.00 %	22	1.50 %
Total Disability Plan investments in debt	**1,617**	100.00 %	1,493	100.00 %
Total investment in debt securities for the Plans	**$ 518,344**		$ 476,687	

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, 2023 and 2022, for the Plans.

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)

	December 31, 2023			December 31, 2022		
Issuer – Plan	**Fair Value**	% Debt Securities	Policy Limit %	Fair Value	% Debt Securities	Policy Limit %
Federal National Mortgage Assn. – Pension	**$ 23,588**	5.53%	50%	$ 19,945	5.11%	50%
Federal National Mortgage Assn. – Health	**—**	0.00%	50%	3,761	5.30%	50%
Federal National Mortgage Assn. – Life	**—**	0.00%	50%	729	5.34%	50%

As of December 31, 2023 and 2022, 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 non-dollar foreign investments held directly as of December 31, 2023 and 2022. All non-dollar 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 non-dollar denominated foreign investments.

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 or published prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities are examples of Level 1 inputs.

- Level 2 inputs are inputs other than quoted or published prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. U.S. Government Treasury securities, 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). Valuations are derived from other valuation methodologies, including discounted cash flows and similar techniques, and are not based on market exchange, dealer, or broker traded transactions.

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 derivative instruments, 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 derivative instruments, 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 derivative instruments. Pricing inputs are derived from published exchange transactions and other observable data sources.

- The fair value of investment in partnerships 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, Level 3 inputs, independent appraisals and bids received on the partnerships' assets, 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 pages presents fair value balances and their levels within the fair value hierarchy for CPS Energy as of January 31, 2024 and 2023, and Decommissioning Trusts investment balances as of December 31, 2023 and 2022. 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, 2024 and 2023

(In thousands)

	January 31, 2024				January 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Fair Value Investments								
CPS Energy								
U.S. Treasuries	**$ —**	**$ 13,701**	**$ —**	**$ 13,701**	$ —	$ 18,157	$ —	$ 18,157
U.S. Agencies								
Federal Agricultural Mortgage Corp	**—**	**9,701**	**—**	**9,701**	—	11,482	—	11,482
Federal Farm Credit Bank	**—**	**282,571**	**—**	**282,571**	—	109,109	—	109,109
Federal Home Loan Bank	**—**	**131,025**	**—**	**131,025**	—	118,531	—	118,531
Federal Home Loan Mortgage Corp	**—**	**51,932**	**—**	**51,932**	—	30,608	—	30,608
Federal National Mortgage Assn	**—**	**56,876**	**—**	**56,876**	—	68,922	—	68,922
Small Business Administration	**—**	**2,981**	**—**	**2,981**	—	5,364	—	5,364
Municipal bonds	**—**	**134,076**	**—**	**134,076**	—	155,636	—	155,636
Total CPS Energy fair value investments	**$ —**	**$ 682,863**	**$ —**	**$ 682,863**	$ —	$ 517,809	$ —	$ 517,809

	December 31, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Decommissioning Trusts Investments								
28% Trust								
U.S. Treasuries	$ —	$ 83,406	$ —	$ 83,406	$ —	$ 69,296	$ —	$ 69,296
U.S. Agencies								
Federal Home Loan Mortgage Corp	—	46,008	—	46,008	—	45,375	—	45,375
Federal National Mortgage Assn	—	54,095	—	54,095	—	53,287	—	53,287
Government National Mortgage Assn	—	7,723	—	7,723	—	6,846	—	6,846
Small Business Administration	—	7,840	—	7,840	—	4,698	—	4,698
Municipal bonds – Texas	—	859	—	859	—	575	—	575
Municipal bonds – other states	—	6,932	—	6,932	—	6,767	—	6,767
Corporate bonds	—	82,914	—	82,914	—	88,231	—	88,231
Foreign bonds	—	11,043	—	11,043	—	10,602	—	10,602
Total 28% Trust fair value fixed-income portfolio	—	300,820	—	300,820	—	285,677	—	285,677
Equity securities								
Common stock	148,955	—	—	148,955	125,270	—	—	125,270
Real estate investment trusts	46,667	—	—	46,667	41,872	—	—	41,872
Preferred stock	—	777	—	777	—	773	—	773
Total 28% Trust fair value investments	195,622	301,597	—	497,219	167,142	286,450	—	453,592
12% Trust								
U.S. Treasuries	—	37,085	—	37,085	—	29,794	—	29,794
U.S. Agencies								
Federal Home Loan Mortgage Corp	—	14,322	—	14,322	—	13,906	—	13,906
Federal National Mortgage Assn	—	21,154	—	21,154	—	21,565	—	21,565
Government National Mortgage Assn	—	1,764	—	1,764	—	1,630	—	1,630
Small Business Administration	—	4,013	—	4,013	—	2,539	—	2,539
Municipal bonds – Texas	—	412	—	412	—	270	—	270
Municipal bonds – other states	—	2,789	—	2,789	—	2,646	—	2,646
Corporate bonds	—	29,644	—	29,644	—	33,028	—	33,028
Foreign bonds	—	1,597	—	1,597	—	1,709	—	1,709
Total 12% Trust fair value fixed-income portfolio	—	112,780	—	112,780	—	107,087	—	107,087
Equity securities								
Common stock	52,747	—	—	52,747	43,470	—	—	43,470
Real estate investment trusts	16,228	—	—	16,228	14,874	—	—	14,874
Total 12% Trust fair value investments	68,975	112,780	—	181,755	58,344	107,087	—	165,431
Total Trusts fair value investments	264,597	414,377	—	678,974	225,486	393,537	—	619,023
Total fair value investments	$ 264,597	$1,097,240	$ —	$1,361,837	$ 225,486	$ 911,346	$ —	$1,136,832

	January 31, 2024				January 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets								
Financial Instruments								
Current fuel hedges	**$ 3,149**	**$ 1,065**	**$ —**	**$ 4,214**	$ 13,229	$ 14,689	$ —	$ 27,918
Noncurrent fuel hedges	**3,799**	**11,311**	**—**	**15,110**	245	20,990	—	21,234
Total financial instruments - Assets	**$ 6,948**	**$ 12,376**	**$ —**	**$ 19,324**	$ 13,474	$ 35,679	$ —	$ 49,152
Liabilities								
Financial Instruments								
Current fuel hedges	**$ (6,666)**	**$ —**	**$ —**	**$ (6,666)**	$ (22,775)	$ (77)	$ —	$ (22,851)
Noncurrent fuel hedges	**(4,593)**	**(247)**	**—**	**(4,840)**	(12,978)	—	—	(12,978)
Total financial instruments - (Liabilities)	**$ (11,259)**	**$ (247)**	**$ —**	**$ (11,506)**	$ (35,752)	$ (77)	$ —	$ (35,829)
Total financial instruments	**$ (4,311)**	**$ 12,129**	**$ —**	**$ 7,818**	$ (22,278)	$ 35,602	$ —	$ 13,323

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, 2023 and 2022. The Plans' investment balances presented exclude amounts related to cash collateral related to securities lending.

Fair Value Measurements as of December 31, 2023 and 2022
(In thousands)

	December 31, 2023				December 31, 2022			
Pension Plan	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
U.S. Government securities	**$ —**	**$ 94,115**	**$ —**	**$ 94,115**	$ —	$ 84,323	$ —	$ 84,323
Corporate bonds	**—**	**199,889**	**—**	**199,889**	—	188,552	—	188,552
Domestic equities	**23,698**	**845,168**	**—**	**868,866**	19,954	698,269	—	718,223
Low-volatility equities	**—**	**81,886**	**—**	**81,886**	—	75,581	—	75,581
International equities	**110,334**	**—**	**—**	**110,334**	96,782	—	—	96,782
Investment in partnership	**—**	**—**	**45,000**	**45,000**	—	—	49,000	49,000
Total Pension Plan investments by fair value level	**134,032**	**1,221,058**	**45,000**	**1,400,090**	116,736	1,046,725	49,000	1,212,461
Investments measured at net asset value (NAV):								
Emerging market debt				**44,436**				39,851
Senior loan fund				**87,899**				77,321
Low-volatility equity fund				**84,648**				76,567
International equities fund				**82,448**				69,774
Master limited partnership fund				**179,743**				168,208
Alternative investments – multi-strategy hedge fund				**5,478**				53,054
Alternative investments – absolute return fund				**46,440**				42,733
Alternative investments – direct lending hedge fund				**51,396**				—
Real estate funds – open end				**136,873**				157,687
Total investments measured at NAV				**719,361**				685,195
Total Pension Plan fair value investments				**2,119,451**				1,897,656

Health Plan	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
U.S. Government securities	**$ —**	**$ —**	**$ —**	**$ —**	$ —	$ 16,606	$ —	$ 16,606
Investment grade bond fund	**29,152**	**—**	**—**	**29,152**	—	—	—	—
Corporate bonds	**11,102**	**12,324**	**—**	**23,426**	9,891	22,630	—	32,521
Emerging market debt	**8,661**	**—**	**—**	**8,661**	8,691	—	—	8,691
Domestic equities	**91,739**	**38,668**	**—**	**130,407**	79,610	33,651	—	113,261
Low-volatility equities	**—**	**23,257**	**—**	**23,257**	—	25,440	—	25,440
International equities	**9,080**	**—**	**—**	**9,080**	7,931	—	—	7,931
Total Health Plan investments by fair value level	**149,734**	**74,249**	**—**	**223,983**	106,123	98,327	—	204,450
Investments measured at NAV:								
Senior loan fund				**15,551**				13,680
International equities fund				**21,196**				17,937
Master limited partnership fund				**21,698**				22,634
Alternative investments – multi-strategy hedge fund				**1,082**				10,475
Alternative investments – absolute return fund				**5,509**				5,070
Alternative investments – direct lending hedge fund				**10,147**				—
Real estate fund - open end				**13,502**				15,038
Total investments measured at NAV				**88,685**				84,834
Total Health Plan fair value investments				**312,668**				289,284

Life Plan	December 31, 2023 Level 1	Level 2	Level 3	Total	December 31, 2022 Level 1	Level 2	Level 3	Total
U.S. Government securities	$ —	$ —	$ —	$ —	$ —	$ 3,920	$ —	$ 3,920
Investment grade bond fund	6,381	—	—	6,381	—	—	—	—
Corporate bonds	2,026	2,019	—	4,045	1,868	4,140	—	6,008
Emerging market debt	1,155	—	—	1,155	1,455	—	—	1,455
Senior loan fund	2,018	—	—	2,018	2,266	—	—	2,266
Domestic equities	15,583	6,813	—	22,396	13,343	5,646	—	18,989
Low-volatility equities	—	4,027	—	4,027	—	4,266	—	4,266
International equities	1,592	—	—	1,592	1,383	—	—	1,383
Alternative investments	2,649	—	—	2,649	2,514	—	—	2,514
Total Life Plan investments by fair value level	31,404	12,859	—	44,263	22,829	17,972	—	40,801
Investments measured at NAV:								
International equities fund				3,588				3,037
Master limited partnerships				3,717				3,612
Real estate fund – open end				3,173				3,640
Total investments measured at NAV				10,478				10,289
Total Life Plan fair value investments				54,741				51,090

Disability Plan	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
U.S. Government securities	$ —	$ —	$ —	$ —	$ —	$ 436	$ —	$ 436
Investment grade bond fund	687	—	—	687	—	—	—	—
Corporate bonds	456	—	—	456	406	230	—	636
Emerging market debt	217	—	—	217	193	—	—	193
Senior loan fund	257	—	—	257	228	—	—	228
Domestic equities	2,839	—	—	2,839	2,300	—	—	2,300
Low-volatility equities	472	—	—	472	447	—	—	447
International equities	728	—	—	728	618	—	—	618
Alternative investments	377	—	—	377	357	—	—	357
Total Disability Plan investments by fair value level	6,033	—	—	6,033	4,549	666	—	5,215
Investments measured at NAV:								
Master limited partnerships				427				361
Real estate fund – open end				429				493
Total investments measured at NAV				856				854
Total Disability Plan fair value investments				6,889				6,069
Total investments at fair value for the Plans	$ 321,203	$1,308,166	$ 45,000	$2,493,749	$ 250,237	$1,163,690	$ 49,000	$2,244,099

The following table shows quantitative information about unobservable inputs related to the Level 3 fair value measurements used to derive values at December 31, 2023 and 2022. 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, 2023			
	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Type – Pension Plan				
Investment in partnership	$ 45,000	Income Approach –	Discount Rate	9.75%
		Discounted Cash Flow	Terminal Capitalization	8.25%
Total Pension Plan	$ 45,000			

	December 31, 2022			
	Fair Value	Valuation Technique	Unobservable Inputs	Rate
Type – Pension Plan				
Investment in partnership	$ 49,000	Income Approach –	Discount Rate	9.25%
		Discounted Cash Flow	Terminal Capitalization	8.25%
Total Pension Plan	$ 49,000			

Certain assets are valued at NAV of units held and others are valued based on ownership interest, represented as a percentage of the fund's NAV. 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, 2023

(Dollars in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Type – Pension Plan				
Emerging market debt	$ 44,436	$ —	Daily	3 days
Senior loan fund	87,899	—	Monthly	20 days
Low-volatility equity fund	84,648	—	Daily/Monthly	30 days
International equities fund	82,448	—	Monthly	30 days
Master limited partnerships	179,743	—	Monthly	30 days
Multi-strategy hedge fund	5,478	—	Quarterly	90 days
Absolute return fund	46,440	—	Quarterly	90 days
Real estate fund - open end	136,873	—	Quarterly	30–60 days
Direct lending hedge fund	51,396	—	Semi-Annual	June / December
Total Pension Plan	719,361	—		
Type – Health Plan				
Senior loan fund	15,551	—	Monthly	20 days
International equities fund	21,196	—	Monthly	30 days
Master limited partnerships	21,698	—	Monthly	30 days
Multi-strategy hedge fund	1,082	—	Quarterly	90 days
Absolute return fund	5,509	—	Quarterly	90 days
Real estate fund - open end	13,502	—	Quarterly	45 days
Direct lending hedge fund	10,147	—	Semi-Annual	June / December
Total Health Plan	88,685	—		
Type – Life Plan				
International equities fund	3,588	—	Monthly	30 days
Master limited partnerships	3,717	—	Monthly	30 days
Real estate fund - open end	3,173	—	Quarterly	45 days
Total Life Plan	10,478	—		
Type – Disability Plan				
Master limited partnerships	427	—	Monthly	30 days
Real estate fund - open end	429	—	Quarterly	45 days
Total Disability Plan	856	—		
Total Plans	$ 819,380	$ —		

Investments Measured at the Net Asset Value at December 31, 2022

(Dollars in thousands)

		Fair Value		Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Type – Pension Plan						
Emerging market debt	$	39,851	$	—	Daily	3 days
Senior loan fund	$	77,321	$	—	Monthly	20 days
Low-volatility equity fund		76,567		—	Daily/Monthly	30 days
International equities fund		69,774		—	Monthly	30 days
Master limited partnerships		168,208		—	Monthly	30 days
Multi-strategy hedge fund		53,054		—	Quarterly	90 days
Absolute return fund		42,733		—	Quarterly	90 days
Real estate fund - open end		157,687		—	Quarterly	30–60 days
Total Pension Plan		685,195		—		
Type – Health Plan						
Senior loan fund		13,680		—	Monthly	20 days
International equities fund		17,937		—	Monthly	30 days
Master limited partnerships		22,634		—	Monthly	30 days
Multi-strategy hedge fund		10,475		—	Quarterly	90 days
Absolute return fund		5,070		—	Quarterly	90 days
Real estate fund - open end		15,038		—	Quarterly	45 days
Total Health Plan		84,834		—		
Type – Life Plan						
International equities fund		3,037		—	Monthly	30 days
Master limited partnerships		3,612		—	Monthly	30 days
Real estate fund - open end		3,640		—	Quarterly	45 days
Total Life Plan		10,289		—		
Type – Disability Plan						
Master limited partnerships		361		—	Monthly	30 days
Real estate fund - open end		493		—	Quarterly	45 days
Total Disability Plan		854		—		
Total Plans	$	781,172	$	—		

4. Disaggregation of Current Accounts Receivable and Accounts Payable

Accounts Receivable: Current accounts receivable consists of the following:

(In thousands)	January 31,	
	2024	2023
Billed utility services	**$ 294,694**	$ 308,588
Unbilled revenue receivable	**28,420**	50,677
Other miscellaneous receivables	**99,027**	82,949
Regulatory-related	**20,229**	18,513
Total current accounts receivable	**$ 442,370**	$ 460,727

Accounts Payable: Current accounts payable consists of the following:

(In thousands)	January 31,	
	2024	2023
Supplier and vendor, including fuel	**$ 348,999**	$ 384,621
Employee	**45,278**	37,544
Customer	**114,963**	108,477
STP	**52,605**	59,244
Other miscellaneous	**234,681**	244,144
Total current accounts payable	**$ 796,526**	$ 834,030

5. Regulatory Assets

The Board and City Council have approved various regulatory mechanisms and regulatory accounting to account for timing differences between the recognition of revenues and expenses for rate regulated entities. The provisions of GASB Codification Section Re10, *Regulated Operations*, are applied. This guidance provides that regulatory assets are rights to additional revenues or deferred expenses, which are expected to be recovered through rates over some future period. The below describes the balances of the approved regulatory assets as of January 31, 2024 and 2023.

Debt Issuance Costs – 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 established a regulatory asset 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. As of January 31, 2024 and 2023, debt issuance costs to be recovered in future years, classified as other noncurrent assets, were $43.1 million and $39.7 million, respectively. See Note 8 – Revenue Bonds for additional information.

Fuel Costs Recoverable – In FY2022, the City approved the use of regulatory accounting related to the fuel expenses that were incurred as a result of Winter Storm Uri in February 2021, which severely impacted the CPS Energy service area. CPS Energy incurred unprecedented costs associated with the winter storm that included purchases of natural gas and purchased power, along with financing costs to cover short-term liquidity needs, and legal costs for ongoing legal disputes over excessive amounts invoiced by gas suppliers. On January 13, 2022, City Council approved the ordinance that established a rate-supported regulatory asset for the winter storm costs incurred and recovery of paid fuel costs totaling $418.0 million to be recovered over a 25-year period, commencing in March 2022. Recovery of additional amounts for costs included in the regulatory asset must be approved by the Board and City Council. As of

January 31, 2024 and 2023, fuel costs to be recovered in future years totaled $763.2 million and $759.6 million, respectively.

Pension and Other Post Employment Benefits – 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 amortized over a rate-recovery period of 50 years. At January 31, 2023, pension benefit costs to be recovered in future years was $218.5 million.

On December 4, 2023, and December 7, 2023, the Board and City Council, respectively, approved expanded regulatory accounting, superseding the 2015 pension regulatory asset. With the authorized use of regulatory accounting for both pension and OPEB costs, a new regulatory asset was established and the amortization expense related to the 2015 pension regulatory asset ceased to be recorded in FY2024. As a result, any current year contributions to fund the Pension and OPEB Plans are reflected as pension and OPEB expense included in O&M on the Statements of Revenues, Expenses and Changes in Net Position and any difference between the funding and the respective GASB pension or OPEB expense will be deferred as a regulatory asset on the Statements of Net Position. The established regulatory accounting for pension and OPEB costs establishes a regulatory asset to match the pension and OPEB expense to the funded amounts and the cost recovery through rates. As of January 31, 2024, pension and OPEB benefit costs to be recovered in future years was $244.6 million. See Note 11 – Employee Pension Plan and Note 12 – Other Post Employment Benefits for additional information.

STEP Net Costs Recoverable – 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 2020. As of January 31, 2020, CPS Energy achieved its original goal by reducing demand by 845 MW and below budget. Due to the success of the STEP program, in January 2020, the City authorized continuation of the program through January 31, 2021. In January 2021, the City Council approved an additional extension of the program until July 2022 to allow for additional time to recover from COVID-19 related program impacts. In June 2022, the City authorized the funding of a new energy efficiency and conservation program, tentatively referred to as the "New Program", which will be operational from August 1, 2022 through July 31, 2027. Annually, approximately $10 million of STEP expenses are funded through the base rate and reported as O&M expenses. Amounts 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 and reflected as other noncurrent assets on the Statements of Net Position, and costs incurred are reflected as STEP net costs recoverable in the Statements of Revenues, Expenses, and Changes in Net Position. As of January 31, 2024 and 2023, STEP costs to be recovered within a year were $20.0 million and $17.9 million, respectively. As of January 31, 2024 and 2023, STEP costs classified as noncurrent were $58.7 million and $56.8 million, respectively.

6. 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. Although the plant-in-service generation portfolio did not change for FY2024, CPS Energy has publicly committed to transitioning away from coal generation by calendar year 2028.

CPS Energy has two solar generating units, one of which also includes battery storage. Excluding STP (nuclear units), the following is a list of power stations and their respective generating units as of January 31, 2024:

Power Station	Generating Units	Type
Calaveras	4	Coal (2)/Gas (2)
Braunig	8	Gas
Leon Creek	4	Gas
Rio Nogales	1	Gas
Commerce	1	Solar/Battery Storage
Community	1	Solar

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 McCullough headquarters campus; the construction and customer service centers; and a fleet of automobiles, trucks and work equipment.

Intangible assets consist of easements, software, leases, SBITAs and other intangible items.

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 or reported as held for sale. In January 2023, CPS Energy sold the Jones Avenue facility for $29.5 million.

Impairments – There were no capital asset impairments identified for FY2024 and FY2023.

Investment in STP Units 1 and 2 – STP is a two-unit nuclear power plant located in Matagorda County, Texas. It is maintained and operated by South Texas Project Nuclear Operating Company ("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 15 – South Texas Project.

STP Capital Investment

(Dollars in thousands)

	January 31,	
	2024	2023
STP capital assets, net		
Land	**$ 5,701**	$ 5,701
Construction-in-progress	**15,620**	11,594
Electric and general plant	**799,533**	813,192
Intangibles	**9,879**	9,879
Nuclear fuel	**147,208**	151,314
Total STP capital assets, net	**$ 977,941**	$ 991,680
Total CPS Energy capital assets, net	**$ 9,763,110**	$ 9,272,283
STP capital investment as a percentage of total CPS Energy capital assets, net	**10.0 %**	10.7 %

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 FY2024 and FY2023:

FY2024 Capital Asset Rollforward

(In thousands)

	February 1, 2023	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	**January 31, 2024**
Nondepreciable assets					
Land	$ 113,949	$ 143	$ 7,580	$ —	**$ 121,672**
Land easements	107,517	—	94	—	**107,611**
Construction-in-progress	1,025,312	847,550	(652,588)	—	**1,220,274**
Total nondepreciable assets	1,246,778	847,693	(644,914)	—	**1,449,557**
Depreciable/amortizable assets					
Electric plant	12,577,706	95,011	510,994	(15,704)	**13,168,007**
Gas plant	1,272,678	18,354	101,523	(657)	**1,391,898**
General plant	810,446	15,646	17,138	(36,528)	**806,702**
Intangibles					
Software	221,993	—	15,259	(32,997)	**204,255**
Other	38,572	—	—	(25,503)	**13,069**
Leases	4,025	2,936	—	(1,142)	**5,819**
Subscription based assets	35,250	16,329	—	(3,351)	**48,228**
Nuclear fuel	1,237,499	45,834	—	—	**1,283,333**
Total depreciable/ amortizable assets	16,198,169	194,110	644,914	(115,882)	**16,921,311**
Accumulated depreciation and amortization					
Electric plant	(6,293,161)	(398,020)	—	36,168	**(6,655,013)**
Gas plant	(489,861)	(29,866)	—	2,353	**(517,374)**
General plant	(180,580)	(40,410)	—	35,844	**(185,146)**
Intangibles					
Software	(95,850)	(27,821)	—	32,997	**(90,674)**
Other	(11,449)	(1,020)	—	10,101	**(2,368)**
Leases	(2,415)	(931)	—	1,142	**(2,204)**
Subscription based assets	(13,163)	(10,353)	—	4,663	**(18,853)**
Nuclear fuel	(1,086,185)	(49,941)	—	—	**(1,136,126)**
Total accumulated depreciation and amortization	(8,172,664)	(558,362)	—	123,268	**(8,607,758)**
Capital assets, net	$ 9,272,283	$ 483,441	$ —	$ 7,386	**$ 9,763,110**

Cash flow information – Cash paid for additions and net removal costs totaled $996.3 million. This amount includes $980.3 million in additions to construction-in-progress and electric, gas and general plant, partially offset by $5.3 million in donated assets.

Depreciation and amortization expense for the period totaled $508.4 million, while amortization of nuclear fuel of $49.9 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

FY2023 Capital Asset Rollforward
(In thousands)

	February 1, 2022	Additions/ Increases	Transfers In/(Out)	Reductions/ Decreases	January 31, 2023
Nondepreciable assets					
Land	$ 112,823	$ 116	$ 1,748	$ (738)	$ 113,949
Land easements	106,765	—	752	—	107,517
Construction-in-progress	719,988	686,197	(380,873)	—	1,025,312
Total nondepreciable assets	939,576	686,313	(378,373)	(738)	1,246,778
Depreciable/amortizable assets					
Electric plant	12,220,150	65,120	307,005	(14,569)	12,577,706
Gas plant	1,212,376	18,766	42,266	(730)	1,272,678
General plant	833,371	9,901	26,477	(59,303)	810,446
Intangibles					
Software	255,796	117	2,625	(36,545)	221,993
Other	38,572	—	—	—	38,572
Leases	5,131	—	—	(1,106)	4,025
Subscription based assets	30,373	4,974	—	(97)	35,250
Nuclear fuel	1,151,055	86,444	—	—	1,237,499
Total depreciable/amortizable assets	15,746,824	185,322	378,373	(112,350)	16,198,169
Accumulated depreciation and amortization					
Electric plant	(5,895,318)	(383,684)	—	(14,159)	(6,293,161)
Gas plant	(463,950)	(28,265)	—	2,354	(489,861)
General plant	(238,268)	(42,337)	—	100,025	(180,580)
Intangibles					
Software	(100,838)	(31,557)	—	36,545	(95,850)
Other	(10,429)	(1,020)	—	—	(11,449)
Leases	(1,618)	(817)	—	20	(2,415)
Subscription based assets	(4,135)	(9,125)	—	97	(13,163)
Nuclear fuel	(1,036,745)	(49,440)	—	—	(1,086,185)
Total accumulated depreciation and amortization	(7,751,301)	(546,245)	—	124,882	(8,172,664)
Capital assets, net	$ 8,935,099	$ 325,390	$ —	$ 11,794	$ 9,272,283

Cash flow information – Cash paid for additions and net removal costs totaled $822.1 million . This amount includes $773.0 million in additions to construction-in-progress and electric, gas and general plant, partially offset by $5.9 million in donated assets.

Depreciation and amortization expense for the period totaled $496.8 million, while amortization of nuclear fuel of $49.4 million was included in fuel expense on the Statements of Revenues, Expenses and Changes in Net Position.

7. Revenue Bond and Commercial Paper Ordinances Requirements

Senior Lien – As of January 31, 2024, 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 like 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, 2024, the commercial paper ordinances contain, among others, the following provisions: authorized capacity of $1 billion, ability to issue tax-exempt or taxable commercial paper, ability to issue multiple series notes and final maturity on April 20, 2053.

To secure the payment of commercial paper principal and interest, a pledge is made of:

- Proceeds from
  - The sale of Bonds issued for such purpose, and
  - The sale of Project Notes;
- Borrowings under a related Credit Agreement; and
- Amounts held in payment funds used specifically for payment of commercial paper principal and interest balances; and
- The Net Revenues of the Systems; however, being subordinate to the pledge securing payment of the Systems Revenue Priority 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 FY2024 and FY2023, CPS Energy did not default on any terms of its debt agreements.

8. Revenue Bonds

On June 22, 2023, CPS Energy issued $459.5 million of Series 2023A Revenue Refunding Bonds. Proceeds, including the $50.7 million premium associated with the bonds, were used to refund $325.0 million and $175.0 million par value of the Tax-Exempt Commercial Paper Series A and Tax-Exempt Commercial Paper Series B, respectively. The true interest cost for this issue, which has maturities in 2024 through 2050, is 4.4%.

On June 22, 2023, CPS Energy issued $177.1 million of New Series 2023B Revenue Refunding Bonds. Proceeds, including the $15.4 million premium associated with the bonds, were used to tender $89.6 million par value of Taxable New Series 2020 Revenue Refunding Bonds and $129.3 million par value of Taxable New Series 2022 Revenue Refunding Bonds. The true interest cost for this issue, which has maturities ranging between 2028 and 2044 is 4.2%.

Also on June 22, 2023, CPS Energy issued $100.3 million of Series 2023 Variable-Rate Junior Lien Revenue Refunding Bonds. Proceeds were used to refund $5.0 million and $95.0 million par value of the Tax-Exempt Commercial Paper Series A and Tax-Exempt 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 2051 through 2053, is 7.0%. The bonds were issued as multi-modal variable-rate instruments with initial term rates of 3.7% and a stepped rate of 8.0%, which is only applicable if the bonds are not remarketed before their expiration date.

On November 7, 2023, CPS Energy issued $162.7 million of New Series 2023C Revenue Refunding Bonds. Proceeds, including the $9.8 million premium associated with the bonds, were used to refund $169.2 million par value of Series 2014 Revenue Refunding Bonds. The true interest cost for this issue, which has maturities in 2024 and 2026 through 2042, is 4.3%.

