

CORPORATE SUSTAINABILITY REPORT 2010



Letter from the CEO and Corporate Sustainability Officer	4
Why Now?	7
What Is 'Sustainability'?	7
How Do We Set Priorities?	7
Communication and Benchmarking	8
Providing Suggestions and Learning More	8
What's Our Motivation?	11
Introduction	11
Vision 2020	11
Challenges	12
Opportunities	13
Integrated Resource Plan	13
Sustainability Performance Summary	16
Who Is CPS Energy?	25
Core Values and Purpose	25
CPS Energy Board of Trustees	27
Leadership	27
Awards	27
Services We Provide	27
Customer Accounts	28
Our Electrical System	28
Electric Generation	28
Energy Output	28
Coal	28
Nuclear Energy — South Texas Project	30
Natural Gas Energy Generation	31
Commitment to Renewable Energy	31
Wind — Purchased Power	31
Landfill Gas — Purchased Power	31
Solar — Purchased Power	31
Electricity Transmission System	32
Electricity Distribution System	32
Natural Gas Transmission and Distribution	32
Supply Pressure System	32
Distribution System	33
Electricity Availability and Reliability	33
Outage Frequency and Duration	33
Disaster Management — The CPS Energy Business Continuity Program	33
External Stakeholders	35
Who Are Our External Stakeholders?	35
Customer Input and Involvement	35
Contributing to a Healthy Community	36
Community Outreach Programs	37
Mission Road Power Plant Redevelopment	39
Customer Relationships	41
Customer Communication and Information Services	41
Customer Service Goals	41
Save for Tomorrow Energy Plan	42
Customer Energy-Efficiency Programs	43

Energy-Efficiency Information Distribution	48
Commitment to Customers in Need	49
Efficiency and Renewable Energy Plans	51

Technology and Innovation53

Corporate Commitment.....	53
Plug-In Hybrid.....	54
Advanced Metering Infrastructure.....	54
Smart Grid Pilot	54

Carbon Constraints and the Environment57

Air Quality	57
Air Emissions Data	57
Air Monitoring Stations and San Antonio Air Quality	59
Air Emissions Improvements and Upgrades	59
Climate Change and Greenhouse Gas Emissions	60
Long-Term CO ₂ Reduction Plan	62
Total Non-Generation CPS Energy GHG Emissions Breakdown.....	63
Reducing GHG Emissions from Our Vehicle Fleet	65
Reducing Energy Use in Our Buildings	66
Reducing Indirect GHGs Outside Our Walls	68
Materials and Recycling	68
PCBs	70
Water Resources	70
Potable Water	72
Water Conservation	72
Recycled and Reused Water	72
Strategic Water Planning.....	72
Natural Habitats/Habitat Restoration	72
Habitat Protection on Transmission Lines	72

Financial Integrity75

Supply Chain Management	78
Supplier Diversity	79
Local Economic Impact	79

Employee Relationships 81

Introduction	81
Health and Safety Programs and Performance	81
A Career with CPS Energy	82
Putting Vision into Action: Working at CPS Energy	82
Benefit Plans.....	82
Ethics Program	83
The Big Audacious Goal	84
Employee Organizations	85

Moving Forward87

GRI Indicator Checklist88



Mission San Jose, San Antonio Missions National Historical Park

As the nation's largest municipally owned gas and electric utility, with a 150-year history serving the Greater San Antonio area, CPS Energy has built a tradition of sound financial decisions supported by a dedicated workforce. This has resulted in our customers' utility bills ranking among the lowest of the nation's 20 largest cities and also having a robust, reliable electric and gas system that our customers have come to rely upon.

However, to continue this great tradition of economic viability we must look into the future rather than admiring our past. The challenges of aging infrastructure and increasing environmental concerns, like climate change, have the potential to significantly increase the costs of energy from fossil fuel generation. Multiple indicators reveal that the current path is not sustainable.

While climate change makes this a challenging time for CPS Energy and others in the energy industry, it also presents us with huge opportunities for innovation and growth. Rather than lamenting change, we embrace this opportunity to contribute to an emerging era of new fuel sources, new business models, and new jobs.

A few years ago, we began preparing our company not just for change, but for a transformation. In 2008, CPS Energy more precisely defined that change as transforming from a company focused on providing low-cost power from conventional, centralized sources to a company capable of providing competitively priced power from more sustainable sources. We define sustainable development as growing in ways that meet the needs of our customers today without compromising the ability of future generations to meet their own needs.

Over the next decade, our plan is to have a diverse and balanced approach to our generation portfolio that includes natural gas, low-sulfur coal, nuclear power, and renewable energy, and to be more efficient with the energy we have. Emerging technologies like energy storage, smart grid systems, and distributed electrical generation also will factor heavily into our success. We must ensure that our system is reliable and properly managing power flow and transmission. To keep energy affordable, we'll need to address upfront costs and encourage customers to participate

in our rebate programs and other energy-efficiency initiatives. To mitigate risk, we must choose technologies that are competitive, attractive, and scalable. The newly announced research alliance partnership with The University of Texas at San Antonio will help us achieve these goals.

Investing in the future can seem like a daunting prospect in these tough economic times. That's why CPS Energy has developed Vision 2020, a comprehensive plan that will guide every action we take over the next decade — from working toward a renewable energy goal of 1,500 MW or ~20% of our total generation capacity, to being the best place to work, to providing opportunities to local students for the education they need to tackle tomorrow's energy challenges.

This sustainability report outlines this year's progress toward these goals, such as already having more than 900 MW of renewable energy under contract and the \$849 million in funding approved by the San Antonio City Council for the Save for Tomorrow Energy Plan (STEP), which will enable us to offer rebates and incentives to help customers make energy-efficiency improvements to their homes and businesses.

We plan to commit more than \$5 billion by 2020 toward sustainability initiatives. This reflects our emergence as a national sustainable energy player, and our commitment to you to be transparent and accountable. We'll include your feedback as we plan our collective future. While that is an extraordinary commitment, we remain focused on providing our community with reliable, cost-competitive energy in an environmentally sensitive manner. It is our greatest hope that we may serve the Greater San Antonio area for another 150 years and beyond.

Sincerely,



A handwritten signature in black ink, appearing to read "Doyle".

Doyle Beneby
Chief Executive Officer



A handwritten signature in black ink, appearing to read "Cris".

Cris Eugster
Executive Vice President & Chief Sustainability Officer



Since 1998, CPS Energy has published biennial environmental reports covering a range of topics from air quality to water management. However, as the issues surrounding our business and community have become increasingly diverse and complex, we believe that a full-fledged sustainability report is essential going forward.

Climate change, the rising cost of energy, the global recession, air and water quality, a healthy community — all of these issues are related, and we recognize that a whole-systems approach is necessary to address them. In addition, CPS Energy is working hand in hand with the City of San Antonio and its Mission Verde plan, which addresses a wide range of issues affecting the community. This report covers all of the assets that we own and operate in the San Antonio community and beyond. Not only do we address environmental issues but also social and economic ones, and their relationship to one another.

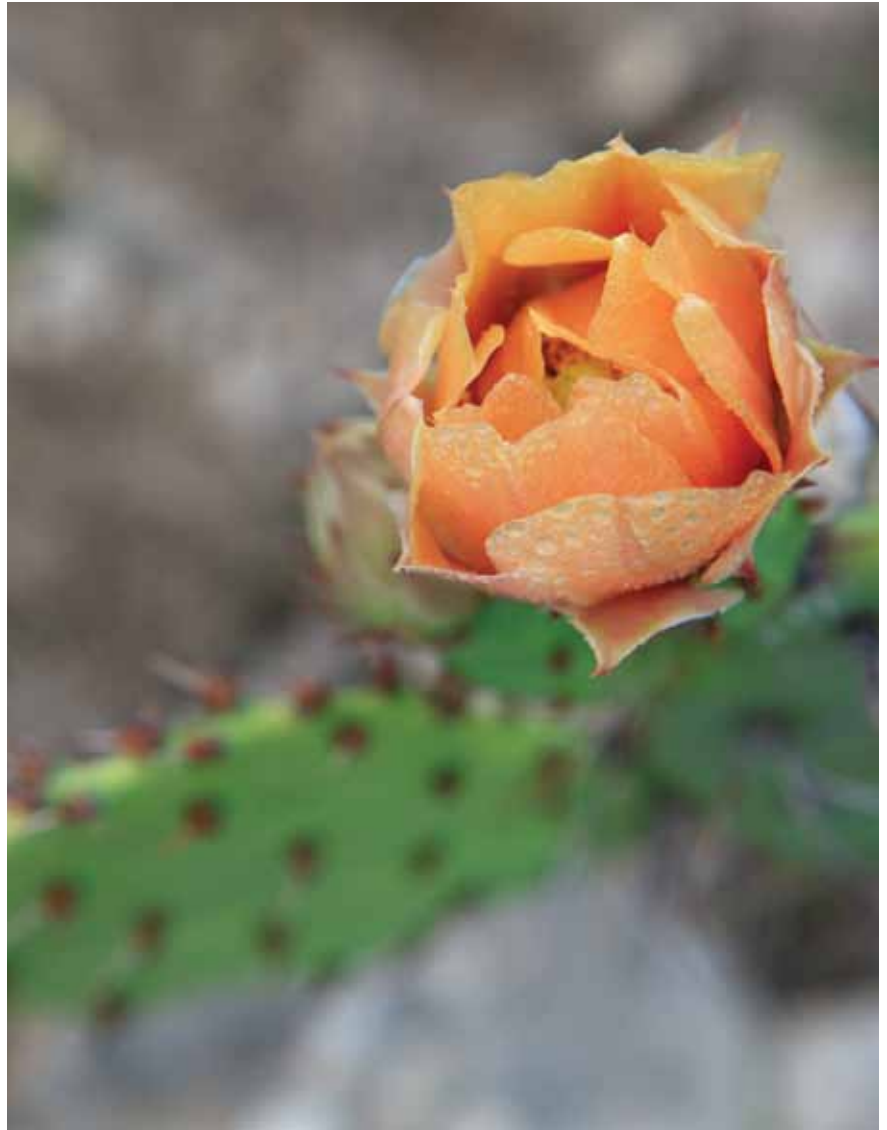
This first CPS Energy Corporate Sustainability Report covers data from primarily 2006 to 2009, where data was available. We plan to produce a Corporate Sustainability Report every two years.

What Is 'Sustainability'?

Sustainability is defined as "meeting the needs of the present without compromising the ability of future generations to meet their own needs." Three traditional areas of focus in sustainability are environmental, social, and economic factors, and the interactions between them. We have addressed each of these areas within this Corporate Sustainability Report.

To address sustainability issues at CPS Energy, we've established two primary initiatives — the internal Sustainability Council and Vision 2020. Our Sustainability Council comprises 18 members from across the CPS Energy organization, representing each business unit. The purpose of this council is to provide a clearinghouse that will identify, prioritize, initiate, coordinate, and evaluate programs, policies, and procedures that promote and enhance environmental sustainability within CPS Energy.

In addition, we have created Vision 2020, which describes how our stakeholders view us and what it will be like to be a part of CPS Energy in 2020.



How Do We Set Priorities?

Stakeholder satisfaction is a key element in our sustainability program, so properly identifying the following stakeholders is an essential step:

- Customers
- City of San Antonio government
- Bond holders
- Employees
- Suppliers
- San Antonio Water System (SAWS)
- Bexar County
- Texas Legislature
- Electric Reliability Council of Texas (ERCOT)
- Public Utility Commission of Texas (PUC)
- Federal government



Peñascal Wind Farm, Baffin Bay, Texas

The Sustainability Council ranked the importance of issues to our stakeholders and the impact of our operations on those stakeholders. Through this process, we identified the issues with the most importance to our stakeholders and the greatest potential impact on the environment, economy, and social atmosphere of the San Antonio area. The issues aligned with our Vision 2020 goals and direction for our sustainability program. This process also highlighted issues that are not currently receiving major focus, do not have set goals, and on which CPS Energy intends to increase focus and action in the coming years.

