

# Report from Management for the First Quarter Ended April 30, 2011

CPS Energy, the largest municipally owned utility in the nation providing both natural gas and electric service, experienced unusual temperature swings during the first quarter of FY 2012. The fiscal year started in February with an extreme cold snap that plunged Texas temperatures well below the freezing mark statewide, wreaking havoc on power plants across the state—including several of CPS Energy's coal-fired and natural gas plants.

As plants tripped offline, the Electric Reliability Council of Texas (ERCOT) initiated load-shedding procedures and customers experienced rolling outages for approximately six hours on February 2. CPS Energy plants were able to recover quickly and operated consistently for the several days of record-low temperatures that followed. The result was two consecutive record-breaking days for electric energy demand. On February 2, electric use in Greater San Antonio exceeded 89,175 megawatt hours (MWh), in spite of rolling outages, surpassing the previous record set August 10, 2010, in 100-degree-plus weather. On February 3, electricity consumption exceeded 91,000 MWh. Natural gas use for the same period was at a fifteen-year high for Greater San Antonio.

By April, temperatures were approaching summertime norms, resulting in unusually high demand for electricity for the time of year.

In other generation news, CPS Energy began its fiscal year by issuing a request for proposals (RFP) on February 1 to develop another major solar farm in the CPS Energy service area. This third solar development initiative includes requirements that participants bring some element of their manufacturing or assembly to San Antonio and invest in education initiatives locally. The proposal deadline was May 17, and a final announcement is expected in the second quarter.

In March 2011, the earthquake and tsunami that struck Japan, causing severe damage at the Fukushima nuclear power plant, created uncertainty for the nuclear energy industry. In mid-March, CPS Energy announced suspension of discussions with NRG Energy regarding the development of STP Units 3 & 4 and off-take of a portion of the project's energy. CPS Energy has not ruled out future discussions related to the project; however, if or when those discussions resume, the parties would start anew. In April, NRG announced that it would not invest additional capital in the development of STP Units 3 & 4. Due to the uncertainty created by the events in Japan and NRG Energy's announcement, CPS Energy continues to monitor all nuclear announcements and assess the value of the project in the Company's generation plans. The Company maintains its 7.625 percent ownership in the project, as well as its 40 percent ownership in STP Units 1 & 2.

#### In other quarterly highlights, CPS Energy:

- Welcomed new board member Nora W. Chávez, representing the northwest quadrant of the utility's service territory. Ms. Chávez is Managing Director of Texas Public Finance group for Stifel Nicolaus & Company, Incorporated in San Antonio and has extensive experience with Texas municipal finances, working in the finance industry since 1979.
- Held a joint board meeting with sister utility the San Antonio Water System (SAWS) where the two utilities discussed the critical interdependency of water and energy in sustaining the community. At the meeting, the SAWS Board of Trustees approved a lease agreement with SunEdison for a 20-MW solar installation at the Dos Rios Water Recycling Center in southeast Bexar County. SAWS will lease almost 270 acres of land to SunEdison for a 20 MW installation, while CPS Energy will purchase the output of the facility.
- Launched the Energy Savers program in conjunction with the City of San Antonio, using a \$10 million federal grant secured by the City from the Department of Energy. The program will provide services to residential and commercial customers including energy audits, financing options, rebates and individually tailored advice on efficiency measures.

Derrick Howard  
Chair, Board of Trustees

Doyle N. Beneby  
President & CEO

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# Interim Report

First Quarter Ended April 30, 2011



## Financial Review for the First Quarter Ended April 30, 2011

## Summary of Balance Sheet Information - Unaudited

## Summary of Revenues, Expenses and Changes in Fund Net Assets Information - Unaudited

**Total operating revenues and nonoperating income** of \$529.6 million for the first quarter of fiscal year 2011-12 was \$63.3 million more than the same period last year.

Electric operating revenue was \$454.2 million, an increase of \$75.5 million from last year. Contributing to this increase were higher retail nonfuel recoveries primarily due to higher volumes as a result of warmer temperatures in March and April. Also contributing to higher electric operating revenue were higher wholesale revenues due to ancillary services and higher volumes. Gas operating revenue of \$61.4 million was less than last year by \$15.4 million. Fuel recoveries for gas distribution were lower primarily due to lower volumes as a result of warmer temperatures as mentioned above and lower per unit costs.

Nonoperating income of \$14.0 million was \$3.2 million higher than last year as result of higher grant program revenue and a general appreciation of investment values.