Revenue Bond Summary

(Dollars in thousands)

	Issues	Maturities	Weighted-Average Yield on Outstanding Bonds at January 31, 2024	January 31, 2024	2023
Tax-exempt new series bonds	2012, 2015, 2016, 2017, 2018, 2018A, 2019, 2020, 2022, 2023A, 2023B, and 2023C	2024-2050	4.2%	$ **2,851,475**	$ 2,205,590
Taxable new series bonds	2009C[1], 2010A[1], 2012, 2020, and 2022	2024-2048	3.8%	**1,663,900**	1,891,200
Total new series bonds			4.1%	**4,515,375**	4,096,790
Taxable series bonds	2010A[1]	2038-2041	3.8%	**300,000**	300,000
Tax-exempt variable-rate series bonds	2015A, 2015C, 2015D, 2018, 2020, 2022, and 2023	2029-2033 2038-2049 2051-2053	2.4%	**811,380**	711,040
Tax-exempt series bonds	2014, 2015B, 2019, 2021A, and 2022	2026-2049	3.9%	**952,720**	1,121,950
Total series bonds			3.8%	**2,064,100**	2,132,990
Total long-term revenue bonds				**6,579,475**	6,229,780
Less: Current maturities of bonds				**181,295**	161,775
Total revenue bonds outstanding, net of current maturities				$ **6,398,180**	$ 6,068,005

[1]Direct 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 reduced the BABs subsidy through sequestration reduction. For the years ended January 31, 2024, and January 31, 2023, the total subsidy recorded for the 2009C and 2010A Senior Lien BABs and the 2010A Junior Lien BABs was $18.4 million, which included a reduction totaling $1.1 million.

As of January 31, 2024, 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
2025	$ 181,295	$ 291,155	$ (18,443)	$ 454,007
2026	187,160	289,415	(18,443)	458,132
2027	168,025	290,782	(18,443)	440,364
2028	196,140	294,821	(18,443)	472,518
2029	205,300	291,011	(18,443)	477,868
2030-2034	1,133,706	1,322,406	(95,068)	2,361,044
2035-2039	1,578,523	995,514	(72,595)	2,501,442
2040-2044	1,624,896	565,936	(12,558)	2,178,274
2045-2049	1,057,035	224,287	—	1,281,322
2050-2054	247,395	34,611	—	282,006
Totals	$ 6,579,475	$ 4,599,938	$ (272,436)	$ 10,906,977

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 is 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 and used solely for BABs debt service payments.

The Series 2015A Junior Lien Bonds were issued as multi-modal variable-rate bonds. The bonds were remarketed in 2019 and utilize an interest rate of 1.75% through their term rate period's expiration in 2024. A stepped rate of 7.0% is assumed in the previous table for this 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 2015C and Series 2015D Junior Lien Bonds were issued as multi-modal variable-rate bonds. The Series 2015C Junior Lien Bonds were remarketed in 2019 and utilize an interest rate of 1.75% through their term rate period's expiration in 2024. 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 remarketed in 2020 and utilize an interest rate of 1.125% through their term rate period's expiration in 2026. A stepped rate of 7.0% is assumed in the previous table for this 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. The bonds were remarketed in 2022 as multi-modal variable-rate bonds issued in a SIFMA Index Mode with an applicable spread of 0.87% through their term rate period's expiration in 2025 and at a stepped rate of 8.0% thereafter through applicable final maturity. In the table above, interest on these variable-rate bonds is calculated at an assumed rate of 3.5% for the applicable initial interest period and at an assumed stepped rate of 8.0% thereafter through stated 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 2025. 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.

The Series 2022 Junior Lien Bonds were issued as multi-modal variable-rate bonds that utilize an interest rate of 2.0% through their term rate period's expiration in 2027. 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.

The Series 2023 Junior Lien Bonds were issued as multi-modal variable-rate bonds that utilize an interest rate of 3.65% through their term rate period's expiration in 2026. 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.

Pursuant to guidance provided in GASB Statement No. 65, debt reacquisition costs meet neither the definition of an asset or a liability and are therefore required to be classified as deferred outflows *(unamortized loss on debt refunding)* and deferred inflows *(unamortized gain on debt refunding)* of resources on the Statements of Net Position. The debt refundings that occurred in FY2024 and FY2023 resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $35.2 million and $2.5 million in deferred inflows of resources, respectively. Debt reacquisition costs reported as deferred outflows of resources totaled $47.5 million as of January 31, 2024, and $61.9 million as of January 31, 2023. Debt reacquisition costs reported as deferred inflows of resources totaled $51.4 million as of January 31, 2024, and $18.8 million as of January 31, 2023. 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 with application of regulatory accounting, establishes regulatory assets for debt issuance costs that would otherwise be required to be expensed. 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 $43.1 million as of January 31, 2024, and $39.7 million as of January 31, 2023.

FY2024 Long-Term Debt Activity

(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding Beginning FY2024	Additions During Year	Decreases During Year	**Balance Outstanding Ending FY2024**
Revenue and refunding bonds							
2009C taxable - Senior Lien	$ 375,000	2039	6.051	$ 375,000	$ —	$ —	**$ 375,000**
2010A taxable – Senior Lien	380,000	2041	3.834	280,000	—	—	**280,000**
2010A taxable – Junior Lien	300,000	2041	3.399	300,000	—	—	**300,000**
2012 taxable - Senior Lien	521,000	2042	4.382	404,225	—	—	**404,225**
2012 tax-exempt - Senior Lien	655,370	2025	2.552	315,685	—	(78,950)	**236,735**
2014 tax-exempt – Junior Lien	200,000	2044	4.142	200,000	—	(169,230)	**30,770**
2015A tax-exempt – Junior Lien	125,000	2033	Variable	124,205	—	—	**124,205**
2015B tax-exempt – Junior Lien	125,000	2033	1.4277	104,150	—	—	**104,150**
2015 tax-exempt – Senior Lien	320,530	2032	2.992	237,700	—	(19,290)	**218,410**
2015 tax-exempt – Senior Lien	235,000	2039	3.476	235,000	—	—	**235,000**
2015C tax-exempt – Junior Lien	100,000	2045	Variable	99,740	—	—	**99,740**
2015D tax-exempt – Junior Lien	100,000	2046	Variable	99,450	—	—	**99,450**
2016 tax-exempt – Senior Lien	544,260	2034	2.144	343,375	—	(8,435)	**334,940**
2017 tax-exempt – Senior Lien	267,320	2047	3.804	267,320	—	—	**267,320**
2017 tax-exempt – Senior Lien	194,980	2047	3.619	194,980	—	—	**194,980**
2018 tax-exempt – Senior Lien	218,285	2028	2.745	122,425	—	—	**122,425**
2018A tax-exempt – Senior Lien	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 – Senior Lien	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 - Senior Lien	134,580	2049	3.132	134,580	—	—	**134,580**
2020 tax-exempt – Junior Lien	127,770	2049	Variable	127,770	—	—	**127,770**
2020 taxable - Senior Lien	418,255	2048	2.8636	418,255	—	(89,620)	**328,635**
2021A tax-exempt - Junior Lien	330,700	2049	3.1389	330,700	—	—	**330,700**
2022 tax-exempt - Junior Lien	125,005	2049	Variable	125,005	—	—	**125,005**
2022 tax-exempt - Junior Lien	234,460	2044	2.7815	234,460	—	—	**234,460**
2022 taxable - Senior Lien	413,720	2047	4.3147	413,720	—	(137,680)	**276,040**
2022 tax-exempt - Senior Lien	109,620	2025	2.2643	109,620	—	(46,735)	**62,885**
2023A tax-exempt - Senior Lien	459,450	2050	4.382	—	459,450	—	**459,450**
2023B tax-exempt - Senior Lien	177,130	2044	4.209	—	177,130	—	**177,130**
2023 tax-exempt - Junior Lien	100,340	2053	Variable	—	100,340	—	**100,340**
2023C tax-exempt - Senior Lien	162,715	2042	4.336	—	162,715	—	**162,715**
Bonds outstanding				6,229,780	899,635	(549,940)	**6,579,475**
Current maturities				(161,775)	(19,520)	—	**(181,295)**
(Discount) premium				407,251	75,891	(57,269)	**425,873**
Revenue bonds, net				6,475,256	956,006	(607,209)	**6,824,053**
Commercial paper, taxable and tax-exempt			Variable	455,500	530,900	(635,000)	**351,400**
Long-term debt, net				$ 6,930,756	$ 1,486,906	$ (1,242,209)	**$ 7,175,453**

FY2023 Long-Term Debt Activity

(Dollars in thousands)

	Original Amount	Final Principal Payment	True Interest Cost (%)	Balance Outstanding Beginning FY2023	Additions During Year	Decreases During Year	Balance Outstanding Ending FY2023
Revenue and refunding bonds							
2009C taxable - Senior Lien	$ 375,000	2039	6.051	$ 375,000	$ —	$ —	$ 375,000
2010A taxable – Senior Lien	380,000	2041	3.834	280,000	—	—	280,000
2010A taxable – Junior Lien	300,000	2041	3.399	300,000	—	—	300,000
2012 taxable - Senior Lien	521,000	2042	4.382	404,225	—	—	404,225
2012 tax-exempt - Senior Lien	655,370	2025	2.552	579,615	—	(263,930)	315,685
2014 tax-exempt – Junior Lien	200,000	2044	4.142	200,000	—	—	200,000
2015A tax-exempt – Junior Lien	125,000	2033	Variable	124,205	—	—	124,205
2015B tax-exempt – Junior Lien	125,000	2033	1.428	104,150	—	—	104,150
2015 tax-exempt – Senior Lien	320,530	2032	2.992	237,700	—	—	237,700
2015 tax-exempt – Senior Lien	235,000	2039	3.476	235,000	—	—	235,000
2015C tax-exempt – Junior Lien	100,000	2045	Variable	99,740	—	—	99,740
2015D tax-exempt – Junior Lien	100,000	2046	Variable	99,450	—	—	99,450
2016 tax-exempt – Senior Lien	544,260	2034	2.144	372,565	—	(29,190)	343,375
2017 tax-exempt – Senior Lien	267,320	2047	3.804	267,320	—	—	267,320
2017 tax-exempt – Senior Lien	194,980	2047	3.619	194,980	—	—	194,980
2018 tax-exempt – Senior Lien	218,285	2028	2.745	122,425	—	—	122,425
2018A tax-exempt – Senior Lien	130,220	2048	3.654	130,220	—	—	130,220
2018 tax-exempt – Junior Lien	134,870	2048	Variable	134,870	134,870	(134,870)	134,870
2019 tax-exempt – Senior Lien	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 - Senior Lien	134,580	2049	3.132	134,580	—	—	134,580
2020 tax-exempt – Junior Lien	127,770	2049	Variable	127,770	—	—	127,770
2020 taxable - Senior Lien	418,255	2048	2.864	418,255	—	—	418,255
2021A tax-exempt - Junior Lien	330,700	2049	3.139	330,700	—	—	330,700
2022 tax-exempt - Junior Lien	125,005	2049	Variable	—	125,005	—	125,005
2022 tax-exempt - Junior Lien	234,460	2044	2.782	—	234,460	—	234,460
2022 taxable - Senior Lien	413,720	2047	4.315	—	413,720	—	413,720
2022 tax-exempt - Senior Lien	109,620	2025	2.264	—	109,620	—	109,620
Bonds outstanding				5,640,095	1,017,675	(427,990)	6,229,780
Current maturities				(164,495)	—	2,720	(161,775)
(Discount) premium				401,467	57,921	(52,137)	407,251
Revenue bonds, net				5,877,067	1,075,596	(477,407)	6,475,256
Commercial paper, taxable and tax-exempt			Variable	660,000	601,927	(806,427)	455,500
Long-term debt, net				$ 6,537,067	$ 1,677,523	$ (1,283,834)	$ 6,930,756

9. 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 commercial paper through various separate series of notes to provide funding to assist in the interim financing of eligible projects in an aggregate amount not to exceed $1 billion. As of January 31, 2024, there was a total of $1 billion in liquidity facility support, which serves as a back-stop to the commercial paper program.

The ordinances allow for the issuance of taxable and 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. The original commercial paper program has a final maturity of April 11, 2049 and the new series commercial paper program as a final maturity date of April 20, 2053.

The commercial paper has been classified as long-term in accordance with the refinancing terms under various revolving credit agreements with a consortium of banks, that serve as liquidity facility support for the commercial paper programs. Each revolving credit agreement relates to a particular series of notes and provides liquidity facility 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 19, 2026. The Series B agreement provided $200 million in liquidity support for the Series B Notes. The Series B agreement was renewed for up to six months from the initial termination date of June 21, 2023 meanwhile replacement capacity was effectuated. The renewed agreement was terminated on July 26, 2023. The Series C agreement provides $100 million in liquidity support for Series C Notes and is effective through June 21, 2025. The New Subseries A1 agreement replaces the Series B capacity of $200 million in liquidity support through the New Subseries A1 Notes and is effective through July 31, 2031. The New Series B agreement provides $150 million in liquidity support for the New Series B Notes and is effective through July 31, 2028. The New Series C agreement provides $150 million in liquidity support for the New Series C Notes and is effective through October 12, 2025. Under the terms of these revolving credit agreements, CPS Energy may borrow up to an aggregate amount not to exceed $1 billion for the purpose of paying principal due under the commercial paper programs. As of January 31, 2024, and since inception of the programs, there have been no back-stop options exercised under the revolving credit agreements.

During FY2024, CPS Energy issued a total of $530.9 million in new commercial paper. As of January 31, 2024, the outstanding commercial paper balance was $351.4 million which was issued as tax-exempt. As of January 31, 2023, the outstanding commercial paper balance was $455.5 million, of which $420.50 million was issued as tax-exempt to fund construction and $35.0 million was issued as taxable to fund fuel costs.

Commercial Paper Summary

(Dollars in thousands)

	January 31	
	2024	2023
Commercial paper outstanding	**$ 351,400**	$ 455,500
New commercial paper issued	**$ 530,900**	$ 601,927
Weighted-average commercial paper outstanding	**$ 339,018**	$ 196,041
Weighted-average interest rate	**3.4%**	1.8%
Number of days outstanding	**360**	352

10. Flexible Rate Revolving Notes

In FY2010, the San Antonio City Council adopted an ordinance authorizing the establishment of the FRRN Private Placement Program ("Series A Flex Notes"), under which CPS Energy may issue taxable or tax exempt notes, bearing interest at fixed or variable rates. This ordinance provides for funding to assist in the interim financing of eligible projects that include the acquisition or construction of improvements, additions or extensions to the electric and gas systems ("Systems"), including capital assets and facilities incident and related to the operation, maintenance and administration of fuel acquisition and development and facilities for the transportation thereof; capital improvements to the Systems; and refinancing or refunding of any outstanding obligations secured by the net revenues of the Systems; or with respect to the payment of any obligation of the Systems pursuant to any credit. The note purchase agreement that was entered into in FY2019, under the program, was not renewed and terminated in calendar 2019. On May 27, 2020 the Board authorized CPS Energy to enter into a new FRRN note purchase agreement not to exceed $100 million.

Additionally, on March 18, 2021, the City Council and the Board approved a second FRRN program ("Series B Flex Notes") with an additional $500 million in capacity to provide assurance of sufficient liquidity to address the costs incurred related to Winter Storm Uri.

Compliance – Under the terms of the FRRN purchase agreements, the credit facility is tax-exempt or taxable to the full extent of the current $100 million, and $500 million limit, respectively, on outstanding principal. The outstanding notes under the Series A Flex Note agreement, are secured by proceeds of the sale of bonds or Project Notes, the amounts held in a payment fund, for taxable Flexible Rate Notes only; amounts held in the related Program Note Security Fund, and the amounts remaining on deposit for the Program Note Construction Fund. The outstanding notes under the Series B Flex Note agreement are secured by proceeds of the sale of bonds (other than Inferior Lien Obligations) or Project Notes, the amounts held in a payment fund, and the amounts remaining on deposit for the Program Note Construction Fund.

As of January 31, 2024 and 2023, CPS Energy was in compliance with the terms and provisions of the documents related the FRRN programs.

On February 24, 2023, the City entered into a note purchase agreement under the Series A Flex Notes program, with Truist Bank and Truist Commercial Equity, Inc. replacing the note purchase agreement with Wells Fargo Bank, National Association. The stated expiration of the note purchase agreement with Truist Bank and Truist Commercial Equity, Inc. is November 1, 2028. As of January 31, 2024, there were no Series A Flex Notes outstanding.

On April 12, 2023, the City entered into a note purchase agreement under the Series B Flex Notes program, with JPMorgan Chase Bank, National Association, Wells Fargo Bank, National Association, and Frost Bank as the note purchasers by contractual agreement in effect through April 4, 2028, with the approval of $500 million in additional capacity.

When issued, Series B Flex Notes will be classified as long-term in accordance with the financing terms under the Note Purchase Agreement. Any outstanding notes under Series B Flex Note will be secured by a lien on and pledge of the new revenue of the Systems and the proceeds of sale. There are no Series B Flex Notes outstanding as of January 31, 2024.

11. 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 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 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 note and in the accompanying RSI. The Pension Plan and 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 are 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, 2024 and 2023, were:

	January 31,	
	2024	2023
Active participants	**2,759**	2,900
Participants currently receiving benefits	**2,678**	2,600
Participants entitled to deferred benefits	**258**	235
Total plan participants	**5,695**	5,735

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, 2022, valuation is the basis for contributions in FY2024. 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, 2018, through December 31, 2021, the employee contribution interest crediting rate was 5.25%. Beginning January 1, 2022, the employee contribution interest crediting rate was 5.00%.

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 FY2024 and FY2023, the amount to be funded was established using a general target near the 30-year layered amortization funding contribution level as determined by the Pension Plan's actuary using the entry-age normal cost method.

Net Pension Liability – CPS Energy's net pension liability at January 31, 2024 and 2023, was measured as of January 31, 2023 and 2022, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2022 and 2021, rolled forward using generally accepted actuarial procedures to the January 31, 2023 and 2022, measurement dates, respectively.

Changes in Net Pension Liability

(In thousands)

	Fiscal Year Ended January 31, 2024	2023
Total pension liability		
Service cost	**$ 40,271**	$ 41,129
Interest cost	**155,015**	150,633
Effect of plan changes	**(12)**	—
Changes in assumptions	**51,083**	(9,825)
Differences between expected and actual experience	**394**	2,174
Benefit payments	**(123,427)**	(114,484)
Net change in total pension liability	**123,324**	69,627
Total pension liability, beginning of period	**2,234,500**	2,164,873
Total pension liability, end of period	**2,357,824**	2,234,500
Plan fiduciary net position		
Employer contributions	**(58,986)**	(62,100)
Participant contributions	**(14,970)**	(14,054)
(Earnings) loss on Plan assets	**64,655**	(244,563)
Benefit payments	**123,427**	114,484
Administrative expenses	**474**	487
Net change in Plan fiduciary net position	**114,600**	(205,746)
Plan fiduciary net position, beginning of period	**(2,122,445)**	(1,916,699)
Plan fiduciary net position, end of period	**(2,007,845)**	(2,122,445)
Net pension liability, end of period	**$ 349,979**	$ 112,055

For the fiscal year ended January 31, 2024, with the approval of regulatory accounting for pension and OPEB costs, pension expense recognized and the amount included in rates was $56.7 million equal to the funding. CPS Energy recorded $15.9 million in pension expense for the fiscal year ended January 31, 2023. Pension expense, as calculated under GASB Statement No. 68, for the years ended January 31, 2024, and 2023, was $81.0 million and $15.9 million, respectively.

Actuarial Assumptions – Significant actuarial assumptions used in the January 1, 2022, valuation include a rate of return on the investment of present and future assets of 7.00%, a discount rate on Pension Plan liabilities of 7.00%, and annual post-retirement cost-of-living increases of 1.25%. Annual projected salary increases averaging 5.65% and 5.54% per year for FY2024 and FY2023, respectively. The projected salary increases include an inflation rate of 2.30% and 2.20% for FY2024 and FY2023, respectively. Mortality rates were based on the Pri-2012 Employee / Retiree mortality table (fully generational) with mortality improvement scale MP-2021 for FY2024 and Pri-2012 Employee / Retiree mortality table (fully generational) with mortality improvement scale MP-2020 for FY2023. Separate tables are used for disabled participants and contingent annuitants for both FY2024 and FY2023.

The actuarial assumptions used in the January 1, 2022 and 2021, valuations for amounts reported in FY2024 and FY2023, respectively, were based on the results of an actuarial experience study completed in 2020 covering experience for the period January 1, 2017, through December 31, 2019. An actuarial experience study was completed in calendar 2023 covering the period January 1, 2020, through December 31, 2022, any change in assumptions as a result of the latest study will be reflected in the January 1, 2023, actuarial valuation with a measurement date of January 31, 2024, to be recorded in the fiscal year ending January 31, 2025.

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 a long-term expected real rate of return for each major asset class.

The assumed asset allocation and expected real rate 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%	4.9%
Debt securities	23.5%	3.4%
Alternative investments	22.0%	4.4%
Total investments	100.0%	

Discount Rate – The discount rate used to measure the total pension liability for FY2024 and FY2023 was 7.00%. 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)

	Net Pension Liability at January 31,	
Discount Rate	**2024**	2023
1% decrease - 6.00%	**$ 637,950**	$ 388.871
Current discount rate - 7.00%	**349,979**	112,055
1% increase - 8.00%	**108,204**	(119,920)

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 as of January 31, 2024 and 2023:

(In thousands)	January 31, 2024	January 31, 2023
Deferred outflows of resources		
Differences between projected and actual earnings on pension assets	**$ 67,286**	$ —
Changes in assumptions	**66,624**	41,054
Differences between expected and actual experience in the measurement of total pension liability	**2,593**	3,514
Employer's contributions to the Plan subsequent to the measurement of total pension liability	**56,717**	58,986
Total deferred outflows of resources	**$ 193,220**	$ 103,554
Deferred inflows of resources		
Differences between projected and actual earnings on pension assets	**$ —**	$ (113,070)
Changes in assumptions	**(9,422)**	(13,718)
Differences between expected and actual experience in the measurement of total pension liability	**(4,055)**	(10,641)
Total deferred inflows of resources	**$ (13,477)**	$ (137,429)

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,	
2025	$ 16,675
2026	19,636
2027	32,006
2028	50,895
2029	3,814
Total	$ 123,026

12. 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 note 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, 2024 and 2023, were:

	January 31, 2024		
	Health	**Life**	**Disability**
Active participants	**2,759**	**2,759**	**2,809**
Inactive participants receiving benefits	**1,951**	**2,509**	**74**
Inactive participants with deferred benefits	**—**	**—**	**—**
Total plan participants	**4,710**	**5,268**	**2,883**

	January 31, 2023		
	Health	Life	Disability
Active participants	2,900	2,900	3,000
Inactive participants receiving benefits	1,927	2,438	75
Inactive participants with deferred benefits	—	—	—
Total plan participants	4,827	5,338	3,075

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, 2022, valuation was the basis for contributions in FY2024.

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 FY2024 and FY2023.

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 $1.0 million for FY2024 and FY2023, 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. The Company contributions in both FY2024 and FY2023 were approximately $0.9 million.

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 0.2% of covered-employee payroll in both FY2024 and FY2023. The Company contributions in both FY2024 and FY2023 were approximately $0.6 million.

Net OPEB (Asset) Liability – CPS Energy's net OPEB (asset) liability at January 31, 2024 and 2023, was measured as of January 31, 2023 and 2022, respectively. The total OPEB liability used to calculate the net OPEB (asset) liability was determined by actuarial valuations as of January 1, 2022 and 2021, rolled forward using generally accepted actuarial procedures to the January 31, 2023 and 2022, measurement dates, respectively. As of January 31, 2024 and 2023, the net OPEB asset was $41.4 million and $50.4 million, respectively, and is reflected as part of the other noncurrent assets on the Statements of Net Position.

FY2024 Changes in Net OPEB (Asset) Liability
(In thousands)

	Health	Life	Disability	**Total**
Total OPEB liability				
Service cost	$ 4,302	$ 586	$ 680	**$ 5,568**
Interest cost	17,092	3,688	490	**21,270**
Changes in assumptions	(970)	820	142	**(8)**
Differences between expected and actual experience	(29,153)	561	468	**(28,124)**
Benefit payments	(18,104)	(4,204)	(1,049)	**(23,357)**
Net change in total OPEB liability	(26,833)	1,451	731	**(24,651)**
Total OPEB liability, beginning of period	277,924	57,208	6,363	**341,495**
Total OPEB liability, end of period	251,091	58,659	7,094	**316,844**
Plan fiduciary net position				
Employer contributions	—	(925)	(559)	**(1,484)**
Participant contributions	—	(1,131)	(287)	**(1,418)**
Medicare Part D payment	(985)	—	—	**(985)**
(Earnings) loss on Plan assets	10,701	1,950	191	**12,842**
Benefit payments	18,104	4,204	1,049	**23,357**
Administrative expense	1,300	17	12	**1,329**
Net change in Plan fiduciary net position	29,120	4,115	406	**33,641**
Plan fiduciary net position, beginning of period	(326,859)	(57,987)	(7,041)	**(391,887)**
Plan fiduciary net position, end of period	(297,739)	(53,872)	(6,635)	**(358,246)**
Net OPEB (asset) liability, end of period	$ (46,648)	$ 4,787	$ 459	**$ (41,402)**

FY2023 Changes in Net OPEB (Asset) Liability

(In thousands)

	Health	Life	Disability	Total
Total OPEB liability				
Service cost	$ 4,905	$ 614	$ 712	$ 6,231
Interest cost	18,604	3,612	457	22,673
Changes in assumptions	(385)	985	(4)	596
Differences between expected and actual experience	26,691	252	(665)	26,278
Benefit payments	(11,915)	(4,255)	(1,230)	(17,400)
Net change in total OPEB liability	37,900	1,208	(730)	38,378
Total OPEB liability, beginning of period	240,024	56,000	7,093	303,117
Total OPEB liability, end of period	277,924	57,208	6,363	341,495
Plan fiduciary net position				
Employer contributions	—	(900)	(726)	(1,626)
Participant contributions	—	(1,156)	(276)	(1,432)
Medicare Part D payment	(977)	—	—	(977)
(Earnings) loss on Plan assets	(41,220)	(6,526)	(782)	(48,528)
Benefit payments	11,915	4,255	1,230	17,400
Administrative expense	1,251	26	17	1,294
Net change in Plan fiduciary net position	(29,031)	(4,301)	(537)	(33,869)
Plan fiduciary net position, beginning of period	(297,828)	(53,686)	(6,504)	(358,018)
Plan fiduciary net position, end of period	(326,859)	(57,987)	(7,041)	(391,887)
Total OPEB (asset) liability, end of period	$ (48,935)	$ (779)	$ (678)	$ (50,392)

For the fiscal year ended January 31, 2024, with the approval of regulatory accounting for pension and OPEB costs, OPEB expense recognized and the amount included in rates was $0.6 million related to the funding of the Disability Plan. CPS Energy recorded $2.5 million in OPEB contra expense for the fiscal year ended January 31, 2023, as detailed below.

The OPEB expense/(contra expense), as calculated under GASB Statement No. 75, for the years ended January 31, 2024, and 2023, was as follows:

(In thousands)	January 31,	
	2024	2023
Health	**$ (919)**	$ (3,514)
Life	**2,620**	570
Disability	**690**	456
Total	**$ 2,391**	$ (2,488)

Actuarial Assumptions – Significant actuarial assumptions used in the January 1, 2022, valuation included: (a) a rate of return on the investment of present and future assets of 7.0% 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 Plan ranging from 3.30% to 11.58% depending on age, and (d) overall average medical and prescription cost increases of 5.70% in 2022, decreasing to 3.7% long term for pre-65 participants; for post-65 participants, increases of 5.50% in 2022, decreasing to 3.70% annually thereafter based on medical trend assumptions. Mortality rates for retirees were based on the Pri-2012 Employee / Retiree Mortality (headcount weighted) projected forward (fully generational) with mortality improvement scale MP-2021, with sex-distinct employee rates before termination and healthy annuitant rates after termination and separate tables for contingent annuitants.

The actuarial assumptions used in the January 1, 2022 and 2021, valuations for amounts reported in FY2024 and FY2023, were based on the results of an actuarial experience study completed in 2020 covering experience for the period January 1, 2017, through December 31, 2019. An actuarial experience study was completed in calendar 2023 covering the period January 1, 2020, through December 31, 2022, any change in assumptions as a result of the latest study will be reflected in the January 1, 2023, actuarial valuations with a measurement date of January 31, 2024, to be recorded in the fiscal year ending January 31, 2025.

Significant actuarial assumptions used in the calculations for the January 1, 2021, actuarial valuation for FY2023 included: (a) a rate of return on the investment of present and future assets of 7.0% for the Health, Life and Disability Plans, (b) a Consumer Price Index increase of 2.2% per year for the Health, Life and Disability Plans, (c) projected annual base salary increases for the Health Plan ranging from 3.20% to 11.47% depending on age, and (d) overall average medical and prescription cost increases of 5.9% in 2021, decreasing to 3.7% long term for pre-65 participants; for post-65 participants, increases of 5.6% in 2021, decreasing to 3.7% annually thereafter based on medical trend assumptions. Mortality rates for retirees were based on the Pri-2012 Employee / Retiree Mortality (headcount weighted) projected forward (fully generational) with mortality improvement scale MP-2020, with sex-distinct employee rates before termination and healthy annuitant rates after termination and separate tables for contingent annuitants.

