

Report from Management for the Second Quarter Ended July 31, 2018

CPS Energy named Most Trusted Utility Brand

Our team members’ commitment to customers and community are once again making us stand out as a top-rated utility in the nation. In June, Market Strategies International (MSI) ranked CPS Energy 1st as the Most Trusted Utility Brand in the US Southern Region for 2018 for a combined (electric & gas) utility. Thanks to employees who live and breathe our *People First* philosophy, this is the second year in a row that we’ve received this recognition. According to MSI, top-rated utilities that have earned the trust of their customer base are known to be innovation industry leaders. Additionally, utilities are also more successful at achieving customer adoption of their enhanced offerings and options.

Simple Summer Savings empowers customers with energy-saving resources

Our *Simple Summer Savings* campaign helped our community understand the importance of conservation and helped our customers use energy efficiently. The campaign used clever word plays on summer sayings to communicate on digital billboards; social media; cpsenergy.com website; and community and media outreach. The campaign provided energy saving tips and asked for energy conservation to ensure grid reliability in times of peak demand. The campaign garnered more than 45 mentions in outside media. We hosted more than 1,600 people during twelve *Simple Summer Savings*’ events held in key locations including each of the ten City Council member communities. Seven digital billboards around town created over 32 million impressions, and reinforced reducing energy use on twenty peak energy days. Our website traffic increased during the campaign as our community accessed our online resources like energy calculators and energy-savings tips.

Board of Trustee search under way

This summer, we began searching for applicants for an upcoming vacancy on our Board of Trustees. Dr. Homer Guevara Jr., Board Vice Chair who represents Southwest Quadrant 4, will be ending his term on January 31, 2019, after serving two 5-year terms. The board received enthusiastic interest from potential candidates at the board’s open house and information session on August 27. The primary City Council Districts represented in the quadrant include Districts 4, 5, and 6, with partial overlap into Districts 1, 3, and 7.

Our Powerful Partnership with San Antonio Lighthouse for the Blind & Vision Impaired

Our new business partnership will support local jobs and services for people who are blind or vision impaired. On June 1, we awarded a three-year office supplies contract to San Antonio Lighthouse for the Blind & Vision Impaired. Through a Request for Proposals (RFP) process, it was determined that the San Antonio Lighthouse provided the best value and offered the best solutions to meet CPS Energy’s needs. The local non-profit 501(C)(3) small business employs more than 480 employees with nearly half being vision impaired. (According to the non-profit, the national unemployment rate for people who are blind is 60 to 70 percent.)

Team members Stuff the Bus with two tons of school supplies

This summer, our generous team members came together in a big way to support local students. Heartfelt donations of notebooks, pads, pens, crayons, binders, backpacks, and more came pouring in from the power plants, service centers and various facilities throughout our community. At the end of the 5-week school supply drive, our workforce of more than 3,100 employees and 74 interns donated more than 4,700 pounds of school supplies and \$900 in cash for Stuff the Bus. Communities in Schools – San Antonio’s (CIS-SA) annual drive brings residents and businesses together in our community to equip students with everything they need to start the school year. The donated supplies not only equip students, but they also help shoulder the burden of back-to-school costs for teachers and families.

Paula Gold-Williams
President & CEO



Interim Report

Second Quarter Ended July 31, 2018



Our new office supplies contract with San Antonio Lighthouse for the Blind will support local jobs and provide vital services to blind and vision impaired workers in our community.

Financial Review for the Second Quarter Ended July 31, 2018

Total operating revenues and nonoperating income of \$880.7 million for the second quarter of fiscal year 2019 increased by \$98.8 million, or 12.6%, compared to the same period last year.

- Electric operating revenue was \$829.4 million, which was \$93.2 million, or 12.7%, greater than the same quarter last year. Contributing to the increase were higher wholesale revenues due to increased sales volumes and improved margins as a result of warmer weather in the second quarter, as well as higher retail revenue associated with the warmer weather.
- Gas operating revenue of \$28.6 million was \$3.7 million, or 11.4% lower than last year primarily due to lower fuel recoveries resulting from lower unit cost. Partially offsetting the decrease were higher nonfuel recoveries.
- Nonoperating income of \$22.7 million was higher by \$9.3 million, or 69.3%, compared to the same quarter last year due to an increase in interest income from higher interest rates and a change in the nuclear decommissioning refundable to customers.