**Total expenses** of \$525.3 million were \$49.0 million, or 10.3%, higher than last year.

- Comprising 36.5% of total expenses, fuel, purchased power and distribution gas costs increased \$17.6 million to \$191.6 million primarily due to increased retail and wholesale sales volumes.
- CPS Energy's operation and maintenance (O&M) expenses of \$97.8 million were \$13.1 million higher than the same period last year. Contributing to the increase are benefit costs and incentive costs, which were recorded in a subsequent quarter the prior fiscal year, as well as higher expenses associated with the STEP energy efficiency and conservation program and grant program expenditures.
- South Texas Project (STP 1&2) O&M expenses, including decommissioning, totaled \$53.5 million and were comparable at \$2.1 million, or 3.7%, lower than last year.
- Regulatory assessments, including those charged by the Public Utility Commission of Texas and the Electric Reliability Council of Texas (ERCOT), totaled \$10.9 million and were \$2.3 million higher primarily due to increases in transmission costs of service in the Texas market.
- Depreciation and amortization expense of \$86.8 million was \$12.3 million higher primarily as a result of a higher level of plant-in-service in the current year, including J.K. Spruce 2 and the V.H. Braunig peaking units.
- Interest and debt-related expenses of \$51.3 million were \$19.0 million higher than last year primarily as a result of a reduction in capitalized interest due to completing large capital projects in the prior year.
- The recorded payments to the City of San Antonio (City), which exclude the temporary shortfall, totaled \$33.4 million and were \$13.3 million less than the same period last year. Under a temporary shortfall, the City is paid in advance during the lower-volume months. When the volumes peak later in the year, the calculation self-corrects, and payments correlate appropriately to year-to-date revenues. The current-year shortfall of \$30.2 million is \$14.8 million higher than last year's shortfall of \$15.4 million.

**Income before other changes in fund net assets** of \$4.2 million was \$14.3 million higher than last year's loss of \$10.1 million due to a higher operating income. Other nonoperating contributing factors include the City Payment that has been recorded as a result of the shortfall, offset by the increase in interest expense and other debt-related costs. The higher level of income was partially offset by a decline in contributed capital compared to the previous year and resulted in the Change in Fund Net Assets of \$6.3 million compared to \$(4.6) 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 remain among the lowest in Texas and the nation due to CPS Energy's diverse generation portfolio.

**Paula Gold-Williams**  
Chief Financial Officer & Treasurer

|   | April 30,           |                     |
|---|---------------------|---------------------|
|   | 2011                | 2010                |
| (In thousands)                                  |                     |                     |
| <b>Assets</b>                                   |                     |                     |
| Current assets                                  | \$ 704,602          | \$ 731,477          |
| Noncurrent assets                               | 1,816,479           | 1,723,643           |
| Capital assets, net                             | 7,221,486           | 7,082,428           |
| <b>Total assets</b>                             | <b>\$ 9,742,567</b> | <b>\$ 9,537,548</b> |
| <b>Liabilities</b>                              |                     |                     |
| Current liabilities                             | \$ 536,045          | \$ 557,705          |
| Noncurrent liabilities                          | 1,040,722           | 999,024             |
| Long-term debt, net                             | 4,861,510           | 4,766,229           |
| <b>Total liabilities</b>                        | <b>6,438,277</b>    | <b>6,322,958</b>    |
| <b>Fund net assets</b>                          |                     |                     |
| Invested in capital assets, net of related debt | 2,482,795           | 2,430,067           |
| Restricted                                      | 500,645             | 484,695             |
| Unrestricted                                    | 320,850             | 299,828             |
| <b>Total fund net assets</b>                    | <b>3,304,290</b>    | <b>3,214,590</b>    |
| <b>Total liabilities and fund net assets</b>    | <b>\$ 9,742,567</b> | <b>\$ 9,537,548</b> |