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 a long-term expected real rate of return for each major asset class. The assumed asset allocation and expected real rate of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Expected Real Rate of Return
Equities	56.5%	4.9%
Debt securities	26.5%	3.3%
Alternative investments	17.0%	4.7%
Total investments	100.0%	

Discount Rate and Healthcare Cost Trend Rates – The discount rate used to measure the total OPEB liability for FY2024 and FY2023 was 7.00%. 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, 2024			
	Health	Life	Disability	**Total**
Discount rate				
1% decrease - 6.00%	$ (20,702)	$ 12,165	$ 670	**$ (7,867)**
Current discount rate - 7.00%	(46,648)	4,787	459	**(41,402)**
1% increase - 8.00%	(69,021)	(1,241)	262	**(70,000)**

	Net OPEB (Asset) Liability at January 31, 2023			
	Health	Life	Disability	Total
Discount rate				
1% decrease - 6.00%	$ (20,409)	$ 6,415	$ (493)	$ (14,487)
Current discount rate - 7.00%	(48,935)	(779)	(678)	(50,392)
1% increase - 8.00%	(73,464)	(6,656)	(853)	(80,973)

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)

	Net Health Plan OPEB (Asset) Liability at January 31,	
	2024	2023
Healthcare Cost Trend Rates		
1% decrease	**$ (73,640)**	$ (78,527)
Current healthcare cost trend rates	**(46,648)**	(48,935)
1% increase	**(14,262)**	(13,330)

Employee Benefit Plans' Fiduciary Net Position – The financial results of the Employee Benefit Plans 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, 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 as of January 31, 2024 and 2023:

(In thousands)	**January 31, 2024**			
	Health	Life	Disability	**Total**
Deferred outflows of resources				
Changes in assumptions	$ 1,380	$ 3,117	$ 1,266	**$ 5,763**
Differences between expected and actual experience in the measurement of total OPEB liability	19,155	4,315	396	**23,866**
Employer's contributions to the Plan subsequent to the measurement of total OPEB liability	—	—	602	**602**
Total deferred outflows of resources	$ 29,619	$ 9,905	$ 2,526	**$ 42,050**
Deferred inflows of resources				
Changes in assumptions	$ (6,552)	$ (65)	$ (2)	**$ (6,619)**
Differences between projected and actual earnings on OPEB assets	—	—	—	**—**
Differences between expected and actual experience in the measurement of total OPEB liability	(38,480)	(216)	(960)	**(39,656)**
Total deferred inflows of resources	$ (45,032)	$ (281)	$ (962)	**$ (46,275)**

	January 31, 2023			
	Health	Life	Disability	Total
Deferred outflows of resources				
Changes in assumptions	$ 2,759	$ 3,431	$ 1,493	$ 7,683
Differences between expected and actual experience in the measurement of total OPEB liability	23,473	4,957	36	28,466
Employer's contributions to the Plan subsequent to the measurement of total OPEB liability	—	925	559	1,484
Total deferred outflows of resources	$ 26,232	$ 9,313	$ 2,088	$ 37,633
Deferred inflows of resources				
Changes in assumptions	$ (7,666)	$ (131)	$ (3)	$ (7,800)
Differences between projected and actual earnings on OPEB assets	(18,737)	(2,146)	(283)	(21,166)
Differences between expected and actual experience in the measurement of total OPEB liability	(18,448)	(360)	(1,287)	(20,095)
Total deferred inflows of resources	$ (44,851)	$ (2,637)	$ (1,573)	$ (49,061)

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,				
2025	$ (6,655)	$ 1,902	$ 122	$ (4,631)
2026	(5,789)	2,433	192	(3,164)
2027	(3,051)	2,455	281	(315)
2028	4,286	2,385	296	6,967
2029	(1,886)	342	24	(1,520)
Thereafter	(2,318)	107	47	(2,164)
Total	$ (15,413)	$ 9,624	$ 962	$ (4,827)

13. 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 84.4% as of January 31, 2024, and 77.6% as of January 31, 2023.

FY2024 Other Liabilities Rollforward

(In thousands)

	Balance Outstanding 02-01-2023	Additions During Year	Decreases During Year	**Balance Outstanding 01-31-2024**	Amounts Due within One Year	Noncurrent Balance Outstanding
Customer deposits	$ 37,525	$ 22,882	$ (21,968)	**$ 38,439**	$ 21,524	$ 16,915
Operating reserves	47,047	25,292	(7,501)	**64,838**	3,303	61,535
STP pension and OPEBs	19,135	6,830	(4,851)	**21,114**	—	21,114
Pollution remediation liability	5,869	800	(4,864)	**1,805**	1,624	181
Fuel hedges	35,818	24,471	(48,767)	**11,522**	6,486	5,036
Long-term service agreements	35,464	7,017	(25,278)	**17,203**	10,360	6,843
Communication towers	34,169	—	—	**34,169**	—	34,169
Other	85,373	190,672	(182,416)	**93,629**	924	92,705
Total other long-term liabilities	$ 300,400	$ 277,964	$ (295,645)	**$ 282,719**	$ 44,221	$ 238,498

FY2023 Other Liabilities Rollforward
(In thousands)

	Balance Outstanding 02-01-2022	Additions During Year	Decreases During Year	Balance Outstanding 01-31-2023	Amounts Due within One Year	Noncurrent Balance Outstanding
Customer deposits	$ 36,103	$ 21,951	$ (20,529)	$ 37,525	$ 21,243	$ 16,282
Operating reserves	46,972	17,358	(17,283)	47,047	2,547	44,500
STP pension and OPEBs	58,276	2,063	(41,204)	19,135	—	19,135
Pollution remediation liability	1,565	4,748	(444)	5,869	5,660	209
Fuel hedges	15,656	112,625	(92,463)	35,818	22,840	12,978
Long-term service agreements	39,442	15,016	(18,994)	35,464	14,500	20,964
Communication towers	34,169	—	—	34,169	—	34,169
Other	89,857	216,542	(221,026)	85,373	602	84,771
Total other long-term liabilities	$ 322,040	$ 390,303	$ (411,943)	$ 300,400	$ 67,392	$ 233,008

Long-Term Service Agreements ("LTSAs") – CPS Energy has two LTSAs with GE for two of its combined-cycle power plants, Arthur Von Rosenberg ("AVR") and Rio Nogales.

AVR – In 2007, CPS Energy entered into 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 AGP parts to eventually be installed at the AVR plant.

The balance of the AVR LTSA obligation as of January 31, 2024 totaled $6.7 million of which $5.7 million and $1.0 million were reported on the Statements of Net Position as a current and noncurrent liability, respectively. The balance of the AVR LTSA obligation as of January 31, 2023 totaled $10.2 million and was reported as a noncurrent liability on the Statements of Net Position.

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. As of January 31, 2024, all four sets of AGP parts are installed and operational at the plant.

The balance of the Rio Nogales LTSA obligation as of January 31, 2024, totaled $10.5 million of which $4.7 million and $5.8 million were reported on the Statements of Net Position as a current and noncurrent liability, respectively. The balance of the Rio Nogales LTSA obligation as of January 31, 2023, totaled $25.3 million of which $14.5 million and $10.8 million were reported on the Statements of Net Position as a current and noncurrent liability, respectively.

Communication Towers – In FY2014, the Company entered into an agreement to lease 62 of its communication towers to an independent third party with an additional five towers added in FY2017, which resulted in a total of 67 tower leases. Additionally, new licensing agreements were entered into between CPS Energy and the third party for CPS Energy's ongoing use of the towers and the third party's use of CPS Energy's communication buildings for a period of 40 years, with three five-year options to extend. The agreement included a $41.0 million prepayment by the third party as financing of the communication towers netted with a prepayment of $6.3 million for use of CPS Energy communication shelters for a total of $34.2 million which has been recorded as a long term liability until the end of the lease term. In addition, the parties agreed that no further cash payments would be paid by either party for the 40 year lease term. The balance of the communication towers liability was $34.2 million as of January 31, 2024 and 2023.

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 $2.0 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 FY2024 or FY2023.

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 FY2023.

The remaining balance under the Property Reserves (Environmental) column as of January 31, 2024, relates to estimated obligations for the cleanup, closure and post-closure care requirements of the CPS Energy's landfills. CPS Energy has seven landfill/impoundment 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 insurance related claims are recorded against the reserve, which is a component of operating reserves presented on the preceding tables describing Other Liabilities.

FY2024 and FY2023 Reserve Rollforward

(In thousands)

	Employee & Public Liability Claims	Property Reserves (Insurance)	Property Reserves (Environmental)	Total
Balance – FY2021	$ 16,367	$ 4,315	$ 19,075	$ 39,757
Payments	(2,069)	—	—	(2,069)
Other claims adjustments	5,889	807	473	7,169
Balance – FY2022	$ 20,187	$ 5,122	$ 19,548	$ 44,857
Payments	(3,064)	—	—	(3,064)
Other claims adjustments	2,586	737	(238)	3,085
Balance – FY2023	19,709	5,859	19,310	44,878
Payments	(6,334)	—	—	(6,334)
Other claims adjustments	6,477	4,700	12,691	23,868
Balance – FY2024	**$ 19,852**	**$ 10,559**	**$ 32,001**	**$ 62,412**

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.

14. Derivative Instruments

Fuel Hedging – 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 31, 2022, 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, 2024, the total fair value of outstanding hedge instruments was a net asset of $7.8 million. Fuel hedging instruments with a fair value of $4.2 million and $6.5 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 $15.3 million and $4.7 million are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

As of January 31, 2023, the total fair value of outstanding hedge instruments was a net asset of $13.3 million. Fuel hedging instruments with a fair value of $27.9 million and $22.8 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 $21.2 million and $13.0 million are classified as a component of other noncurrent assets and other noncurrent liabilities, respectively.

All hedging derivative instruments were evaluated for effectiveness as of January 31, 2024 and 2023. 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 $30.2 million and $35.8 million as of January 31, 2024 and 2023, respectively. No deferred inflow of resources related to fuel hedges were reported as of January 31, 2024. The deferred inflows of resources related to fuel hedges totaled $20.1 million as of January 31, 2023.

Following is information related to CPS Energy's outstanding fuel hedging derivative instruments:

Fuel Derivative Instrument Transactions as of January 31, 2024

(Dollars in thousands)

Type of Transaction	Referenced Index	Duration	Volumes (MMBtu)	Fair Value	FY2024 Change in Fair Value
Long Natural Gas Swap	Henry Hub	Feb 2024 through Sep 2024	1,898,835	$ (2,600)	$ 1,232
Short Natural Gas Swap	Henry Hub	Feb 2024 through Feb 2024	1,402,500	1,873	(2,449)
Long Natural Gas Call Option	Henry Hub	Feb 2024 through Jan 2027	76,898,917	12,377	(2,694)
Short Natural Gas Call Option	Henry Hub	Apr 2024 through Apr 2026	981,254	$ (247)	$ 39
Long HSC Basis Swap	Henry Hub	Feb 2024 through Sep 2024	380,000	(48)	999
Long HSC Gas Daily Swap	Henry Hub	Feb 2024 through Feb 2024	3,404,600	—	—
Long WAHA Basis Swap	Henry Hub	Feb 2024 through Jan 2027	72,241,876	(3,190)	18,533
Short WAHA Basis Swap	Henry Hub	Apr 2024 through Apr 2026	2,106,767	$ (347)	$ (347)
Long WAHA Gas Daily Swap	Henry Hub	Feb 2024 through Feb 2024	3,001,500	—	—
				$ 7,818	$ 15,313

Fuel Derivative Instrument Transactions as of January 31, 2023

(Dollars in thousands)

Type of Transaction	Referenced Index	Duration	Volumes (MMBtu)	Fair Value	FY2023 Change in Fair Value
Long Natural Gas Swap	Henry Hub	Feb 2023 through Jan 2024	13,851,186	$ (3,831)	$ (21,755)
Short Natural Gas Swap	Henry Hub	Feb 2023 through Feb 2023	1,970,000	4,323	8,650
Long Natural Gas Call Option	Henry Hub	Feb 2023 through Jan 2026	66,922,339	33,808	2,065
Long Natural Gas Put Option	Henry Hub	Feb 2023 through Mar 2023	719,000	$ 1,871	$ 2,579
Short Natural Gas Put Option	Henry Hub	Feb 2023 through Mar 2023	275,000	(77)	(68)
Long HSC Basis Swap	Henry Hub	Feb 2023 through Dec 2023	3,744,000	(1,047)	(923)
Long HSC Gas Daily Swap	Henry Hub	Feb 2023 through Feb 2023	2,875,600	—	—
Long WAHA Basis Swap	Henry Hub	Feb 2023 through Jan 2026	76,999,525	(21,723)	(9,274)
Long WAHA Gas Daily Swap	Henry Hub	Feb 2023 through Feb 2023	4,029,200	—	—
				$ 13,324	$ (18,726)

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, 2024 and 2023, 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 31, 2024, the HSC price was $2.49 per Metric Million British Thermal Unit ("MMBtu"), the WAHA price was $1.86 per MMBtu and the Henry Hub price was $2.62 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 derivative instruments 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 with the intent of selling 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 FY2024 and FY2023.

15. South Texas Project

Units 1 and 2 – CPS Energy is one of three participant owners of STP, a two-unit nuclear power plant located in Matagorda County, Texas approximately 10 miles from the Texas gulf coast. The units have a combined nominal output of 2,700 MW. CPS Energy's ownership share (40%) in STP Units 1 and 2 represents approximately 1,080 MW of total plant capacity. In addition, STP is owned by Constellation South Texas, LLC ("Constellation")(44%) and the City of Austin (16%). In November 2023, Constellation acquired NRG South Texas LP's 44% ownership stake in STP. The ownership transfer was approved on October 30, 2023, by the NRC, which was the final regulatory approval needed before closing the acquisition. As a result, Constellation became one of the three owner-investors in STP.

The units, along with their support facilities and administrative offices, are located on a 12,220-acre site that is adjacent to the lower Colorado river in Matagorda County. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2.

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. No changes in the Participation Agreement resulted from Constellation's acquisition of NRG South Texas LP's STP ownership transfer and STPNOC continues to operate the plant.

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 ("NWPA"), 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 – 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 NWPA. 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 March 2023, the DOE extended its commitment to reimburse STP for allowable spent fuel management expenditures through December 31, 2025.

Pursuant to STPNOC's analysis of the NRC guidance, the first dry cask storage campaign was completed in calendar year 2019, with 12 dry casks stored at the Dry Cast Storage Project. STP reported the Dry Cask Storage Project loading campaign was completed on July 15, 2022. The calendar year 2022 Dry Cask Storage campaign included the loading of four casks for Unit 1 and six casks for Unit 2. The next loading campaign is scheduled for 2025 and the plan is to load eight casks for Unit 1 and six for Unit 2. Ongoing costs for the spent fuel management project are being funded by the STP owners (CPS Energy; the City of Austin; and Constellation South Texas, LLC, a wholly owned subsidiary of Constellation Energy Corporation) 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 ("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 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 O&M expense or capital costs.

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, the maximum amount that each licensee may be assessed as secondary financial protection following a nuclear incident at any United States insured facility is $166 million, taking into account a 5% adjustment for administrative fees and subject to adjustment for inflation every 5 years, with the next adjustment expected to be effective no later than November 1, 2028, for the number of operating nuclear units and for each licensed reactor, payable at $25 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. Any funding needed in excess of these assessments is at the discretion of the United States Congress. 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 $500 million for each nuclear facility, provides primary protection from nuclear-related liability claims. A master worker certificate policy, with a maximum limit of $500 million for the nuclear industry, provides protection from radiation tort liability claims of workers at nuclear facilities.

The NRC regulations require licensees of nuclear power plants to obtain on-site property damage nuclear accident stabilization and decontamination insurance in a minimum amount of approximately $1.1 billion. The 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 regulatory required amount. CPS Energy also maintains accidental outage insurance through STP's Nuclear Electric Insurance Limited ("NEIL") membership that provides weekly indemnity payments for an insured property loss subject to an applied deductible period. The nuclear property and/or accidental insurance may be subject to a retrospective assessment being paid by members of NEIL and European Mutual Association for Nuclear Insurance ("EMANI"). A retrospective assessment could occur if losses, as a result of an accident at any nuclear plant insured by NEIL or EMANI, exceed the desired funds of NEIL and/or EMANI.

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. 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 FY2024 or FY2023. In FY2024 and FY2023, 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 2023 or 2022. For the 12% Trust, pre-shutdown costs are funded by AEP's ratepayers. The 12% Trust incurred no pre-shutdown decommissioning expenses in the calendar years 2023 or 2022.

The most recent cost study, which was finalized in May 2023, estimated decommissioning costs for the 28% ownership and 12% ownership in STP Units 1 and 2 are $725.9 million and $311.1 million, respectfully, in 2023 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 12% Trust and an analysis of this cost study, the Company determined that no further decommissioning contributions would be required to be deposited into the Trusts.

As of December 31, 2023 and 2022, CPS Energy accumulated $520.5 million and $473.7 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, 2022, the 28% Trust funds allocated to decommissioning costs totaled $302.5 million, which exceeded the calculated financial assurance amount of $126.9 million.

As of December 31, 2023 and 2022, $191.3 million and $174.1 million, respectively, was 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, 2022, the 12% Trust funds allocated to decommissioning costs totaled $120.4 million, which exceeded the calculated financial assurance amount of $54.4 million.

CPS Energy accounts for decommissioning in accordance with GASB Statement No. 83 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. The most recent study was finalized in May 2023 and estimates costs in 2023 dollars. 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.

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. On May 1, 2014, certain STPNOC employees voted to transition STPNOC's medical plan to a Taft-Hartley multiemployer health and welfare plan. During calendar year 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 multiemployer plan, therefore, reducing STPNOC's OPEB liability as of December 31, 2019. 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, $330.0 thousand for calendar 2023 and $305.0 thousand for calendar 2022, 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 reflected as a decrease of $7.3 million for FY2024 and an increase of $26.1 million for FY2023, respectively, in nonoperating income (expense).

16. Commitments and Contingencies

Purchase and construction commitments were approximately $8,399.6 million as of January 31, 2024. This amount includes construction commitments, provisions for coal purchases through December 2026 and natural gas purchases through May 2053; 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 gas toll energy through 2028, 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 December 2026.

On January 20, 2009, the Board approved a policy statement affirming 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 the Generation Planning strategy, CPS Energy has a balanced approach of leveraging the community-owned assets with the emergence of new technology. CPS Energy's strategy is focused around energy considerations of system reliability and climate resiliency, customer affordability, environmental sustainability, system flexibility and workforce impact. In August 2019, the Board signed a resolution to support the City of San Antonio's Climate Action and Adaptation Plan ("CAAP") with a target of net-zero carbon emissions by 2050. The CAAP also has two interim goals, a 41% reduction by 2030 and a 71% reduction by 2040 and CPS Energy is working towards these goals. On January 23, 2023, the Board voted for a generation planning portfolio that will include gas, wind, solar and energy storage options. The blended portfolio increases reliability, reduces system risk and continues progress towards the City's CAAP goals. The chosen portfolio balances reliability and affordability, continues the transition to low carbon future, retains experienced workforce to support transition, retains fuel diversity to manage risks, supports expansion of renewables while balancing extreme weather risks, and aligns with community input.

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, through the middle of FY2028.

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. CPS Energy also has long-term (greater than one year) wholesale agreements with three public power entities and cities, providing full or partial requirements. These long-term agreements have varying terms expiring through December 2027. The capacities committed under these agreements represent approximately 3% of our current nameplate capacity.

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 the remaining commitments:

- 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, 2024, there were 146,639 CPS Energy customer devices 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 City authorized CPS Energy to perform residential streetlight LED conversions. This project began in January 2023 and was completed in June 2023. CPS Energy completed replacing 873 100W High-Pressure Sodium residential lights to LED.

- The City authorized CPS Energy to replace downtown streetlights with Decorative Valmont poles and LED lights. This project began in February 2023 and is still in progress. Currently, 235 downtown streetlights have been replaced.

- 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 $41.4 million and $44.5 million as of January 31, 2024 and 2023, 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 494 MW for all solar farm facilities included in 25-year power purchase agreements mentioned above:

Facility	Capacity in MW[1]	Achieved Commercial Operations
Alamo 1	39.2	December 2013
St. Hedwig (Alamo 2)	4.4	March 2014
Walzem (Alamo 3)	5.5	January 2015
Eclipse (Alamo 4)	37.6	August 2014
Helios (Alamo 5)	95.0	December 2015
Sirius 1 (Alamo 6)	108.3	March 2017
Solara (Alamo 7)	104.5	September 2016
Sirius 2 (Pearl)	49.1	October 2017
Lamesa 2 (Ivory)	50.0	December 2018
Total 25-year power purchase capacity	493.6	

[1] The original commissioned nameplate capacity shown in MW from facilities may vary from year to year based on revised annual output estimates.

- Simply Solar is the trademarked name for CPS Energy's *Roofless Solar* and *SolarHostSA* programs. In 2015 *Roofless Solar* was launched by CPS Energy in partnership with Clean Energy Collective ("CEC"). CEC built a 1 MW community solar farm in the CPS Energy service territory. The program 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. During FY2021, CPS Energy opted to purchase the solar farm from CEC and assumed maintenance and operational responsibility for the solar farm. 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 5 MW. Big Sun successfully installed community solar panels on carports at commercial businesses across San Antonio. The panels were sold to customers who will receive bill credits from CPS Energy for their share of the solar production. In 2015 the *SolarHostSA* program was launched by CPS Energy in partnership 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. 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 FY2018, CPS Energy entered into a 50-year utilities privatization 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 Chapman Training Annex (formerly Lackland Training Annex). The DOD will reimburse CPS Energy for the costs to operate, maintain and upgrade these systems throughout the contract term. Should the contract be terminated, the assets associated with the utility systems at the three JBSA installations owned by CPS Energy would be transferred back to the DOD ownership. Additionally, CPS Energy will be reimbursed by the DOD for any unrealized investments made into the systems prior to the contract termination date.

On March 12, 2021, following Winter Storm Uri, CPS Energy filed suit against ERCOT in the Bexar County District Court alleging breach of contract, claiming damages in the amount of $15 million in short-payments, seeking 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 short payments to CPS Energy. The requested judgment also sought to prevent ERCOT from requiring CPS Energy and its customers to pay for other market participants' default (i.e., Uplift charges) and to prevent ERCOT from charging CPS Energy for any amounts associated with the pricing errors identified in the Potomac report issued by the Independent Market Monitor. After district court granted a temporary injunction, in December 2021, the Fourth Court of Appeals (the "Fourth Court") terminated the injunction and dismissed CPS Energy's petition on procedural grounds, and without addressing the merits of the case, reasoning that the PUCT has exclusive original jurisdiction over CPS Energy's claims. On January 27, 2022, CPS Energy filed its petition for review with the Texas Supreme Court, which was granted and oral argument were held on January 9, 2023. On June 23, 2023, the Texas Supreme Court affirmed the Fourth Court's dismissal of CPS Energy's petition on procedural grounds and held further that ERCOT is entitled to sovereign immunity. Despite the outcome of the litigation, CPS Energy successfully recovered most of its $15 million short-payment claim primarily through securitization authorized by the Texas Legislature and implemented by market participants that defaulted on their financial obligations to ERCOT in the aftermath of Winter Storm Uri, including Rayburn and Brazos electric cooperatives. In December 2021, the PUCT authorized ERCOT to implemented securitization of $800 million pursuant to PURA Chapter 39, Subchapter M to reimburse short payments for operating days February 12 to 20, 2021, during Winter Storm Uri. The proceeds of these securitized transactions by ERCOT and these market participants resulted in repayment of their outstanding short-payments to ERCOT, which in turn have been used to reimburse short-pay claimants such as CPS Energy.

The $800 million in securitized debt was reduced to $200.3 million as a result of a settlement authorized on November 14, 2022, by the United States Bankruptcy Court in the Brazos Chapter 11 Plan of Reorganization. On December 15, 2022, a disbursement of $1,151.4 million from the bankruptcy settlement was paid to ERCOT, of which $599.7 million went to reduce the $800 million securitization debt. Pursuant to provision in Subchapter M, over the next 25 to 30 years, ERCOT is requiring CPS Energy to make monthly payments of its share of the remaining $200.3 million, which are expected to total approximately $5.4 million. Additionally, ERCOT claims that CPS Energy may be responsible for additional market uplifts related to other market participants that are in default with ERCOT. The amount of CPS Energy's share of these possible uplifts, which are currently being disputed, cannot be estimated at this time.

CPS Energy is currently engaged in litigation against three of its natural gas suppliers, in which CPS Energy is disputing (under disputed payment provision) approximately $350 million in natural gas prices charged by those suppliers for natural gas during Winter Storm Uri as being unconscionable and volatile of public policy in Texas. The pending gas supplier cases have been consolidated into the Multi District Litigation Panel and have been assigned to a judge in Bexar County for pretrial proceedings. The outcome of this pending litigation remains uncertain as of the issuance of these financial statements.

CPS Energy has also been named as one of many defendants in various other lawsuits arising out of Winter Storm Uri. The outcomes of these pending lawsuits are uncertain as of the issuance of these financial statements. Additionally, CPS Energy is involved in other lawsuits unrelated to Winter Storm Uri. The outcomes of these pending lawsuits are uncertain as of the issuance of these financial statements.

17. Leases and Subscription Based Information Technology Arrangements

Leases – CPS Energy accounts for Leases in accordance with GASB Statement No. 87, *Leases*, which 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 this statement, CPS Energy as a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and as a lessor is required to recognize a lease receivable and a deferred inflow of resources.

CPS Energy, as lessee, leases buildings and equipment from third parties. Lease terms range from 2 to 15 years. Several leases have an option to extend the lease term after completion of the contracted term. CPS Energy's leased assets and associated accumulated amortization are included as intangible capital assets. There were no payments recorded in the current period that were not included in the measurement of the lease liability, no commitments prior to the commencement of the lease contracts, and no lease impairments as of January 31, 2024.

Subscription Based Information Technology Arrangements – CPS Energy adopted GASB Statement No. 96, *Subscription Based Information Technology Arrangements*, during FY2023. GASB Statement No. 96 establishes an accounting model for subscription assets and requires the recognition of a SBITA liability and an intangible right-to-use subscription asset.

The following tables summarize leases and SBITAs balances as of January 31, 2024 and 2023, and activity for FY2024 and FY2023:

FY2024 Leases and SBITAs Rollforward

(In thousands)

	February 1, 2023	Additions/ Increases	Deletions/ Decreases	**January 31, 2024**
Right-to-use assets				
Leases				
Buildings	$ 2,884	$ 1,018	$ —	**$ 3,902**
Equipment	1,142	1,918	(1,142)	**1,918**
SBITAs	35,250	17,748	(4,771)	**48,227**
Total	39,276	20,684	(5,913)	**54,047**
Amortization				
Leases				
Buildings	(1,488)	(687)	—	**(2,175)**
Equipment	(931)	(243)	1,142	**(32)**
SBITAs	(13,163)	(9,995)	4,305	**(18,853)**
Total	(15,582)	(10,925)	5,447	**(21,060)**
Leases and SBITAs, net	$ 23,694	$ 9,759	$ (466)	**$ 32,987**

FY2023 Leases and SBITAs Rollforward

(In thousands)

	February 1, 2022	Additions/ Increases	Deletions/ Decreases	January 31, 2023
Right-to-use assets				
Leases				
Buildings	$ 2,884	$ —	$ —	$ 2,884
Equipment	2,248	—	(1,106)	1,142
SBITAs	30,373	4,974	(97)	35,250
Total	35,505	4,974	(1,203)	39,276
Amortization				
Leases				
Buildings	(985)	(503)	—	(1,488)
Equipment	(635)	(309)	13	(931)
SBITAs	(4,135)	(9,125)	97	(13,163)
Total	(5,755)	(9,937)	110	(15,582)
Leases and SBITAs, net	$ 29,750	$ (4,963)	$ (1,093)	$ 23,694

The following table summarizes future principal and interest payments related to leases as of January 31, 2024:

(In thousands)

Year Ended January 31,	Principal	Interest	Total
2025	$ 924	$ 120	$ 1,044
2026	925	84	1,009
2027	875	48	923
2028	633	20	653
Total	$ 3,357	$ 272	$ 3,629

The following table summarizes future principal and interest payments related to SBITAs payments as of January 31, 2024:

(In thousands)

Year Ended January 31,	Principal	Interest	Total
2025	$ 5,361	$ 332	$ 5,693
2026	4,058	148	4,206
2027	1,366	27	1,393
2028	14	—	14
Total	$ 10,799	$ 507	$ 11,306

Lessor – CPS Energy leases buildings to third parties with terms ranging from 2 to 19 years, which include options to extend the term. There were no receipts of variable or other lease payments as of FY2024. The total lease interest and revenue was $1.4 million for both the years ended January 31, 2024 and 2023. In addition, the total leased asset receivable was $6.1 million and the corresponding deferred inflow of resources was $10.8 million as of January 31, 2024. The total leased asset receivable was $7.0 million and the corresponding deferred inflow of resources was $11.9 million as of January 31, 2023.

Pole Attachment Leases – CPS Energy leases space on poles and streetlight poles to third party communication providers. In an effort to adhere to state and federal laws, CPS Energy established the Pole Attachment Standards, which includes contract terms and rates formula. The standard terms includes a five-year initial contract and successive automatic one-year renewals until contract is terminated by either party by providing six (6) months written notice. The pole standards, standard contract, and rate formula are accessible to all applicants via CPS Energy website. The total amount of pole attachment lease revenue for the years ended January 31, 2024 and 2023, was $8.8 million and $8.5 million, respectively. There were no other or variable lease payments received in FY2024 and FY2023. In addition, CPS Energy does not issue debt that relies on the receipt of regulated lease payments to pay the debt principal and interest payments.

Communication Shelters Leases – In FY2014, the Company entered into an agreement to lease 62 of its communication towers to an independent third party and an additional five in FY2017, which resulted in a total of 67 tower leases. Additionally, the provisions of the agreement allowed for the third party's ongoing use of communication shelters for a period of 40 years, with three five-year options by the third party to extend the agreement. The third party prepaid the entire contracted lease amount for the term of the agreement and the parties agreed that no further cash payments would be paid by either party for the 40 year lease term.