Total expenses of \$741.0 million were \$10.8 million, or 1.5%, higher than last year.

- Comprising 34.3% of total expenses, fuel, purchased power and distribution gas costs increased \$16.5 million, or 6.9%, to \$254.4 million. Contributing to the increase were higher wholesale volumes resulting from favorable market opportunities and warmer weather.
- Operation and maintenance (O&M) expenses of \$161.3 million for the quarter were \$8.4 million, or 5.5%, higher than last year due to higher STEP expenses and South Texas Project (STP) O&M expenses.
- Nuclear decommissioning expense totaled \$14.5 million and was \$7.7 million higher than last year primarily due to higher nuclear decommissioning accruals from the recently completed cost study.
- Regulatory assessments of \$21.0 million were \$0.2 million, or 1.1%, lower than last year.

- Depreciation and amortization expense of \$110.7 million was higher than last year by \$1.4 million, or 1.3%, due to the normal increase of plant-in-service.
- Interest and debt-related expenses of \$50.8 million were \$0.9 million higher than the same period last year primarily due to the prior year debt issuances.

- Payments to the City of San Antonio (City) totaled \$128.3 million and were \$23.9 million lower than the same period last year due to a large makeup of a temporary shortfall in the prior year. Under a temporary shortfall, the City is paid in advance during the lower-volume months. When volumes increase as the year progresses, the shortfall advances are recorded as an expense, appropriately correlating to year-to-date-revenues.

Income before other changes in net position of \$139.7 million was \$88.0 million favorable compared to last year’s net income of \$51.7 million, primarily due to increased wholesale revenues net fuel and the higher recorded payment to the City of San Antonio in the prior year. **Contributed capital** of \$11.0 million was \$1.3 million lower than the previous year primarily due to a decrease in reimbursable projects completed this quarter. The **change in net position** was an increase of \$150.7 million compared to an increase of \$64.0 million for the same quarter last year, reflecting a favorable change of \$86.7 million resulting from the net income drivers explained previously.

CPS Energy continues to implement strategic initiatives, including its New Energy Economy (NEE) efforts, to remain one of the most efficient, reliable, cost-effective, and environmentally conscious energy providers in the country. Customer bills remain competitive in Texas and among the lowest in the nation due to CPS Energy’s diverse generation strategy and portfolio.

Gary W. Gold
Vice President Accounting & Assistant Treasurer

Summary of Statements of Net Position Information - Unaudited

	July 31,	
	2018	2017 ¹
	(In thousands)	
Assets		
Current assets.	\$ 973,361	\$ 976,599
Noncurrent assets.	2,068,370	2,012,425
Capital assets, net.	8,239,680	8,067,649
Total assets.	11,281,411	11,056,673
Deferred outflows of resources.	220,630	268,097
Total assets plus deferred outflows of resources.	\$ 11,502,041	\$ 11,324,770
Liabilities		
Current liabilities.	\$ 721,183	\$ 658,626
Long-term debt, net.	5,946,222	5,995,651
Other noncurrent liabilities.	1,088,616	1,165,737
Total liabilities.	7,756,021	7,820,014
Deferred inflows of resources.	118,125	49,777
Total liabilities plus deferred inflows of resources.	7,874,146	7,869,791
Net position		
Net investment in capital assets.	2,099,306	1,898,834
Restricted.	878,843	902,254
Unrestricted.	649,746	653,891
Total net position.	3,627,895	3,454,979
Total liabilities plus deferred inflows of resources plus net position.	\$ 11,502,041	\$ 11,324,770

¹ Includes effect of prior period adjustment of Other Post Employment Benefits (OPEB) expenses as required by implementation of GASB 75.