|  | Quarter Ended       |                     | Twelve Months Ended |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | April 2011          | April 2010          | April 2011          | April 2010          |
| (In thousands)   |                     |                     |                     |                     |
| <b>Revenues</b>  |                     |                     |                     |                     |
| Electric   | \$ 454,185          | \$ 378,660          | \$ 1,921,570        | \$ 1,772,108        |
| Gas  | 61,355              | 76,745              | 207,250             | 243,789             |
| Total operating revenues                                     | 515,540             | 455,405             | 2,128,820           | 2,015,897           |
| Nonoperating income, net                                     | 14,019              | 10,816              | 49,488              | 21,366              |
| Total revenues and nonoperating income                       | 529,559             | 466,221             | 2,178,308           | 2,037,263           |
| <b>Expenses</b>  |                     |                     |                     |                     |
| Fuel, purchased power and distribution gas                   | 191,554             | 173,966             | 688,698             | 743,438             |
| CPS Energy operation and maintenance <sup>1</sup>            | 97,834              | 84,724              | 391,585             | 334,026             |
| STP O&M, including decommissioning                           | 53,539              | 55,615              | 163,078             | 186,764             |
| Regulatory assessments                                       | 10,879              | 8,581               | 45,278              | 33,386              |
| Depreciation and amortization                                | 86,832              | 74,490              | 334,340             | 294,485             |
| Interest and debt-related                                    | 51,273              | 32,257              | 193,848             | 112,970             |
| Payments to the City of San Antonio                          | 33,407              | 46,671              | 263,599             | 259,021             |
| Total expenses   | 525,318             | 476,304             | 2,080,426           | 1,964,090           |
| <b>Income (loss) before other changes in fund net assets</b> | <b>4,241</b>        | <b>(10,083)</b>     | <b>97,882</b>       | <b>73,173</b>       |
| Other payments to the City of San Antonio                    | -                   | -                   | (15,054)            | (9,630)             |
| CIED Distributions   | -                   | -                   | (750)               | -                   |
| Contributed capital  | 2,108               | 5,523               | 21,694              | 38,829              |
| Effect of defined benefit plan funding obligations - STP     | -                   | -                   | (14,072)            | 9,788               |
| <b>Change in fund net assets</b>                             | <b>6,349</b>        | <b>(4,560)</b>      | <b>89,700</b>       | <b>112,160</b>      |
| <b>Fund net assets - beginning</b>                           | <b>3,297,941</b>    | <b>3,219,150</b>    | <b>3,214,590</b>    | <b>3,102,430</b>    |
| <b>Fund net assets - ending</b>                              | <b>\$ 3,304,290</b> | <b>\$ 3,214,590</b> | <b>\$ 3,304,290</b> | <b>\$ 3,214,590</b> |

<sup>1</sup> Includes OPEB costs, pension costs, pollution remediation, Save for Tomorrow Energy Program and Grant Program expenses.

## Statistical Highlights - Unaudited

|  | Quarter Ended |            | Twelve Months Ended |            |
|--|---------------|------------|---------------------|------------|
|  | April 2011    | April 2010 | April 2011          | April 2010 |
| <b>ELECTRIC SYSTEM</b>                           |               |            |                     |            |
| Retail sales (thousands of MWh)                  | 4,727         | 4,165      | 21,330              | 20,531     |
| Wholesale sales (thousands of MWh)               | 2,058         | 1,255      | 5,289               | 3,264      |
| Total sales (thousands of MWh)                   | 6,785         | 5,420      | 26,619              | 23,795     |
| Customers (average number for period)            | 719,024       | 709,764    | 715,705             | 704,810    |
| Maximum electric demand (MW)                     | 4,161         | 3,392      | 4,745               | 4,649      |
| <b>GAS SYSTEM</b>                                |               |            |                     |            |
| Sales (MMCF)                                     | 6,673         | 7,814      | 22,836              | 25,302     |
| Customers (average number for period)            | 325,756       | 322,836    | 324,255             | 321,939    |
| <b>GENERATION BY FUEL SOURCE AND OTHER POWER</b> |               |            |                     |            |
| Gas and oil                                      | 6%            | 7%         | 7%                  | 15%        |
| Coal   | 52%           | 36%        | 50%                 | 35%        |
| Nuclear  | 28%           | 31%        | 31%                 | 34%        |
| Purchased power - Renewables                     | 12%           | 12%        | 10%                 | 7%         |
| - Other <sup>1</sup>                             | 2%            | 14%        | 2%                  | 9%         |

<sup>1</sup>Purchased Power - Other includes 2.0% of coal and gas generation in the prior twelve months resulting from precommercial generation testing.

## Residential Electric Bill Comparison

| Bill Comparison for Large Texas Cities - April 2011 |          |                                 |          |
|---|----------|---------------------------------|----------|
| Based on 1,000 kWh <sup>1</sup>                     |          | Based on 1,500 kWh <sup>1</sup> |          |
| Austin  | \$85.72  | Austin                          | \$131.76 |
| San Antonio   | \$91.67  | San Antonio                     | \$133.39 |
| Dallas/Fort Worth <sup>2</sup>                      | \$95.80  | Dallas/Fort Worth <sup>2</sup>  | \$141.59 |
| Houston <sup>2</sup>                                | \$105.09 | Houston <sup>2</sup>            | \$155.36 |
| Corpus Christi <sup>2</sup>                         | \$108.52 | Corpus Christi <sup>2</sup>     | \$160.61 |

<sup>1</sup>The average usage will vary by city. Prices may vary by season and usage. Average annual usage in San Antonio is 1,191 kWh per month.

<sup>2</sup>The amounts used are an average of REPs in their area.

Provided for informational purposes only.  
Source: Public Utility Commission of Texas.  
Additional information on Texas providers can be found at puc.state.tx.us.