18. Asset Retirement Obligations

CPS Energy accounts for AROs in accordance with GASB Statement No. 83, *Certain Asset Retirement Obligations*, 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 and to evaluate factors to determine if one or more factors is expected to significantly increase or decrease the estimated outlays. 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 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 2023 and estimates costs in 2023 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. 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. As of January 31, 2024 and 2023, the ARO related to STP Units 1 and 2 was $1,037.0 million and $1,095.9 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. Methods and assumptions to determine the associated liability were based on an internal calculation of cost per square foot of each vault 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. As of January 31, 2024 and 2023 the ARO related to the vaults was $12.0 million and $11.5 million, respectively.

- **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. As of January 31, 2024 and 2023, the ARO related to the storage tanks was $5.1 million and $4.9 million, respectively.

19. Subsequent Events

On March 27, 2024, CPS Energy and Talen Energy Corporation ("Talen") announced an agreement for CPS Energy to purchase Talen's approximately 1,710 MW natural gas fired generation portfolio for approximately $785.0 million, subject to customary net working capital adjustments at closing. Under the terms of the agreement, CPS Energy will acquire all assets associated with Talen's 897 MW Barney M. Davis and 635 MW Nueces Bay natural gas fired generation facilities located in Corpus Christi, Texas, as well as its 178 MW Laredo facility located in Laredo, Texas. There are a combined total of approximately 65 operations employees at these sites, and they will have the opportunity to become CPS Energy employees at the closing of the acquisition. The transaction is expected to close in the second quarter of calendar 2024 and CPS Energy plans to finance the purchase with short-term liquidity with later plans to convert to long-term bonds. The addition of these units aligns with CPS Energy's generation plan and Vision 2027 strategy, which includes the retirement of older units and the addition of a blend of gas, solar, wind and energy storage.

CPS Energy has evaluated subsequent events through April 25, 2024, which is the date the financial statements were available to be issued and determined there are no other items to disclose.

REQUIRED SUPPLEMENTARY INFORMATION ("RSI")
January 31, 2024 and 2023
(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,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	**$ 40,271**	$ 41,129	$ 35,403	$ 36,861	$ 37,175	$ 32,569	$ 31,547	$ 30,183	$ 32,591	$ 33,417
Interest cost	**155,015**	150,633	148,068	143,079	137,954	132,861	128,991	122,800	117,802	116,155
Effect of plan changes	**(12)**	—	—	—	—	—	—	—	—	—
Changes in assumptions	**51,083**	(9,825)	28,832	(4,940)	(10,129)	77,574	—	—	38,296	—
Differences between expected and actual experience	**394**	2,174	(846)	(2,685)	(19,385)	6,025	(18,647)	19,691	(35,634)	(24,410)
Benefit payments	**(123,427)**	(114,484)	(106,825)	(101,037)	(96,969)	(93,550)	(91,230)	(91,293)	(84,319)	(74,352)
Net change in total pension liability	**123,324**	69,627	104,632	71,278	48,646	155,479	50,661	81,381	68,736	50,810
Total pension liability, beginning of period	**2,234,500**	2,164,873	2,060,241	1,988,963	1,940,317	1,784,838	1,734,177	1,652,796	1,584,060	1,533,250
Total pension liability, end of period	**2,357,824**	2,234,500	2,164,873	2,060,241	1,988,963	1,940,317	1,784,838	1,734,177	1,652,796	1,584,060
Plan fiduciary net position										
Employer contributions	**(58,986)**	(62,100)	(56,025)	(73,435)	(58,700)	(46,200)	(44,500)	(46,000)	(55,800)	(44,400)
Participant contributions	**(14,970)**	(14,054)	(13,890)	(14,758)	(13,363)	(13,039)	(12,144)	(11,563)	(12,140)	(12,569)
(Earnings) loss on Plan assets	**64,655**	(244,563)	(187,600)	(169,004)	48,316	(246,772)	(207,196)	52,945	(85,520)	(145,883)
Benefit payments	**123,427**	114,484	106,825	101,037	96,969	93,550	91,230	91,293	84,319	74,352
Administrative expenses	**474**	487	510	476	391	389	—	—	—	—
Net change in Plan fiduciary net position	**114,600**	(205,746)	(150,180)	(155,684)	73,613	(212,072)	(172,610)	86,675	(69,141)	(128,500)
Plan fiduciary net position, beginning of period	**(2,122,445)**	(1,916,699)	(1,766,519)	(1,610,835)	(1,684,448)	(1,472,376)	(1,299,766)	(1,386,441)	(1,317,300)	(1,188,800)
Plan fiduciary net position, end of period	**(2,007,845)**	(2,122,445)	(1,916,699)	(1,766,519)	(1,610,835)	(1,684,448)	(1,472,376)	(1,299,766)	(1,386,441)	(1,317,300)
Net pension liability, end of period	**$ 349,979**	$ 112,055	$ 248,174	$ 293,722	$ 378,128	$ 255,869	$ 312,462	$ 434,411	$ 266,355	$ 266,760
Plan fiduciary net position as a percentage of the total pension liability	**85.2 %**	95.0 %	88.5 %	85.7 %	81.0 %	86.8 %	82.5 %	74.9 %	83.9 %	83.2 %
Covered payroll	**$ 304,482**	$ 293,669	$ 286,959	$ 282,302	$ 271,449	$ 254,241	$ 242,477	$ 235,360	$ 256,236	$ 261,085
Net pension liability as a percentage of covered payroll	**114.9 %**	38.2 %	86.5 %	104.0 %	139.3 %	100.6 %	128.9 %	184.6 %	103.9 %	102.2 %

Notes to Schedule

Changes of benefit terms: Changes of benefit terms reflect the effect of changes in the Employee's Contribution Accumulation rate during FY2017 (from 5.75% to 5.50%), FY2020 (from 5.50% to 5.25%), and FY2024 (from 5.25% to 5.00%).

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate during FY2019 and FY2022 and changes to the mortality improvement scale during each period; and a change in the earnings progression during FY2024; FY2022 amounts reflect the effects of the 2020 experience study updates, including updating to the Pri-2012 Mortality Table; FY2019 amounts reflect the effects of the 2017 experience study updates.

See accompanying Independent Auditors' Report

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)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Actuarially determined contribution	**$ 56,717**	$ 58,986	$ 62,050	$ 56,025	$ 53,435	$ 58,657	$ 46,234	$ 44,532	$ 46,001	$ 48,696
Contributions in relation to the actuarially determined contribution	**56,717**	58,986	62,100	56,025	73,435	58,700	46,200	44,500	46,000	55,800
Contribution deficiency (excess)	$ —	$ —	$ (50)	$ —	$ (20,000)	$ (43)	$ 34	$ 32	$ 1	$ (7,104)
Covered payroll	**$ 304,482**	$ 293,669	$ 286,959	$ 282,302	$ 271,449	$ 254,241	$ 242,477	$ 235,360	$ 256,236	$ 261,085
Contributions as a percentage of covered payroll	18.6%	20.1%	21.6%	19.8%	27.1%	23.1%	19.1%	18.9%	18.0%	21.4%

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 percent; layered periods
Remaining amortization period	25 years
Asset valuation method	Market value gains/losses recognized over 5 years
Inflation	2.30% for FY2024, 2.20% for FY2023 and FY2022 and 3.0% for previous years presented per year, compounded annually
Salary increases	Average, including inflation: 5.65% for FY2024, 5.54% for FY2023 and FY2022, 5.36% for FY2021 and FY2020, 4.72% for FY2019, 4.66% for FY2018, 4.78% for FY2017, 5.01% for FY2016, 5.03% for FY2015, 5.07% for FY2014, 5.18% for FY2013
Investment rate of return	7.00% per year, compounded annually, for FY2024, FY2023, and FY2022, 7.25% for FY2021 through FY2019, 7.50% for FY2018 and FY2017; 7.75% for prior years
Mortality	Based on Pri-2012 Mortality Table projected forward (fully generational) with MP-2021 for 2024, MP-2020 for 2023, Pri-2012 Mortality Table projected forward (fully generational) with MP-2019 for 2022, RP-2014 Mortality Table adjusted backwards to 2006 with Mortality Improvement Scale MP-2014 and projected (fully generational) with MP-2018 for FY2021;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 FY2017 and FY2016; RP-2000 Combined Healthy Annuitant Mortality Table for Males or Females, projected using Scale AA for prior years.
Cost-of-living increases	1.25% for FY2024, FY2023 and FY2022; 1.50% for previous years presented per year

Other information: In FY2020, an additional $20.0 million was contributed to the pension plan in excess of the actuarially determined contribution. 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 multiyear 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,								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total OPEB liability									
Service cost	**$ 4,302**	$ 4,905	$ 3,772	$ 4,300	$ 4,466	$ 3,376	$ 3,435	$ 3,319	$ 3,207
Interest cost	**17,092**	18,604	17,089	17,624	18,032	17,182	18,176	17,601	17,050
Changes in Plan benefits	**—**	—	—	—	—	415	(19,185)	—	—
Changes in assumptions	**(970)**	(385)	(5,962)	(4,246)	(2,190)	9,657	—	—	—
Differences between expected and actual experience	**(29,153)**	26,691	(11,592)	(19,010)	1,763	—	475	—	—
Benefit payments	**(18,104)**	(11,915)	(13,398)	(12,475)	(11,390)	(12,197)	(14,001)	(12,756)	(13,275)
Net change in total OPEB liability	**(26,833)**	37,900	(10,091)	(13,807)	10,681	18,433	(11,100)	8,164	6,982
Total OPEB liability, beginning of period	**277,924**	240,024	250,115	263,922	253,241	234,808	245,908	237,744	230,762
Total OPEB liability, end of period	**251,091**	277,924	240,024	250,115	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	**(985)**	(977)	(924)	(842)	(872)	(998)	(933)	(976)	(933)
(Earnings) loss on Plan assets	**10,701**	(41,220)	(26,613)	(30,260)	10,571	(41,718)	(38,949)	9,765	(12,536)
Benefit payments	**18,104**	11,915	13,398	12,475	11,390	12,197	14,001	12,756	13,275
Administrative expense	**1,300**	1,251	1,297	1,150	1,223	1,346	1,622	1,456	1,137
Net change in Plan fiduciary net position	**29,120**	(29,031)	(12,842)	(17,477)	22,312	(29,173)	(32,759)	14,195	(2,257)
Plan fiduciary net position, beginning of period	**(326,859)**	(297,828)	(284,986)	(267,509)	(289,821)	(260,648)	(227,889)	(242,084)	(239,827)
Plan fiduciary net position, end of period	**(297,739)**	(326,859)	(297,828)	(284,986)	(267,509)	(289,821)	(260,648)	(227,889)	(242,084)
Net OPEB (asset) liability, end of period	**$ (46,648)**	$ (48,935)	$ (57,804)	$ (34,871)	$ (3,587)	$ (36,580)	$ (25,840)	$ 18,019	$ (4,340)
Plan fiduciary net position as a percentage of the total OPEB liability	**118.6 %**	117.6 %	124.1 %	113.9 %	101.4 %	114.4 %	111.0 %	92.7 %	101.8 %
Covered-employee payroll	**$ 273,551**	$ 263,640	$ 257,608	$ 254,996	$ 244,010	$ 228,240	$ 220,522	$ 223,523	$ 242,652
Net OPEB (asset) liability as a percentage of covered-employee payroll	**(17.1)%**	(18.6)%	(22.4)%	(13.7)%	(1.5)%	(16.0)%	(11.7)%	8.1 %	(1.8)%

Notes to Schedule

Changes of benefit terms: Changes in plan deductibles were updated accordingly for each period; FY2019 amounts reflect updates to the HRA contributions; FY2021 amounts reflect the addition of the HSA contributions.

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate during FY2019 and FY2022 and changes to the mortality improvement scale during each period; FY2022 amounts reflect the effects of the 2020 experience study updates, including updating to the Pri-2012 Mortality Table; FY2019 amounts reflect the effects of the 2017 experience study updates.

Life Plan

(Dollars in thousands)

	Measurement Period Ended January 31,								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total OPEB liability									
Service cost	**$ 586**	$ 614	$ 517	$ 511	$ 473	$ 349	$ 336	$ 325	$ 313
Interest cost	**3,688**	3,612	3,400	3,308	3,284	3,432	3,256	3,244	3,228
Changes in assumptions	**820**	985	4,044	309	594	(457)	—	—	—
Differences between expected and actual experience	**561**	252	4,766	840	(936)	—	2,378	—	—
Benefit payments	**(4,204)**	(4,255)	(3,987)	(3,895)	(4,028)	(3,813)	(3,469)	(3,358)	(3,313)
Net change in total OPEB liability	**1,451**	1,208	8,740	1,073	(613)	(489)	2,501	211	228
Total OPEB liability, beginning of period	**57,208**	56,000	47,260	46,187	46,800	47,289	44,788	44,577	44,349
Total OPEB liability, end of period	**58,659**	57,208	56,000	47,260	46,187	46,800	47,289	44,788	44,577
Plan fiduciary net position									
Employer contributions	**(925)**	(900)	—	—	—	—	—	—	—
Participant contributions	**(1,131)**	(1,156)	(1,077)	(1,053)	(1,030)	(1,000)	(972)	(930)	(911)
(Earnings) loss on Plan assets	**1,950**	(6,526)	(4,031)	(5,702)	2,135	(8,066)	(6,936)	2,102	(2,460)
Benefit payments	**4,204**	4,255	3,987	3,895	4,028	3,813	3,469	3,358	3,313
Administrative expenses	**17**	26	25	30	28	30	27	21	16
Net change in Plan fiduciary net position	**4,115**	(4,301)	(1,096)	(2,830)	5,161	(5,223)	(4,412)	4,551	(42)
Plan fiduciary net position, beginning of period	**(57,987)**	(53,686)	(52,590)	(49,760)	(54,921)	(49,698)	(45,286)	(49,837)	(49,795)
Plan fiduciary net position, end of period	**(53,872)**	(57,987)	(53,686)	(52,590)	(49,760)	(54,921)	(49,698)	(45,286)	(49,837)
Net OPEB (asset) liability, end of period	**$ 4,787**	$ (779)	$ 2,314	$ (5,330)	$ (3,573)	$ (8,121)	$ (2,409)	$ (498)	$ (5,260)
Plan fiduciary net position as a percentage of the total OPEB liability	**91.8%**	101.4%	95.9 %	111.3 %	107.7 %	117.4 %	105.1 %	101.1 %	111.8 %
Covered-employee payroll	**$ 273,551**	$ 263,640	$ 257,608	$ 254,996	$ 244,010	$ 218,003	$ 210,631	$ 198,704	$ 191,984
Net OPEB (asset) liability as a percentage of covered-employee payroll	**1.7 %**	(0.3)%	0.9 %	(2.1)%	(1.5)%	(3.7)%	(1.1)%	(0.3)%	(2.7)%

Notes to Schedule

Changes of benefit terms: None.

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate during FY2019 and FY2022 and changes to the mortality improvement scale during each period, and a change in the earnings progression during FY2024; FY2022 amounts reflect the effects of the 2020 experience study updates, including updating to the Pri-2012 Mortality Table; FY2019 amounts reflect the effects of the 2017 experience study updates.

See accompanying Independent Auditors' Report

Disability Plan

(Dollars in thousands)

	Measurement Period Ended January 31,								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total OPEB liability									
Service cost	**$ 680**	$ 712	$ 557	$ 580	$ 620	$ 516	$ 527	$ 509	$ 492
Interest cost	**490**	457	384	402	475	473	455	448	426
Changes in assumptions	**142**	(4)	1,993	11	189	94	—	—	—
Differences between expected and actual experience	**468**	(665)	(156)	(673)	(656)	—	255	—	—
Benefit payments	**(1,049)**	(1,230)	(1,142)	(977)	(880)	(1,012)	(974)	(775)	(559)
Net change in total OPEB liability	**731**	(730)	1,636	(657)	(252)	71	263	182	359
Total OPEB liability, beginning of period	**6,363**	7,093	5,457	6,114	6,366	6,295	6,032	5,850	5,491
Total OPEB liability, end of period	**7,094**	6,363	7,093	5,457	6,114	6,366	6,295	6,032	5,850
Plan fiduciary net position									
Employer contributions	**(559)**	(726)	(614)	(769)	(1,000)	(1,300)	(700)	(175)	(175)
Participant contributions	**(287)**	(276)	(276)	(291)	(274)	(265)	(260)	(248)	(211)
(Earnings) loss on Plan assets	**191**	(782)	(539)	(603)	205	(627)	(501)	158	(177)
Benefit payments	**1,049**	1,230	1,142	977	880	1,012	974	775	559
Administrative expenses	**12**	17	21	14	19	18	15	14	18
Net change in Plan fiduciary net position	**406**	(537)	(266)	(672)	(170)	(1,162)	(472)	524	14
Plan fiduciary net position, beginning of period	**(7,041)**	(6,504)	(6,238)	(5,566)	(5,396)	(4,234)	(3,762)	(4,286)	(4,300)
Plan fiduciary net position, end of period	**(6,635)**	(7,041)	(6,504)	(6,238)	(5,566)	(5,396)	(4,234)	(3,762)	(4,286)
Net OPEB (asset) liability, end of period	**$ 459**	$ (678)	$ 589	$ (781)	$ 548	$ 970	$ 2,061	$ 2,270	$ 1,564
Plan fiduciary net position as a percentage of the total OPEB liability	**93.5 %**	110.7 %	91.7 %	114.3 %	91.0 %	84.8 %	67.2 %	62.4 %	73.3 %
Covered-employee payroll	**$ 276,105**	$ 268,773	$ 260,739	$ 259,520	$ 251,482	$ 224,137	$ 216,558	$ 212,904	$ 205,704
Net OPEB (asset) liability as a percentage of covered-employee payroll	**0.2 %**	(0.3)%	0.2 %	(0.3)%	0.2 %	0.4 %	1.0 %	1.1 %	0.8 %

Notes to Schedule

Changes of benefit terms: FY2019 reflects updates for the 2017 amendment to the minimum benefit, eligibility requirement, and maximum age for benefit receipt tiered schedule.

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate during FY2019 and FY2022 and changes to the mortality improvement scale during each period, and a change in the earnings progression during FY2024; FY2022 amounts reflect the effects of the 2020 experience study updates, including updating to the Pri-2012 Mortality Table; FY2019 amounts reflect the effects of the 2017 experience study updates.

See accompanying Independent Auditors' Report

Schedules of Employer Contributions to CPS Energy OPEB Plans – The following schedules present multiyear 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)

	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	**$ —**	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Contributions in relation to the actuarially determined contribution	**—**	—	—	—	—	—	—	8,500	8,806
Contribution deficiency (excess)	**$ —**	$ —	$ —	$ —	$ —	$ —	$ —	$ (8,500)	$ (8,806)
Covered-employee payroll	**$ 273,551**	$ 263,640	$ 257,608	$ 254,996	$ 244,010	$ 228,240	$ 220,522	$ 223,523	$ 215,964
Contributions as a percentage of covered-employee payroll	**— %**	— %	— %	— %	— %	— %	— %	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 percent; layered periods
Remaining amortization period	25 years
Asset valuation method	Market value gains/losses recognized over 5 years
Healthcare cost trend rates	5.5% initial, decreasing to an ultimate rate of 3.7% for FY2024; 5.6% initial, decreasing to an ultimate rate of 3.7% for FY2023; 6.7% initial, decreasing to an ultimate rate of 3.8% for FY2022; 5.8% initial, decreasing to an ultimate rate of 4.0% for FY2021, 8.7% initial, decreasing to an ultimate rate of 4.1% for FY2020;7.0% initial, decreasing to an ultimate rate of 5.0% for FY2019 and FY2018, 7.5% initial, decreasing to an ultimate of 5.0% for FY2017 and FY2016
Prescription cost trend rates	5.5% initial, decreasing to an ultimate rate of 3.7% for FY2024; 5.6% initial, decreasing to an ultimate rate of 3.7% for FY2023; 6.7% initial, decreasing to an ultimate rate of 3.8% for FY2022; 5.8% initial, decreasing to an ultimate rate of 4.0% for FY2021, 8.7% initial, decreasing to an ultimate rate of 4.1% for FY2020; 7.0% initial, decreasing to an ultimate rate of 5.0% for FY2019 and FY2018, 8.5% initial, decreasing to an ultimate of 5.0% for FY2017 and FY2016
Salary increases	Projected average annual base salary increases from 3.30% to 11.58% for FY2024, 3.20% to 11.47% for FY2023 and FY2022; 3.1% to 11.6% for FY2021, FY2020 and FY2019; and ranging from 4.0% to 9.5% for previous years
Investment Rate of Return	7.00% per year, compounded annually, for FY2024, FY2023, and FY2022; 7.25% for FY2021, FY2020, and FY2019; 7.50% for FY2018 and FY2017; 7.75% for previous years
Mortality	Pri-2012 Employee / Retiree Mortality (headcount weighted) projected forward (fully generational) with mortality improvement scale MP-2021 FY2021; RP-2014 Mortality Table adjusted backwards to 2006 with Mortality Scale MP-2014 and projected with Mortality Improvement Scale MP-2017 (separate tables for males/ females) for FY2020; Based on RP-2000 Combined Healthy, with No Collar Adjustment, Projected to 2020 using Scale BB for previous years; Male and Female Tables for Active and Retirees; Based on Pri-2012 Employee/Retiree Mortality (headcount weighted) projected forward (fully generational) with MP-2021, separate tables for disabled participants and contingent annuitants.

Other information: Changes in plan deductibles were updated accordingly for each period; FY2019 amounts reflect updates to the HRA contributions; FY2021 amounts reflect the addition of the HSA contributions.

Life Plan

(Dollars in thousands)

	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	**$ —**	$ 925	$ 924	$ —	$ —	$ 435	$ 515	$ 145	$ 561
Contributions in relation to the actuarially determined contribution	**—**	925	900	—	—	—	—	—	—
Contribution deficiency (excess)	**$ —**	$ —	$ 24	$ —	$ —	$ 435	$ 515	$ 145	$ 561
Covered-employee payroll	**$273,551**	$ 263,640	$ 257,608	$ 254,996	$ 244,010	$ 218,003	$ 210,631	$ 198,704	$ 191,984
Contributions as a percentage of covered-employee payroll	**— %**	0.4 %	0.3 %	— %	— %	— %	— %	— %	— %

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; layered periods
Remaining amortization period	3 years
Asset valuation method	Market value gains/losses recognized over 5 years
Inflation	2.30% for FY2024, 2.20% for FY2023 and FY2022; 3.00% for FY2021, 2.30% for FY2020 and 3.0% for previous years presented per year, compounded annually
Salary increases	Projected average annual base salary increases from 3.30% to 11.58% for for FY2024; 3.20% to 11.47 for FY2023 and FY2022; 5.36% average for FY2021 and FY2020; 4.54% average, including inflation for FY2019; and 4.78% average, including inflation, in prior years
Investment rate of return	7.00% per year, compounded annually, for FY2024, FY2023 and FY2022, 7.25% for FY2021 through FY2019, 7.50% for previous years
Mortality	Based on Pri-2012 Employee / Retiree Mortality (headcount weighted) projected forward (fully generational) with mortality improvement scale MP-2021; RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2018 for FY2021; RP-2014 Mortality Table adjusted backwards to 2006 with Mortality Scale MP-2014 and projected with Mortality Improvement Scale MP-2017 (separate tables for males/females) for FY2020; RP-2000 Combined Healthy, with No Collar Adjustment, Projected to 2020 using Scale BB for FY2020, Male and Female Tables for Active and Retirees; Based on Pri-2012 Employee/Retiree Mortality (headcount weighted) projected forward (fully generational) with MP-2021, separate tables for disabled participants and contingent annuitants.

Other information: 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)

	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	**$ 602**	$ 559	$ 726	$ 614	$ 769	$ 1,045	$ 1,035	$ 886	$ 793
Contributions in relation to the actuarially determined contribution	**602**	559	726	614	769	1,000	1,300	700	175
Contribution deficiency (excess)	**$ —**	$ —	$ —	$ —	$ —	$ 45	$ (265)	$ 186	$ 618
Covered-employee payroll	**$ 276,105**	$ 268,773	$ 260,739	$ 259,520	$ 251,482	$ 224,137	$ 216,558	$ 212,904	$ 205,704
Contributions as a percentage of covered-employee payroll	**0.2%**	0.2%	0.3%	0.2%	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; layered periods
Asset valuation method	Market value gains/losses recognized over 5 years
Remaining amortization period	3 years
Inflation	2.30% for FY2024, 2.20% for FY2023 and FY2022; 3.00% for FY2021, 2.30% for FY2020; 3.0% for previous years presented per year, compounded annually
Salary increases	Projected average annual base salary increases from 3.30% to 11.58% for FY2024; 3.20% to 11.47% for FY2023 and FY2022; 5.36% average for FY2021 and FY2020; 4.72% average, including inflation for FY2019; and 4.78% average, including inflation for previous years
Investment rate of return	7.00% per year, compounded annually for FY2024, FY2023, and FY2022, 7.25% for FY2021 through FY2019, 7.50% for previous years
Mortality	Healthy mortality based on Pri-2012 Employee / Retiree Mortality (headcount weighted) projected forward (fully generational) with mortality improvement scale MP-2021 Disabled mortality based on Pri-2012 Employee/Retiree Mortality (headcount weighted) projected forward (fully generational) with MP-2021, separate tables for disabled participants and contingent annuitants. Healthy mortality based on Pri-2012 Employee / Retiree Mortality (headcount weighted) projected forward (fully generational) with mortality improvement scale MP-2020 Disabled mortality based on Pri-2012 Private Retirement Plans Disabled Mortality Table (headcount weighted) projected with Mortality Improvement Scale MP-2020

Other information: FY2019 reflects updates for the 2017 amendment to the minimum benefit, eligibility requirement, and maximum age for benefit receipt tiered schedule.

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.

	Fiscal Year Ended December 31,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Plan										
Pension	**14.3%**	(10.8)%	15.6 %	8.8 %	17.9%	(4.5)%	14.6 %	10.2%	(1.1)%	5.7 %
Health	**13.6%**	(11.4)%	14.5 %	6.9 %	16.7%	(5.5)%	14.0 %	11.1	—	—
Life	**14.8%**	(11.1)%	14.9 %	7.4 %	18.9%	(5.5)%	14.1 %	9.7	—	—
Disability	**13.5%**	(10.3)%	14.7 %	7.7 %	18.5%	(5.8)%	13.8 %	8.9	—	—

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San Antonio, TX 78257-2508

Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees of
City Public Service of San Antonio, Texas:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City Public Service of San Antonio Texas (CPS Energy), a component unit of the City of San Antonio, Texas, which comprise the CPS Energy’s statements of net position as of January 31, 2024, and the related statements of revenue, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CPS Energy’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CPS Energy’s internal control. Accordingly, we do not express an opinion on the effectiveness of the CPS Energy’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CPS Energy’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

KPMG LLP

San Antonio, Texas
April 25, 2024

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CPS ENERGY

CERTAIN PROVISIONS OF THE ORDINANCES

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APPENDIX C

CERTAIN PROVISIONS OF THE 2024A 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 9. 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 Junior Lien Obligations* – (i) any bonds, notes, warrants, certificates of obligation, or other similar debt 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 have or will be granted as security for the currently outstanding Parity Bonds and any Additional Parity Bonds hereafter issued by the City, but 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 and the 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.

B. *Additional Parity Bonds* – bonds or other obligations authorized to be issued under the provisions of Section 17, including refunding bonds, which are secured by a lien on and pledge of the Net Revenues of the Systems on a parity with Previously Issued Parity Bonds and the New Series 2024A Bonds.

C. *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 Previously Issued Parity Bonds and this Ordinance.

D. *Bond Date* – shall mean June 1, 2024.

E. *City* or *Issuer* – the City of San Antonio, Texas.

F. *Closing Date* – the date of physical delivery of the Initial Bond in exchange for the payment in full by the Purchasers.

G. *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 Parity Bonds and the Junior Lien Obligations and any Additional Parity Bonds and Additional Junior Lien Obligations hereafter issued by the City, identified as follows:

(1) City of San Antonio, Texas Electric and Gas Systems Commercial Paper Notes, as further described by applicable series and program (whether traditional, extendible municipal, or otherwise), including amounts owed under each Credit Agreement (as defined in the City ordinances authorizing the issuance of the respective Commercial Paper Obligations); and

(2) 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.

H. *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 Parity Bonds.

I. *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 (including any person acting in an interim or acting capacity), 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.

J. *Fiscal Year* – the twelve-month operational period of the Systems commencing on February 1 of each year and ending on the following January 31.

K. *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 New Series 2024A Bonds.

L. *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 Parity Bonds, the Junior Lien Obligations, the Commercial Paper Obligations, and any Additional Parity Bonds 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", (ii) "City of San Antonio, Texas Electric and Gas Systems 2021 Inferior Lien Tax-Exempt Flexible Rate Revolving Notes, Series B" and "City of San Antonio, Texas Electric and Gas Systems 2021 Inferior Lien Taxable Flexible Rate Revolving Notes, Series B", (iii) any obligations that are issued subject to the limitations in Section 1502.052, as amended, Texas Government Code, and (iv) 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.

M. *Junior Lien Obligations* – 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 Parity Bonds and any Additional Parity Bonds 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;

(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;

(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;

(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;

(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;

(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;

(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;

(8) "City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2019", originally authorized in the aggregate principal amount of $252,640,000;

(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;

(10) "City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2021A", originally authorized in the aggregate principal amount of $330,700,000;

(11) "City of San Antonio, Texas Electric and Gas Systems Fixed and Variable Rate Junior Lien Revenue Refunding Bonds, Series 2022", originally authorized in the aggregate principal amount of $359,465,000;

(12) "City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2023", originally authorized in the aggregate principal amount of $100,340,000; and

(13) 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.