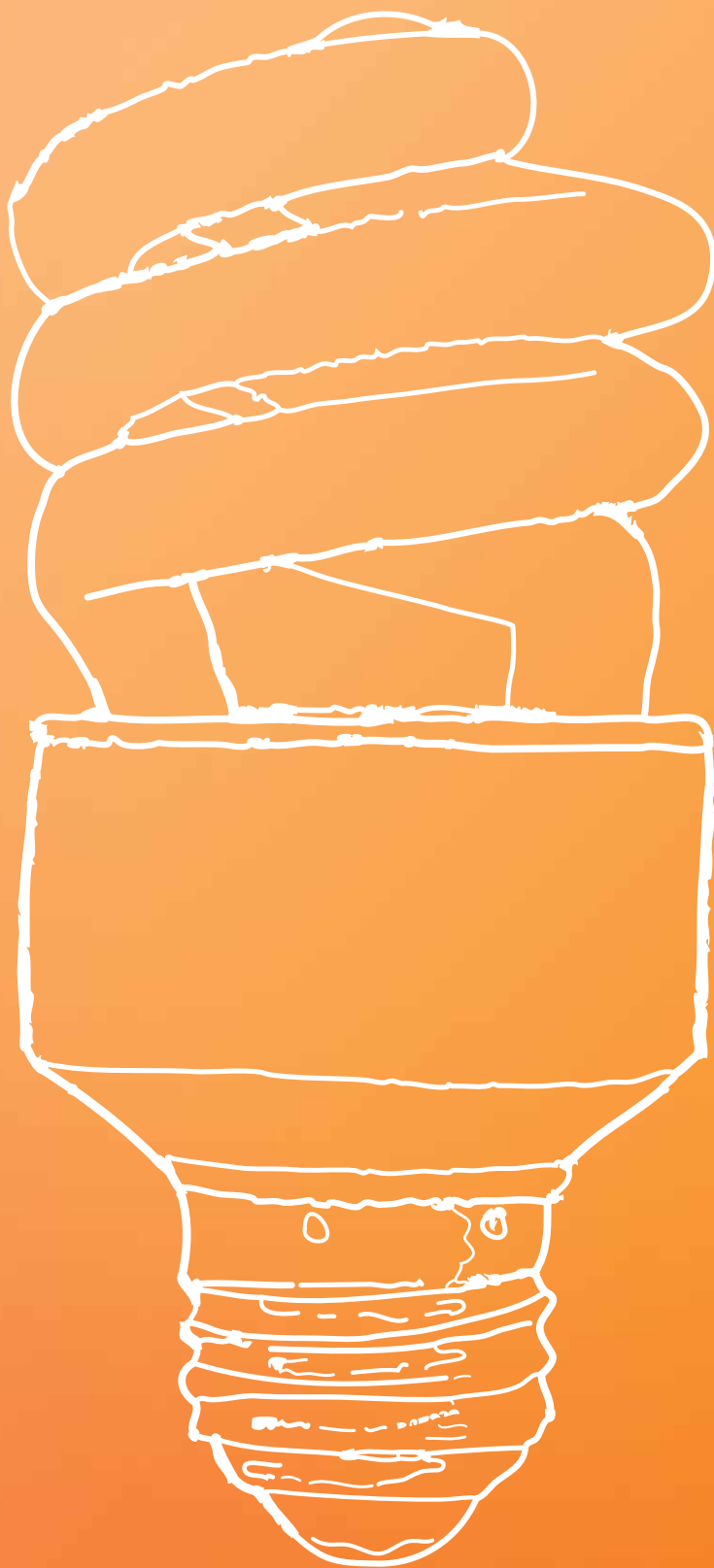
Communication and Benchmarking

The act of communicating this information to you, and the form in which we report it, are just as significant as the content itself. In addition, CPS Energy is committed to comparing our performance with others in the power industry. To accomplish this, we have chosen to use the Global Reporting Initiative (GRI) Framework and Performance Indicators, including the Electric Utility Supplement — the international gold standard for the transparent, reliable delivery of sustainability information to customers and stakeholders. These indicators serve as an important reference point and framework for this report. At the end of this report, the GRI Indicator Checklist summarizes the indicators on which we have chosen to report (fully and partially).

Providing Suggestions and Learning More

You may view and download the complete Corporate Sustainability Report at www.cpsenergy.com, where you may also contact us to receive additional information. We welcome your feedback, comments, and suggestions. Our journey to sustainability is tied to the San Antonio community, and we are eager to hear from you and work with you as we move forward. You may also get information about our various efficiency and renewable energy offerings at the same website.







Desert Sky Wind Farm outside of Iraan in West Texas

The current model for energy production and use is not sustainable over the long term. Load growth and the American appetite for energy are driving the need for additional electricity generation. Yet concerns over environmental issues such as climate change should make all carbon producers, including “point sources” like electric utility plants, reduce their carbon intensity. The production and delivery of energy also has other environmental impacts, such as emissions, solid waste by-products, heavy water usage, and effects on local lakes and rivers. Sustainability includes the consideration of social issues because our business affects our communities. Developing and improving the relationships with our stakeholders will improve our business and help us plan for the future. Additional social impacts include our employee safety programs and the development and retention of our employees.

Economic issues are the third focus of sustainability. In this category are our financial viability, power access and reliability, power affordability, and our impact on the local economy. These issues must be balanced with environmental and social impacts in order to create a sustainable CPS Energy and Greater San Antonio area.

In this report, we have established goals for many areas within our company. We have summarized our progress toward these goals in the Sustainability Performance Summary table at the end of this section. Because some of our programs are already in place, they are more mature or robust than other initiatives. In other areas, we are exploring new ideas and technologies that offer opportunities for improvements.

Vision 2020

To prioritize and begin addressing these issues, CPS Energy developed a strategy known as Vision 2020. This strategy includes a foundation and reference for strategic and long-term financial planning; local, state, and federal legislative policy; motivation of CPS Energy’s employees; and development of senior management accountabilities.

Vision 2020 focuses on and ranks six primary areas that drive success; the vision for each of these is described in more detail below. In 2010, Vision 2020 was revised to include a seventh area of focus called Operational Excellence, and it is listed below. This new area of focus is not discussed in depth in the report but will be addressed in the next Corporate Sustainability Report. Each of these seven areas represents overarching issues that affect all of our key areas of impact.

- 1. Customers:** CPS Energy is committed to the people, businesses, and communities we serve. We are focused on exceptional service and bringing value-added products to our customers in an ever-changing landscape.
- 2. Employees:** CPS Energy is committed to creating a workplace that is productive, purpose-driven, empowering, and rewarding for all employees. Clear lines of authority and accountabilities will be the core leadership framework.
- 3. External Stakeholders:** CPS Energy is committed to having open communications with our external stakeholders including our customers, the City of San Antonio, Bexar County, SAWVS, Bond holders, ERCOT, PUC, the Texas Legislature, and the federal government.
- 4. Operational Excellence:** CPS Energy is a provider of highly reliable, competitively priced energy to our customers. This commitment requires efficient management, maintenance, and modernization of an expanding grid and generation assets to meet environmental requirements and serve a growing community.
- 5. Carbon Constraints and the Environment:** Reducing CPS Energy’s carbon footprint and environmental impact will require a multilevel focus on energy efficiency, new generation technologies, water resource management, and waste reduction initiatives.
- 6. Technology and Innovation:** Technology improvements include the use of open standards, smart grid technologies, new energy storage systems, and distributed energy systems. Technology and innovation also will be used to address impacts that affect air quality, waste generation, and water usage.
- 7. Financial Integrity:** CPS Energy expects that the utility industry will make significant financial investments between now and the 2020s. Continued robust financial planning also will be a key contributor to our success.

The Sustainability Performance Summary describes these key drivers, as aligned with our Vision 2020 focus areas. Each issue is presented with metrics, trends, and context. This summary presents a snapshot of where we have been in the past few years and where we are going, and highlights issues that need additional attention.

Each of these issues and initiatives is at a different stage at CPS Energy. Some issues are well under way, have been tracked for years, and have an established goal. Other issues have been more recently identified, and data may not be available to provide a benchmark of current performance. Our challenge will be to continue to track progress for each issue and to develop and work toward targets.

new facilities. And concerns over climate change are increasing the obligation of everyone to use less fossil fuel.

Aging infrastructure not only affects the cost of energy but also has an impact on reliability. At a time when the focus on customer satisfaction is increasingly important, maintaining and improving reliability is critical and costly. Balancing replacement costs with the realities of a slowly deteriorating infrastructure is a concern that CPS Energy and the entire utility industry are facing. Utilities need capital to replace worn-out infrastructure, while other needs are competing for the same pool of dollars. Balancing all of these critical needs is, and will be, a significant challenge for CPS Energy.



The remainder of this report delves into each of these issues in more detail and describes current programs and activities, challenges, and areas for improvement related to each key issue.

Challenges

An increasingly savvy customer base has high expectations for affordable, reliable, and sustainable energy. Yet utility infrastructure is aging and requires replacement, while the costs of raw materials and fuels rise at unprecedented rates. Rising energy costs are significant concerns for customers and policymakers. This is especially true at a time when the U.S. economy has slowed and people are faced with price increases for goods and services needed to meet their most basic needs. The utility industry is challenged to find sites for

Impending legislation that regulates carbon emissions will have a dramatic impact on the cost of producing electricity. These potentially significant costs will be felt throughout the energy value chain, and ultimately at the bottom line of every customer's utility bill. CPS Energy has been a leader in providing low-cost energy supplies from a diversified fuels mix, including significant coal, natural gas, nuclear generation, and wind resources. While nuclear generation produces no carbon emissions, our substantial coal-fired generation component poses a challenge as we enter an increasingly carbon-constrained future. And natural gas generation has its own challenges — price volatility and carbon dioxide emissions.

A key challenge in addressing these trends is our aging workforce. Our ability to manage a more sophisticated and adaptable infrastructure will require a flexible, dedicated, and well-prepared workforce. Because most of CPS Energy's employees come from the communities that we serve, the issues faced by public education systems are our problems, too. We must play a role in helping to alleviate these systemic problems as they relate to our business. Recruitment, development, and retention of our workforce must be balanced with transition planning and knowledge transfer between employees. Effective succession planning also must be a primary focus to ensure continuity in our rapidly changing environment.

Opportunities

A U.S. Energy Industry CEO study published in 2007 stated: "The challenges [facing the electricity industry] require policy makers and industry leaders to move beyond rhetoric and easy action and deal forthrightly with perceived, real and difficult issues." To address our issues, we have identified three opportunities that will enable us to overcome these risks and challenges:

Mastering the Basics

To reduce the potentially large and burdensome price impacts on our customers, every employee in every position in our company must learn to eliminate all unnecessary costs from our system. We must do so in a way that considers the entire value stream so that we don't reduce costs in one area in a way that causes unnecessary increases in other areas.

Simple on the Inside, Differentiated on the Outside

The entire energy industry is becoming increasingly complex. Factors such as climate change and other environmental concerns, policymaking pressures, technologies that develop sooner than expected or not soon enough, and increased customer expectations and sophistication have complicated utility decision-making. The remainder of the business is all about customer service. At the same time, many stakeholders view the basic delivery of energy as a simple commodity. One way to add value and differentiate our product from others is to provide customers a variety of service, price, and supply options.



Diversified and Skilled Workforce

As a successful company, we must not only identify our needs, but help our employees succeed at all levels of the company by keeping them informed and having programs in place to transition and train existing employees. We must hire for the attributes that lead to success. In turn, employees at all levels, from the front line to senior management, must embrace a culture of life-long learning and continuous improvement. A skilled workforce will require a competitive compensation package.

We will continue to monitor the risks and competitive threats that we may face in the coming years and develop responses to ensure our continued success.

Integrated Resource Plan

The Greater San Antonio population grew by 1.9% in 2009, a rate that is faster than all but four other U.S. cities. This growth is typical and can be expected to continue, with our population reaching approximately 2.4 million in 2020, according to *The Perryman Long-Term Economic Forecast*. In meeting the needs of this growing population, we will uphold our commitments to environmental responsibility by using innovative technological solutions that enhance



quality of life, social equity, and economic viability. At the same time, we will continue to provide reliable and competitively priced energy to San Antonio.

In 2009, the CPS Energy Board adopted a Sustainable Energy Policy Statement that endorsed the transition from a centralized power model to a distributed one. We are currently committed to investing more than \$5 billion over the next decade in this endeavor. CPS Energy's Integrated Resource Plan is a comprehensive road map for meeting San Antonio's future energy needs. It requires making complex projections and considering numerous factors well into the future. To guide this process, we have adopted these four principles:

1. Supply Low-Cost Competitive Electric Power:

Continue to be a low-cost provider by building on historic strengths of constructing and operating owned assets using a diverse fuel mix.

