Report from Management for the First Quarter Ended April 30, 2018

Smart Sniffer rolls through neighborhoods

In March, we unveiled revolutionary technology that will be used to further improve reliability within our service territory. The "Smart Sniffer" vehicle produces analytics that our natural gas operations team can use to immediately pinpoint any areas of concern throughout our 5,414 miles of infrastructure and proactively mitigate the potential risk of escaping natural gas. It will be driven throughout our community as part of our preventative maintenance plan.

SA ranked sixth in nation for solar

On April 4, Environment Texas announced our city was moving up the national ranks, from eighth to sixth, for solar energy. Solar capacity within the San Antonio city limits jumped from 117 megawatts (MW) in 2016 to 161 MW in 2017, a 37 percent increase. San Antonio was the highest ranked city in Texas and 17th in the nation for solar capacity. No other Texas cities made the top 20 list. San Antonio continues to lead in solar generation, #1 in Texas and #6 in the nation.

Dr. Willis Mackey joins our Board of Trustees

In early April, the City of San Antonio's City Council voted to confirm Dr. Willis Mackey to our Board of Trustees to represent the Southeast Quadrant of our service area. Mayor Ron Nirenberg submitted Dr. Mackey's name to the City Council for confirmation after being elected by the Board of Trustees. Outside of CPS Energy, Dr. Mackey, who retired after a long career in public school administration, serves as a consultant for school districts.

An Environmental Champion on many fronts

On April 18, just days before Earth Day, Market Strategies International (MSI) designated us as an "Environmental Champion" for the second year in a row. MSI recognized 43 utilities as Environmental Champions for their efforts in promoting clean energy and consistently seeking ways to protect the environment.

On the heels of the designation, we announced the purchase of our newest vehicle fleet additions – 34 XLP plug-in hybrid electric Ford F-150 trucks. The new trucks will help reduce our overall carbon footprint, offering more than 50 percent better fuel economy and a comparable reduction in emissions.

United Way Golf Tournament raises $132,000 for SAMMinistries

We teed off our United Way campaign by raising $132,000 for SAMMinistries at our 20th Annual United Way golf tournament. We hosted 70 teams from around the community for friendly competition at the sold-out tournament event held May 3 at TPC Parkway. The proceeds were presented to SAMMinistries during our May Board of Trustees meeting. SAMMinistries will use the funds from the event to continue their mission of helping local families overcome homelessness.

Expanding Excellence Award received for Mobile Support Center

In early May, we were recognized for our Mobile Support Center (MSC), a 38-foot, 12-ton RV used to enhance customer service. During the customer service conference, CS Week, our Community Programs team was recognized and named the winner of the "Expanding Excellence Award, Level 1 – Innovation in People & Process." The award honors innovative approaches in engaging customers and improving the customer experience.

More than a year ago, the MSC hit the road on a mission to take our ***People First*** philosophy directly to our customers. The MSC has increased customer engagement, helped staff members promote assistance programs and public safety, and much more.

Paula Gold-Williams
President & CEO

CPS ENERGY

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

Interim Report

First Quarter Ended April 30, 2018

CPS ENERGY

Key account managers like Sonia Garcia are available 24/7 to provide commercial customers with innovative energy solutions. Chef Becky Salter of Marshall High School's Culinary Arts program shares appreciation for our help in powering the kitchen with natural gas. Students benefit from the experience of cooking with this clean, efficient cooking method.

Financial Review for the First Quarter Ended April 30, 2018

Total operating revenues and nonoperating income of $574.7 million for the first quarter of fiscal year 2019 increased by $30.9 million, or 5.7%, compared to the same period last year.

- Electric operating revenue was $519.4 million, which was $31.7 million, or 6.5%, greater than the same quarter last year. Contributing to the increase were higher wholesale revenues due to increased sales volume resulting from favorable market conditions and higher Save for Tomorrow Energy Plan (STEP) recoveries.
- Gas operating revenue of $46.3 million was $1.9 million, or 4.2% higher than last year primarily due to higher nonfuel recoveries resulting from increased sales volume. Partially offsetting the increase were lower fuel recoveries due to a lower unit cost.
- Nonoperating income of $8.9 million was lower by $2.7 million, or 23.1%, compared to the same quarter last year due to a decline in the fair market value of bonds as interest rates have increased compared to last year.