N. *Maintenance and Operating Expenses* – those expenses 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.

O. *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 Parity 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 Outstanding Parity Bonds.

P. *New Series 2024A Bonds* – the Bonds authorized by this Ordinance, styled "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024A".

Q. *Outstanding* – as of the date of determination, all Parity Bonds theretofore issued and delivered except:

(1) those Parity Bonds theretofore canceled by the respective paying agents for such Parity Bonds or delivered to such paying agents for cancellation;

(2) those Parity Bonds for which payment has been duly provided by the City by the irrevocable deposit with the respective paying agents for such Parity Bonds of money in the amount necessary to fully pay principal of, premium, if any, and interest thereon to maturity or redemption, if any, as the case may be, provided that, if such Parity Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to the ordinance authorizing the issuance of such Parity Bonds or irrevocably provided to be given to the satisfaction of such paying agents, or waived;

(3) those Parity Bonds that have been mutilated, destroyed, lost, or stolen and for which replacement bonds have been registered and delivered in lieu thereof; and

(4) those Parity Bonds for which the payment of principal, premium, if any, and interest has been duly provided for by the City by the deposit in trust of money or Government Securities, or both.

R. *Parity Bonds* or *New Series Bonds* – the Previously Issued Parity Bonds, the New Series 2024A Bonds, and any Additional Parity Bonds.

S. *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.

T. *Previously Issued Parity Bonds* – 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:

(1) "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;

(2) "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2010A (Direct Subsidy-Build America Bonds)", dated February 1, 2010 and originally issued in the principal amount of $380,000,000;

(3) "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2012", dated March 1, 2012 and originally issued in the principal amount of $521,000,000;

(4) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2012", dated June 1, 2012 and originally issued in the principal amount of $655,370,000;

(5) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2015", dated August 1, 2015 and originally issued in the principal amount of $320,530,000;

(6) “City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2015”, dated November 1, 2015 and originally issued in the principal amount of $235,000,000;

(7) “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2016”, dated July 1, 2016 and originally issued in the principal amount of $544,260,000;

(8) “City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2017”, dated April 1, 2017 and originally issued in the principal amount of $308,005,000;

(9) “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2017”, dated August 1, 2017 and originally issued in the principal amount of $194,980,000;

(10) “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2018A”, dated December 1, 2018 and originally issued in the principal amount of $130,220,000;

(11) “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2019”, dated September 1, 2019 and originally issued in the principal amount of $114,685,000;

(12) “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2020”, dated January 1, 2020 and originally issued in the principal amount of $134,580,000;

(13) “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020”, dated November 1, 2020 and originally issued in the principal amount of $418,255,000;

(14) “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2022”, dated April 1, 2022 and originally issued in the principal amount of $109,620,000;

(15) “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022”, dated April 1, 2022 and originally issued in the principal amount of $413,720,000;

(16) “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2023A”, dated June 1, 2023 and originally issued in the principal amount of $459,450,000;

(17) “City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2023B”, dated June 1, 2023 and originally issued in the principal amount of $177,130,000;

(18) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024C", dated November 1, 2024 and originally issued in the principal amount of $162,715,000; and

(19) 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.

U. *Refunded Obligations* – those obligations set forth in Schedule I hereof.

V. *Refunding Candidates* – shall mean:

(1) "City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Taxable Series 2010A (Direct Subsidy – Build America Bonds)", in the aggregate, currently outstanding principal amount of $280,000,000;

(2) "City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2014", in the aggregate, currently outstanding principal amount of $30,770,000;

(3) "City of San Antonio Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015A", in the aggregate, currently outstanding principal amount of $124,205,000;

(4) "City of San Antonio Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015C", in the aggregate, currently outstanding principal amount of $99,740,000;

(5) Any Commercial Paper Notes (whether traditional, extendible municipal, or otherwise) or any Inferior Lien Obligations, authorized to be issued and at any one time outstanding in the aggregate principal amounts of $1,000,000,000 (or if approved by the City Council, $1,150,000,000 as the authorized maximum principal amount of the collective programs) and $600,000,000, respectively; and

(6) Any other general or special obligation of the City hereinafter identified and selected by a Designated Financial Officer as a candidate presenting an opportunity advantageous to the Systems and its ratepayers.

W. *Registered New Series 2024A Bonds* – any Parity Bonds issued as fully-registered bonds, without coupons.

X. *Surety Bond* – the surety bond issued by Assured Guaranty Municipal Corp. guaranteeing certain payments into the Retirement Account as provided in Section 11 hereof with respect to the Parity Bonds as provided in the Surety Bond and subject to the limitations set forth in the Surety Bond and the Surety Bond shall constitute a permissible Surety Policy.

Y. *Surety Policy* – includes a surety bond, insurance policy, letter of credit, or other agreement or instrument whereby the issuer is obligated to provide funds up to and including the maximum amount and under the conditions specified in such agreement or instrument.

Z. *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 Parity Bonds including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

AA. *Tender Candidates* – shall mean:

(1) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020", dated November 1, 2020 and originally issued in the principal amount of $418,255,000;

(2) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022", dated April 1, 2022 and originally issued in the principal amount of $413,720,000; and

(3) Any other general or special obligation of the City hereinafter identified and selected by a Designated Financial Officer as a candidate presenting an opportunity advantageous to the Systems and its ratepayers, as determined by a Designated Financial Officer.

BB. *Tendered Obligations* – those obligations set forth in Schedule I hereof.

SECTION 10: Pledge.

A. The City hereby covenants and agrees with the holders of the Parity Bonds that the Net Revenues of the Systems shall be and are hereby pledged to the payment of principal of and interest on (including the establishment and maintenance of a reserve, as provided in Sections 11 and 17E. of this Ordinance) the Parity Bonds, and it is hereby ordained that all Parity Bonds and the interest thereon shall constitute a first lien upon the Net Revenues of the Systems.

B. Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Parity 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, as amended, 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, as amended, and enable a filing to perfect the security interest in this pledge to occur.

SECTION 11. Rates and Charges. The City hereby agrees and reaffirms its covenants to the holders of the Parity Bonds 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 shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

A. 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;

B. the interest on and principal of all Parity Bonds, 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 Parity Bonds;

C. the interest on and principal of the Prior Lien Bonds, including the Junior Lien Obligations (including the credit agreement) and any Additional Junior 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 Junior Lien Obligations and any Additional Junior Lien Obligations;

D. 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 the ordinance authorizing the issuance of the Commercial Paper), and the Credit Agreement (as defined in the ordinance authorizing the issuance of the Commercial Paper); and

E. any 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 Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code).

SECTION 12: General Account. The City, acting through the Board of Trustees, hereby covenants with respect to the holders of the Parity 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 13. 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 Parity Bonds, including the establishment and maintenance of the reserve therefor;

THIRD: to the payment of the Prior Lien Bonds, including the Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued, and any credit agreement relating thereto, including the establishment and maintenance of the funds and accounts therefor;

FOURTH: to the payment and security of the Commercial Paper Notes and the Credit Agreement (as defined in the ordinance authorizing the Commercial Paper);

FIFTH: to the payment and security of the Inferior Lien Obligations which are inferior in lien to the Parity Bonds, the Junior Lien Obligations, and the Commercial Paper Notes;

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 17 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 16 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 17 of this Ordinance.

SECTION 14. Parity Bond Retirement Account. For purposes of paying the principal of and interest on the Parity Bonds, when and as the same shall become due, and providing a reserve to prevent a default in the payment of such principal and interest on Parity Bonds, the City, acting through the Board of Trustees, hereby reaffirms the creation and establishment of a special account known as the “City of San Antonio Electric and Gas Systems Parity Bond Retirement Account” (the *Retirement Account*), which account shall continue to be kept separate and apart from all other funds or accounts of the Systems or of the City. The City hereby reaffirms its covenant that the Retirement Account shall be established and kept at such Depository as the Board of Trustees shall designate and funds deposited therein shall be used only for the purpose of paying the principal of and interest on the Parity Bonds.

From the Net Revenues of the Systems pledged to the payment and security of the Parity Bonds, the Board of Trustees shall cause to be paid in the Retirement Account such amounts as will be fully sufficient to (i) promptly pay, when due, all principal of and interest on the Parity Bonds (the “interest and sinking fund portion” of the Retirement Account) and (ii) establish and

maintain in the Retirement Account a reserve amount (the *Reserve Amount* or *reserve fund portion* of the Retirement Account) equal to not less than the average annual principal and interest requirements of all Outstanding Parity Bonds (calculated on a Fiscal Year basis as of the date the last series of Parity Bonds were authorized and after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code)); provided, however, that the City expressly reserves the right in this Ordinance to fund the Reserve Amount, in whole or in part, by purchasing a Surety Policy. In addition, all sums received from the initial purchasers of Parity Bonds constituting accrued interest, if any, shall be placed in the interest and sinking fund portion of the Retirement Account.

In addition to the deposits required to be made in the interest and sinking fund portion of the Retirement Account to pay the annual debt service requirements of the Previously Issued Parity Bonds, the Board is hereby directed to deposit in said Account the following amounts to pay the principal of and interest on the New Series 2024A Bonds.

A. Deposits for payment of interest--on or before the 15th day of the month to occur following the date of delivery of the New Series 2024A Bonds to the Purchasers thereof and on or before the 15th day of each following month through January 15, 2025 an equal amount of money with such deposits totaling not less than the amount of the installment of interest coming due on the New Series 2024A Bonds on February 1, 2024, and on or before August 1, 2025 and on or before the 15th day of each following month, until the New Series 2024A Bonds are no longer Outstanding, an amount of money equal to not less than one-sixth (1/6) of the next semiannual installment of interest to become due on said New Series 2024A Bonds; provided, that to the extent there is money available in the interest and sinking fund portion of the Retirement Account to pay interest on said New Series 2024A Bonds on February 1, 2025, such deposits may be reduced by the amount of the aforesaid money available to pay said interest on said New Series 2024A Bonds.

B. Deposits for payment of principal--on or before the 15th day of each following month and during each of the twelve-month periods preceding the dates the New Series 2024A Bonds are stated to mature, or are required to be redeemed prior to scheduled maturity, not less than one-twelfth (1/12) of the principal amount required herein to be paid at stated maturity or to be redeemed prior to scheduled maturity.

In compliance with the provisions of the ordinances authorizing the issuance of the Previously Issued Parity Bonds and this Ordinance, the Board of Trustees shall cause to be accumulated and maintained in the Retirement Account a Reserve Amount equal to not less than the average annual principal and interest requirements of the Previously Issued Parity Bonds and the New Series 2024A Bonds, such Reserve Amount to be determined on the basis of cash on deposit and the book value of securities in which money in the reserve fund portion of the Retirement Account is invested, and to be in addition to the amount on deposit in the Retirement Account for purposes of paying the annual debt service requirements of the Outstanding Parity Bonds. The Reserve Amount equals not less than the average annual principal and interest requirements of the Previously Issued Parity Bonds and the New Series 2024A Bonds. Whenever the amount in the reserve fund portion of the Retirement Account equals less than the total amount required to be on deposit therein in accordance with the provisions of this Ordinance, monthly

deposits in an amount equal to the sum of the monthly deposits previously required under the provisions of the ordinances authorizing the Previously Issued Parity Bonds, shall be resumed and continued to be made on or before the 15th day of each month until the total amount required to be on deposit in the reserve fund portion of the Retirement Account has been fully restored; provided, however, that the City expressly reserves the right in this Ordinance to fund the Reserve Amount, in whole or in part, by purchasing a Surety Policy.

In the event there are insufficient funds available in any month to permit the required monthly deposits in the Retirement Account for purposes of paying the annual debt service requirements on the Parity Bonds and accumulating and maintaining the Reserve Amount, either or both, amounts equivalent to such deficiencies shall be set apart and paid into the said Account from the first available and unallocated Net Revenues pledged to the payment of the Parity Bonds in the next following month or months, and such payments shall be in addition to the monthly amounts otherwise required to be paid into said Account during such month or months.

Income and profits received from the investment of funds in the Retirement Account may be taken into consideration and reduce the monthly deposits which would otherwise be required to be placed in the interest and sinking fund portion and reserve fund portion of the Retirement Account from the pledged Net Revenues of the Systems.

The City, at its option and consistent with the provisions of this Section, may fund the Retirement Account at the Reserve Amount by purchasing a Surety Policy that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Reserve Amount in the event funds on deposit in the bond fund portion of the Retirement Account are not sufficient to pay the debt service requirements on the Parity Bonds. All ordinances adopted after the date hereof authorizing the issuance of Additional Parity Bonds shall contain a provision to this effect. Section 51 of this Ordinance contains certain provisions relating to the Surety Bond. The City reserves the right to use gross revenues of the Systems to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the City (including interest) to the issuer of the Surety Policy, the payment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the reserve fund portion of the Retirement Account pursuant to the provisions of this Section to restore the balance in such fund to the Reserve Amount for the Parity Bonds.

In the event a Surety Policy is issued to satisfy all or part of the City's obligation with respect to the Reserve Amount causes the amount then on deposit in the reserve fund portion of the Retirement Account to exceed the Reserve Amount, the City may transfer such excess amount to any fund or funds established for the payment of or security for the Parity Bonds (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code) or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents bond proceeds, then such amount must be transferred to the bond fund portion of the Retirement Account.

SECTION 15: 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 Section 10 of this Ordinance and after payment and provisions for payments and additions to the Retirement Account 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 l 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 16 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 16 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 16: Payments or Credits to the General Fund of the City. In accordance with the provisions of the ordinances authorizing the issuance of the Previously Issued Parity Bonds and this Ordinance, and after the payments to the Retirement Account 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 17. Investments. Funds on deposit in the General Account, the Construction Account (hereinafter defined), the Retirement Account 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, as amended, 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. During the period of time the Reserve Amount in the Retirement Account totals not less than the total amount required to be on deposit therein, all income and profits received from the investment of such funds shall be transferred to the interest and sinking fund portion of the Retirement Account, thereby reducing the amount required to be deposited therein, to meet the debt service requirements of Parity Bonds; otherwise income and profits received from investments of the funds constituting the Reserve Amount shall be retained as a portion of the Reserve Amount. Income and profits received from investments of funds on deposit in the interest and sinking fund portion of the Retirement Account shall be used only for the purposes of paying the principal of and interest on the Parity Bonds, as and when the same shall become due.

SECTION 18. Transfer of Funds to the Paying Agent/Registrar. On or before an interest or principal payment date of any Parity Bonds, the Treasurer of the Board shall make transfer of funds on deposit in the Retirement Account to the paying agent or paying agents (including 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 Parity Bonds then Outstanding. In making such transfers, the Treasurer of the Board shall take into account any money on deposit with the any paying agent/registrar relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code). In the event Parity 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 Parity 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 19. 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 20. Issuance of Additional Parity Bonds. In addition to the right to issue obligations of inferior lien, as authorized by the laws of the State of Texas, the City reserves the right to issue additional revenue obligations payable from the same source and equally and ratably secured in the same manner as the Previously Issued Parity Bonds, and such additional revenue obligations and the Previously Issued Parity Bonds shall in all respects be of equal dignity. The amount of additional revenue obligations for Systems improvements and extensions to be issued from time to time shall be based upon the difference between the estimated costs of planned extensions and improvements and the total amount of funds available and estimated to be available for extensions and improvements to the Systems; and it shall be the duty of the Board of Trustees to request the City Council to authorize and provide for the issuance and sale of additional revenue obligations in the amount necessary to meet the cost of such planned extensions and improvements, such request to be evidenced by resolution of the Board of Trustees; and upon receipt of such request, it shall be the duty of the City Council to review such request and to provide for the issuance and sale of such Additional Parity Bonds as the City Council may deem necessary in order that the planned extensions and improvements may be made. It is hereby covenanted and agreed that no additional refunding bonds or other obligations shall be issued or incurred on a parity with the Parity Bonds unless and until the following conditions can be satisfied and met:

A. The Board of Trustees by resolution (i) shall have consented to the issuance of such Additional Parity Bonds and the payment thereof from the Net Revenues of the Systems and (ii) shall have further agreed to comply with all of the terms and provisions of the ordinance authorizing such Additional Parity Bonds with relation to the operation of the Systems and the disposition of revenues of the Systems.

B. A Designated Financial Officer shall have executed a certificate stating (i) that the City is not in default as to any covenant, obligation, or undertaking contained in any ordinance or other document relating to the issuance of any obligations then Outstanding which are payable from and secured by a lien on and pledge of the Net Revenues of the Systems, and (ii) that each of the Accounts created and established for the sole purpose of paying the principal of and interest on such obligations contains the amount then required to be on deposit therein.

C. The Board of Trustees shall have secured from an independent certified public accountant a certificate evidencing his determination that the Net Revenues of the Systems (including earnings from the investment of Systems' funds) were, during the last completed Fiscal Year or for any consecutive twelve (12) month period during the last fifteen (15) consecutive months prior to the month of adoption of the ordinance authorizing the issuance of the additional obligations, equal to at least one and one-half times the maximum annual principal and interest requirements on the then outstanding Parity Bonds and the Additional Parity Bonds then proposed to be issued, after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code). For the purpose of determining said Net Revenues, the certified public accountant may adjust the Net Revenues to include a proper allowance for revenues arising from any increase in electric and gas

rates which has become effective prior to the issuance of the proposed Additional Parity Bonds, but which during all or any part of the past Fiscal Year or other twelve (12) month period used for determining said Net Revenues was not in effect, in an amount equal to the amount by which the billings of the Systems to customers for such Fiscal Year or twelve (12) month period would have been increased if such increase in rates had been in effect during the whole of such Fiscal Year or twelve (12) month period.

D. The Additional Parity Bonds are to mature on February 1 or August 1, or both, in each of the years in which they are scheduled to mature.

E. The ordinance authorizing the issuance of the Additional Parity Bonds (i) provides that the amount to be accumulated and maintained in the Retirement Account as the Reserve Amount shall be an amount equal to not less than the average annual requirements for the payment of principal of and interest on all Parity Bonds which will be Outstanding after giving effect to the issuance of the Additional Parity Bonds then being issued and (ii) provides that any increase to the Reserve Amount in the Retirement Account shall be accumulated within five (5) years and one (1) month from the date of passage of the ordinance authorizing the issuance of the Additional Parity Bonds.

Provided, however, that Parity Bonds may be issued from time to time (pursuant to any law then available) for purposes of refunding outstanding Parity Bonds upon such terms and conditions as the governing body of the City and the Board of Trustees may deem to be in the best interest of the City, and, if less than all Outstanding Parity Bonds are refunded, the proposed refunding bonds shall be considered as “Additional Parity Bonds” under the provisions of this Section, but the certificate required in paragraph C of this Section shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the bonds being refunded following their cancellation or provision being made for their payment). Parity Bonds shall not be considered to be “outstanding” (under the provisions of this Ordinance) when provision has been made for their payment in the manner and to the extent permitted by the laws of the State of Texas applicable at the time such provision is made.

Provided, further, that any obligations hereafter issued which are junior and subordinate in all respects to the Parity Bonds may (without impairment of the obligation of contract of the Parity Bonds) be refunded as Parity Bonds by meeting all the terms and conditions for the issuance of Additional Parity Bonds; and such junior lien obligations may achieve the status of and become, for all purposes, Parity Bonds when the following conditions can be met and upon the happening of the following events: (i) the Board of Trustees shall have caused to be filed with the City Clerk of the City a certified written report of an independent certified public accountant demonstrating that the Net Revenues, during the last completed Fiscal Year or for any twelve (12) consecutive months during the last fifteen (15) months prior to the month of filing such report, were equal to at least one and one-half (1-1/2) times the maximum annual requirements for the payment of principal of and interest on the then outstanding Parity Bonds and for the obligations then proposed to achieve the status of Parity Bonds, after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as “build America bonds” and “qualified bonds” under the Code); (ii) the Chief Executive Officer, Chief Financial Officer, or a Treasurer of the Board

shall have filed with the City Clerk of the City (including any person acting in an interim or acting capacity) a certificate stating that the City is not in default as to any covenant, obligation, or undertaking contained in any ordinance or other document relating to the issuance of any obligations then outstanding which are payable from and secured by a lien on and pledge of the Net Revenues of the Systems and that each of the Accounts created and established for the sole purpose of paying the principal of and interest on such obligations contains the amount then required to be on deposit therein; (iii) the obligations proposed to achieve the status of Parity Bonds are stated to mature on February 1 or August 1, or both, in each of the years they are scheduled to mature; and (iv) the Reserve Amount required to be accumulated or then on deposit in the Retirement Account equals not less than the average annual requirements for the payment of principal of and interest on all Parity Bonds which will be Outstanding after giving effect to the obligations then proposed to achieve the status of Parity Bonds, after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code).

SECTION 21. No Obligation of Lien Superior to that of the Parity Bonds. The City will not hereafter issue any additional bonds or create or issue evidences of indebtedness for any purpose possessing a lien on Net Revenues superior to that to be possessed by the Parity Bonds. The City, however, retains the right to create and issue evidences of indebtedness whose lien on Net Revenues shall be subordinate to that possessed by the Parity Bonds.

SECTION 22. Management of the Systems. In accordance with the provisions of the ordinances authorizing the Previously Issued Parity Bonds and this Ordinance, the City hereby agrees, covenants, and reaffirms that during such time as any Parity 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 Parity 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 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 23. Method of Amendment. The City hereby reserves the right to amend ordinances authorizing the issuance of Parity Bonds subject to the following terms and conditions. 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 20 shall result in an impairment of the contract between the City and the Bondholders hereby evidenced.

A. The holders of Parity Bonds aggregating in principal amount sixty-six and two-thirds percent (66-2/3%) of the aggregate principal amount of then Outstanding Parity Bonds shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of the holders of the Parity Bonds the provisions of the Certificate as to Tax Exemption executed in connection with the initial delivery of the New Series 2024A Bonds may be amended at any time if the City receives an opinion from a nationally recognized bond counsel stating that such amendment would not adversely affect the status for federal income tax purposes of interest on the New Series 2024A Bonds and provided further that nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this Ordinance or in the bonds so as to:

(1) make any change in the stated maturity of Outstanding Parity Bonds;

(2) reduce the rate of interest borne by any of the Outstanding Parity Bonds;

(3) reduce the amount of the principal of, or redemption premium, if any, payable on any Outstanding Parity Bonds;

(4) modify the terms of payment of principal or of interest or redemption premium on Outstanding Parity Bonds or any of them or impose any condition with respect to such payment;

(5) affect the rights of the holders of less than all of the Parity Bonds then Outstanding; or

(6) change the minimum percentage of the principal amount of bonds necessary for consent to such amendment.

B. If at any time the City shall desire to amend this Ordinance under this Section, the City shall cause notice of the proposed amendment to be published at least once in a financial publication published in The City of New York, New York. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the Office of the City Clerk of the City for inspection by all holders of Parity Bonds then Outstanding.

C. Whenever at any time within one (1) year from the date of publication of such notice the City shall receive an instrument or instruments executed by the holders of at least sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of all Parity Bonds then

Outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which shall specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the City Clerk of the City, the City may adopt the amendatory ordinance in substantially the same form.

D. Upon the adoption of any amendatory ordinance pursuant to the provisions of this Section, the ordinances authorizing the Parity Bonds then Outstanding shall be deemed to be modified and amended in accordance with such amendatory ordinance, and the respective rights, duties, and obligations of the City and all holders of Outstanding Parity Bonds shall thereafter be determined, exercised, and enforced, subject in all respects to such amendment.

E. Any consent given by the holder of an Outstanding Parity Bond pursuant to the provisions of this Section shall be irrevocable for a period of six (6) months from the date of the publication of the notice provided for in this Section and shall be conclusive and binding upon all future holders of the same bond during such period. Such consent may be revoked at any time after six (6) months from the date of the publication of said notice by the holder who gave such consent, or by a successor in title, by filing notice with the City Clerk of the City, but such revocation shall not be effective if the holders of sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of the then Outstanding Parity Bonds as in this Section defined, have, prior to the attempted revocation, consented to and approved the amendment.

F. Except as provided in G. below for the Registered New Series 2024A Bonds, for the purposes of establishing ownership of Parity Bonds, the fact of the holding of Parity Bonds by any Bondholder, the amount and numbers of such bonds, and the dates of their holding such bonds, may be proved by the affidavit of the person claiming to be such holder, or by a certificate executed by any trust company, bank, or any other depository wherever situated showing that at the date therein mentioned such person had on deposit with such trust company, bank, or other depository the bonds described in such certificate. The City may conclusively assume that such ownership continues until notice to the contrary is served on the City.

G. For the purposes of establishing ownership of the Registered New Series 2024A Bonds, the City shall rely solely upon the registration of the ownership of such bonds on the Registration Books kept by the Paying Agent/Registrar, as provided in this Ordinance, notwithstanding anything to the contrary contained in the ordinances authorizing Previously Issued Parity Bonds or in this Ordinance.

SECTION 24. 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 Parity Bonds are Outstanding, the City, acting by and through the Board of Trustees, agrees to maintain insurance of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business.

SECTION 25. Records--Accounts--Accounting Reports. The City, acting by and through the Board of Trustees, hereby agrees, covenants, and reaffirms that so long as any Parity 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 Parity 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. Copies of the aforesaid annual audit shall be immediately furnished to the Executive Director of the Municipal Advisory Council of Texas at her office in Austin, Texas and to the original purchaser of a series of Parity Bonds and any subsequent holder thereof at his written request. At the close of the first six (6) months' period of each Fiscal Year, the Treasurer of the Board is hereby directed to furnish a copy of an operating and income statement in reasonable detail covering such period to any bondholder upon his written request therefor received not more than thirty (30) days after the close of said six (6) months' period. Any bondholder shall have the right to discuss with the accountant making the annual audit the contents thereof and to ask for such additional information as he may reasonably require, provided such bondholder shall have offered to the Board of Trustees sufficient indemnity to pay any costs, expenses, and liabilities which may or might be incurred in providing such additional information.

SECTION 26. 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 Retirement Account 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 following remedies shall be available:

A. The holder or holders of any Parity 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

B. 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 27. 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 Bondholder's investment decision relative to any Bonds.

B. The City has the lawful power to pledge the revenues supporting the New Series 2024A Bonds and has lawfully exercised said power under the laws of the State of Texas, including said power existing under the Act, and the New Series 2024A Bonds, the Previously Issued Parity Bonds, and Additional Parity Bonds, 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 New Series 2024A Bonds, the Previously Issued Parity Bonds, the Junior Lien Obligations, the Commercial Paper, 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 Parity Bonds, the Prior Lien Bonds (including the Junior Lien Obligations), the Commercial Paper Notes, and the Inferior Lien Obligations, and any other provision of the ordinances authorizing the issuance of these obligations.

D. So long as any of the Parity 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; and, provided further, with the exception of the Additional Parity Bonds expressly permitted by this Ordinance, the City will not encumber the Net Revenues unless such encumbrance is made junior and subordinate to all of the provisions of this Ordinance.

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 16 hereof.

F. To the extent it legally may, the City further covenants and agrees that, so long as any Parity 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 28. New Series 2024A Bonds are Special Obligations. The New Series 2024A Bonds and any Additional Parity Bonds are special obligations of the City payable from the pledged Net Revenues, and the holders thereof shall never have the right to demand payment out of funds raised or to be raised by taxation.

SECTION 29. 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, and interest on the New Series 2024A Bonds or any Additional Parity 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.

New Series 2024A Bonds, or any principal amount(s) thereof, shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such New Series 2024A Bonds or the principal amount(s) thereof at stated maturity, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, and/or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities 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 and interest on such Bonds, or the principal amount(s) thereof, on or prior to the stated maturity thereof. In the event of a defeasance of the Bonds, the City shall deliver a certificate from an independent accounting firm, one of its financial advisors, the Paying Agent/Registrar, or another qualified third party concerning the deposit of cash and/or Government Securities to pay, when due, the principal of, and interest due on any defeased Bonds. As and to the extent applicable, if at all, the City covenants that no deposit of money or Government Securities will be made under this Section 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 (as defined in Section 30 hereof).

Any money so deposited with the Paying Agent/Registrar, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the New Series 2024A 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 for the payment of the principal of and interest on the New Series 2024A Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity of the New Series 2024A 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 New Series 2024A Bonds or any Additional Parity Bonds that is made in conjunction with the payment arrangements specified in subsection (i) or

(ii) above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the City expressly reserves the right to call the defeased New Series 2024A Bonds or any Additional Parity Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased New Series 2024A Bonds or any Additional Parity 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 (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased New Series 2024A Bonds or any Additional Parity Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased New Series 2024A Bonds or any Additional Parity Bonds.

SECTION 30. Damaged, Mutilated, Lost, Stolen, or Destroyed New Series 2024A Bonds.

A. In the event any Outstanding New Series 2024A 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 New Series 2024A Bond, in replacement for such New Series 2024A Bond in the manner hereinafter provided.

B. Application for replacement of damaged, mutilated, lost, stolen, or destroyed New Series 2024A Bonds shall be made to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a New Series 2024A 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 New Series 2024A 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 New Series 2024A Bond, as the case may be. In every case of damage or mutilation of a New Series 2024A Bond, the applicant shall surrender to the Paying Agent/Registrar for cancellation the New Series 2024A Bond so damaged or mutilated.