2. Increase Renewable Energy Supply: Build on position as a leading supplier of renewable energy to our customers.

3. Pursue Energy Conservation: Implement programs to slow demand growth and reduce customer bills.

4. Maintain Environmental Commitment: Expand environmental programs and investment.

Diversification of our generation mix continues to be one of our biggest goals. To delay the need for new plants, CPS Energy management is concentrating on community-wide energy efficiency and conservation. This effort is referred to as the "fifth fuel."

Due to recent regulatory developments, cost recovery for energy efficiency and conservation programs is incorporated into our rate structure in much the same way that fuel costs for power plants are addressed in ratemaking. This allows us to aggressively partner with our customers in pursuing investments in energy-efficient technologies and robust demand-response programs with a pay-for-performance cost-recovery philosophy.

CPS Energy originally planned to implement measures designed to save approximately 425 megawatts (MW) of electrical capacity by the year 2020. However, we received approval from our board for a more aggressive goal to save 771 MW (the equivalent of building a power plant), and the City Council approved a funding mechanism for this program.

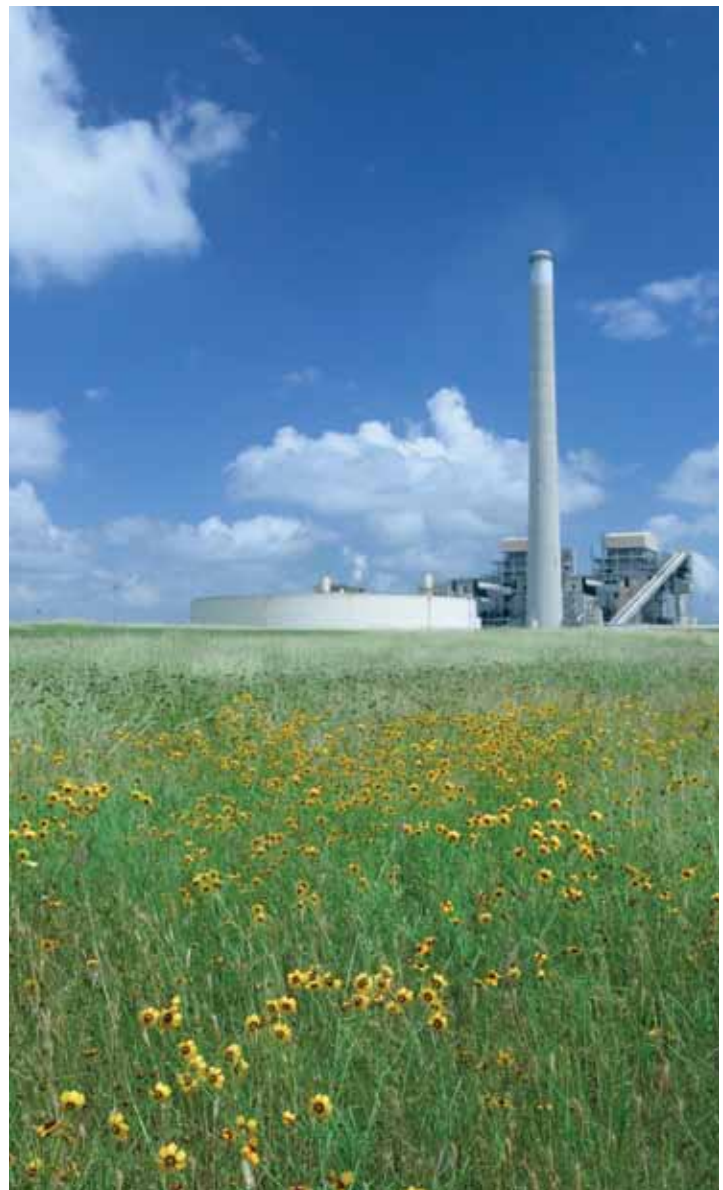
In addition, we have explored and continue to develop opportunities with the City Council for potential changes in ordinances, codes, and administrative regulations that will encourage commercial and residential customers, builders, contractors, and other market participants to implement conservation measures. Building code changes will result in more efficient homes and buildings. These activities include gathering additional public input; expanding community education about the long-term energy and conservation needs of the San Antonio community; continuing our option analyses and evaluations, including our own formalized cost estimates;

gaining additional board approval to move forward; and expanding our presentations to the City Council, which governs the related rate increases and bond issuances required to support any generation construction project. CPS Energy also supports and participates in the Mayor's Task Force on Sustainable Buildings, which provides specific energy code and policy recommendations.

Sustainability Performance Summary

For each goal, we've evaluated our current progress compared with our peers in the utility industry, ranking ourselves as Leader, Good, or Improvement Opportunities.

- **Leader** – We are well on our way to meeting our goal and consider ourselves industry leaders.
- **Good** – We are on track to meet our goal and consider ourselves among the majority of our peers.
- **Improvement Opportunities** – We are either working to improve existing programs or the program is too new to rank.



J.K. Spruce Unit 1 at Calaveras Power Station

Left: Arthur von Rosenberg combined cycle unit's NO_x emissions controls

SUSTAINABILITY PERFORMANCE SUMMARY

VISION 2020 GOALS	 Financial Integrity	 Carbon Constraints & the Environment	 Technology & Innovation
	 Customer Relationships	 External Stakeholders	 Employee Relationships

Goals	Achievements to Date	Future Plans	Challenges
RENEWABLE ENERGY			   
Add renewable energy equal to 1500 MW or approximately 20% of our total generation capacity by 2020; 100 MW of this will be from non-wind. <i>Why?</i> ERCOT statewide capacity goal of 5880 MW in 2015, and 10,000 MW in 2025 Federal regulations may require up to 15% of generation to be renewables by 2021. Environmentally friendly/carbon free/public stakeholder desire <i>Self Rating:</i> Leader	Have 719 MW of renewable capacity in commercial operations as of October 2010 and 194 MW additional under contract, of which 44 MW is solar Largest municipal purchaser of wind power in the United States State leader in solar energy under contract Diversified locations of wind energy	Seek new proposals for renewables.	- Affordability - Reliability/Intermittency - Developing infrastructure and resources - Storage technology - Governmental policy - Transmission constraints
15% participation from our customers in Windtricity and 1% to 2% participation in Solartricity programs by 2020 <i>Self Rating:</i> Leader	Achieved 118.6 million kWh of Windtricity sales in FY 2010, equivalent to 7.6% of available renewable supply	Target marketing and education Market segmentation	- Marketing penetration of target audience - Pricing
ENERGY EFFICIENCY AND DEMAND RESPONSE			   
- Continue providing programs to our customer base to help reach our goal of 771 MW saved from energy efficiency by 2020, of which 225 MW is from demand response. - Continue growing the Demand Response program for commercial customers. <i>Why?</i> Helps reduce peak demand as well as overall energy usage. Reductions allow delayed requirement for new generation. <i>Self Rating:</i> Leader	Have provided \$11 million in rebates to residential and commercial customers for energy-efficiency projects in 2008 102 MW saved in fiscal year 2009/10. This exceeded the goal of 30 MW. Helped fund EPRI's Green Circuit Initiative aimed at improving energy efficiency in the electric distribution system 19 commercial customers participated in the 2009 DR program with 17 MW of curtailable load available on peak days. Target for 2010 program is to achieve 32 MW of curtailable load.	Continue STEP beyond 2020 by exploring funding for an additional 500 MW.	Funding constraints; Market penetration; Market saturation Will get more difficult to achieve over time as more homes are upgraded. It will become increasingly costly to market, and incentives up to 100% of incremental equipment cost will be required. Customer per capita energy usage could increase with future demands such as additional home electronics and plug-in electric vehicles.

Goals	Achievements to Date	Future Plans	Challenges
AIR QUALITY			  
70% reduction in air emissions, including NO_x, PM, and primarily SO₂, from the power plants from 1997 baseline levels Why? Stiffening air quality standards; Promotes a healthier community Self Rating: Good	Total of \$245 million in environmental upgrades since 1999: - System NO_x reductions - Enhanced monitoring program - Added coal yard dust controls - Gas startups at Deely Unit 1 & 2 - Baghouse retrofits at Deely Unit 1 & 2 - Added coal NO_x combustion controls - JK Spruce Unit 1 scrubber upgrades - Currently adding SCR to JTDeely 2, expected to be online in 2011 As part of the new construction of Spruce Unit 2, scrubbers and SCR have been installed. Mercury monitors have been installed on our units.	Add Scrubbers to JTD to reduce SO₂. Add SCRs to JTD1 or JKS1 between 2015 and 2019 to reduce NO_x.	Increasing cost of abatement in a challenging economy Uncertainty of future regulatory limits and timeline to reach compliance Other utilities are catching up with us. (Top 16% in 2007. Top 26% in 2008)
WATER SUSTAINABILITY			
- Identify possible projects and activities to assure water availability through 2050. - Decrease water usage at CPS Energy facilities through conservation initiatives. Why? 2008-2009 South Texas drought increased pressure on water resources. New electric generation will require additional water; new regulations may reduce water availability for cooling. Self Rating: Good	Completed comprehensive lake and fish studies in 2002 and 2009 Have created Water Strategy Team to develop strategic water plan and drought management plan Completed Power Plant Water Conservation Study CPS Energy has reduced power plant water usage intensity through the use of once-through cooling pond technology (instead of cooling towers), power plant efficiency improvement projects, new gas turbines (replacing steam-electric generation), and new water treatment technologies. CPS Energy reuse of treated sewage effluent for power plant cooling at Calaveras and Braunig lakes, instead of using fresh Edwards Aquifer water, has saved 829,245 acre-feet (or 270 billion gallons) of Edwards water since the 1960s. STEP and renewable energy programs saving approximately 2,500 AF/yr of water	Conduct additional evaluations and studies.	Complacency, because have enough water now Regulatory (SB3, EARIP [Edwards Aquifer Recovery Implementation Program], etc.) Increased water needs to support new generation, new SO₂ removal, and possible CO₂ capture
WASTE			
Increase recycling of nonhazardous industrial and municipal waste. Why? Conserve landfill space and natural resources Decrease disposal costs Public stakeholder desire Self Rating: Leader	Have recycled an average of nearly 70% of all municipal waste in 2006-2009 Have recycled 100% of coal combustion by-products for last several years Recycled 100% of tree trimmings	Keep Mission Recyclable going (aluminum cans and plastic bottles). Training/Education Establish additional contracts with vendors. Increase wood-pallet recycling rate.	Accountability Reclassification of ash may limit our ability to recycle it.

Goals	Achievements to Date	Future Plans	Challenges
OPERATIONAL GHG EMISSIONS			  
Corporate Goal Determine our greenhouse gas (GHG) emissions from internal operations from 2005 to establish our baseline year and set a reduction goal. Determine years 2006-2008 and identify opportunities for reductions in GHG from our internal operations. Why? COSA committed to the U.S. Mayoral Climate Challenge and requested that CPS Energy, SAWS, and Bexar County partner to help develop a community-wide inventory and future operational reductions. Self Rating: Improvement Opportunities	Gathered data from electricity usage, fleet, SF₆ sources, and other small miscellaneous sources for 2005-2008	Work with Business Units to set goals to help reduce emissions from operational activities.	Data availability from past years and quality Budget constraints
Fleet Self Rating: Improvement Opportunities	Have reduced fleet vehicles by 8% for fiscal year 2009/10 Added ethanol fuel for our light-duty vehicles in 2003	Add PHEV to our current fleet. Add electric trouble trucks in 2012/2013. Improve utilization of fleet. Initiate biodiesel trials for another positive alternative fuel. Implement SmartFuel System in 2010 to improve data quality. Establish capital transportation plan.	Improved utilization of fleet Regulatory requirements Budget constraints
Transmission & Distribution Self Rating: Improvement Opportunities	In 1998, CPS Energy signed a voluntary agreement with EPA, joining the SF₆ Emission Reduction Partnership.	Determine SF₆ emissions from leaking circuit breakers. Use fugitive emission monitor to identify leaky circuit breakers. Replace circuit breakers that consistently leak.	Man hours needed Budget constraints
Facilities Self Rating: Good	Updated Information Communication Services equipment such as servers and computers As part of SB5, we set reductions goals for three of our facilities and met these goals. High Efficiency Lighting Program: In 2004, we began replacing office and customer service center incandescent light bulbs with high efficiency compact fluorescent lamps (CFLs). Have replaced incandescent and T12 bulbs with more efficient CFL and T8 lighting in our buildings since 2007	Virtual servers to reduce electrical consumption Continue to replace remaining T12 lighting. Determine projects that would promote facility improvements and reduce electricity consumption.	Weather can have a big impact on our electricity consumption; out of our control Budget constraints