Total expenses of $608.9 million were $58.9 million, or 10.7%, higher than last year.

- Comprising 29.8% of total expenses, fuel, purchased power and distribution gas costs increased $2.5 million, or 1.4%, to $181.6 million. Contributing to the increase were higher wholesale activity resulting from favorable market conditions, partially offset by a lower unit cost of fuel for both electric and gas.
- Operation and maintenance (O&M) expenses of $183.6 million for the quarter were $5.3 million, or 3.0%, higher than last year due to higher STEP expenses, partially offset by lower South Texas Project (STP) O&M expenses.
- Regulatory assessments of $23.2 million were $3.4 million higher than last year primarily due to higher Transmission Costs of Service (TCOS) expenses. Regulatory assessments include all amounts paid and received associated with the Electric Reliability Council of Texas' (ERCOT) postage rate transmission program.
- Depreciation and amortization expense of $109.1 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 $50.4 million were $3.4 million higher than the same period last year due to the prior year debt issuances.
- The recorded payments to the City of San Antonio (City) totaled $55.3 million and were $42.4 million higher than the same period last year due to a lower temporary shortfall as a result of higher revenues. 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 (loss) before other changes in net position of $(34.2) million was $27.9 million unfavorable compared to last year's net loss of $(6.3) million. Primarily contributing to the variance was the higher recorded city payment. Funds available for the recorded city payment were higher in the current period due to increased revenues. **Contributed capital** of $13.1 million was $4.1 million higher than the previous year's first quarter primarily due to an increase in reimbursable projects completed this quarter. The **change in net position** was a decrease of $21.1 million compared to an increase of $2.8 million for the same quarter last year, reflecting an unfavorable change of $23.9 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 comparable 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

	April 30, 2018	April 30, 2017[1]
	(In thousands)	
Assets		
Current assets	$ 854,182	$ 877,340
Noncurrent assets	1,879,142	1,999,406
Capital assets, net	8,210,099	8,062,707
Total assets	10,943,423	10,939,453
Deferred outflows of resources	202,106	322,973
Total assets plus deferred outflows of resources	$ 11,145,529	$ 11,262,426
Liabilities		
Current liabilities	$ 615,404	$ 612,154
Long-term debt, net	5,867,495	5,999,662
Other noncurrent liabilities	1,129,480	1,211,381
Total liabilities	7,612,379	7,823,197
Deferred inflows of resources	55,925	48,214
Total liabilities plus deferred inflows of resources	7,668,304	7,871,411
Net position		
Net investment in capital assets	2,148,448	1,882,301
Restricted	698,373	871,776
Unrestricted	630,404	636,938
Total net position	3,477,225	3,391,015
Total liabilities plus deferred inflows of resources plus net position	$ 11,145,529	$ 11,262,426

[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 April 2018	Quarter Ended April 2017[1]	Twelve Months Ended April 2018[1]	Twelve Months Ended April 2017[1]
	(In thousands)			
Revenues				
Electric	$ 519,440	$ 487,688	$ 2,471,610	$ 2,345,291
Gas	46,336	44,483	182,264	168,916
Total operating revenues	565,776	532,171	2,653,874	2,514,207
Nonoperating income, net	8,895	11,570	44,378	43,962
Total revenues and nonoperating income	574,671	543,741	2,698,252	2,558,169
Expenses				
Fuel, purchased power and distribution gas	181,646	179,123	834,593	784,218
Operation and maintenance[2]	183,584	178,312	674,792	684,845
Nuclear decommissioning	5,459	5,042	30,057	30,356
Regulatory assessments	23,233	19,875	87,441	77,565
Depreciation and amortization	109,144	107,711	426,694	429,220
Interest and debt-related	50,448	47,027	203,206	193,146
Payments to the City of San Antonio	55,339	12,906	380,888	300,198
Total expenses	608,853	549,996	2,637,672	2,499,548
Income (loss) before other changes in net position	(34,182)	(6,255)	60,581	58,621
Other payments to the City of San Antonio	-	-	(11,720)	(11,613)
Contributed capital	13,118	9,027	47,959	61,857
Effect of defined benefit plan funding obligations - STP	-	-	(10,610)	(9,320)
Change in net position	(21,064)	2,772	86,210	99,545
Net position – beginning	3,498,289	3,388,243	3,391,015	3,291,470
Net position – ending	$ 3,477,225	$ 3,391,015	$ 3,477,225	$ 3,391,015