C. Notwithstanding the foregoing provisions of this Section, in the event any such New Series 2024A Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, or interest on the New Series 2024A Bond, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated New Series 2024A Bond) instead of issuing a replacement New Series 2024A 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 New Series 2024A 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 New Series 2024A Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the City, whether or not the lost, stolen, or destroyed New Series 2024A 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 New Series 2024A 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 3(b) of this Ordinance for New Series 2024A Bonds issued in conversion and exchange for other New Series 2024A Bonds.

SECTION 31. Ordinance to Constitute Contract. The provisions of this Ordinance shall constitute a contract between the City and the holder or holders from time to time of the New Series 2024A Bonds or any Additional Parity Bonds, and, after the issuance of any of said bonds, no change, variation, or alteration of any kind in the provisions of this Ordinance may be made, unless as herein otherwise provided, until all of said bonds issued hereunder shall have been paid as to both principal and interest.

SECTION 32. 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 New Series 2024A Bonds or any Additional Parity Bonds and all necessary records and proceedings pertaining thereto pending the sale of the New Series 2024A Bonds or any Additional Parity Bonds and the initial delivery thereof to the initial purchasers thereof, 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 thereof.

SECTION 33. Covenants to Maintain Tax-Exempt Status.

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 New Series 2024A 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 l.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 New Series 2024A Bonds or amounts treated as proceeds of the New Series 2024A Bonds, as may be necessary, so that the New Series 2024A 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 New Series 2024A 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 New Series 2024A 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 New Series 2024A 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 New Series 2024A 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. 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 New Series 2024A 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 New Series 2024A 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 New Series 2024A 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 New Series 2024A 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 New Series 2024A 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 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 New Series 2024A Bonds, or (2) the date the New Series 2024A 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 New Series 2024A 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 New Series 2024A 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 New Series 2024A 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 G as the City's written procedures.

G. Reimbursement. This Ordinance is intended to satisfy the official requirements set forth in section 1.150-2 of the Treasury Regulations.

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APPENDIX C

CERTAIN PROVISIONS OF THE 2024B 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 9. 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 Junior Lien Obligations* – (i) any bonds, notes, warrants, certificates of obligation, or other similar debt 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 have or will be granted as security for the currently outstanding Parity Bonds and any Additional Parity Bonds hereafter issued by the City, but 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 and the 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.

B. *Additional Parity Bonds* – bonds or other obligations authorized to be issued under the provisions of Section 17, including refunding bonds, which are secured by a lien on and pledge of the Net Revenues of the Systems on a parity with Previously Issued Parity Bonds and the New Series 2024B Bonds.

C. *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 Previously Issued Parity Bonds and this Ordinance.

D. *Bond Date* – shall mean June 1, 2024.

E. *City* or *Issuer* – the City of San Antonio, Texas.

F. *Closing Date* – the date of physical delivery of the Initial Bond in exchange for the payment in full by the Purchasers.

G. *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 Parity Bonds and the Junior Lien Obligations and any Additional Parity Bonds and Additional Junior Lien Obligations hereafter issued by the City, identified as follows:

(1) City of San Antonio, Texas Electric and Gas Systems Commercial Paper Notes, as further described by applicable series and program (whether traditional, extendible municipal, or otherwise), including amounts owed under each Credit Agreement (as defined in the City ordinances authorizing the issuance of the respective Commercial Paper Obligations); and

(2) 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.

H. *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 Parity Bonds.

I. *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 (including any person acting in an interim or acting capacity), 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.

J. *Fiscal Year* – the twelve-month operational period of the Systems commencing on February 1 of each year and ending on the following January 31.

K. *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 New Series 2024B Bonds.

L. *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 Parity Bonds, the Junior Lien Obligations, the Commercial Paper Obligations, and any Additional Parity Bonds 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", (ii) "City of San Antonio, Texas Electric and Gas Systems 2021 Inferior Lien Tax-Exempt Flexible Rate Revolving Notes, Series B" and "City of San Antonio, Texas Electric and Gas Systems 2021 Inferior Lien Taxable Flexible Rate Revolving Notes, Series B", (iii) any obligations that are issued subject to the limitations in Section 1502.052, as amended, Texas Government Code, and (iv) 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.

M. *Junior Lien Obligations* – 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 Parity Bonds and any Additional Parity Bonds 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;

(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;

(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;

(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;

(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;

(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;

(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;

(8) "City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2019", originally authorized in the aggregate principal amount of $252,640,000;

(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;

(10) "City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2021A", originally authorized in the aggregate principal amount of $330,700,000;

(11) "City of San Antonio, Texas Electric and Gas Systems Fixed and Variable Rate Junior Lien Revenue Refunding Bonds, Series 2022", originally authorized in the aggregate principal amount of $359,465,000;

(12) "City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2023", originally authorized in the aggregate principal amount of $100,340,000; and

(13) 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

N. *Maintenance and Operating Expenses* – those expenses 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.

O. *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 Parity 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 Outstanding Parity Bonds.

P. *New Series 2024B Bonds* – the Bonds authorized by this Ordinance, styled "City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2024B".

Q. *Outstanding* – as of the date of determination, all Parity Bonds theretofore issued and delivered except:

(1) those Parity Bonds theretofore canceled by the respective paying agents for such Parity Bonds or delivered to such paying agents for cancellation;

(2) those Parity Bonds for which payment has been duly provided by the City by the irrevocable deposit with the respective paying agents for such Parity Bonds of money in the amount necessary to fully pay principal of, premium, if any, and interest thereon to maturity or redemption, if any, as the case may be, provided that, if such Parity Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to the ordinance authorizing the issuance of such Parity Bonds or irrevocably provided to be given to the satisfaction of such paying agents, or waived;

(3) those Parity Bonds that have been mutilated, destroyed, lost, or stolen and for which replacement bonds have been registered and delivered in lieu thereof; and

(4) those Parity Bonds for which the payment of principal, premium, if any, and interest has been duly provided for by the City by the deposit in trust of money or Government Securities, or both.

R. *Parity Bonds* or *New Series Bonds* – the Previously Issued Parity Bonds, the New Series 2024B Bonds, and any Additional Parity Bonds.

S. *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.

T. *Previously Issued Parity Bonds* – 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:

(1) "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;

(2) "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2010A (Direct Subsidy-Build America Bonds)", dated February 1, 2010 and originally issued in the principal amount of $380,000,000;

(3) "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2012", dated March 1, 2012 and originally issued in the principal amount of $521,000,000;

(4) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2012", dated June 1, 2012 and originally issued in the principal amount of $655,370,000;

(5) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2015", dated August 1, 2015 and originally issued in the principal amount of $320,530,000;

(6) "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2015", dated November 1, 2015 and originally issued in the principal amount of $235,000,000;

(7) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2016", dated July 1, 2016 and originally issued in the principal amount of $544,260,000;

(8) "City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2017", dated April 1, 2017 and originally issued in the principal amount of $308,005,000;

(9) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2017", dated August 1, 2017 and originally issued in the principal amount of $194,980,000;

(10) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2018A", dated December 1, 2018 and originally issued in the principal amount of $130,220,000;

(11) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2019", dated September 1, 2019 and originally issued in the principal amount of $114,685,000;

(12) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2020", dated January 1, 2020 and originally issued in the principal amount of $134,580,000;

(13) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020", dated November 1, 2020 and originally issued in the principal amount of $418,255,000;

(14) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2022", dated April 1, 2022 and originally issued in the principal amount of $109,620,000;

(15) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022", dated April 1, 2022 and originally issued in the principal amount of $413,720,000;

(16) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2023A", dated June 1, 2023 and originally issued in the principal amount of $459,450,000;

(17) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2023B", dated June 1, 2023 and originally issued in the principal amount of $177,130,000;

(18) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024C", dated November 1, 2024 and originally issued in the principal amount of $162,715,000; and

(19) 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.

U. *Refunded Obligations* – those obligations set forth in Schedule I hereof.

V. *Refunding Candidates* – shall mean:

(1) "City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Taxable Series 2010A (Direct Subsidy – Build America Bonds)", in the aggregate, currently outstanding principal amount of $280,000,000;

(2) "City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2014", in the aggregate, currently outstanding principal amount of $30,770,000;

(3) "City of San Antonio Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015A", in the aggregate, currently outstanding principal amount of $124,205,000;

(4) "City of San Antonio Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015C", in the aggregate, currently outstanding principal amount of $99,740,000;

(5) Any Commercial Paper Notes (whether traditional, extendible municipal, or otherwise) or any Inferior Lien Obligations, authorized to be issued and at any one time outstanding in the aggregate principal amounts of $1,000,000,000 (or if approved by the City Council, $1,150,000,000 as the authorized maximum principal amount of the collective programs) and $600,000,000, respectively; and

(6) Any other general or special obligation of the City hereinafter identified and selected by a Designated Financial Officer as a candidate presenting an opportunity advantageous to the Systems and its ratepayers.

W. *Registered New Series 2024B Bonds* – any Parity Bonds issued as fully-registered bonds, without coupons.

X. *Surety Bond* – the surety bond issued by Assured Guaranty Municipal Corp. guaranteeing certain payments into the Retirement Account as provided in Section 11 hereof with respect to the Parity Bonds as provided in the Surety Bond and subject to the limitations set forth in the Surety Bond and the Surety Bond shall constitute a permissible Surety Policy.

Y. *Surety Policy* – includes a surety bond, insurance policy, letter of credit, or other agreement or instrument whereby the issuer is obligated to provide funds up to and including the maximum amount and under the conditions specified in such agreement or instrument.

Z. *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 Parity Bonds including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

AA. *Tender Candidates* – shall mean:

(1) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020", dated November 1, 2020 and originally issued in the principal amount of $418,255,000;

(2) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022", dated April 1, 2022 and originally issued in the principal amount of $413,720,000; and

(3) Any other general or special obligation of the City hereinafter identified and selected by a Designated Financial Officer as a candidate presenting an opportunity advantageous to the Systems and its ratepayers, as determined by a Designated Financial Officer.

BB. *Tendered Obligations* – those obligations set forth in Schedule I hereof.

SECTION 10: Pledge.

A. The City hereby covenants and agrees with the holders of the Parity Bonds that the Net Revenues of the Systems shall be and are hereby pledged to the payment of principal of and interest on (including the establishment and maintenance of a reserve, as provided in Sections 11 and 17E. of this Ordinance) the Parity Bonds, and it is hereby ordained that all Parity Bonds and the interest thereon shall constitute a first lien upon the Net Revenues of the Systems.

B. Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Parity 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, as amended, 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, as amended, and enable a filing to perfect the security interest in this pledge to occur.

SECTION 11. Rates and Charges. The City hereby agrees and reaffirms its covenants to the holders of the Parity Bonds 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 shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

A. 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;

B. the interest on and principal of all Parity Bonds, 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 Parity Bonds;

C. the interest on and principal of the Prior Lien Bonds, including the Junior Lien Obligations (including the credit agreement) and any Additional Junior 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 Junior Lien Obligations and any Additional Junior Lien Obligations;

D. 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 the ordinance authorizing the issuance of the Commercial Paper), and the Credit Agreement (as defined in the ordinance authorizing the issuance of the Commercial Paper); and

E. any 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 Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code).

SECTION 12: General Account. The City, acting through the Board of Trustees, hereby covenants with respect to the holders of the Parity 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 13. 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 Parity Bonds, including the establishment and maintenance of the reserve therefor;

THIRD: to the payment of the Prior Lien Bonds, including the Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued, and any credit agreement relating thereto, including the establishment and maintenance of the funds and accounts therefor;

FOURTH: to the payment and security of the Commercial Paper Notes and the Credit Agreement (as defined in the ordinance authorizing the Commercial Paper);

FIFTH: to the payment and security of the Inferior Lien Obligations which are inferior in lien to the Parity Bonds, the Junior Lien Obligations, and the Commercial Paper Notes;

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 17 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 16 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 17 of this Ordinance.

SECTION 14. Parity Bond Retirement Account. For purposes of paying the principal of and interest on the Parity Bonds, when and as the same shall become due, and providing a reserve to prevent a default in the payment of such principal and interest on Parity Bonds, the City, acting through the Board of Trustees, hereby reaffirms the creation and establishment of a special account known as the "City of San Antonio Electric and Gas Systems Parity Bond Retirement Account" (the *Retirement Account*), which account shall continue to be kept separate and apart from all other funds or accounts of the Systems or of the City. The City hereby reaffirms its covenant that the Retirement Account shall be established and kept at such Depository as the Board of Trustees shall designate and funds deposited therein shall be used only for the purpose of paying the principal of and interest on the Parity Bonds.

From the Net Revenues of the Systems pledged to the payment and security of the Parity Bonds, the Board of Trustees shall cause to be paid in the Retirement Account such amounts as will be fully sufficient to (i) promptly pay, when due, all principal of and interest on the Parity Bonds (the "interest and sinking fund portion" of the Retirement Account) and (ii) establish and

maintain in the Retirement Account a reserve amount (the *Reserve Amount* or *reserve fund portion* of the Retirement Account) equal to not less than the average annual principal and interest requirements of all Outstanding Parity Bonds (calculated on a Fiscal Year basis as of the date the last series of Parity Bonds were authorized and after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code)); provided, however, that the City expressly reserves the right in this Ordinance to fund the Reserve Amount, in whole or in part, by purchasing a Surety Policy. In addition, all sums received from the initial purchasers of Parity Bonds constituting accrued interest, if any, shall be placed in the interest and sinking fund portion of the Retirement Account.

In addition to the deposits required to be made in the interest and sinking fund portion of the Retirement Account to pay the annual debt service requirements of the Previously Issued Parity Bonds, the Board is hereby directed to deposit in said Account the following amounts to pay the principal of and interest on the New Series 2024B Bonds.

A. Deposits for payment of interest--on or before the 15th day of the month to occur following the date of delivery of the New Series 2024B Bonds to the Purchasers thereof and on or before the 15th day of each following month through January 15, 2025 an equal amount of money with such deposits totaling not less than the amount of the installment of interest coming due on the New Series 2024B Bonds on February 1, 2024, and on or before August 1, 2025 and on or before the 15th day of each following month, until the New Series 2024B Bonds are no longer Outstanding, an amount of money equal to not less than one-sixth (1/6) of the next semiannual installment of interest to become due on said New Series 2024B Bonds; provided, that to the extent there is money available in the interest and sinking fund portion of the Retirement Account to pay interest on said New Series 2024B Bonds on February 1, 2025, such deposits may be reduced by the amount of the aforesaid money available to pay said interest on said New Series 2024B Bonds.

B. Deposits for payment of principal--on or before the 15th day of each following month and during each of the twelve-month periods preceding the dates the New Series 2024B Bonds are stated to mature, or are required to be redeemed prior to scheduled maturity, not less than one-twelfth (1/12) of the principal amount required herein to be paid at stated maturity or to be redeemed prior to scheduled maturity.

In compliance with the provisions of the ordinances authorizing the issuance of the Previously Issued Parity Bonds and this Ordinance, the Board of Trustees shall cause to be accumulated and maintained in the Retirement Account a Reserve Amount equal to not less than the average annual principal and interest requirements of the Previously Issued Parity Bonds and the New Series 2024B Bonds, such Reserve Amount to be determined on the basis of cash on deposit and the book value of securities in which money in the reserve fund portion of the Retirement Account is invested, and to be in addition to the amount on deposit in the Retirement Account for purposes of paying the annual debt service requirements of the Outstanding Parity Bonds. The Reserve Amount equals not less than the average annual principal and interest requirements of the Previously Issued Parity Bonds and the New Series 2024B Bonds. Whenever the amount in the reserve fund portion of the Retirement Account equals less than the total amount required to be on deposit therein in accordance with the provisions of this Ordinance, monthly

deposits in an amount equal to the sum of the monthly deposits previously required under the provisions of the ordinances authorizing the Previously Issued Parity Bonds, shall be resumed and continued to be made on or before the 15th day of each month until the total amount required to be on deposit in the reserve fund portion of the Retirement Account has been fully restored; provided, however, that the City expressly reserves the right in this Ordinance to fund the Reserve Amount, in whole or in part, by purchasing a Surety Policy.

In the event there are insufficient funds available in any month to permit the required monthly deposits in the Retirement Account for purposes of paying the annual debt service requirements on the Parity Bonds and accumulating and maintaining the Reserve Amount, either or both, amounts equivalent to such deficiencies shall be set apart and paid into the said Account from the first available and unallocated Net Revenues pledged to the payment of the Parity Bonds in the next following month or months, and such payments shall be in addition to the monthly amounts otherwise required to be paid into said Account during such month or months.

Income and profits received from the investment of funds in the Retirement Account may be taken into consideration and reduce the monthly deposits which would otherwise be required to be placed in the interest and sinking fund portion and reserve fund portion of the Retirement Account from the pledged Net Revenues of the Systems.

The City, at its option and consistent with the provisions of this Section, may fund the Retirement Account at the Reserve Amount by purchasing a Surety Policy that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Reserve Amount in the event funds on deposit in the bond fund portion of the Retirement Account are not sufficient to pay the debt service requirements on the Parity Bonds. All ordinances adopted after the date hereof authorizing the issuance of Additional Parity Bonds shall contain a provision to this effect. Section 51 of this Ordinance contains certain provisions relating to the Surety Bond. The City reserves the right to use gross revenues of the Systems to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the City (including interest) to the issuer of the Surety Policy, the payment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the reserve fund portion of the Retirement Account pursuant to the provisions of this Section to restore the balance in such fund to the Reserve Amount for the Parity Bonds.

In the event a Surety Policy is issued to satisfy all or part of the City's obligation with respect to the Reserve Amount causes the amount then on deposit in the reserve fund portion of the Retirement Account to exceed the Reserve Amount, the City may transfer such excess amount to any fund or funds established for the payment of or security for the Parity Bonds (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code) or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents bond proceeds, then such amount must be transferred to the bond fund portion of the Retirement Account.

SECTION 15: 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 Section 10 of this Ordinance and after payment and provisions for payments and additions to the Retirement Account 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 l 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 16 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 16 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 16: Payments or Credits to the General Fund of the City. In accordance with the provisions of the ordinances authorizing the issuance of the Previously Issued Parity Bonds and this Ordinance, and after the payments to the Retirement Account 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 17. Investments. Funds on deposit in the General Account, the Construction Account (hereinafter defined), the Retirement Account 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, as amended, 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. During the period of time the Reserve Amount in the Retirement Account totals not less than the total amount required to be on deposit therein, all income and profits received from the investment of such funds shall be transferred to the interest and sinking fund portion of the Retirement Account, thereby reducing the amount required to be deposited therein, to meet the debt service requirements of Parity Bonds; otherwise income and profits received from investments of the funds constituting the Reserve Amount shall be retained as a portion of the Reserve Amount. Income and profits received from investments of funds on deposit in the interest and sinking fund portion of the Retirement Account shall be used only for the purposes of paying the principal of and interest on the Parity Bonds, as and when the same shall become due.

SECTION 18. Transfer of Funds to the Paying Agent/Registrar. On or before an interest or principal payment date of any Parity Bonds, the Treasurer of the Board shall make transfer of funds on deposit in the Retirement Account to the paying agent or paying agents (including 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 Parity Bonds then Outstanding. In making such transfers, the Treasurer of the Board shall take into account any money on deposit with the any paying agent/registrar relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code). In the event Parity 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 Parity 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 19. 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 20. Issuance of Additional Parity Bonds. In addition to the right to issue obligations of inferior lien, as authorized by the laws of the State of Texas, the City reserves the right to issue additional revenue obligations payable from the same source and equally and ratably secured in the same manner as the Previously Issued Parity Bonds, and such additional revenue obligations and the Previously Issued Parity Bonds shall in all respects be of equal dignity. The amount of additional revenue obligations for Systems improvements and extensions to be issued from time to time shall be based upon the difference between the estimated costs of planned extensions and improvements and the total amount of funds available and estimated to be available for extensions and improvements to the Systems; and it shall be the duty of the Board of Trustees to request the City Council to authorize and provide for the issuance and sale of additional revenue obligations in the amount necessary to meet the cost of such planned extensions and improvements, such request to be evidenced by resolution of the Board of Trustees; and upon receipt of such request, it shall be the duty of the City Council to review such request and to provide for the issuance and sale of such Additional Parity Bonds as the City Council may deem necessary in order that the planned extensions and improvements may be made. It is hereby covenanted and agreed that no additional refunding bonds or other obligations shall be issued or incurred on a parity with the Parity Bonds unless and until the following conditions can be satisfied and met:

A. The Board of Trustees by resolution (i) shall have consented to the issuance of such Additional Parity Bonds and the payment thereof from the Net Revenues of the Systems and (ii) shall have further agreed to comply with all of the terms and provisions of the ordinance authorizing such Additional Parity Bonds with relation to the operation of the Systems and the disposition of revenues of the Systems.

B. A Designated Financial Officer shall have executed a certificate stating (i) that the City is not in default as to any covenant, obligation, or undertaking contained in any ordinance or other document relating to the issuance of any obligations then Outstanding which are payable from and secured by a lien on and pledge of the Net Revenues of the Systems, and (ii) that each of the Accounts created and established for the sole purpose of paying the principal of and interest on such obligations contains the amount then required to be on deposit therein.

C. The Board of Trustees shall have secured from an independent certified public accountant a certificate evidencing his determination that the Net Revenues of the Systems (including earnings from the investment of Systems' funds) were, during the last completed Fiscal Year or for any consecutive twelve (12) month period during the last fifteen (15) consecutive months prior to the month of adoption of the ordinance authorizing the issuance of the additional obligations, equal to at least one and one-half times the maximum annual principal and interest requirements on the then outstanding Parity Bonds and the Additional Parity Bonds then proposed to be issued, after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code). For the purpose of determining said Net Revenues, the certified public accountant may adjust the Net Revenues to include a proper allowance for revenues arising from any increase in electric and gas

rates which has become effective prior to the issuance of the proposed Additional Parity Bonds, but which during all or any part of the past Fiscal Year or other twelve (12) month period used for determining said Net Revenues was not in effect, in an amount equal to the amount by which the billings of the Systems to customers for such Fiscal Year or twelve (12) month period would have been increased if such increase in rates had been in effect during the whole of such Fiscal Year or twelve (12) month period.

D. The Additional Parity Bonds are to mature on February 1 or August 1, or both, in each of the years in which they are scheduled to mature.

E. The ordinance authorizing the issuance of the Additional Parity Bonds (i) provides that the amount to be accumulated and maintained in the Retirement Account as the Reserve Amount shall be an amount equal to not less than the average annual requirements for the payment of principal of and interest on all Parity Bonds which will be Outstanding after giving effect to the issuance of the Additional Parity Bonds then being issued and (ii) provides that any increase to the Reserve Amount in the Retirement Account shall be accumulated within five (5) years and one (1) month from the date of passage of the ordinance authorizing the issuance of the Additional Parity Bonds.

Provided, however, that Parity Bonds may be issued from time to time (pursuant to any law then available) for purposes of refunding outstanding Parity Bonds upon such terms and conditions as the governing body of the City and the Board of Trustees may deem to be in the best interest of the City, and, if less than all Outstanding Parity Bonds are refunded, the proposed refunding bonds shall be considered as "Additional Parity Bonds" under the provisions of this Section, but the certificate required in paragraph C of this Section shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the bonds being refunded following their cancellation or provision being made for their payment). Parity Bonds shall not be considered to be "outstanding" (under the provisions of this Ordinance) when provision has been made for their payment in the manner and to the extent permitted by the laws of the State of Texas applicable at the time such provision is made.

Provided, further, that any obligations hereafter issued which are junior and subordinate in all respects to the Parity Bonds may (without impairment of the obligation of contract of the Parity Bonds) be refunded as Parity Bonds by meeting all the terms and conditions for the issuance of Additional Parity Bonds; and such junior lien obligations may achieve the status of and become, for all purposes, Parity Bonds when the following conditions can be met and upon the happening of the following events: (i) the Board of Trustees shall have caused to be filed with the City Clerk of the City a certified written report of an independent certified public accountant demonstrating that the Net Revenues, during the last completed Fiscal Year or for any twelve (12) consecutive months during the last fifteen (15) months prior to the month of filing such report, were equal to at least one and one-half (1-1/2) times the maximum annual requirements for the payment of principal of and interest on the then outstanding Parity Bonds and for the obligations then proposed to achieve the status of Parity Bonds, after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code); (ii) the Chief Executive Officer, Chief Financial Officer, or a Treasurer of the Board

shall have filed with the City Clerk of the City (including any person acting in an interim or acting capacity) a certificate stating that the City is not in default as to any covenant, obligation, or undertaking contained in any ordinance or other document relating to the issuance of any obligations then outstanding which are payable from and secured by a lien on and pledge of the Net Revenues of the Systems and that each of the Accounts created and established for the sole purpose of paying the principal of and interest on such obligations contains the amount then required to be on deposit therein; (iii) the obligations proposed to achieve the status of Parity Bonds are stated to mature on February 1 or August 1, or both, in each of the years they are scheduled to mature; and (iv) the Reserve Amount required to be accumulated or then on deposit in the Retirement Account equals not less than the average annual requirements for the payment of principal of and interest on all Parity Bonds which will be Outstanding after giving effect to the obligations then proposed to achieve the status of Parity Bonds, after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code).

SECTION 21. No Obligation of Lien Superior to that of the Parity Bonds. The City will not hereafter issue any additional bonds or create or issue evidences of indebtedness for any purpose possessing a lien on Net Revenues superior to that to be possessed by the Parity Bonds. The City, however, retains the right to create and issue evidences of indebtedness whose lien on Net Revenues shall be subordinate to that possessed by the Parity Bonds.

SECTION 22. Management of the Systems. In accordance with the provisions of the ordinances authorizing the Previously Issued Parity Bonds and this Ordinance, the City hereby agrees, covenants, and reaffirms that during such time as any Parity 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 Parity 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 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 23. Method of Amendment. The City hereby reserves the right to amend ordinances authorizing the issuance of Parity Bonds subject to the following terms and conditions. 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 20 shall result in an impairment of the contract between the City and the Bondholders hereby evidenced.

A. The holders of Parity Bonds aggregating in principal amount sixty-six and two-thirds percent (66-2/3%) of the aggregate principal amount of then Outstanding Parity Bonds shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of the holders of the Parity Bonds the provisions of the Certificate as to Tax Exemption executed in connection with the initial delivery of the New Series 2024B Bonds may be amended at any time if the City receives an opinion from a nationally recognized bond counsel stating that such amendment would not adversely affect the status for federal income tax purposes of interest on the New Series 2024B Bonds and provided further that nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this Ordinance or in the bonds so as to:

(1) make any change in the stated maturity of Outstanding Parity Bonds;

(2) reduce the rate of interest borne by any of the Outstanding Parity Bonds;

(3) reduce the amount of the principal of, or redemption premium, if any, payable on any Outstanding Parity Bonds;

(4) modify the terms of payment of principal or of interest or redemption premium on Outstanding Parity Bonds or any of them or impose any condition with respect to such payment;

(5) affect the rights of the holders of less than all of the Parity Bonds then Outstanding; or

(6) change the minimum percentage of the principal amount of bonds necessary for consent to such amendment.

B. If at any time the City shall desire to amend this Ordinance under this Section, the City shall cause notice of the proposed amendment to be published at least once in a financial publication published in The City of New York, New York. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the Office of the City Clerk of the City for inspection by all holders of Parity Bonds then Outstanding.

C. Whenever at any time within one (1) year from the date of publication of such notice the City shall receive an instrument or instruments executed by the holders of at least sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of all Parity Bonds then

Outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which shall specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the City Clerk of the City, the City may adopt the amendatory ordinance in substantially the same form.

D. Upon the adoption of any amendatory ordinance pursuant to the provisions of this Section, the ordinances authorizing the Parity Bonds then Outstanding shall be deemed to be modified and amended in accordance with such amendatory ordinance, and the respective rights, duties, and obligations of the City and all holders of Outstanding Parity Bonds shall thereafter be determined, exercised, and enforced, subject in all respects to such amendment.

E. Any consent given by the holder of an Outstanding Parity Bond pursuant to the provisions of this Section shall be irrevocable for a period of six (6) months from the date of the publication of the notice provided for in this Section and shall be conclusive and binding upon all future holders of the same bond during such period. Such consent may be revoked at any time after six (6) months from the date of the publication of said notice by the holder who gave such consent, or by a successor in title, by filing notice with the City Clerk of the City, but such revocation shall not be effective if the holders of sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of the then Outstanding Parity Bonds as in this Section defined, have, prior to the attempted revocation, consented to and approved the amendment.

F. Except as provided in G. below for the Registered New Series 2024B Bonds, for the purposes of establishing ownership of Parity Bonds, the fact of the holding of Parity Bonds by any Bondholder, the amount and numbers of such bonds, and the dates of their holding such bonds, may be proved by the affidavit of the person claiming to be such holder, or by a certificate executed by any trust company, bank, or any other depository wherever situated showing that at the date therein mentioned such person had on deposit with such trust company, bank, or other depository the bonds described in such certificate. The City may conclusively assume that such ownership continues until notice to the contrary is served on the City.

G. For the purposes of establishing ownership of the Registered New Series 2024B Bonds, the City shall rely solely upon the registration of the ownership of such bonds on the Registration Books kept by the Paying Agent/Registrar, as provided in this Ordinance, notwithstanding anything to the contrary contained in the ordinances authorizing Previously Issued Parity Bonds or in this Ordinance.

SECTION 24. <u>Maintenance and Operation--Insurance</u>. 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 Parity Bonds are Outstanding, the City, acting by and through the Board of Trustees, agrees to maintain insurance of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business.