Goals	Achievements to Date	Future Plans	Challenges
ENVIRONMENTAL STEWARDSHIP/COMMUNITY PROGRAMS			 
Support and enhance community programs Why? Tree cover helps our community save money in energy conservation, air quality, and storm water management. Enhance lake fishery. Self Rating: Leader	Conducted an initial Urban Ecosystem Analysis in 2002 Developed a tree brochure to provide information to customers Developed and implemented Tree Preservation and Mitigation Policy and procedures Distributed over 37,000 trees since 2001 (over 4,100 in 2010) Live Green Fest, Earth Day Have stocked 42,000 bass in Calaveras Lake since 2004 Have recycled more than 5,600 pieces of gasoline lawn equipment and provided rebates for electric and battery models for Mow Down Smog	Partnering with the City of San Antonio to plant trees by the end of 2011 Educate and distribute trees to over 3,500 customers in 2010 and 2011 at several events. Evaluate benefits of fish stocking. Partnering with Thousand Trails to improve lake parks Continue Mow Down Smog.	Public participation
CUSTOMER RELATIONS			
Continue to make customer relations and perception a top priority. Why? Improves communication Help low-income customers in a struggling economy. Self Rating: Leader	We had 244 presentations to civic groups and organizations in 2009. Exceeded our employee contribution goal to United Way in 2009 (over \$787,000) Volunteers in Public Service provided over 25,000 hours of service in 2008. Affordability Discount was implemented in 2008 to assist low-income customers.	Continue to support speaker team. Plan to continue presentations in 2010 and 2011. Continue with REAP — funding and marketing. Continue customer information and community meetings. Continue supporting VIPS and United Way.	Challenging economy Lack of knowledge of alternative energy
Consistently rank in the top five nationally in the JD Power and Associates surveys for gas and electric customer satisfaction by 2020. Why? Improves customer relationships Self Rating: Leader	Reduced response time for customer notifications of outages In 2009, J.D. Power ranked CPS Energy No. 1 in Residential Electric and No. 1 in Residential Gas among large utilities in the Southern region. Nationally, CPS Energy ranked 3rd for Electric Utilities and 2nd for Gas. Also use MSI and Rockbridge Customer Satisfaction Surveys to assess customer service.	Improve reliability. Keep costs low. Improve and expand services.	System reliability Weather variability Technical delays on scheduled system upgrades Timely communication of outage information

Goals	Achievements to Date	Future Plans	Challenges
SUPPLIER DIVERSITY			
Through outreach and advocacy, encourage small, minority, veteran and service-disabled veteran-owned, HUBZone, small disadvantaged, and women-owned businesses to compete for contracting and subcontracting opportunities. Why? It is CPS Energy policy to ensure that these businesses have the maximum practicable opportunity to participate as contractors and suppliers. It is our policy to assist these businesses to overcome barriers which may have kept them from the mainstream of the American business enterprise system. Self Rating: Good	Mentoring/Protégé Program from 1998 to 2004 provided workshops, seminars, and networking functions to address emerging issues facing these businesses. Outstanding ratings by U.S. Small Business Administration Numerous awards Provided arena for businesses to register their company/products/services with CPS Energy so we can proactively solicit them	Continue ongoing outreach activity. Develop interactive web portal for new and existing suppliers with access to their supplier account info. Evaluate bringing back Mentoring/Protégé Program.	Commitments and the understanding of value of various programs
FINANCIAL INTEGRITY			
Maintain the company's excellent credit ratings, currently among the highest of any municipal utility. Why? Provides customers consistently lower rates, one of the expected benefits of competition, without the hassles of competition Self Rating: Leader	Excellent credit ratings achieved by: - Disciplined capital and operating expenditure control - Prudent incremental revenue opportunities - Attention to liquidity - Conservative, ongoing financial planning - Implementation of enterprise risk management - Strong management team with owner/regulator support	Continue to improve upon current achievements and seek sufficient rate support to balance affordability for the customer with protecting the financial and operational integrity of the utility system.	- Legislative/regulatory requirements involving millions of dollars of environmental investments and other compliance costs - Providing for continuing growth and demand for additional services - Re-investment in an aging infrastructure to maintain reliability and safety - Public desire to increase investment in emerging "green" technologies - Uncertainty in financial markets - The emerging nodal marketplace, and (7) fuel price uncertainty
Maintain residential retail rate per KWH below the market average in the competitive markets of Dallas, Houston, and Corpus Christi. Why? Keeps financing costs lower by providing greater access to capital. Lower financing costs benefit customers via lower rates. Self Rating: Good	Low rates achieved by strategic decision of fuel diversification, including initiatives to pursue energy efficiency, conservation, and renewable energy	Spruce 2, implementation of Save for Tomorrow Energy Plan (STEP), and judicious mix of additional renewables	Regulations on various environmental emissions such as carbon, SO₂, NO_x, and mercury Volatility and uncertainty of future fuel prices

Goals	Achievements to Date	Future Plans	Challenges
HUMAN CAPITAL  			
- Improve safety rating. - Employee's health, welfare, and availability Why? Protect our employees and resources. Limit unprogrammed costs created by accidents occurring to employees, equipment, and the general public. Self Rating: Good	Reduced the number of recordable injuries by 35% in FY10 Reduced the number of motor vehicle accidents by 30% in FY10 Achieved seven consecutive years of reductions of recordable injuries (FY04-FY10) Reduced work-related injury costs by 52% in FY10	Continue with an aggressive safety recognition program. Make available to all employees general safety courses, including CPR and first aid, driver's training, fires safety, etc. Keep safety as a point of emphasis for all employees. Continue improving case management efforts.	Funding for training and recognition programs Time for safety training Rising health care costs Changes in legislation
Develop the human capital within the organization and enhance relationships within our community to ensure a sustainable workforce. Why? Provide an engaging environment for employees to maximize their fullest human potential and leverage the institutional capability in our community. Self Rating: Good	Recruiting for the future workforce: - Formalized partnerships with local schools and universities - Improved intern/co-op program Implementing an application tracking system to improve both internal and external hiring processes Developing and growing talent from within: - Formalized succession planning program at executive level - Implementation of learning management system - Increased availability of training via computer-based training (CBT) methodology	Expand formal succession planning program to include all work levels. Increase CBT offerings to the workforce. Improve workforce planning analysis and usage. Formalize a knowledge transfer program.	Aging workforce Documentation and standardized work processes
Improve employee benefits and programs. Why? Employee retention and competitive hiring Self Rating: Good	- Education and tuition reimbursement - Technical, management and leadership training and development - Employee clubs - Competitive health benefits - Employee Assistance Program - VIA Metropolitan bus pass program	Comprehensive employee benefits redesign: - Consolidation of contracts - Implementation of new wellness offerings - Review of funding and trust utilization - Development and recommendation on an employee telecommuting policy/program	Economic downturn has eliminated merit increases and EIP in 2009.
Improve organizational assessment and employee engagement. Why? Part of our Big Audacious Goal is to be a great place to work, i.e., live our core values. Survey results have been declining for the past two years. Self Rating: Improvement Opportunities	FY10: First year of corporate-wide manager-led report-out of results with employees. Manager-led response teams and action plans were developed in each business unit. Request for Proposal and selection of new survey vendor to improve survey design, reporting, and responsiveness was completed.	Administration of a new survey and action planning process Establishment of new metric and targets for improvement	Expanding the scope beyond just core values Integrating results with manager goals and performance assessment

Goals	Achievements to Date	Future Plans	Challenges
DEVELOPING GOALS			
GENERATION CO ₂ EMISSIONS			
Follow proposed CO₂ regulations to help determine our future generation mix and develop a CO₂ reduction goal. Upcoming regulations may dictate the goal. Why? EPA and Congress on the verge of regulating GHG emissions from power plants; absolute emissions reductions likely required in the future. City of San Antonio — Mission	Following proposed regulations Have invested \$2.6 million from 2005-2010 to fund research on new technologies to control or mitigate CO₂	Continue to invest in collaborative R&D projects to develop CO₂ capture and storage technologies that can be commercialized. Continue to evaluate and pursue firm and non-firm options for reducing CO₂ emissions, such as additional nuclear generation, existing plant efficiency improvements, increased renewable generation, and highly aggressive energy efficiency programs.	There are no commercial technologies available today to capture CO₂ at the scale needed. Proposed technologies have very high cost and performance penalties. Legal and regulatory framework for underground storage of CO₂ does not exist.
DISTRIBUTED ENERGY			
Establish Distributed Energy Program. Why? Gain experience in interconnecting to our grid. Learn how to manage distributed energy power flow. Strategically align with our Board's philosophy of future energy suppliers. Part of the City of San Antonio Mission Verde goals	Presented to senior management team and the board Educating stakeholders on benefits and costs Residential solar rebates Commercial projects to date: - Covel Gardens - Pearl PV - Blue Wing PV - Age Refining - Tessman Landfill PV	Roll out Solartricity Producer Program. 10 MW over 2 years 25 kw – 500 kw 27 cents/kwh Add 500 MW of distributed generation beyond 2020.	Cost challenges across segmentation on technology Currently much higher in cost than traditional generation Manage balance in portfolio interconnections Managing intermittency Unclear if a significant portion of the energy supply markets will gravitate to the distributed energy model or remain with the central stations model

Goals	Achievements to Date	Future Plans	Challenges
DEVELOPING GOALS			
TECHNOLOGY AND INNOVATION			  
Offer Home Area Network Capability along with Advanced Metering Infrastructure (AMI) Program. <i>Why?</i> Help provide customers with real-time information on energy consumption, billing, pricing, and related information. Provide internal business unit with information to improve operational efficiencies.	Have completed a small test pilot of personal energy management systems (PEMS) in the CPS Energy service area	Offer additional pricing programs as AMI meters are deployed. Install over 700,000 new electric meters and retrofit over 300,000 gas meters by 2015 as part of the AMI program.	Enterprise transformation Public participation Marketing resources Internal resources Process improvement
Establish the Texas Sustainable Energy Research Institute (Texas SERI) in partnership with the University of Texas at San Antonio (UTSA). <i>Why?</i> Need support services in the development of sustainable energy technology, smart grid applications, and environmental controls	Have created a partnership with UTSA for September 2010 through September 2020 CPS Energy committed up to \$50 million over 10 years to an alliance with the University of Texas at San Antonio for sustainable energy research. First year of funding has been set at \$1 million. The second year of funding will be \$2.5 million. Funding for later years will be contingent on board approval and budget considerations. It also will depend on annual evaluations of the program.	Research projects will focus around the following topics that are specific to CPS Energy's needs: - Carbon management, capture and utilization for large-scale generation - Development of a secure electric smart grid to support distributed generation. - Expansion of large-scale renewable energy technologies with support in energy storage solutions - Behavioral research of consumers - Electric transportation	Program is subject to annual evaluations.

WHO IS CPS ENERGY?

CPS Energy is the nation's largest municipally owned energy company providing both natural gas and electric service. We serve approximately 700,000 electric customers and more than 320,000 natural gas customers in and around the seventh-largest city in the nation. The City of San Antonio acquired CPS Energy in 1942. Our legal name is the City Public Service Board acting by and through the City of San Antonio. Up to 14% of our gross revenues support more than one-fourth of the general operating budget of San Antonio's municipal government, providing financial resources for the delivery of basic services such as streets and infrastructure, public safety, parks and youth enrichment programs, and libraries.

Thanks to our status as a community-owned, not-for-profit company and our diversified mix of fuels, we are able to provide our customers with reliable and more affordable energy services than many companies. We're not just serving customers, but working for our families, friends, and neighbors in Greater San Antonio.

