

Report from Management for the Third Quarter Ended October 31, 2010

CPS Energy, the largest municipally owned utility in the nation providing both natural gas and electric service, enjoyed a third quarter of major milestones. Having hit the ground running July 26 with initial employee meetings, President & CEO Doyle N. Beneby officially joined CPS Energy August 1, 2010. Beneby has more than 25 years in the energy industry, with experience in generation, transmission and distribution, customer service, and labor relations at energy utilities Florida Power & Light, Consumers Energy and Exelon.

On September 20, U.S. Congressman Charlie Gonzalez, along with officials from the City of San Antonio and Bexar County, joined utility staff as they dedicated J.K. Spruce Unit 2, CPS Energy's 750-megawatt (MW) state-of-the-art, coal-fired power plant. The largest, most efficient plant in CPS Energy's fleet, Spruce 2 generates enough energy to power about 200,000 homes.

CPS Energy assumed operation of Spruce 2 from the construction contractor on May 28 to begin evaluation of the plant's performance, and the plant ran continuously through the summer. It was taken offline proactively, when testing indicated a potential problem with its separate step-up transformer that is used to send power to nearby substations. The manufacturer replaced transformer components, which were under warranty, and the plant is expected to return to operations in December.

CPS Energy's renewable energy portfolio will increase by 30 MW with the signing of a 25-year purchase power agreement with SunEdison, a global leader in solar electricity. With the agreement, CPS Energy now has 44 MW of solar generation under contract, solidifying its position as a leader in renewable energy among municipally owned utilities. In addition to 709 MW of wind energy that it has also procured over time, the new solar contract moves CPS Energy closer to its goal of providing 1,500 MW of renewable generation by 2020. By the fall of 2012, Maryland-based SunEdison is expected to complete installation of 120,000 single-axis tracking photovoltaic panels, generating a total of 30 MW at three locations across the CPS Energy service area.

In other quarterly highlights, CPS Energy:

- Set a new peak demand record of 4,745 MW on August 23rd. The previous record of 4,649 MW was set July 8, 2009.
- Sustained a second "hundred-year storm" within four months as the remnants of Tropical Storm Hermine moved through Greater San Antonio on September 7th. The storm brought sustained winds as high as 60 miles per hour, downing trees and power lines. More than 200,000 of CPS Energy's 700,000 customers experienced service interruptions.
- Forecasted 2010-11 winter bills to be 17% lower than last winter. Lower natural gas prices and an anticipated reduction in energy consumption, due to La Niña, are expected to contribute to the decrease. The projections are based on CPS Energy's winter forecast, which relies on a weather outlook from the National Oceanic and Atmospheric Administration (NOAA), for November 2010 through February 2011. The average residential gas and electric bill is projected to be \$126.94; the average winter bill last year was \$152.43.
- Employees and retirees pledged a record \$835,757 for the United Way of San Antonio & Bexar County. This represents a \$48,000 increase over last year's campaign conducted jointly by CPS Energy and the International Brotherhood of Electrical Workers (IBEW) Local 500.

Charles E. Foster
Chair, Board of Trustees

Doyle N. Beneby
President & CEO

P.O. Box 1771
San Antonio, TX 78296-1771
210.353.2000
cpsenergy.com



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Interim Report

Third Quarter Ended October 31, 2010



Total operating revenues and nonoperating income of \$581.9 million for the third quarter of fiscal year 2010-11 was \$60.1 million more than the same period last year.

Electric operating revenue was \$536.1 million, reflecting an increase of \$59.9 million from last year. Contributing to this increase were higher system nonfuel recoveries primarily due to the increase in the base rate effective in March 2010 and usage per customer that increased approximately 3.5%, partially offset by lower fuel recoveries. Gas operating revenue of \$34.4 million was slightly higher than last year by \$0.5 million due to higher nonfuel recoveries also as a result of an increase in the base rate effective in March 2010. That increase was partially offset by lower gas fuel recoveries as a result of lower distribution gas costs.