SECTION 25. <u>Records--Accounts--Accounting Reports</u>. The City, acting by and through the Board of Trustees, hereby agrees, covenants, and reaffirms that so long as any Parity 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 Parity 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. Copies of the aforesaid annual audit shall be immediately furnished to the Executive Director of the Municipal Advisory Council of Texas at her office in Austin, Texas and to the original purchaser of a series of Parity Bonds and any subsequent holder thereof at his written request. At the close of the first six (6) months' period of each Fiscal Year, the Treasurer of the Board is hereby directed to furnish a copy of an operating and income statement in reasonable detail covering such period to any bondholder upon his written request therefor received not more than thirty (30) days after the close of said six (6) months' period. Any bondholder shall have the right to discuss with the accountant making the annual audit the contents thereof and to ask for such additional information as he may reasonably require, provided such bondholder shall have offered to the Board of Trustees sufficient indemnity to pay any costs, expenses, and liabilities which may or might be incurred in providing such additional information.

SECTION 26. 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 Retirement Account 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 following remedies shall be available:

A. The holder or holders of any Parity 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

B. 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 27. 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 Bondholder's investment decision relative to any Bonds.

B. The City has the lawful power to pledge the revenues supporting the New Series 2024B Bonds and has lawfully exercised said power under the laws of the State of Texas, including said power existing under the Act, and the New Series 2024B Bonds, the Previously Issued Parity Bonds, and Additional Parity Bonds, 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 New Series 2024B Bonds, the Previously Issued Parity Bonds, the Junior Lien Obligations, the Commercial Paper, 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 Parity Bonds, the Prior Lien Bonds (including the Junior Lien Obligations), the Commercial Paper Notes, and the Inferior Lien Obligations, and any other provision of the ordinances authorizing the issuance of these obligations.

D. So long as any of the Parity 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; and, provided further, with the exception of the Additional Parity Bonds expressly permitted by this Ordinance, the City will not encumber the Net Revenues unless such encumbrance is made junior and subordinate to all of the provisions of this Ordinance.

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 16 hereof.

F. To the extent it legally may, the City further covenants and agrees that, so long as any Parity 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 28. New Series 2024B Bonds are Special Obligations. The New Series 2024B Bonds and any Additional Parity Bonds are special obligations of the City payable from the pledged Net Revenues, and the holders thereof shall never have the right to demand payment out of funds raised or to be raised by taxation.

SECTION 29. 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, and interest on the New Series 2024B Bonds or any Additional Parity 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.

New Series 2024B Bonds, or any principal amount(s) thereof, shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such New Series 2024B Bonds or the principal amount(s) thereof at stated maturity, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, and/or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities 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 and interest on such Bonds, or the principal amount(s) thereof, on or prior to the stated maturity thereof. In the event of a defeasance of the Bonds, the City shall deliver a certificate from an independent accounting firm, one of its financial advisors, the Paying Agent/Registrar, or another qualified third party concerning the deposit of cash and/or Government Securities to pay, when due, the principal of, and interest due on any defeased Bonds. As and to the extent applicable, if at all, the City covenants that no deposit of money or Government Securities will be made under this Section 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 (as defined in Section 30 hereof).

Any money so deposited with the Paying Agent/Registrar, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the New Series 2024B 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 for the payment of the principal of and interest on the New Series 2024B Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity of the New Series 2024B 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 New Series 2024B Bonds or any Additional Parity Bonds that is made in conjunction with the payment arrangements specified in subsection (i) or

(ii) above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the City expressly reserves the right to call the defeased New Series 2024B Bonds or any Additional Parity Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased New Series 2024B Bonds or any Additional Parity 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 (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased New Series 2024B Bonds or any Additional Parity Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased New Series 2024B Bonds or any Additional Parity Bonds.

SECTION 30. Damaged, Mutilated, Lost, Stolen, or Destroyed New Series 2024B Bonds.

A. In the event any Outstanding New Series 2024B 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 New Series 2024B Bond, in replacement for such New Series 2024B Bond in the manner hereinafter provided.

B. Application for replacement of damaged, mutilated, lost, stolen, or destroyed New Series 2024B Bonds shall be made to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a New Series 2024B 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 New Series 2024B 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 New Series 2024B Bond, as the case may be. In every case of damage or mutilation of a New Series 2024B Bond, the applicant shall surrender to the Paying Agent/Registrar for cancellation the New Series 2024B Bond so damaged or mutilated.

C. Notwithstanding the foregoing provisions of this Section, in the event any such New Series 2024B Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, or interest on the New Series 2024B Bond, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated New Series 2024B Bond) instead of issuing a replacement New Series 2024B 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 New Series 2024B 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 New Series 2024B Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the City, whether or not the lost, stolen, or destroyed New Series 2024B 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 New Series 2024B 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 3(b) of this Ordinance for New Series 2024B Bonds issued in conversion and exchange for other New Series 2024B Bonds.

SECTION 31. Ordinance to Constitute Contract. The provisions of this Ordinance shall constitute a contract between the City and the holder or holders from time to time of the New Series 2024B Bonds or any Additional Parity Bonds, and, after the issuance of any of said bonds, no change, variation, or alteration of any kind in the provisions of this Ordinance may be made, unless as herein otherwise provided, until all of said bonds issued hereunder shall have been paid as to both principal and interest.

SECTION 32. 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 New Series 2024B Bonds or any Additional Parity Bonds and all necessary records and proceedings pertaining thereto pending the sale of the New Series 2024B Bonds or any Additional Parity Bonds and the initial delivery thereof to the initial purchasers thereof, 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 thereof.

SECTION 33. Covenants to Maintain Tax-Exempt Status.

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 New Series 2024B 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 l.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 New Series 2024B Bonds or amounts treated as proceeds of the New Series 2024B Bonds, as may be necessary, so that the New Series 2024B 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 New Series 2024B 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 New Series 2024B 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 New Series 2024B 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 New Series 2024B 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. 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 New Series 2024B 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 New Series 2024B 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 New Series 2024B 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 New Series 2024B 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 New Series 2024B 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 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 New Series 2024B Bonds, or (2) the date the New Series 2024B 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 New Series 2024B 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 New Series 2024B 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 New Series 2024B 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 G as the City's written procedures.

G. Reimbursement. This Ordinance is intended to satisfy the official requirements set forth in section 1.150-2 of the Treasury Regulations.

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APPENDIX C

CERTAIN PROVISIONS OF THE 2024C 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 9. 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 Junior Lien Obligations* – (i) any bonds, notes, warrants, certificates of obligation, or other similar debt 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 have or will be granted as security for the currently outstanding Parity Bonds and any Additional Parity Bonds hereafter issued by the City, but 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 and the 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.

B. *Additional Parity Bonds* – bonds or other obligations authorized to be issued under the provisions of Section 17, including refunding bonds, which are secured by a lien on and pledge of the Net Revenues of the Systems on a parity with Previously Issued Parity Bonds and the New Series 2024C Bonds.

C. *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 Previously Issued Parity Bonds and this Ordinance.

D. *Bond Date* – shall mean June 1, 2024.

E. *City* or *Issuer* – the City of San Antonio, Texas.

F. *Closing Date* – the date of physical delivery of the Initial Bond in exchange for the payment in full by the Purchasers.

G. *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 Parity Bonds and the Junior Lien Obligations and any Additional Parity Bonds and Additional Junior Lien Obligations hereafter issued by the City, identified as follows:

(1) City of San Antonio, Texas Electric and Gas Systems Commercial Paper Notes, as further described by applicable series and program (whether traditional, extendible municipal, or otherwise), including amounts owed under each Credit Agreement (as defined in the City ordinances authorizing the issuance of the respective Commercial Paper Obligations); and

(2) 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.

H. *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 Parity Bonds.

I. *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 (including any person acting in an interim or acting capacity), 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.

J. *Fiscal Year* – the twelve-month operational period of the Systems commencing on February 1 of each year and ending on the following January 31.

K. *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 New Series 2024C Bonds.

L. *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 Parity Bonds, the Junior Lien Obligations, the Commercial Paper Obligations, and any Additional Parity Bonds 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", (ii) "City of San Antonio, Texas Electric and Gas Systems 2021 Inferior Lien Tax-Exempt Flexible Rate Revolving Notes, Series B" and "City of San Antonio, Texas Electric and Gas Systems 2021 Inferior Lien Taxable Flexible Rate Revolving Notes, Series B", (iii) any obligations that are issued subject to the limitations in Section 1502.052, as amended, Texas Government Code, and (iv) 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.

M. *Junior Lien Obligations* – 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 Parity Bonds and any Additional Parity Bonds 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;

(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;

(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;

(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;

(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;

(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;

(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;

(8) "City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2019", originally authorized in the aggregate principal amount of $252,640,000;

(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;

(10) "City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Refunding Bonds, Series 2021A", originally authorized in the aggregate principal amount of $330,700,000;

(11) "City of San Antonio, Texas Electric and Gas Systems Fixed and Variable Rate Junior Lien Revenue Refunding Bonds, Series 2022", originally authorized in the aggregate principal amount of $359,465,000;

(12) "City of San Antonio, Texas Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2023", originally authorized in the aggregate principal amount of $100,340,000; and

(13) 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.

N. *Maintenance and Operating Expenses* – those expenses 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.

O. *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 Parity 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 Outstanding Parity Bonds.

P. *New Series 2024C Bonds* – the Bonds authorized by this Ordinance, styled "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024C".

Q. *Outstanding* – as of the date of determination, all Parity Bonds theretofore issued and delivered except:

(1) those Parity Bonds theretofore canceled by the respective paying agents for such Parity Bonds or delivered to such paying agents for cancellation;

(2) those Parity Bonds for which payment has been duly provided by the City by the irrevocable deposit with the respective paying agents for such Parity Bonds of money in the amount necessary to fully pay principal of, premium, if any, and interest thereon to maturity or redemption, if any, as the case may be, provided that, if such Parity Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to the ordinance authorizing the issuance of such Parity Bonds or irrevocably provided to be given to the satisfaction of such paying agents, or waived;

(3) those Parity Bonds that have been mutilated, destroyed, lost, or stolen and for which replacement bonds have been registered and delivered in lieu thereof; and

(4) those Parity Bonds for which the payment of principal, premium, if any, and interest has been duly provided for by the City by the deposit in trust of money or Government Securities, or both.

R. *Parity Bonds* or *New Series Bonds* – the Previously Issued Parity Bonds, the New Series 2024C Bonds, and any Additional Parity Bonds.

S. *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.

T. *Previously Issued Parity Bonds* – 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:

(1) "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;

(2) "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2010A (Direct Subsidy-Build America Bonds)", dated February 1, 2010 and originally issued in the principal amount of $380,000,000;

(3) "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, Taxable New Series 2012", dated March 1, 2012 and originally issued in the principal amount of $521,000,000;

(4) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2012", dated June 1, 2012 and originally issued in the principal amount of $655,370,000;

(5) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2015", dated August 1, 2015 and originally issued in the principal amount of $320,530,000;

(6) "City of San Antonio, Texas Electric and Gas Systems Revenue Bonds, New Series 2015", dated November 1, 2015 and originally issued in the principal amount of $235,000,000;

(7) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2016", dated July 1, 2016 and originally issued in the principal amount of $544,260,000;

(8) "City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2017", dated April 1, 2017 and originally issued in the principal amount of $308,005,000;

(9) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2017", dated August 1, 2017 and originally issued in the principal amount of $194,980,000;

(10) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2018A", dated December 1, 2018 and originally issued in the principal amount of $130,220,000;

(11) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2019", dated September 1, 2019 and originally issued in the principal amount of $114,685,000;

(12) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2020", dated January 1, 2020 and originally issued in the principal amount of $134,580,000;

(13) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020", dated November 1, 2020 and originally issued in the principal amount of $418,255,000;

(14) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2022", dated April 1, 2022 and originally issued in the principal amount of $109,620,000;

(15) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022", dated April 1, 2022 and originally issued in the principal amount of $413,720,000;

(16) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2023A", dated June 1, 2023 and originally issued in the principal amount of $459,450,000;

(17) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2023B", dated June 1, 2023 and originally issued in the principal amount of $177,130,000;

(18) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024C", dated November 1, 2024 and originally issued in the principal amount of $162,715,000; and

(19) 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.

U. *Refunded Obligations* – those obligations set forth in Schedule I hereof.

V. *Refunding Candidates* – shall mean:

(1) "City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Taxable Series 2010A (Direct Subsidy – Build America Bonds)", in the aggregate, currently outstanding principal amount of $280,000,000;

(2) "City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2014", in the aggregate, currently outstanding principal amount of $30,770,000;

(3) "City of San Antonio Electric and Gas Systems Variable Rate Junior Lien Revenue Refunding Bonds, Series 2015A", in the aggregate, currently outstanding principal amount of $124,205,000;

(4) "City of San Antonio Electric and Gas Systems Variable Rate Junior Lien Revenue Bonds, Series 2015C", in the aggregate, currently outstanding principal amount of $99,740,000;

(5) Any Commercial Paper Notes (whether traditional, extendible municipal, or otherwise) or any Inferior Lien Obligations, authorized to be issued and at any one time outstanding in the aggregate principal amounts of $1,000,000,000 (or if approved by the City Council, $1,150,000,000 as the authorized maximum principal amount of the collective programs) and $600,000,000, respectively; and

(6) Any other general or special obligation of the City hereinafter identified and selected by a Designated Financial Officer as a candidate presenting an opportunity advantageous to the Systems and its ratepayers.

W. *Registered New Series 2024C Bonds* – any Parity Bonds issued as fully-registered bonds, without coupons.

X. *Surety Bond* – the surety bond issued by Assured Guaranty Municipal Corp. guaranteeing certain payments into the Retirement Account as provided in Section 11 hereof with respect to the Parity Bonds as provided in the Surety Bond and subject to the limitations set forth in the Surety Bond and the Surety Bond shall constitute a permissible Surety Policy.

Y. *Surety Policy* – includes a surety bond, insurance policy, letter of credit, or other agreement or instrument whereby the issuer is obligated to provide funds up to and including the maximum amount and under the conditions specified in such agreement or instrument.

Z. *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 Parity Bonds including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

AA. *Tender Candidates* – shall mean:

(1) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020", dated November 1, 2020 and originally issued in the principal amount of $418,255,000;

(2) "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022", dated April 1, 2022 and originally issued in the principal amount of $413,720,000; and

(3) Any other general or special obligation of the City hereinafter identified and selected by a Designated Financial Officer as a candidate presenting an opportunity advantageous to the Systems and its ratepayers, as determined by a Designated Financial Officer.

BB. *Tendered Obligations* – those obligations set forth in Schedule I hereof.

SECTION 10: Pledge.

A. The City hereby covenants and agrees with the holders of the Parity Bonds that the Net Revenues of the Systems shall be and are hereby pledged to the payment of principal of and interest on (including the establishment and maintenance of a reserve, as provided in Sections 11 and 17E. of this Ordinance) the Parity Bonds, and it is hereby ordained that all Parity Bonds and the interest thereon shall constitute a first lien upon the Net Revenues of the Systems.

B. Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Parity 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, as amended, 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, as amended, and enable a filing to perfect the security interest in this pledge to occur.

SECTION 11. Rates and Charges. The City hereby agrees and reaffirms its covenants to the holders of the Parity Bonds 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 shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

A. 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;

B. the interest on and principal of all Parity Bonds, 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 Parity Bonds;

C. the interest on and principal of the Prior Lien Bonds, including the Junior Lien Obligations (including the credit agreement) and any Additional Junior 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 Junior Lien Obligations and any Additional Junior Lien Obligations;

D. 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 the ordinance authorizing the issuance of the Commercial Paper), and the Credit Agreement (as defined in the ordinance authorizing the issuance of the Commercial Paper); and

E. any 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 Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code).

SECTION 12: General Account. The City, acting through the Board of Trustees, hereby covenants with respect to the holders of the Parity 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 13. 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 Parity Bonds, including the establishment and maintenance of the reserve therefor;

THIRD: to the payment of the Prior Lien Bonds, including the Junior Lien Obligations and any Additional Junior Lien Obligations hereafter issued, and any credit agreement relating thereto, including the establishment and maintenance of the funds and accounts therefor;

FOURTH: to the payment and security of the Commercial Paper Notes and the Credit Agreement (as defined in the ordinance authorizing the Commercial Paper);

FIFTH: to the payment and security of the Inferior Lien Obligations which are inferior in lien to the Parity Bonds, the Junior Lien Obligations, and the Commercial Paper Notes;

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 17 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 16 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 17 of this Ordinance.

SECTION 14. Parity Bond Retirement Account. For purposes of paying the principal of and interest on the Parity Bonds, when and as the same shall become due, and providing a reserve to prevent a default in the payment of such principal and interest on Parity Bonds, the City, acting through the Board of Trustees, hereby reaffirms the creation and establishment of a special account known as the "City of San Antonio Electric and Gas Systems Parity Bond Retirement Account" (the *Retirement Account*), which account shall continue to be kept separate and apart from all other funds or accounts of the Systems or of the City. The City hereby reaffirms its covenant that the Retirement Account shall be established and kept at such Depository as the Board of Trustees shall designate and funds deposited therein shall be used only for the purpose of paying the principal of and interest on the Parity Bonds.

From the Net Revenues of the Systems pledged to the payment and security of the Parity Bonds, the Board of Trustees shall cause to be paid in the Retirement Account such amounts as will be fully sufficient to (i) promptly pay, when due, all principal of and interest on the Parity Bonds (the "interest and sinking fund portion" of the Retirement Account) and (ii) establish and

maintain in the Retirement Account a reserve amount (the *Reserve Amount* or *reserve fund portion* of the Retirement Account) equal to not less than the average annual principal and interest requirements of all Outstanding Parity Bonds (calculated on a Fiscal Year basis as of the date the last series of Parity Bonds were authorized and after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code)); provided, however, that the City expressly reserves the right in this Ordinance to fund the Reserve Amount, in whole or in part, by purchasing a Surety Policy. In addition, all sums received from the initial purchasers of Parity Bonds constituting accrued interest, if any, shall be placed in the interest and sinking fund portion of the Retirement Account.

In addition to the deposits required to be made in the interest and sinking fund portion of the Retirement Account to pay the annual debt service requirements of the Previously Issued Parity Bonds, the Board is hereby directed to deposit in said Account the following amounts to pay the principal of and interest on the New Series 2024C Bonds.

A. Deposits for payment of interest--on or before the 15th day of the month to occur following the date of delivery of the New Series 2024C Bonds to the Purchasers thereof and on or before the 15th day of each following month through January 15, 2025 an equal amount of money with such deposits totaling not less than the amount of the installment of interest coming due on the New Series 2024C Bonds on February 1, 2024, and on or before August 1, 2025 and on or before the 15th day of each following month, until the New Series 2024C Bonds are no longer Outstanding, an amount of money equal to not less than one-sixth (1/6) of the next semiannual installment of interest to become due on said New Series 2024C Bonds; provided, that to the extent there is money available in the interest and sinking fund portion of the Retirement Account to pay interest on said New Series 2024C Bonds on February 1, 2025, such deposits may be reduced by the amount of the aforesaid money available to pay said interest on said New Series 2024C Bonds.

B. Deposits for payment of principal--on or before the 15th day of each following month and during each of the twelve-month periods preceding the dates the New Series 2024C Bonds are stated to mature, or are required to be redeemed prior to scheduled maturity, not less than one-twelfth (1/12) of the principal amount required herein to be paid at stated maturity or to be redeemed prior to scheduled maturity.

In compliance with the provisions of the ordinances authorizing the issuance of the Previously Issued Parity Bonds and this Ordinance, the Board of Trustees shall cause to be accumulated and maintained in the Retirement Account a Reserve Amount equal to not less than the average annual principal and interest requirements of the Previously Issued Parity Bonds and the New Series 2024C Bonds, such Reserve Amount to be determined on the basis of cash on deposit and the book value of securities in which money in the reserve fund portion of the Retirement Account is invested, and to be in addition to the amount on deposit in the Retirement Account for purposes of paying the annual debt service requirements of the Outstanding Parity Bonds. The Reserve Amount equals not less than the average annual principal and interest requirements of the Previously Issued Parity Bonds and the New Series 2024C Bonds. Whenever the amount in the reserve fund portion of the Retirement Account equals less than the total amount required to be on deposit therein in accordance with the provisions of this Ordinance, monthly

deposits in an amount equal to the sum of the monthly deposits previously required under the provisions of the ordinances authorizing the Previously Issued Parity Bonds, shall be resumed and continued to be made on or before the 15th day of each month until the total amount required to be on deposit in the reserve fund portion of the Retirement Account has been fully restored; provided, however, that the City expressly reserves the right in this Ordinance to fund the Reserve Amount, in whole or in part, by purchasing a Surety Policy.

In the event there are insufficient funds available in any month to permit the required monthly deposits in the Retirement Account for purposes of paying the annual debt service requirements on the Parity Bonds and accumulating and maintaining the Reserve Amount, either or both, amounts equivalent to such deficiencies shall be set apart and paid into the said Account from the first available and unallocated Net Revenues pledged to the payment of the Parity Bonds in the next following month or months, and such payments shall be in addition to the monthly amounts otherwise required to be paid into said Account during such month or months.

Income and profits received from the investment of funds in the Retirement Account may be taken into consideration and reduce the monthly deposits which would otherwise be required to be placed in the interest and sinking fund portion and reserve fund portion of the Retirement Account from the pledged Net Revenues of the Systems.

The City, at its option and consistent with the provisions of this Section, may fund the Retirement Account at the Reserve Amount by purchasing a Surety Policy that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Reserve Amount in the event funds on deposit in the bond fund portion of the Retirement Account are not sufficient to pay the debt service requirements on the Parity Bonds. All ordinances adopted after the date hereof authorizing the issuance of Additional Parity Bonds shall contain a provision to this effect. Section 51 of this Ordinance contains certain provisions relating to the Surety Bond. The City reserves the right to use gross revenues of the Systems to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the City (including interest) to the issuer of the Surety Policy, the payment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the reserve fund portion of the Retirement Account pursuant to the provisions of this Section to restore the balance in such fund to the Reserve Amount for the Parity Bonds.

In the event a Surety Policy is issued to satisfy all or part of the City's obligation with respect to the Reserve Amount causes the amount then on deposit in the reserve fund portion of the Retirement Account to exceed the Reserve Amount, the City may transfer such excess amount to any fund or funds established for the payment of or security for the Parity Bonds (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code) or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents bond proceeds, then such amount must be transferred to the bond fund portion of the Retirement Account.

SECTION 15: 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 Section 10 of this Ordinance and after payment and provisions for payments and additions to the Retirement Account 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 l 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 16 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 16 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 16: Payments or Credits to the General Fund of the City. In accordance with the provisions of the ordinances authorizing the issuance of the Previously Issued Parity Bonds and this Ordinance, and after the payments to the Retirement Account 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 17. Investments. Funds on deposit in the General Account, the Construction Account (hereinafter defined), the Retirement Account 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, as amended, 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. During the period of time the Reserve Amount in the Retirement Account totals not less than the total amount required to be on deposit therein, all income and profits received from the investment of such funds shall be transferred to the interest and sinking fund portion of the Retirement Account, thereby reducing the amount required to be deposited therein, to meet the debt service requirements of Parity Bonds; otherwise income and profits received from investments of the funds constituting the Reserve Amount shall be retained as a portion of the Reserve Amount. Income and profits received from investments of funds on deposit in the interest and sinking fund portion of the Retirement Account shall be used only for the purposes of paying the principal of and interest on the Parity Bonds, as and when the same shall become due.

SECTION 18. Transfer of Funds to the Paying Agent/Registrar. On or before an interest or principal payment date of any Parity Bonds, the Treasurer of the Board shall make transfer of funds on deposit in the Retirement Account to the paying agent or paying agents (including 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 Parity Bonds then Outstanding. In making such transfers, the Treasurer of the Board shall take into account any money on deposit with the any paying agent/registrar relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code). In the event Parity 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 Parity 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 19. 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 20. Issuance of Additional Parity Bonds. In addition to the right to issue obligations of inferior lien, as authorized by the laws of the State of Texas, the City reserves the right to issue additional revenue obligations payable from the same source and equally and ratably secured in the same manner as the Previously Issued Parity Bonds, and such additional revenue obligations and the Previously Issued Parity Bonds shall in all respects be of equal dignity. The amount of additional revenue obligations for Systems improvements and extensions to be issued from time to time shall be based upon the difference between the estimated costs of planned extensions and improvements and the total amount of funds available and estimated to be available for extensions and improvements to the Systems; and it shall be the duty of the Board of Trustees to request the City Council to authorize and provide for the issuance and sale of additional revenue obligations in the amount necessary to meet the cost of such planned extensions and improvements, such request to be evidenced by resolution of the Board of Trustees; and upon receipt of such request, it shall be the duty of the City Council to review such request and to provide for the issuance and sale of such Additional Parity Bonds as the City Council may deem necessary in order that the planned extensions and improvements may be made. It is hereby covenanted and agreed that no additional refunding bonds or other obligations shall be issued or incurred on a parity with the Parity Bonds unless and until the following conditions can be satisfied and met:

A. The Board of Trustees by resolution (i) shall have consented to the issuance of such Additional Parity Bonds and the payment thereof from the Net Revenues of the Systems and (ii) shall have further agreed to comply with all of the terms and provisions of the ordinance authorizing such Additional Parity Bonds with relation to the operation of the Systems and the disposition of revenues of the Systems.

B. A Designated Financial Officer shall have executed a certificate stating (i) that the City is not in default as to any covenant, obligation, or undertaking contained in any ordinance or other document relating to the issuance of any obligations then Outstanding which are payable from and secured by a lien on and pledge of the Net Revenues of the Systems, and (ii) that each of the Accounts created and established for the sole purpose of paying the principal of and interest on such obligations contains the amount then required to be on deposit therein.

C. The Board of Trustees shall have secured from an independent certified public accountant a certificate evidencing his determination that the Net Revenues of the Systems (including earnings from the investment of Systems' funds) were, during the last completed Fiscal Year or for any consecutive twelve (12) month period during the last fifteen (15) consecutive months prior to the month of adoption of the ordinance authorizing the issuance of the additional obligations, equal to at least one and one-half times the maximum annual principal and interest requirements on the then outstanding Parity Bonds and the Additional Parity Bonds then proposed to be issued, after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code). For the purpose of determining said Net Revenues, the certified public accountant may adjust the Net Revenues to include a proper allowance for revenues arising from any increase in electric and gas

rates which has become effective prior to the issuance of the proposed Additional Parity Bonds, but which during all or any part of the past Fiscal Year or other twelve (12) month period used for determining said Net Revenues was not in effect, in an amount equal to the amount by which the billings of the Systems to customers for such Fiscal Year or twelve (12) month period would have been increased if such increase in rates had been in effect during the whole of such Fiscal Year or twelve (12) month period.

D. The Additional Parity Bonds are to mature on February 1 or August 1, or both, in each of the years in which they are scheduled to mature.

E. The ordinance authorizing the issuance of the Additional Parity Bonds (i) provides that the amount to be accumulated and maintained in the Retirement Account as the Reserve Amount shall be an amount equal to not less than the average annual requirements for the payment of principal of and interest on all Parity Bonds which will be Outstanding after giving effect to the issuance of the Additional Parity Bonds then being issued and (ii) provides that any increase to the Reserve Amount in the Retirement Account shall be accumulated within five (5) years and one (1) month from the date of passage of the ordinance authorizing the issuance of the Additional Parity Bonds.

Provided, however, that Parity Bonds may be issued from time to time (pursuant to any law then available) for purposes of refunding outstanding Parity Bonds upon such terms and conditions as the governing body of the City and the Board of Trustees may deem to be in the best interest of the City, and, if less than all Outstanding Parity Bonds are refunded, the proposed refunding bonds shall be considered as "Additional Parity Bonds" under the provisions of this Section, but the certificate required in paragraph C of this Section shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the bonds being refunded following their cancellation or provision being made for their payment). Parity Bonds shall not be considered to be "outstanding" (under the provisions of this Ordinance) when provision has been made for their payment in the manner and to the extent permitted by the laws of the State of Texas applicable at the time such provision is made.

Provided, further, that any obligations hereafter issued which are junior and subordinate in all respects to the Parity Bonds may (without impairment of the obligation of contract of the Parity Bonds) be refunded as Parity Bonds by meeting all the terms and conditions for the issuance of Additional Parity Bonds; and such junior lien obligations may achieve the status of and become, for all purposes, Parity Bonds when the following conditions can be met and upon the happening of the following events: (i) the Board of Trustees shall have caused to be filed with the City Clerk of the City a certified written report of an independent certified public accountant demonstrating that the Net Revenues, during the last completed Fiscal Year or for any twelve (12) consecutive months during the last fifteen (15) months prior to the month of filing such report, were equal to at least one and one-half (1-1/2) times the maximum annual requirements for the payment of principal of and interest on the then outstanding Parity Bonds and for the obligations then proposed to achieve the status of Parity Bonds, after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code); (ii) the Chief Executive Officer, Chief Financial Officer, or a Treasurer of the Board

shall have filed with the City Clerk of the City (including any person acting in an interim or acting capacity) a certificate stating that the City is not in default as to any covenant, obligation, or undertaking contained in any ordinance or other document relating to the issuance of any obligations then outstanding which are payable from and secured by a lien on and pledge of the Net Revenues of the Systems and that each of the Accounts created and established for the sole purpose of paying the principal of and interest on such obligations contains the amount then required to be on deposit therein; (iii) the obligations proposed to achieve the status of Parity Bonds are stated to mature on February 1 or August 1, or both, in each of the years they are scheduled to mature; and (iv) the Reserve Amount required to be accumulated or then on deposit in the Retirement Account equals not less than the average annual requirements for the payment of principal of and interest on all Parity Bonds which will be Outstanding after giving effect to the obligations then proposed to achieve the status of Parity Bonds, after giving consideration as an offset to debt service the receipt or anticipated receipt of a refundable tax credit or similar payment relating to a series of Parity Bonds irrevocably designated as refundable tax credit bonds under the Code (including, but not limited to, any Parity Bonds designated as "build America bonds" and "qualified bonds" under the Code).