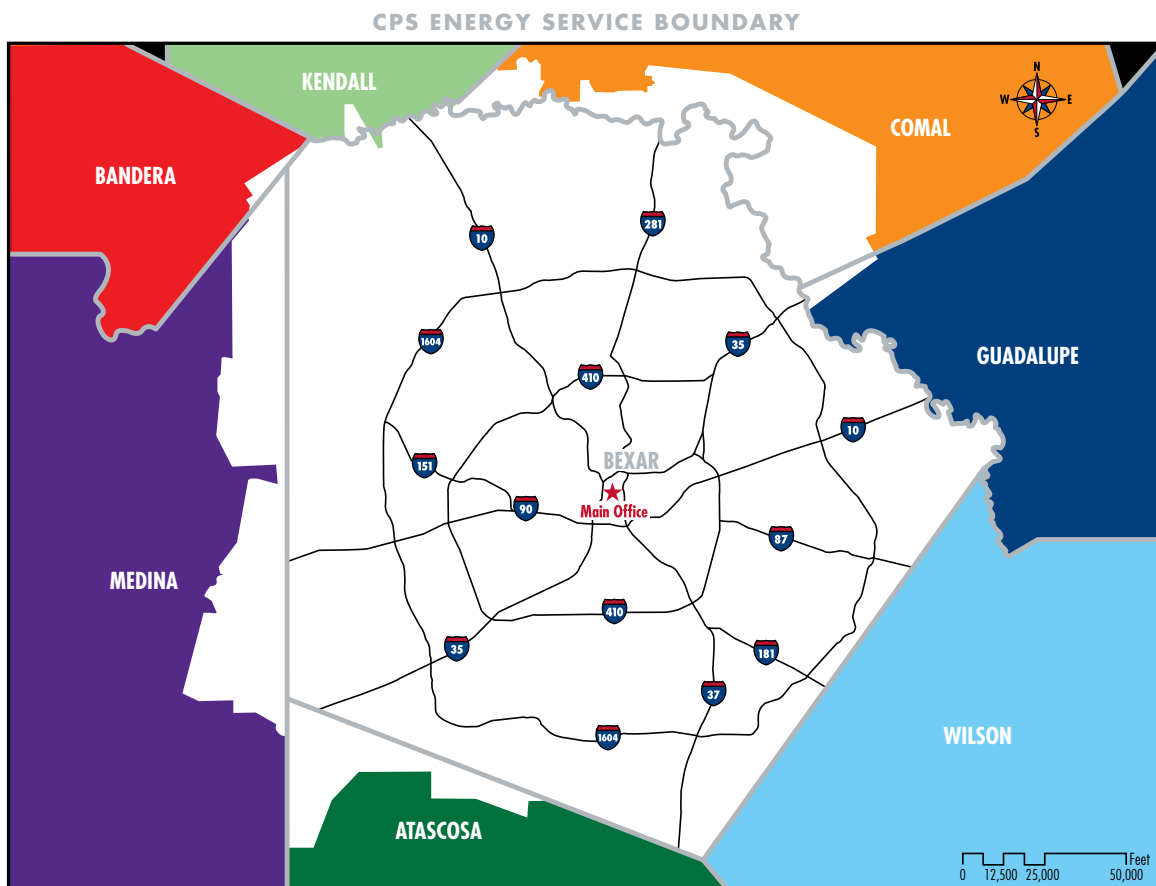
Core Values and Purpose

The CPS Energy purpose is:

"Benefiting our community by improving the quality of life of the people we serve."

We believe that a focus on customer service, the environment, learning, stewardship, and leadership will reinforce living our core values. These core values connect everything we do at CPS Energy:

- Customer commitment
- Performance
- Safety
- Respect
- Teamwork
- Trust



CPS Energy serves a 1,514-square-mile area, shown in white.



CPS Energy Board of Trustees

The CPS Energy Board of Trustees (Board), in accordance with bond ordinances, governs the natural gas and electric utility. The Board consists of four citizens representing the four geographic quadrants of the City of San Antonio and the mayor of San Antonio, who serves as an ex-officio member. Trustees must reside within the CPS Energy quadrant that they represent. Board members serve a five-year term and are eligible to serve an additional term. Vacancies on the Board are filled by a majority vote of the remaining members and new Board appointees must be approved by a majority vote of the City Council.

Current CPS Energy Board of Trustees

Charles E. Foster, *Chair*
Derrick Howard, *Vice Chair*
Stephen S. Hennigan
Dr. Homer Guevara, Jr.
Mayor Julián Castro, *Ex-Officio Trustee*

Leadership

Mr. Doyle Beneby joined CPS Energy as President/CEO effective August 1, 2010. Beneby was previously the president of Exelon Power and senior vice president of Exelon Generation. Prior to Exelon, he was at Consumer Energy in Michigan and at Florida Power and Light for 17 years.

Ms. Jelynn LeBlanc-Burley served as Acting General Manager from November 2009 to late July 2010. Ms. Burley joined CPS Energy in 2008 as Vice President and Chief Administrative Officer for Organizational Excellence and Shared Services after serving as Deputy City Manager for Planning and Development for the City of San Antonio. She has served the city for 24 years in various capacities.

Awards

CPS Energy leads nation in wind power for second year in a row CPS Energy ranks No. 1 in the United States for the second year in a row in wind energy capacity among municipal utilities, according to The American Wind Energy Association's (AWEA's) annual rankings of wind power leadership. AWEA also honored CPS Energy with the Municipal Utility of the Year award for its continued growth and leadership in renewable wind energy. AWEA is the largest national trade association of America's wind industry, with more than 1,900 members.

April 2008 — Spruce Power Plant Unit 1 awarded 'Best Performer Large Coal' by Electric Utility Cost Group's Fossil Productivity Committee Ranked first out of 45 large coal plants (> 250 MW). Selection was based on a combination of best reliability and low non-fuel operations and maintenance (O&M) cost per MWh for five years of data from 2002 to 2006. Our J.T. Deely plant tied for third in the same category.

South Texas Project (STP): Numerous Awards

The facility has earned more honors than any other U.S. nuclear power plant. It is the only repeat winner of the industry's top honor, the B. Ralph Sylvia Best of The Best Award, which STP has won three times. The plant additionally has won seven of the annual Top Industry Practice (TIP) awards, two Utility Achievement Awards, and a Project of the Year Award for Best Nuclear Project worldwide.

CPS Energy is the top-ranked company in the South Region and ranks third nationally among 59 large utilities, according to the recently released J.D. Power and Associates' 2009 Electric Utility Residential Customer Satisfaction Study.™

Services We Provide

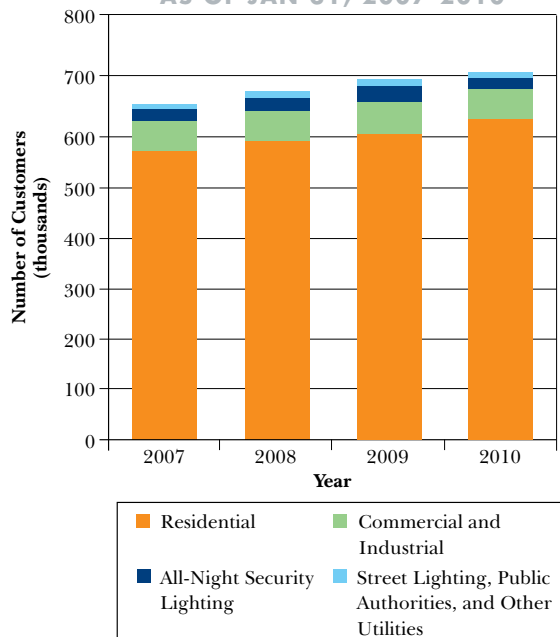
Our 1,514-square-mile service area includes Bexar County and portions of Atascosa, Bandera, Comal, Guadalupe, Medina, Wilson, and Kendall counties. We also provide electric service to some federal military installations located within the service area that own their own distribution facilities. CPS Energy supplies full-requirements wholesale electricity to the Floresville Electric Light & Power System, the City of Hondo, and the City of Castroville and partial requirements to several other neighboring electric utilities. The CPS Energy gas system serves the city and its environs, although there is no certified CPS Energy gas service area.



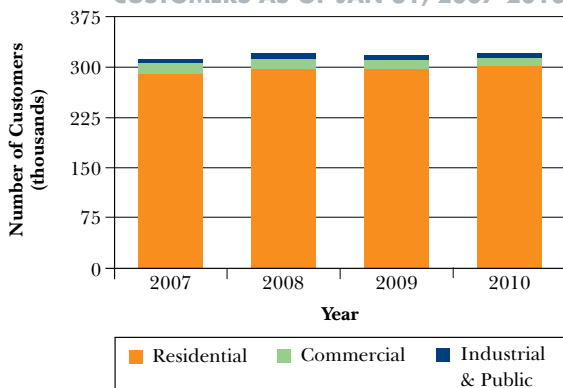
Sweetwater Wind Farm, Sweetwater, Texas

Left: Construction of the Peñascol Wind Farm in Baffin Bay, Texas

**NUMBER OF ELECTRIC CUSTOMERS
AS OF JAN 31, 2007-2010**



**NUMBER OF NATURAL GAS
CUSTOMERS AS OF JAN 31, 2007-2010**



Customer Accounts

The number of CPS Energy customers and accounts has been steadily increasing over the past few years. Our growing customer base means that we have to continually add and improve service across the San Antonio area.

Our Electrical System

CPS Energy generates, transmits, and distributes energy to our customers in and around the San Antonio area. The following sections describe how and where we generate electricity and deliver it to our customers.

Electric Generation

CPS Energy operates several electric generating units. We use coal and nuclear energy for our base-load generation because of the lower fuel costs and reliability of these fuels. However, these energy sources cannot be instantaneously turned on and are not built to be cycled frequently. Natural gas generation can be used for both base-load and peaking load. Natural gas combustion turbines (similar to large jet engines) are specifically used as peaking units since they can be started up in less than 20 minutes. This is especially helpful during hot summer peak days in Texas or to help compensate for fluctuations in the output from our sizeable wind generation portfolio. CPS Energy has a large renewable energy portfolio and must take the power when it is available.

Energy Output

Power demand, as well as our generation of electricity, has grown over the past few years and is projected to continue growing. On page 29 is a table highlighting our generation mix and associated power generation from all of our assets.

CPS Energy must have additional power generation available for peak demand times, which is known as our *power supply minimum planning reserve margin*. We currently maintain a minimum reserve margin of 12.5% above the maximum expected peak demand. On August 23, 2010, a new peak of 4,738 MW was reached when temperatures hit 102° F. This broke the previous record of 4,649 MW set on July 8, 2009. As of late 2010, CPS Energy's current total name plate generating capacity is 6,796 MW. With renewable energy contributions to summertime system peak demand, our current reserve margin is above 30%.

Coal

For several decades, coal has been an important source of fuel for CPS Energy as part of our base-load generation. We currently have four power plant units that turn low-sulfur coal into electricity. Coal is one of the most abundant fuel sources in the country. At the J.T. Deely and J.K. Spruce power plants located at Calaveras Power Station in south Bexar County, coal is used as a fuel source to produce 2,206 MW of electricity. Unit 2 of the J.K. Spruce Plant recently came online with advanced emission controls including fabric particulate filters (baghouse), selective catalytic reduction (SCR) technology, and flue gas desulfurization (scrubber).