Nonoperating income of \$11.4 million was comparable at \$0.3 million, or 3.0%, lower than last year.

Total expenses of \$509.1 million were \$14.3 million, or 2.9%, higher than last year.

- Comprising 31.4% of total expenses, fuel, purchased power and distribution gas costs decreased \$7.6 million to \$159.7 million primarily due to lower average unit fuel costs resulting from additional coal capacity and higher nuclear generation compared to the same period last year, which included a refueling outage.
- CPS Energy's operation and maintenance (O&M) expenses of \$94.7 million were \$6.0 million higher than the same period last year primarily as a result of higher expenses associated with the STEP energy efficiency and conservation program.
- South Texas Project (STP 1&2) O&M expenses, including decommissioning, totaled \$36.8 million and were \$13.1 million lower than last year primarily due to the refueling outage in the same quarter last year.
- Regulatory assessments, including those charged by the Public Utility Commission of Texas and the Electric Reliability Council of Texas (ERCOT), totaled \$10.0 million and were \$3.3 million higher primarily due to increases in transmission costs of service in the Texas market and higher ERCOT fees.
- Depreciation and amortization expense of \$82.4 million was \$8.9 million higher primarily as a result of a higher level of plant-in-service.
- Interest and debt-related expenses of \$45.3 million were \$9.6 million higher than last year primarily as a result of a reduction in capitalized interest due to completing large capital projects in the current year.
- The recorded payments to the City of San Antonio were \$7.3 million more than the same period last year primarily due to the revenues resulting from the base rate increase effective March 2010.

Income (loss) before other changes in fund net assets of \$72.7 million was \$45.7 million higher than last year's income of \$27.0 million due to higher operating income that will be used primarily to contribute to CPS Energy's capital plan. The higher level of income was partially offset by a decline in contributed capital compared to the previous year and resulted in an increase in the Change in Fund Net Assets of \$77.6 million compared to \$45.0 million for the same quarter last year.

CPS Energy continues to implement strategic initiatives to remain one of the most efficient, reliable and cost-effective energy providers in the country. Customer bills, while not as significantly impacted by declining natural gas prices, remain among the lowest in Texas and the nation due to CPS Energy's diverse generation portfolio.

Paula Gold-Williams
Chief Financial Officer & Treasurer

	October 31,	
	2010	2009 ¹
	(In thousands)	
Assets		
Current assets	\$ 736,195	\$ 1,179,657
Noncurrent assets	1,807,844	1,610,866
Capital assets, net	7,136,155	6,872,529
Total assets	\$ 9,680,194	\$ 9,663,052
Liabilities		
Current liabilities	\$ 538,865	\$ 977,239
Noncurrent liabilities	1,002,928	988,710
Long-term debt, net	4,761,636	4,480,625
Total liabilities	6,303,429	6,446,574
Fund net assets		
Invested in capital assets, net of related debt	2,335,025	2,405,665
Restricted	726,361	517,095
Unrestricted	315,379	293,718
Total fund net assets	3,376,765	3,216,478
Total liabilities and fund net assets	\$ 9,680,194	\$ 9,663,052

¹ Certain amounts in the prior year have been reclassified to conform to the current-year presentation.