SECTION 21. No Obligation of Lien Superior to that of the Parity Bonds. The City will not hereafter issue any additional bonds or create or issue evidences of indebtedness for any purpose possessing a lien on Net Revenues superior to that to be possessed by the Parity Bonds. The City, however, retains the right to create and issue evidences of indebtedness whose lien on Net Revenues shall be subordinate to that possessed by the Parity Bonds.

SECTION 22. Management of the Systems. In accordance with the provisions of the ordinances authorizing the Previously Issued Parity Bonds and this Ordinance, the City hereby agrees, covenants, and reaffirms that during such time as any Parity 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 Parity 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 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 23. Method of Amendment. The City hereby reserves the right to amend ordinances authorizing the issuance of Parity Bonds subject to the following terms and conditions. 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 20 shall result in an impairment of the contract between the City and the Bondholders hereby evidenced.

A. The holders of Parity Bonds aggregating in principal amount sixty-six and two-thirds percent (66-2/3%) of the aggregate principal amount of then Outstanding Parity Bonds shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City; provided, however, that without the consent of the holders of the Parity Bonds the provisions of the Certificate as to Tax Exemption executed in connection with the initial delivery of the New Series 2024C Bonds may be amended at any time if the City receives an opinion from a nationally recognized bond counsel stating that such amendment would not adversely affect the status for federal income tax purposes of interest on the New Series 2024C Bonds and provided further that nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this Ordinance or in the bonds so as to:

(1) make any change in the stated maturity of Outstanding Parity Bonds;

(2) reduce the rate of interest borne by any of the Outstanding Parity Bonds;

(3) reduce the amount of the principal of, or redemption premium, if any, payable on any Outstanding Parity Bonds;

(4) modify the terms of payment of principal or of interest or redemption premium on Outstanding Parity Bonds or any of them or impose any condition with respect to such payment;

(5) affect the rights of the holders of less than all of the Parity Bonds then Outstanding; or

(6) change the minimum percentage of the principal amount of bonds necessary for consent to such amendment.

B. If at any time the City shall desire to amend this Ordinance under this Section, the City shall cause notice of the proposed amendment to be published at least once in a financial publication published in The City of New York, New York. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the Office of the City Clerk of the City for inspection by all holders of Parity Bonds then Outstanding.

C. Whenever at any time within one (1) year from the date of publication of such notice the City shall receive an instrument or instruments executed by the holders of at least sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of all Parity Bonds then

Outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which shall specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the City Clerk of the City, the City may adopt the amendatory ordinance in substantially the same form.

D. Upon the adoption of any amendatory ordinance pursuant to the provisions of this Section, the ordinances authorizing the Parity Bonds then Outstanding shall be deemed to be modified and amended in accordance with such amendatory ordinance, and the respective rights, duties, and obligations of the City and all holders of Outstanding Parity Bonds shall thereafter be determined, exercised, and enforced, subject in all respects to such amendment.

E. Any consent given by the holder of an Outstanding Parity Bond pursuant to the provisions of this Section shall be irrevocable for a period of six (6) months from the date of the publication of the notice provided for in this Section and shall be conclusive and binding upon all future holders of the same bond during such period. Such consent may be revoked at any time after six (6) months from the date of the publication of said notice by the holder who gave such consent, or by a successor in title, by filing notice with the City Clerk of the City, but such revocation shall not be effective if the holders of sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of the then Outstanding Parity Bonds as in this Section defined, have, prior to the attempted revocation, consented to and approved the amendment.

F. Except as provided in G. below for the Registered New Series 2024C Bonds, for the purposes of establishing ownership of Parity Bonds, the fact of the holding of Parity Bonds by any Bondholder, the amount and numbers of such bonds, and the dates of their holding such bonds, may be proved by the affidavit of the person claiming to be such holder, or by a certificate executed by any trust company, bank, or any other depository wherever situated showing that at the date therein mentioned such person had on deposit with such trust company, bank, or other depository the bonds described in such certificate. The City may conclusively assume that such ownership continues until notice to the contrary is served on the City.

G. For the purposes of establishing ownership of the Registered New Series 2024C Bonds, the City shall rely solely upon the registration of the ownership of such bonds on the Registration Books kept by the Paying Agent/Registrar, as provided in this Ordinance, notwithstanding anything to the contrary contained in the ordinances authorizing Previously Issued Parity Bonds or in this Ordinance.

SECTION 24. <u>Maintenance and Operation--Insurance</u>. 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 Parity Bonds are Outstanding, the City, acting by and through the Board of Trustees, agrees to maintain insurance of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business.

SECTION 25. <u>Records--Accounts--Accounting Reports</u>. The City, acting by and through the Board of Trustees, hereby agrees, covenants, and reaffirms that so long as any Parity 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 Parity 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. Copies of the aforesaid annual audit shall be immediately furnished to the Executive Director of the Municipal Advisory Council of Texas at her office in Austin, Texas and to the original purchaser of a series of Parity Bonds and any subsequent holder thereof at his written request. At the close of the first six (6) months' period of each Fiscal Year, the Treasurer of the Board is hereby directed to furnish a copy of an operating and income statement in reasonable detail covering such period to any bondholder upon his written request therefor received not more than thirty (30) days after the close of said six (6) months' period. Any bondholder shall have the right to discuss with the accountant making the annual audit the contents thereof and to ask for such additional information as he may reasonably require, provided such bondholder shall have offered to the Board of Trustees sufficient indemnity to pay any costs, expenses, and liabilities which may or might be incurred in providing such additional information.

SECTION 26. 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 Retirement Account 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 following remedies shall be available:

A. The holder or holders of any Parity 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

B. 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 27. 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 Bondholder's investment decision relative to any Bonds.

B. The City has the lawful power to pledge the revenues supporting the New Series 2024C Bonds and has lawfully exercised said power under the laws of the State of Texas, including said power existing under the Act, and the New Series 2024C Bonds, the Previously Issued Parity Bonds, and Additional Parity Bonds, 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 New Series 2024C Bonds, the Previously Issued Parity Bonds, the Junior Lien Obligations, the Commercial Paper, 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 Parity Bonds, the Prior Lien Bonds (including the Junior Lien Obligations), the Commercial Paper Notes, and the Inferior Lien Obligations, and any other provision of the ordinances authorizing the issuance of these obligations.

D. So long as any of the Parity 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; and, provided further, with the exception of the Additional Parity Bonds expressly permitted by this Ordinance, the City will not encumber the Net Revenues unless such encumbrance is made junior and subordinate to all of the provisions of this Ordinance.

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 16 hereof.

F. To the extent it legally may, the City further covenants and agrees that, so long as any Parity 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 28. New Series 2024C Bonds are Special Obligations. The New Series 2024C Bonds and any Additional Parity Bonds are special obligations of the City payable from the pledged Net Revenues, and the holders thereof shall never have the right to demand payment out of funds raised or to be raised by taxation.

SECTION 29. 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, and interest on the New Series 2024C Bonds or any Additional Parity 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.

New Series 2024C Bonds, or any principal amount(s) thereof, shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such New Series 2024C Bonds or the principal amount(s) thereof at stated maturity, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, and/or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities 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 and interest on such Bonds, or the principal amount(s) thereof, on or prior to the stated maturity thereof. In the event of a defeasance of the Bonds, the City shall deliver a certificate from an independent accounting firm, one of its financial advisors, the Paying Agent/Registrar, or another qualified third party concerning the deposit of cash and/or Government Securities to pay, when due, the principal of, and interest due on any defeased Bonds. As and to the extent applicable, if at all, the City covenants that no deposit of money or Government Securities will be made under this Section 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 (as defined in Section 30 hereof).

Any money so deposited with the Paying Agent/Registrar, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the New Series 2024C 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 for the payment of the principal of and interest on the New Series 2024C Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity of the New Series 2024C 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 New Series 2024C Bonds or any Additional Parity Bonds that is made in conjunction with the payment arrangements specified in subsection (i) or

(ii) above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the City expressly reserves the right to call the defeased New Series 2024C Bonds or any Additional Parity Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased New Series 2024C Bonds or any Additional Parity 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 (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased New Series 2024C Bonds or any Additional Parity Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased New Series 2024C Bonds or any Additional Parity Bonds.

SECTION 30. Damaged, Mutilated, Lost, Stolen, or Destroyed New Series 2024C Bonds.

A. In the event any Outstanding New Series 2024C 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 New Series 2024C Bond, in replacement for such New Series 2024C Bond in the manner hereinafter provided.

B. Application for replacement of damaged, mutilated, lost, stolen, or destroyed New Series 2024C Bonds shall be made to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a New Series 2024C 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 New Series 2024C 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 New Series 2024C Bond, as the case may be. In every case of damage or mutilation of a New Series 2024C Bond, the applicant shall surrender to the Paying Agent/Registrar for cancellation the New Series 2024C Bond so damaged or mutilated.

C. Notwithstanding the foregoing provisions of this Section, in the event any such New Series 2024C Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, or interest on the New Series 2024C Bond, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated New Series 2024C Bond) instead of issuing a replacement New Series 2024C 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 New Series 2024C 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 New Series 2024C Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the City, whether or not the lost, stolen, or destroyed New Series 2024C 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 New Series 2024C 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 3(b) of this Ordinance for New Series 2024C Bonds issued in conversion and exchange for other New Series 2024C Bonds.

SECTION 31. Ordinance to Constitute Contract. The provisions of this Ordinance shall constitute a contract between the City and the holder or holders from time to time of the New Series 2024C Bonds or any Additional Parity Bonds, and, after the issuance of any of said bonds, no change, variation, or alteration of any kind in the provisions of this Ordinance may be made, unless as herein otherwise provided, until all of said bonds issued hereunder shall have been paid as to both principal and interest.

SECTION 32. 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 New Series 2024C Bonds or any Additional Parity Bonds and all necessary records and proceedings pertaining thereto pending the sale of the New Series 2024C Bonds or any Additional Parity Bonds and the initial delivery thereof to the initial purchasers thereof, 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 thereof.

SECTION 33. Covenants to Maintain Tax-Exempt Status.

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 New Series 2024C 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 l.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 New Series 2024C Bonds or amounts treated as proceeds of the New Series 2024C Bonds, as may be necessary, so that the New Series 2024C 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 New Series 2024C 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 New Series 2024C 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 New Series 2024C 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 New Series 2024C 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. 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 New Series 2024C 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 New Series 2024C 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 New Series 2024C 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 New Series 2024C 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 New Series 2024C 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 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 New Series 2024C Bonds, or (2) the date the New Series 2024C 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 New Series 2024C 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 New Series 2024C 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 New Series 2024C 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 G as the City's written procedures.

G. Reimbursement. This Ordinance is intended to satisfy the official requirements set forth in section 1.150-2 of the Treasury Regulations.

* * * *

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APPENDIX D

CPS ENERGY

FORMS OF OPINIONS OF CO-BOND COUNSEL

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McCall, Parkhurst & Horton L.L.P.
112 East Pecan, Suite 1310
San Antonio, Texas 78205

Kassahn & Ortiz, P.C.
9901 I.H.10 West, Suite 800
San Antonio, Texas 78230

June 25, 2024

DRAFT

IN REGARD to the authorization and issuance of the "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024A" (the *Bonds*), dated June 1, 2024, in the aggregate principal amount of $________, 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 20__ through 20__, and February 1, 20__, 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 is 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 Trust Company, National Association, Houston, Texas, the Escrow and Trust Agreement (the *Escrow Agreement*) between the City and U.S. Bank Trust Company, National Association, Houston, Texas, as escrow agent (the *Escrow Agent*), and a special report (the *Report*) of Robert Thomas CPA, LLC, Overland Park, Kansas (the *Verification Agent*) 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 solely 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 solely by a first and prior lien on and pledge of the Net Revenues, on a parity with the currently outstanding Previously Issued Parity Bonds, derived from the operation of the Systems. In the Ordinance, the City retains the right to issue Additional Parity Bonds and bonds or other evidences of indebtedness whose lien on and pledge of the Net Revenues shall be subordinate and inferior to that possessed by the Bonds and the other Parity Bonds, 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 proceeds of the Bonds have been defeased and are regarded as being outstanding under the related ordinances 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 Report by the Verification Agent 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 Report by the Verification Agent 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, except as described below, in computing the alternative minimum taxable income of the owners thereof.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

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.

McCall, Parkhurst & Horton L.L.P.
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9901 I.H.10 West, Suite 800
San Antonio, Texas 78230

June 25, 2024

DRAFT

IN REGARD to the authorization and issuance of the “City of San Antonio, Texas Electric and Gas Systems Revenue and Refunding Bonds, New Series 2024B” (the *Bonds*), dated June 1, 2024, in the aggregate principal amount of $__________, 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 20__ through 20__, and February 1, 20___, 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 certain 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 is 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 Trust Company, National Association, Houston, Texas, the Escrow and Trust Agreement (the *Escrow Agreement*) between the City and U.S. Bank Trust Company, National Association, Houston, Texas, as escrow agent (the *Escrow Agent*), and a special report (the *Report*) of Robert Thomas CPA, LLC, Overland Park, Kansas (the *Verification Agent*) 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 solely 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 solely by a first and prior lien on and pledge of the Net Revenues, on a parity with the currently outstanding Previously Issued Parity Bonds, derived from the operation of the Systems. In the Ordinance, the City retains the right to issue Additional Parity Bonds and bonds or other evidences of indebtedness whose lien on and pledge of the Net Revenues shall be subordinate and inferior to that possessed by the Bonds and the other Parity Bonds, 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 proceeds of the Bonds have been defeased and are regarded as being outstanding under the related ordinances 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 Report by the Verification Agent 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 Private Letter Ruling 202309014 issued by the Internal Revenue Service on March 3, 2023, the Report by the Verification Agent 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, except as described below, in computing the alternative minimum taxable income of the owners thereof.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

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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San Antonio, Texas 78205

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San Antonio, Texas 78230

June 25, 2024

DRAFT

IN REGARD to the authorization and issuance of the "City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, New Series 2024C" (the *Bonds*), dated June 1, 2024, in the aggregate principal amount of $________, 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 20__ through 20__, and February 1, 20__, 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 is 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 Trust Company, National Association, Houston, Texas, the Escrow and Trust Agreement (the *Escrow Agreement*) between the City and U.S. Bank Trust Company, National Association, Houston, Texas, as escrow agent (the *Escrow Agent*), and a special report (the *Report*) of Robert Thomas CPA, LLC, Overland Park, Kansas (the *Verification Agent*) 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 solely 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 solely by a first and prior lien on and pledge of the Net Revenues, on a parity with the currently outstanding Previously Issued Parity Bonds, derived from the operation of the Systems. In the Ordinance, the City retains the right to issue Additional Parity Bonds and bonds or other evidences of indebtedness whose lien on and pledge of the Net Revenues shall be subordinate and inferior to that possessed by the Bonds and the other Parity Bonds, 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 proceeds of the Bonds have been defeased and are regarded as being outstanding under the related 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 Report by the Verification Agent 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 Report by the Verification Agent 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, except as described below, in computing the alternative minimum taxable income of the owners thereof.

WE CALL YOUR ATTENTION TO THE FACT that the interest on tax-exempt obligations, such as the Bonds, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

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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APPENDIX E

CPS ENERGY

SCHEDULE OF REFUNDED OBLIGATIONS

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SCHEDULE OF REFUNDED OBLIGATIONS*

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2024A

Commercial Paper Notes, New Series A-1

Dealer: JPMorgan Securities LLC

Issue Date	Maturity Date	Principal Amount	Interest Amount	Interest (%)	Payment Amount
4/4/2024	9/20/2024	$200,000,000.00	$3,463,114.75	3.75%	$203,463,114.75
Total New Series A-1		$200,000,000.00	$3,463,114.75		$203,463,114.75

Commercial Paper Notes, New Series B

Dealer: JPMorgan Securities LLC

Issue Date	Maturity Date	Principal Amount*	Interest Amount	Interest (%)	Payment Amount
TBD	TBD	$8,500,000.00	TBD	TBD	TBD
Total New Series B		$8,500,000.00	TBD	TBD	TBD

2021 Inferior Lien Tax-Exempt Flexible Rate Revolving Notes, Series B-1**

JPMorgan Chase Bank, National Association

Issue Date	Maturity Date	Principal Amount	Interest Amount	Interest (%)	Payment Amount
4/25/2024	12/1/2024	$128,250,000.00	TBD	TBD	TBD
Total Series B-1		$128,250,000.00	TBD	TBD	TBD

2021 Inferior Lien Tax-Exempt Flexible Rate Revolving Notes, Series B-2**

Wells Fargo Bank, National Association

Issue Date	Maturity Date	Principal Amount	Interest Amount	Interest (%)	Payment Amount
4/25/2024	12/1/2024	$114,000,000.00	TBD	TBD	TBD
Total Series B-2		$114,000,000.00	TBD	TBD	TBD

2021 Inferior Lien Tax-Exempt Flexible Rate Revolving Notes, Series B-3**

Frost Bank

Issue Date	Maturity Date	Principal Amount	Interest Amount	Interest (%)	Payment Amount
4/25/2024	12/1/2024	$42,750,000.00	TBD	TBD	TBD
Total Series B-3		$42,750,000.00	TBD	TBD	TBD
GRAND TOTAL		**$493,500,000.00**	**TBD**	**TBD**	**TBD**

* Preliminary, subject to change.

** Anticipated to be paid prior to stated maturity, utilizing certain proceeds of the Series 2024A Bonds, on or about July 25, 2024.

SCHEDULE OF REFUNDED OBLIGATIONS*
(continued)

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE AND REFUNDING BONDS, NEW SERIES 2024B

City of San Antonio, Texas Electric and Gas Systems Junior Lien Revenue Bonds, Series 2014

Maturity Date (2/1)	Interest Rate (%)	Par Amount ($)	Call Date	Call Price (%)
2043[1]	5.000	15,010,000	8/9/2024	100
2044[1]	5.000	15,760,000	8/9/2024	100
		30,770,000		

(1) Term Bond with original sinking fund redemption payments on February 1 in 2040, 2041, 2042, and 2043, with a final maturity in 2044. Prior sinking fund installments (other than those listed above) were subject to redemption pursuant to a prior transaction.

City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020

Maturity Date (2/1)	Interest Rate (%)	Outstanding Principal Amount ($)	Redemption Date[2]
2034	2.142	13,760,000	NONE

(2) On the Closing Date, dependent on market conditions, certain proceeds of the 2024B Bonds are expected to be deposited into an Escrow Fund to defease these Refunded Obligations to maturity as set forth above. See "THE BONDS – The Refunded Obligations" herein.

City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022

Maturity Date (2/1)	Interest Rate (%)	Outstanding Principal Amount ($)	Redemption Date[3]	Redemption Price (%)
2025	3.041	6,710,000	NONE	-
2026	3.146	7,580,000	NONE	-
2027	3.196	7,765,000	NONE	-
2028	3.238	4,880,000	NONE	-
2029	3.418	4,775,000	NONE	-
2030	3.458	3,000,000	NONE	-
2031	3.608	6,910,000	NONE	-
2032	3.758	1,995,000	NONE	-
2033	3.908	16,300,000	2/1/2032	100
2034	4.058	1,700,000	2/1/2032	100

(3) On the Closing Date, dependent on market conditions, certain proceeds of the 2024B Bonds are expected to be deposited into an Escrow Fund to defease these Refunded Obligations to each of their respective call and maturity dates (as applicable), as set forth above. See "THE BONDS – The Refunded Obligations" herein.

* Preliminary, subject to change.

SCHEDULE OF REFUNDED OBLIGATIONS*
(continued)

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2024C

Commercial Paper Notes, Series A

Dealer: JPMorgan Securities LLC

Issue Date	Maturity Date	Principal Amount	Interest Amount	Interest (%)	Payment Amount
TBD	TBD	$10,000,000.00	TBD	TBD	TBD
TBD	TBD	$50,000,000.00	TBD	TBD	TBD
Total Series A		$60,000,000.00	TBD	TBD	TBD

Commercial Paper Notes, New Series B

Dealer: JPMorgan Securities LLC

Issue Date	Maturity Date	Principal Amount*	Interest Amount	Interest (%)	Payment Amount
TBD	TBD	$75,000,000.00	TBD	TBD	TBD
Total New Series B		$75,000,000.00	TBD	TBD	TBD

Commercial Paper Notes, Series C

Dealer: Loop Capital Markets LLC

Issue Date	Maturity Date	Principal Amount	Interest Amount	Interest (%)	Payment Amount
TBD	TBD	$75,000,000.00	TBD	TBD	TBD
Total Series C		$75,000,000.00	TBD	TBD	TBD
GRAND TOTAL		**$210,000,000.00**	**TBD**	**TBD**	**TBD**

* Preliminary, subject to change.

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APPENDIX F

CPS ENERGY

SCHEDULE OF PURCHASED BONDS

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SCHEDULE OF PURCHASED OBLIGATIONS*

City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2020

Maturity Date (2/1)	Interest Rate (%)	Currently Outstanding Principal Amount ($)	Amount to be Tendered for Purchase ($)	Remaining Outstanding Amount ($)

City of San Antonio, Texas Electric and Gas Systems Revenue Refunding Bonds, Taxable New Series 2022

Maturity Date (2/1)	Interest Rate (%)	Currently Outstanding Principal Amount ($)	Amount to be Tendered for Purchase ($)	Remaining Outstanding Amount ($)

* Preliminary, subject to change. Dependent on market conditions, certain of the foregoing (to the extent such maturities remain unpurchased) may be concurrently defeased to maturity with certain proceeds of the 2024B Bonds.

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APPENDIX G

CPS ENERGY

MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY FROM ASSURED GUARANTY MUNICIPAL CORP.

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In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY

ISSUER: City of San Antonio, Texas	Policy No.: 222646-S1
BONDS: Electric and Gas Systems Senior Lien Revenue Bonds	Effective Date: June 22, 2023
	Premium: $8,350,000

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AGM will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy. Upon such payment, AGM shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the Bond Document. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond and all insurance policies in respect of the Bond, to the extent of any payment by AGM hereunder.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to AGM by or on behalf of the Issuer. Within three Business Days of such reimbursement, AGM shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall AGM incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that AGM has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed $400,000,000. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document. “Termination Date“ means the earlier of February 1, 2057 and the date the Bonds are no longer outstanding under the Bond Document.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By William J. Hogan
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc. (212) 974-0100
1633 Broadway, New York, N.Y. 10019

Form 501B NY (8/96)

CITY OF SAN ANTONIO, TEXAS • ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, NEW SERIES 2024A, REVENUE AND REFUNDING BONDS, NEW SERIES 2024B AND REVENUE REFUDNING BONDS, NEW SERIES 2024C

Appendix B

FORM OF PRICING NOTICE

PRICING NOTICE

RELATING TO THE
INVITATION TO TENDER BONDS DATED MAY 14, 2024
made by

to the Bondowners described herein of
all or any portion of the maturities listed on page (ii) herein of its

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2020	CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022

*The purpose of this Pricing Notice dated May 23, 2024 (the "**Pricing Notice**") is to publish the Fixed Spreads for the Target Bonds. All other terms relating to the Invitation (hereinafter defined) remain unchanged.*

Pursuant to the Invitation to Tender Bonds dated May 14, 2024 (as it may be amended or supplemented, the "**Invitation**"), City of San Antonio, Texas (the "**Issuer**"), acting by and through the City Public Service Board of San Antonio, Texas, invited Bondowners to tender Target Bonds for cash at the applicable Offer Purchase Prices based on a Fixed Spread to be added to the yields on certain benchmark United States Treasury Securities set forth in this Pricing Notice, plus Accrued Interest on the Target Bonds tendered for purchase to but not including the Settlement Date. All terms used herein and not otherwise defined are used as defined in the Invitation.

As set forth in the Invitation, the Issuer retains the right to extend the Tender Offer, or amend the terms of the Tender Offer (including a waiver of any term) in any material respect, provided, that the Issuer shall provide notice thereof at such time and in such manner to allow reasonable time for dissemination to Bondowners and for Bondowners to respond. In such event, any tenders of Target Bonds prior to such change in the Fixed Spreads for such Target Bonds pursuant to the Invitation will remain in full force and effect and any Bondowner of such affected Target Bonds, wishing to revoke its tender of such Target Bonds for purchase must affirmatively withdraw such offer prior to the Expiration Date, as extended.

The Invitation, including the Preliminary Official Statement dated May 14, 2024 relating to the Issuer's Electric and Gas Systems Revenue and Refunding Bonds, New Series 2024B is available: (i) at the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access website, currently located at http://emma.msrb.org, using the CUSIP numbers for the Target Bonds, and (ii) on the website of the Information Agent and Tender Agent at https://www.globic.com/cpsenergy.

Any questions are to be directed to the Information Agent and Tender Agent at (212) 227-9699.

TENDER OFFER – YIELD SPREADS

Pursuant to the Invitation, the Fixed Spreads for the Target Bonds are listed below.

CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS REVENUE
REFUNDING BONDS,
TAXABLE NEW SERIES 2020

CUSIP No.[1]	Maturity Date	Average Life Date[3]	Interest Rate (%)	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[2],	Fixed Spreads
79625GDB6	2/1/2034	n/a	2.142	13,760,000	2/1/2031	10-Year	
79625GDC4	2/1/2035	n/a	2.242	14,695,000	2/1/2031	10-Year	
79625GDD2	2/1/2036	n/a	2.392	14,830,000	2/1/2031	10-Year	
79625GDE0	2/1/2037	n/a	2.492	15,055,000	2/1/2031	10-Year	
79625GDF7	2/1/2040	6/14/2039	2.875	51,150,000	2/1/2031	10-Year	
79625GDG5	2/1/2048	8/22/2044	2.905	219,145,000	2/1/2031	30-Year	

CITY OF SAN ANTONIO, TEXAS
ELECTRIC AND GAS SYSTEMS REVENUE
REFUNDING BONDS,
TAXABLE NEW SERIES 2022

CUSIP No.[1]	Maturity Date	Average Life Date[3]	Interest Rate (%)	Outstanding Principal Amount ($)	Par Call Date	Benchmark Treasury Security[2]	Fixed Spreads
79625GFB4	2/1/2025	n/a	3.041	6,710,000	-	2-Year	
79625GFC2	2/1/2026	n/a	3.146	7,580,000	-	2-Year	
79625GFD0	2/1/2027	n/a	3.196	7,765,000	-	3-Year	
79625GFE8	2/1/2028	n/a	3.238	4,880,000	-	5-Year	
79625GFF5	2/1/2029	n/a	3.418	4,775,000	-	5-Year	
79625GFG3	2/1/2030	n/a	3.458	3,000,000	-	7-Year	
79625GFH1	2/1/2031	n/a	3.608	6,910,000	-	7-Year	
79625GFJ7	2/1/2032	n/a	3.758	1,995,000	-	10-Year	
79625GFK4	2/1/2033	n/a	3.908	16,300,000	2/1/2032	10-Year	
79625GFL2	2/1/2034	n/a	4.058	1,700,000	2/1/2032	10-Year	
79625GFM0	2/1/2035	n/a	4.158	17,620,000	2/1/2032	10-Year	
79625GFN8	2/1/2036	n/a	4.258	10,460,000	2/1/2032	10-Year	
79625GFP3	2/1/2037	n/a	4.308	18,135,000	2/1/2032	10-Year	
79625GFQ1	2/1/2042	1/15/2041	4.365	70,690,000	2/1/2032	30-Year	
79625GFR9	2/1/2047	12/25/2045	4.445	90,360,000	2/1/2032	30-Year	

(1) CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright(c) 2024 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for the convenience of the owners of the Target Bonds. None of the Issuer, the Co-Financial Advisors, the Dealer Managers, or their agents or counsel assume responsibility for the accuracy of such numbers.

(2) Except for the 30-Year Benchmark Treasury Security, which will be the "old long bond" (maturity date February 15, 2054, 4.25%, CUSIP 912810TX6), each Benchmark Treasury Security will be the most recently auctioned "on-the-run" United States Treasury Security for the maturity indicated as of the date and time that the Offer Purchase Price for the Target Bonds is set, currently expected to be approximately 10:00 a.m. ET on June 4, 2024.

(3) Average life date is shown for the Target Term Bonds only. The Target Term Bonds will be priced to their respective average life dates.

Example based on the following closing yields for the Benchmark Treasury Securities as of May 23, 2024 and the Fixed Spreads

The tables below provide an example of the Offer Purchase Price which would be paid for each validly offered and accepted Target Bond based on the following indicative Treasury Security Yields as of May 23, 2024 and the Fixed Spreads. This example is being provided for convenience only and is not to be relied upon by a Bondowner as an indication of the Purchase Yield or Offer Purchase Price that may be paid for each Target Bond by the Issuer.

Based on Treasury Security Yields as of May 23, 2024, the following Offer Purchase Prices would be derived:

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2020

CUSIP No.	Maturity Date (Feb. 1)	Benchmark Treasury Security	Indicative Treasury Security Yield[(1)]	Fixed Spread	Indicative Purchase Yield[(1)]	Indicative Offer Purchase Price per $100 Principal Amount[(1)]

(1) Preliminary, subject to change.

CITY OF SAN ANTONIO, TEXAS ELECTRIC AND GAS SYSTEMS REVENUE REFUNDING BONDS, TAXABLE NEW SERIES 2022

CUSIP No.	Maturity Date (Feb. 1)	Benchmark Treasury Security	Indicative Treasury Security Yield[(1)]	Fixed Spread	Indicative Purchase Yield[(1)]	Indicative Offer Purchase Price per $100 Principal Amount[(1)]

(1) Preliminary, subject to change.