CPS ENERGY GENERATION CAPACITY FOR 2010

Plant		Fuel	Capacity (MW)	Planned Retirement Date ²	2009 Capacity Factor	Base Load (3286 MW)
STP ¹	Unit 2	Nuclear	540	2048	103.4%	
	Unit 1	Nuclear	540	2047	91.0%	
J.K. Spruce	Unit 1	Coal	560	2047	73.8%	
	Unit 2	Coal	775	2065	new	
J.T. Deely	Unit 1	Coal	435	2032	66.2%	
	Unit 2	Coal	436	2033	60.3%	
A. von Rosenberg	Unit 1&2	Gas	481	2055	31.1%	Intermediate (2246 MW)
O.W. Sommers	Unit 2	Gas/Oil	435	2029	17.2%	
	Unit 1	Gas/Oil	445	2027	16.8%	
V.H. Braunig	Unit 3	Gas/Oil	420	2025	15.6%	
	Unit 1	Gas/Oil	225	2021	11.1%	
	Unit 2	Gas/Oil	240	2023	8.0%	
Leon Creek	CT(4)	Gas	186	2059	6.7%	Peaking (531 MW)
Leon Creek	Unit 4	Gas	95	2010	1.3%	
Leon Creek	Unit 3	Gas	60	2010	0.7%	
Braunig Peakers	CT(4)	Gas/Oil	190	2064	new	

Capacity: 6,063 Generation Portfolio CF: 45.3%

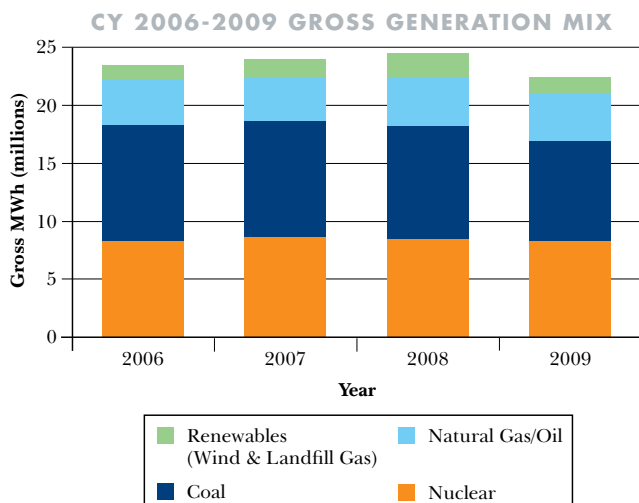
Covel Gardens	Landfill Gas	9.6	12/31/2020	75.0%	Renewable
Sweetwater 3	Wind	100.5	11/30/2025	32.5%	
Sweetwater 4	Wind	240.8	5/23/2072	31.1%	
Desert Sky	Wind	160.5	12/31/2021	27.1%	
Papalote Creek ³	Wind	130.4	12/31/2024	26.8%	
Peñascal	Wind	76.8	4/30/2024	23.7%	
Blue Wing Solar	Solar	14	12/31/2040	new	

Renewable Capacity: 732.6 Renewable Portfolio CF: 30.2%

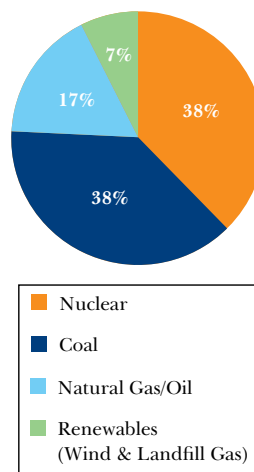
Total Capacity:	6795.6	Total Generation Portfolio CF:	43.7%
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1. In 1988-89, CPS Energy's 28% share in STP accounted for 700 MW of total capacity. In May 2005 CPS Energy's additional share of 12% added 325 MW. In 2007, turbine upgrades increased CPS Energy's share to 1080 MW. STP 1 & 2 capacity factors are calculated based on the original unit capacity of 1250.6 MW. STP 1 & 2 retirement date is based on original 40 yr. operating license plus a 20 yr. extension.
2. Fossil plant retirements based on 55 yr. life. Renewable energy retirement date based on contract end date.
3. Peñascal capacity factor based on 9 months of operation and Papalote Creek based on 3 months of operation.

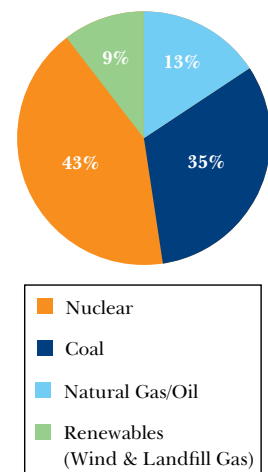
NET GENERATION BY CPS ENERGY PLANTS TO SERVE NATIVE LOAD FY 2009-2010

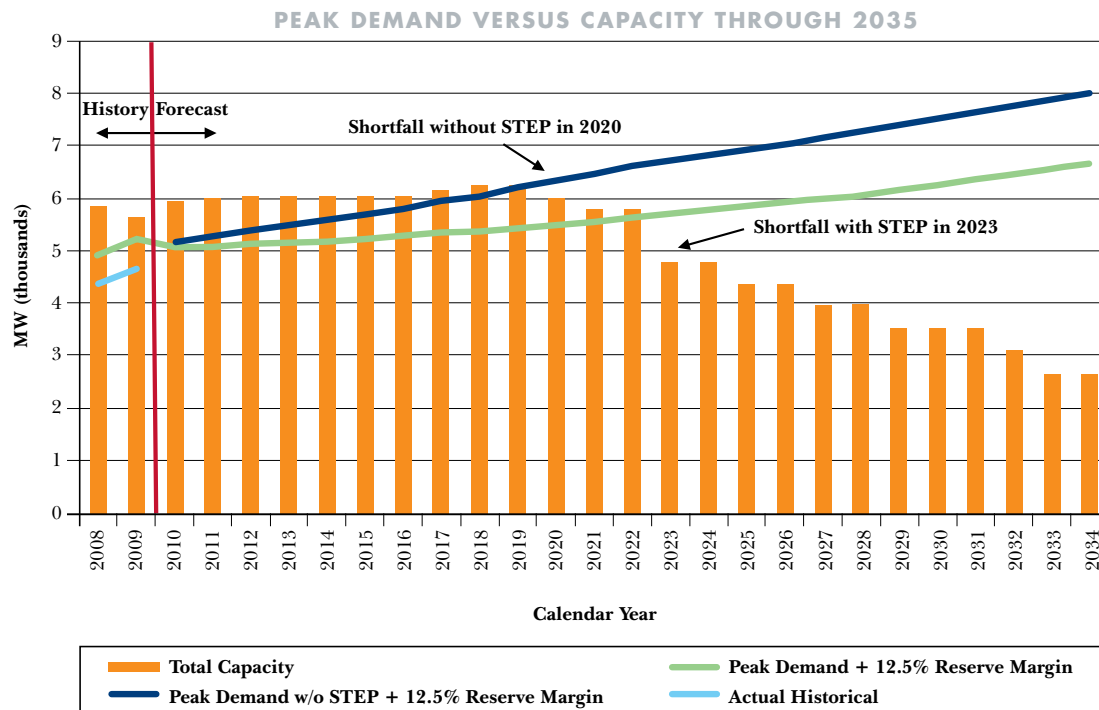


CY 2009 GROSS GENERATION MIX (MWh)



NET GENERATION BY CPS ENERGY PLANTS TO SERVE NATIVE LOAD FY 2009-2010





**Case assumes 7.625% ownership of STP 3 & 4 and no build after STP 3 & 4.*

We developed the CPS Energy Coal Yard Improvement Project to support a 60% increased coal throughput due to J.K. Spruce 2. This project will allow our plants to use coal more efficiently and in a more environmentally friendly manner. It will:

- Provide additional coal-handling capacity to units
- Maintain coal yard reliability and safety
- Support expanded rail car fleet and 150 car trains
- Improve efficiency of train and car handling
- Maintain environment by keeping dust emissions low in spite of high coal-handling volume



Calaveras Power Station

Nuclear Energy — South Texas Project

CPS Energy owns a 40% share of the electricity generated at the South Texas Project (STP) nuclear power plant. The two-unit facility — one

of the nation's largest — has produced more energy than any other nuclear plant in the country in the past five years. Nuclear generation is considered part of our base-load generation. Both STP units have led the nation in production, and Unit 1 led all 439 reactors worldwide in electric generation in 2007.

The J.K. Spruce Unit 1 was recently recognized by the EUCG (formerly known as the Electric Utility Cost Group) Fossil Productivity Committee as the “Best Performing Large Coal Plant,” based on best reliability and lowest non-fuel operations and maintenance cost per megawatt hour over a five-year evaluation period (2002-2006). CPS Energy’s J.T. Deely Plant was tied for third in the same category.

Additionally, the plant is a consistent leader in its commitment to safety. STP has operated more than 10 million hours without an accident among its 1,200-member workforce. It has a Total Safety Industrial Accident rate of 0.0, which places the company in the top 10% of all U.S. nuclear plants in terms of personal safety.



Braunig peaking units under construction

CPS Energy also has a 7.625% ownership stake in the planned expansion of STP Units 3 & 4 (about 200 MW). Nuclear Innovation North America (NINA) retained a 92.375% interest in the project. A combined operating license for STP Units 3 & 4 is expected in 2012, with the units anticipated to come online between 2016 and 2018.

Natural Gas Energy Generation

CPS Energy owns and operates several natural gas-fired units at four locations in Bexar County: Leon Creek Power Station, Tuttle Power Station, Braunig Power Station, and Calaveras Power Station. These units are primarily used during the summer months when demand for electricity is high. Units 1, 3, and 4 at Tuttle Power Station, Units 1, 2, and 3 at Braunig Power Station, Sommers Units 1 and 2 at Calaveras Power Station, and Units 3 and 4 at the Leon Creek Power Station are natural gas boilers.

In June 2004, four natural gas combustion turbine peaking units were added to the Leon Creek Power Station. In addition to these assets, four new natural gas combustion turbine peaking units are currently coming online, 48 MW each, at the Braunig Power Station, providing 190 megawatts (MW) of quick start capacity. Gas turbine peaking units are a highly efficient means for responding to fluctuations in demand, wind generation, or the ERCOT market; the peaking units can be available quickly and then turned off when the fluctuation drops. The Arthur von Rosenberg Unit, located at the Braunig Power Station, is a combined

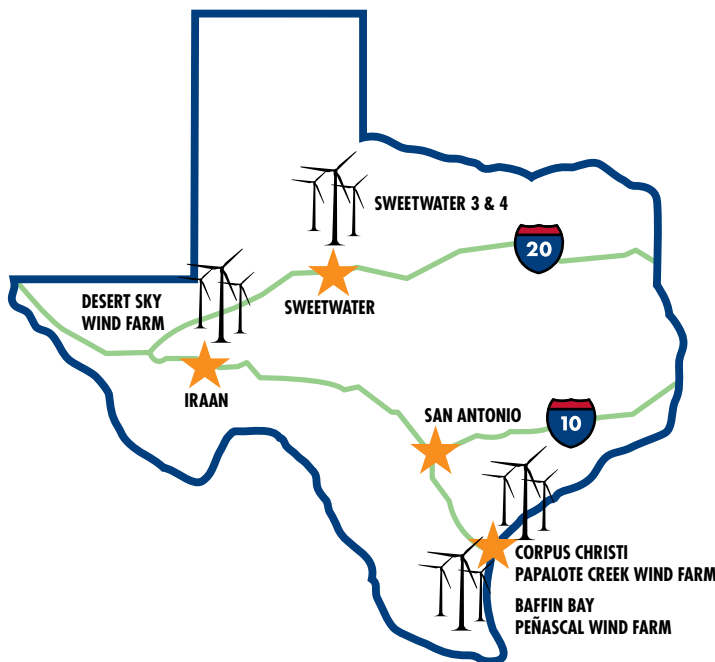
cycle natural gas-fired plant that is 33% more efficient than other gas boilers or simple cycle gas turbine generation technologies.

Commitment to Renewable Energy

CPS Energy's Integrated Resource Plan set an ambitious goal of achieving renewable energy capacity, including wind, solar, and landfill gas, equal to 1500 MW or approximately 20% of our total generation capacity by 2020. Distributed generation renewable resources being considered include solar photovoltaic (PV) and solar thermal, combined heat and power, geothermal, waste-to-energy, hydro, and local wind. Additional information on renewable and distributed generation programs is provided in the section on Customer Energy Efficiency and Renewable Energy Programs.

Wind — Purchased Power

Electricity generated from the West Texas plains and Texas coastal wind farms makes CPS Energy the largest publicly owned purchaser of wind power in the country. We currently acquire more than 700 MW of wind-generated electricity — 340 MW from the Sweetwater and 160 MW from the Desert Sky wind farms in West Texas, 77 MW from Peñascal, the first wind farm located near the Texas coast, and 130 MW from the Papalote Creek wind farm located east of Corpus Christi. The four wind farms combine to generate enough electricity for more than 173,000 homes.



Landfill Gas — Purchased Power

Nelson Gardens and Covell Gardens produce 9.6 MW of power using landfill gas as a fuel source.

Solar — Purchased Power

CPS Energy is committed to bringing up to 100 MW of non-wind renewable energy to San Antonio as part of the Vision 2020 plan.

CPS Energy finished as the top-ranked company in the South Region and tied for second nationally among 75 of the largest natural gas utilities, according to the recently released J.D. Power and Associates 2009 Gas Utility Residential Customer Satisfaction Study.™

ELECTRICITY TRANSMISSION LINES

	OH Primary Miles	UG/URD Primary Miles
12/1/2004	7411	3027
12/1/2005	7616	3194
12/1/2006	7361	3509
6/21/2007	7415	3562
1/28/2008	7475	3765
3/1/2009	7547	3932
12/1/2009	7574	4174

OH – Overhead; UG – Underground; URD – Underground Residential Distribution

In August of 2009, we signed a 30-year PPA that will lead to the development of the 14-MW Blue Wing Solar Project. This solar photovoltaic (PV) project is being built just southeast of San Antonio near the intersection of IH-37 and U.S. 181. Recently, Duke Energy purchased the project, but juwi solar, Inc. will continue to develop and construct the 214,500 PV modules, generating an estimated 25,345 MWh of electricity each year. This facility will produce enough electricity to power approximately 1,800 homes a year. In October 2010, a partnership with SunEdison was announced that will result in construction of three 10-MW installations in our service area.