	Quarter Ended		Twelve Months Ended	
	October 2010	October 2009	October 2010	October 2009
	(In thousands)			
Revenues				
Electric	\$ 536,092	\$ 476,176	\$ 1,812,408	\$ 1,710,620
Gas	34,374	33,871	247,963	194,509
Total operating revenues	570,466	510,047	2,060,371	1,905,129
Nonoperating income, net	11,394	11,742	45,848	52,127
Total revenues and nonoperating income	581,860	521,789	2,106,219	1,957,256
Expenses				
Fuel, purchased power and distribution gas	159,727	167,360	689,413	672,159
CPS Energy operation and maintenance ¹	94,746	88,765	332,815	353,860
STP O&M, including decommissioning	36,803	49,866	174,637	159,097
Regulatory assessments	10,013	6,763	39,166	34,667
Depreciation and amortization	82,446	73,516	307,186	281,944
Interest and debt-related	45,267	35,664	150,089	131,975
Payments to the City of San Antonio	80,126	72,860	275,713	256,952
Total expenses	509,128	494,794	1,969,019	1,890,654
Income (loss) before other changes in fund net assets	72,732	26,995	137,200	66,602
Other payments to the City of San Antonio	-	-	(9,630)	(11,553)
Contributed capital	4,914	17,991	22,929	37,630
Effect of defined benefit plan funding obligations - STP	-	-	9,788	(29,726)
Change in fund net assets	77,646	44,986	160,287	62,953
Fund net assets - beginning	3,299,119	3,171,492	3,216,478	3,153,525
Fund net assets - ending	\$ 3,376,765	\$ 3,216,478	\$ 3,376,765	\$ 3,216,478

¹ Includes annual OPEB costs, annual pension costs, pollution remediation and Save for Tomorrow Energy Program expenses.

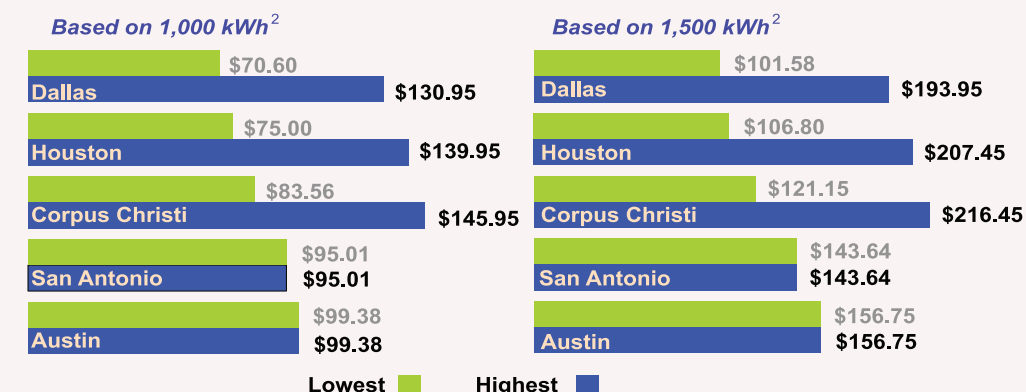
Statistical Highlights - Unaudited

	Quarter Ended		Twelve Months Ended	
	October 2010	October 2009	October 2010	October 2009
ELECTRIC SYSTEM				
System sales (thousands of MWh)	5,988	5,697	20,604	20,376
Off-system sales (thousands of MWh)	803	458	3,924	2,516
Total sales (thousands of MWh)	6,791	6,155	24,528	22,892
Customers (average number for period)	714,602	703,683	710,829	698,427
Maximum electric demand (MW)	4,745	4,625	4,745	4,649
GAS SYSTEM				
Sales (MMCF)	3,558	3,673	25,370	21,046
Customers (average number for period)	323,469	321,354	322,930	321,204
GENERATION BY FUEL SOURCE AND OTHER POWER				
Gas and oil	11%	21%	9%	17%
Coal	47%	35%	44%	32%
Nuclear	34%	27%	33%	36%
Purchased power - Renewables	6%	6%	8%	7%
- Other ¹	2%	11%	6%	8%

¹ Other Purchased Power includes 3.3% in the current twelve months of coal-based generation resulting from precommercial generation testing.

Residential Electric Bill Comparison

Bill Comparison for Large Texas Cities - September 2010¹



¹ Most current month available.

² The average usage will vary by city. Prices may vary by season and usage. Average annual usage in San Antonio is 1,206 kWh per month.

Provided for informational purposes only.
Source: Public Utility Commission of Texas.
Additional information on Texas providers can be found at puc.state.tx.us.
Some low offers are applicable only to new customers and may not always reflect all applicable fees.