Summary of Revenues, Expenses and Changes in Net Position Information - Unaudited

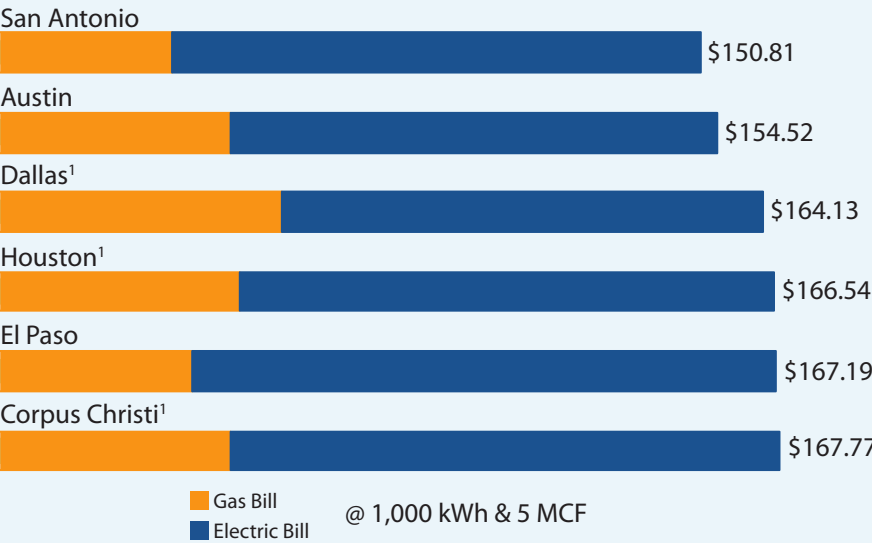
	Quarter Ended		Twelve Months Ended	
	July 2018	July 2017 ¹	July 2018	July 2017 ¹
	(In thousands)			
Revenues				
Electric.	\$ 829,383	\$ 736,216	\$ 2,564,776	\$ 2,381,637
Gas.	28,592	32,277	178,580	170,812
Total operating revenues.	857,975	768,493	2,743,356	2,552,449
Nonoperating income, net.	22,760	13,440	53,698	52,103
Total revenues and nonoperating income.	880,735	781,933	2,797,054	2,604,552
Expenses				
Fuel, purchased power and distribution gas.	254,448	237,972	851,068	801,620
Operation and maintenance ²	161,308	152,886	683,213	672,738
Nuclear decommissioning.	14,467	6,791	37,733	37,549
Regulatory assessments.	21,028	21,256	87,212	80,464
Depreciation and amortization.	110,691	109,265	428,121	432,258
Interest and debt-related.	50,805	49,859	204,152	191,809
Payments to the City of San Antonio.	128,260	152,198	356,951	334,242
Total expenses.	741,007	730,227	2,648,450	2,550,680
Income (loss) before other changes in net position	139,728	51,706	148,604	53,872
Other payments to the City of San Antonio	-	-	(11,720)	(11,613)
Contributed capital	10,942	12,258	46,642	53,255
Effect of defined benefit plan funding obligations - STP.	-	-	(10,610)	(9,320)
Change in net position	150,670	63,964	172,916	86,194
Net position – beginning	3,477,225	3,391,015	3,454,979	3,368,785
Net position – ending	\$ 3,627,895	\$ 3,454,979	\$ 3,627,895	\$ 3,454,979

¹ Includes effect of prior period adjustment of Other Post Employment Benefits (OPEB) expenses as required by implementation of GASB 75.
² Includes STP O&M costs, OPEB costs, pension costs, Save for Tomorrow Energy Plan and Grant Program expenses.

Statistical Highlights - Unaudited

	Quarter Ended		Twelve Months Ended	
	July 2018	July 2017	July 2018	July 2017
ELECTRIC SYSTEM				
Retail sales (thousands of MWh).	6,930	6,633	22,804	22,347
Wholesale sales (thousands of MWh).	2,808	1,779	7,398	5,180
Total sales (thousands of MWh).	9,738	8,412	30,202	27,527
Customers (average number for period).	830,759	811,397	822,938	803,889
Maximum electric demand (MW).	5,081	4,866	5,081	5,017
GAS SYSTEM				
Sales (MMCF)	4,363	3,950	25,244	21,142
Customers (average number for period).	349,956	345,231	347,716	342,715
GENERATION BY FUEL SOURCE AND OTHER POWER				
Gas	31%	28%	24%	20%
Coal	34%	32%	34%	35%
Nuclear.	23%	26%	28%	28%
Purchased power – Renewables.	11%	13%	12%	14%
– Other.	1%	1%	2%	3%

Texas Cities Combined Residential Bill Comparison
Trailing Twelve Months Ending July 2018



¹ Electric bill based on Power To Choose data for 12-month offers with a 4 and 5 Star rating for May-July 2018, all other months based on Public Utility Commission of Texas (PUCT) report.