We also launched the Solartricity® Producer Program in 2010, which is a market-based initiative (similar to the European feed-in-tariff programs) that could support hundreds of small-to-medium-scale solar energy projects in the Greater San Antonio area.

Electricity Transmission System

CPS Energy maintains a robust transmission network for reliably moving large amounts of electric power from generating stations to various parts of the service area and to or from neighboring utilities. This network also provides for wholesale energy transactions that may be required. The network is composed of 138- and 345-kilovolt (kV) lines with auto-transformers to reliably provide the necessary flexibility needed to move bulk power to meet customers' needs.

The electric system is integrated with more than 100 other utilities, municipalities, independent power producers, power marketers, and cooperatives in Texas to form the Electric Reliability Council of Texas

(ERCOT). ERCOT is one of 10 Regional Reliability Councils in the North American Electric Reliability Council, covering about 75% of the land area in Texas.

Electricity Distribution System

Our distribution system is supplied by 78 substations strategically located on a high-voltage 138-kV transmission system. Approximately 7,574 circuit miles of overhead (OH) distribution lines are included in the distribution system.

These overhead lines also carry secondary circuits and street lighting circuits. The underground distribution (UG) system consists of 308 miles of three-phase equivalent distribution lines, 84 miles of three-phase Downtown Network distribution lines, and 3,866 miles of single-phase underground residential distribution (URD) lines.

Many of the residential subdivisions added in recent years are served by URD systems.

Natural Gas Transmission and Distribution

Our natural gas business delivers clean-burning fuel to more than 320,000 customers in the San Antonio area. This system is very reliable and, due to continuous maintenance and care, is prepared to operate successfully for many years. Since the majority of our natural gas system is buried, our customers and stakeholders rarely see or have any idea of how large and complex the system is. Below is more detail about the pressure and distribution systems that make natural gas available to our customers.



Blue Wing Solar Project under construction

Supply Pressure System

The supply pressure system consists of a network of approximately 200 miles of steel main lines. The entire system is coated and cathodically protected to reduce and prevent corrosion. The supply pressure system supplies gas to 268 pressure regulating stations throughout the gas distribution system.

Distribution System

The gas distribution system consists of approximately 4,841 miles of gas mains. The distribution system operates at pressures below 60 pounds per square inch (psig). The vast majority of the 322,677 gas services in the gas system are connected to the distribution system, and the gas normally undergoes a final pressure reduction at the gas meter to achieve the required customer service pressure.

Electricity Availability and Reliability

As the independent system operator for the region, ERCOT oversees scheduling of power on an electric grid that connects 40,000 miles of transmission lines, more than 550 generation units, and the flow of electric power to 22 million Texas customers. ERCOT establishes and enforces procedures related to the reliability of the regional electrical network and accounts for the production and delivery of electricity among generators and all other market participants. 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.

CPS Energy is a market participant in the ERCOT system. As such, we recognize ERCOT's legal responsibilities under Public Utility Commission (PUC) of Texas oversight. We support ERCOT in achieving its vision and mission through an open and collaborative process involving electric industry members, customers, and regulators.

From our primary operation and control center, called the Energy Management Center (EMC), operators use systems to monitor and control the CPS Energy electric transmission and distribution systems, and the CPS Energy gas supply pressure and distribution systems. All substations, power plants, and major gas regulating points are continually monitored. Abnormalities register an alarm and the system operator can reset certain circuit breakers and valves as required to maintain delivery of gas or electric service.

Outage Frequency and Duration

Electric reliability is important to CPS Energy and our customers. The System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (SAIDI) are commonly used as reliability indicators by electric power utilities. SAIFI is the average number of interruptions that a customer would experience, and is calculated as the total number of customer interruptions divided by

the total number of customers served. SAIFI is measured in units of interruptions per customer.

According to Institute of Electrical and Electronics Engineers (IEEE) Standard 1366-1998, the median value for North American utilities is approximately 1.1 interruptions per customer. SAIDI is the average outage duration for each customer served, and is calculated as the sum of all customer interruption durations divided by the total number of customers served (SAIDI is measured in units of time). According to IEEE Standard 1366-1998, the median value for North American utilities is approximately 90 minutes. CPS Energy had decreased reliability in 2008, but we are working to improve our reliability and achieve our performance from past years.



Disaster Management — The CPS Energy Business Continuity Program

Another way in which CPS Energy is constantly working to ensure that customers have the electricity they need is through our Business Continuity Program (BCP). The mission of this program is to ensure that critical business processes and services, such as those providing reliable gas and electric service to the customers of CPS Energy, will continue in the event of any significant business disruption. Our policy is to respond to disruptions with the following priorities: safeguarding employees' lives; protecting company property and critical cyber assets; making a financial and operational assessment; and quickly recovering and resuming operations.

OUTAGE FREQUENCY AND DURATION CY 2006-2009

	2/1/06 – 1/31/07	2/1/07 – 1/31/08	2/1/08 – 1/31/09	2/1/09 – 1/31/10
SAIFI (# of events)	1.3	1.0	1.69	2.35
SAIDI (minutes)	47.8	49.9	128.31	174.2

SAIFI – System Average Interruption Frequency Index; SAIDI – System Average Interruption Duration Index



While many stakeholders view the basic delivery of energy as a simple commodity, at CPS Energy we see ourselves as much more than the local power company. We believe we are an integral part of the Greater San Antonio community. Our revenues support vital municipal services. We strive to protect the local habitat, one of the most beautiful areas in the country. And our employees go beyond the call of duty to support local charities, to weatherize homes for low-income families and the elderly, and to show our customers how to get the most out of their energy. We are proud to serve the community we love.

Who Are Our External Stakeholders?

As a municipally owned utility, CPS Energy is accountable to a diverse group of stakeholders. These groups include:

- Customers
- City of San Antonio government
- Bondholders
- Suppliers
- San Antonio Water System (SAWS)
- Bexar County
- Electric Reliability Council of Texas (ERCOT)
- Public Utility Commission of Texas (PUC)
- Texas Legislature
- Federal government

Each of these groups has unique information needs, as well as valuable input from which we can learn. Below are a few of the channels we've developed to ensure regular communication with and service to the community. Additionally, we develop specialty, ad hoc groups to gather

community feedback on large initiatives. For example, several years ago CPS Energy created a 30-member Southeast Quadrant Citizens Advisory Group to gather residents' input regarding our plans to build another base-load generating unit at the Calaveras Power Station.

Customer Input and Involvement

CPS Energy believes the views of our customers should be strongly considered when we make decisions related to energy planning and infrastructure development. We value their ideas, hear their concerns, and incorporate both positive and negative feedback. CPS Energy has set up several channels for gathering feedback:

- Citizens Advisory Committee
- Public forums such as the Energy Summits
- Ad hoc community representative groups
- Regular contact with federal, state, and local leaders
- Regular meetings with interested groups, such as chambers of commerce, Economic Development Foundation, Alamo Area Council of Governments, San Antonio Manufacturers Association, and neighborhood associations
- Customer satisfaction surveys and studies
- Ongoing breakfast meetings with community leaders
- Periodic meetings with *Express-News* editorial board

Gathering Input: Transmission Routing and Siting

In 2000, CPS Energy created a General Routing/Siting Process to select transmission routes and substation sites that have the least possible impact to people and to the environment. This comprehensive process involves a broad team of professionals from CPS Energy working with the public.



The Edwards Aquifer is an ecologically sensitive area that contains large solution cavities, caves, and endangered species. If a route is selected over this area, CPS Energy uses ground-penetrating radar to try to avoid disruption to underground features before pole construction. Although this geophysical work is not required, CPS Energy believes that it is worthwhile to reduce impacts to the natural environment and its biological inhabitants.

CPS Energy has also established a Tree Preservation and Mitigation Policy to address the maximum preservation of trees in our construction projects. In addition, we have been able to avoid significant disturbance of endangered bird species, such as the black-capped vireo and the golden-cheeked warbler, by conducting field surveys and research.

Contributing to a Healthy Community

As mentioned later in this report, CPS Energy continually monitors water and air quality throughout our service area, and around our facilities, to ensure that we're providing a safe environment for people and wildlife. In addition to maximizing our operations to be as clean as possible, we develop programs to help customers reduce their impact as well.

For example, CPS Energy developed Mow Down Smog, a lawn equipment trading campaign to encourage customers to trade their gas-guzzling mowers, edgers, blowers, and trimmers for rebates when they purchase electric and battery-operated models. Since 2001, we have recycled more than 5,600 pieces of gas-powered lawn equipment.

Health Effects of Air Emissions in Bexar County Including CPS Energy Power Plants

As part of its commitment to the citizens of Greater San Antonio, CPS Energy sponsored a study by the University of Texas School of Public Health in San Antonio and Houston. This study was conducted to estimate the health impacts on those living in Bexar County as a result of modeled (estimated) air pollution exposure from our current and planned operations.

The study results indicated that exposure to pollutants emitted or affected by CPS Energy were estimated to be low, typically less than 1/100th of EPA standards.

The most important pollutant in terms of health effects is fine particulate matter, PM_{2.5}. The results of two nationwide studies of this pollutant were used to estimate that, of the roughly 9,000 non-accidental deaths in Bexar County, between 7.7% and 19.6% might be affected by exposure to PM_{2.5} from all emissions sources, primarily motor vehicles. CPS Energy's PM_{2.5} emissions may impact 0.09% to 0.23% of the 9,000 deaths. These numbers are best estimates and are subject to considerable error. Cardiovascular and respiratory-related deaths are those most likely affected. In 2002, there were 1,200 asthma-related hospital admissions. Of that total, CPS Energy may have been responsible for up to 0.06%, which is less than one hospital admission. Mercury was considered as a special case due to its effects through diet. The mercury levels in Calaveras and Braunig lake fish were measured and calculated to be well within EPA and FDA dietary guidelines. CPS Energy is estimated to contribute less than 1/1000th of the mercury in these lakes.

PROJECT COOL: CPS Energy Volunteers in Public Service (VIPS) ran an internal four-week Project Cool Fan Drive, raising employee donations of over \$24,000 with which they were able to deliver 2,030 box fans to the Project Cool campaign. Over 13 years, Project Cool has distributed 46,300 fans to local senior citizens. CPS Energy also provides all Project Cool participants with bilingual information on how to weatherize their homes. "Hot summer temperatures make it difficult for senior citizens to stay cool and could potentially cause health problems," said Patty Gonzales, CPS Energy Community Relations Specialist and VIPS Coordinator. "We hope our fan donations will help our elderly neighbors cope with the heat and keep their utility bills more manageable."





School supply collection program
At Top: Special-needs children fishing event
at Calaveras Lake



Connecting the Dots students and mentors

Braunig Lake and Calaveras Lake Parks

CPS Energy built Calaveras and Braunig lakes to provide cooling water for power plants that operate at Calaveras Power Station and Braunig Power Station, respectively. CPS Energy makes these lakes available for recreational use to the community with parks that are open to the public year round. The parks are operated by Equity Lifestyle Properties, Inc. under contract with CPS Energy. Equity Lifestyle Properties and its parent company, Thousand Trails Management Services, Inc., own and operate approximately 112,000 recreational sites and more than 300 RV resorts, making them the largest owner and operator of these types of facilities in the country.

Community Outreach Programs

Citizens Advisory Committee

In 1997, CPS Energy established a 15-member Citizens Advisory Committee (CAC) to enhance its relationship with the community and to address the City Council's goals regarding broader community involvement with CPS Energy. The CAC meets monthly to provide recommendations from the community on the operations of CPS Energy for use by the CPS Energy board and staff. Representing the various sectors of CPS Energy's service area, the CAC encompasses a broad range of customer groups in order to identify their concerns and understand their issues.

Connecting the Dots (CTD) Program

To address soaring high school dropout rates, CPS Energy co-sponsors the Connecting the Dots (CTD) job shadowing program, now called Mentoring Matters, with Communities in Schools (CIS), Bexar County's premier dropout prevention program. The CTD program is our way of

helping to increase the high school graduation rate, helping students focus on college and vocational careers, and empowering them to increase their earning potential and contribute to regional economic development.