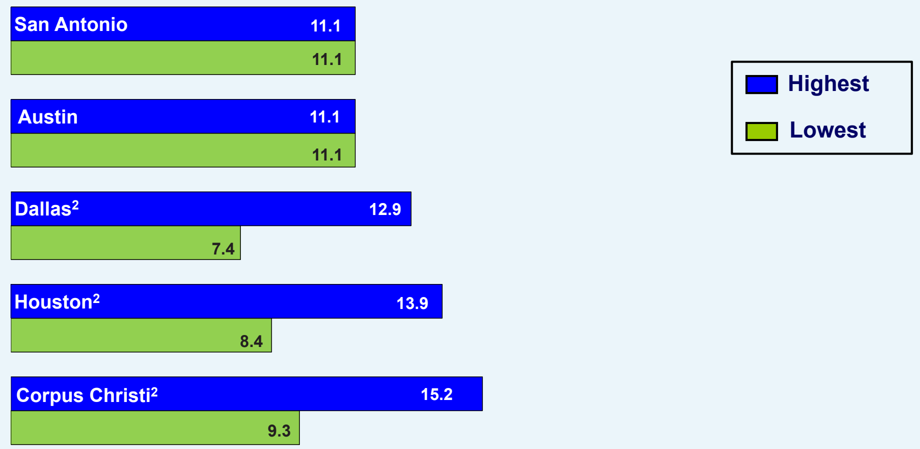
[1] *Includes effect of prior period adjustment of Other Post Employment Benefits (OPEB) expenses as required by implementation of GASB 75.*
[2] *Includes STP O&M costs, OPEB costs, pension costs, Save for Tomorrow Energy Plan and Grant Program expenses.*

Statistical Highlights - Unaudited

	Quarter Ended April 2018	Quarter Ended April 2017	Twelve Months Ended April 2018	Twelve Months Ended April 2017
ELECTRIC SYSTEM				
Retail sales (thousands of MWh)	4,562	4,575	22,507	22,294
Wholesale sales (thousands of MWh)	1,739	866	6,370	5,090
Total sales (thousands of MWh)	6,301	5,441	28,877	27,384
Customers (average number for period)	824,228	802,243	818,098	799,563
Maximum electric demand (MW)	3,691	4,009	4,866	5,017
GAS SYSTEM				
Sales (MMCF)	6,303	5,248	24,830	21,150
Customers (average number for period)	348,100	340,562	346,534	341,674
GENERATION BY FUEL SOURCE AND OTHER POWER				
Gas	21%	11%	22%	21%
Coal	33%	34%	33%	34%
Nuclear	28%	30%	29%	28%
Purchased power – Renewables	17%	21%	14%	14%
– Other	1%	4%	2%	3%

Residential Electric Rate Comparison

Cents per kWh (1,500 kWh)[1]



[1] 12-month average, ending March 2018. The average usage will vary by city. Price may vary by season and usage. Average usage in San Antonio is 1,130 kWh per month. Source: Public Utility Commission of Texas.
[2] Deregulated markets include new customer acquisition price points. CPS Energy pricing includes a diverse portfolio of generation sources, including renewables, as part of the company's initiative to move toward low-carbon generation alternatives.

Additional information on Texas Providers can be found at puc.state.tx.us.