CTD pairs at-risk high school students with CPS Energy employee mentors for nine weeks of on-site mentoring sessions, where students witness firsthand utility industry careers and receive guidance in career selection. CPS Energy mentors make monthly school visits and commit to follow these students through to graduation. According to before-and-after surveys, students in the program felt better prepared for college and improved in areas including setting goals, community service, and public speaking skills. Of the 38 participants, the majority of students who have left the program have transferred to either another school district or a charter school.

Volunteers in Public Service (VIPS)

Since 1989, through Volunteers in Public Service (VIPS), CPS Energy's community service program, hundreds of our employees, retirees, and their families have provided thousands of volunteer hours each year to local charities, nonprofit organizations, and other community projects. Annually, VIPS volunteers contribute more than 25,000 hours to support projects that have a significant impact on our community, including:

- Holiday toy collection and party for underprivileged children
- Delivery of hot meals to seniors and the needy
- Special-needs children fishing event at Calaveras Lake Park
- School supply collection and distribution
- Fan donations to Project Cool, a community-wide campaign to help senior citizens cope with the hot summer months



Safety Programs (Community, Commercial, Employee Safety Education)

CPS Energy makes safety programs available to businesses and organizations within our service area, at no cost to our customers. Our safety programs inform employees about the importance of following proper safety procedures around natural gas and electric facilities and demonstrate the need to develop a healthy respect for these useful yet potentially dangerous forms of energy.

Speakers' Bureau

For the past several years, CPS Energy has conducted hundreds of informative presentations for homeowners' associations, community groups, business organizations, and educational institutions. Topics include safety, energy-efficiency initiatives including rebates, integrated resource plans, and environmental programs.

United Way

Every year, CPS Energy ranks among the top corporate contributors to the local United Way campaign. In 2009, employees rallied and raised more than \$780,000 for United Way programs that help the disabled and elderly, reduce family violence, invest in children and youth, and improve mental and physical health.

Industry Associations

CPS Energy is a member of a variety of public and private organizations that enhance our ability to provide affordable, reliable, and environmentally friendly service to our customers:

- Electric Reliability Council of Texas (ERCOT)
- Public Utility Commission of Texas (PUC)
- U.S. Department of Energy (DOE)



Mission Road Power Plant

- U.S. Environmental Protection Agency (EPA)
- ENERGY STAR® (EPA)
- City of San Antonio Office of Environmental Policy
- American Public Power Association
- Texas Public Power Association
- Large Public Power Council
- Electric Power Research Institute

Mission Road Power Plant Redevelopment

CPS Energy's Mission Road Power Plant (MRPP), in use for about 100 years and located along the banks of the San Antonio River just south of downtown, ceased operating in 2003.

The MRPP facility is currently being decommissioned, and historical structures are being preserved due to their value to the San Antonio community. The total remediation and decommissioning work is expected to cost approximately \$13 million. When the work is completed, the MRPP will be ready for redevelopment in a manner that is consistent with its historical significance and the surrounding community.

"CPS Energy employee generosity and giving have remained steady in past years, even in difficult economic times," said Sharon Luther-Minor, CPS Energy's United Way coordinator. "CPS Energy employees and retirees always give from the heart and demonstrate a willingness to look beyond themselves and help their neighbors," Luther-Minor added. In addition, the CPS Energy Retirees Association contributed to the successful campaign.

With an average employee contribution of \$217, we raised \$787,879 in 2009, surpassing our goal by more than \$37,000 and making it the ninth-largest contribution in the community and the second-largest in employee campaigns, according to United Way.

The CPS Energy International Brotherhood of Electrical Workers Local 500 Charity Golf Tournament raised \$25,872 for Big Brothers Big Sisters, a United Way agency.



CPS Energy is committed to providing our customers a number of services through an evolving set of options. As we transform from providing low-cost power to providing competitively priced power as well as implementing large-scale efficiency programs, we must always keep our focus on our customers and their needs. We are constantly working to improve customer service and help all of our customers benefit from reliable electric and natural gas service.

Customer Communication and Information Services

In addition to working hard to ensure reliable and continuous electric and gas service, CPS Energy is also committed to effective and helpful communications with all of our customers. We have services in place to ensure that language barriers and/or disabilities do not prevent our customers from receiving important information about their energy service.

For example, we offer bilingual information to customers who would prefer to transact business in Spanish. The majority of the customers that contact CPS Energy by phone are English-speaking (94% to 96%). We have Spanish-speaking customer service representatives to serve the remaining customers who choose to conduct business in Spanish.

We also offer our publications, such as the monthly bill newsletter *Energy Connection*, in Spanish upon request. We provide information on energy efficiency in English or Spanish to our customers at all four CPS Energy walk-in locations or by mail upon request.

In addition to our bilingual and efficiency information services, we provide Telecommunications Device for the Deaf (TDD) services 24/7, as well as providing Americans with Disabilities Act (ADA) access to our website.

Customer Service Goals

Our customer service goal can be summarized in one word: OPTIONS. The first step in making these options available to our retail customers



“As we’ve made presentations and interacted with customers this year throughout the community, we’ve heard concerns about how difficult it is for many to pay their energy bills in today’s tough economy. Historically, we’ve worked hard to help disadvantaged customers in many ways, but we want to do even more in view of current circumstances.”

–Jelynn LeBlanc-Burley, CPS Energy’s Chief Administrative Officer

will be to identify our customers’ diverse needs. We hope to enable our customer service teams to develop and roll out bundles of services and to adapt these bundles as needs change. For example, we will expand our payment options to meet our customers’ financial abilities and needs, including prepaid energy options for our customers on a fixed budget.

Improving our customer communications will be essential to providing customers with easy access to these tailored options as we move forward. CPS Energy is dedicated to improving customer choice, reducing customer down time, and taking advantage of technology developments to facilitate smooth and easy customer transactions via phone and web, as well as in person.

“STEP is our aggressive energy-efficiency and conservation initiative that seeks to reduce growth in electrical demand by 771 megawatts by 2020. That’s the equivalent of a large power plant.”

—Bruce Evans, Director of Customer Solutions and Delivery

We also plan to expand our consumer education services and fee-based consulting services, such as Energy Solutions Management Services for small business customers, to empower our customers as energy management and efficiency experts.

Next Steps

After numerous meetings and briefings by CPS Energy, on February 18, 2010, the San Antonio City Council approved an electric base rate increase of 7.5% and gas base rate increase of 8.5%, which will result in an average residential bill increase of 4.2%.

Additionally, the following proposed improvements to assist our low-income customers was presented:

- Transfer \$2 million out of the Residential Energy Assistance Partnership (REAP) trust fund — \$1 million per year in fiscal years 2011 and 2012 — for direct aid on energy bills to customers in distress in addition to the \$1 million CPS Energy earmarks annually for REAP. Eligible recipient benefits also were proposed to be increased.
- Allocate an additional \$3 million to an affordability discount program initiated last year. The extra funding would assist 40,000 customers at or below the poverty level, increasing the current \$4 discount on CPS Energy bills by a little over \$5 to a total of over \$9 per month.

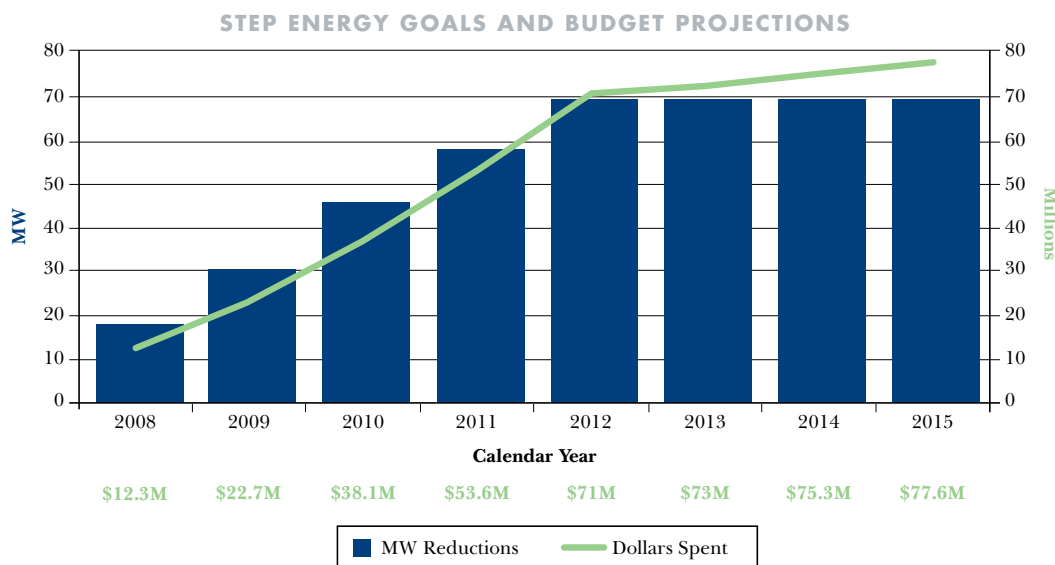
“We believe these initiatives will go a long way toward helping struggling families cope with financial issues as they relate to energy costs,” LeBlanc-Burley said. Community leaders expect the proposed improvements to create jobs as the programs ramp up, and the improvements are being praised by groups such as COPS/Metro Alliance as a sound economic development plan.

As part of the settlement agreement regarding the planned expansion of South Texas Project Units 3 & 4, Nuclear Innovation North America (NINA) will contribute a total of \$10 million to REAP over the next four years.

Save for Tomorrow Energy Plan

In support of CPS Energy’s Integrated Resource Plan that includes energy efficiency as well as generation, we have committed to an aggressive, long-term energy efficiency and conservation plan, referred to as the Save for Tomorrow Energy Plan (STEP). Under STEP, we will maintain, develop, and implement programs and activities that will help achieve annual electrical demand reduction targets. As illustrated in the graph below, our goal is to reduce growth in projected peak electrical demand by 771 by 2020.

The funding amounts that were approved for energy-efficiency projects for STEP are shown below. The height of the bars shows the megawatts (MW) of peak-demand reduction for each year through 2015. When continued through 2020, a cumulative demand reduction of 771 MW, an amount equivalent to the electric generation capacity of an electric power plant, will be achieved. Each bar is labeled with the amount of money allocated annually for the megawatt savings.



By 2020 we will achieve a 771 megawatt reduction at a cost of \$849 million.

We anticipate that a total program expenditure of \$849 million through 2020 will achieve this 771 MWh reduction. The City Council approved our mechanism to fund this expenditure in May 2009, allowing us to immediately reopen our existing efficiency rebate programs and begin implementation of our larger STEP goals.

As approved by the San Antonio City Council in May 2009, STEP will be recovered retroactively, after amounts are spent on energy efficiency measures through modest increases in the fuel adjustment charge on monthly CPS Energy bills. The average monthly residential bill increase in 2009, 2010, and 2011 is projected at 3 cents, 38 cents, and 95 cents, respectively. We have contracted with a third party to validate yearly energy savings, and the cost of achieving those savings will be recovered through monthly fuel adjustments, following review of the reported savings, by the City Council.

Customer Energy-Efficiency Programs

A full range of energy-efficiency and demand-reduction programs has been developed to cover all customer categories — residential (including low-income), commercial, and industrial. These program offerings are evaluated annually and modifications and/or additions are made to target the most effective current methods for energy reduction. Formal measurement and verification of program results are conducted and reported annually by a third-party consultant.

Descriptions of these programs by customer class and category are provided below.

Residential Programs

- **Weatherization for Low-Income Homeowners:** CPS Energy is committing 20% of STEP funds to low-income weatherization. These services are provided at no cost to homeowners and include an energy audit, insulation, compact fluorescent light bulbs (CFLs), weather stripping, and caulking. We expect to weatherize approximately 45,500 homes by 2020.
- **Peak Performance Homes:** We have partnered with Woodside Homes of South Texas and the U.S. DOE's Build America Program to measure the effectiveness of residential energy-efficient building materials and solar energy panels. Woodside built two homes for CPS Energy with energy-efficient materials that will reduce total household energy use (both gas and electric) by up to half, and it built a third "control" home. We will monitor the energy use of the various energy subsystems in the three homes over the next year to see how the hourly energy footprint in the homes can be better managed to reduce our system costs and help reduce customer bills.



Construction on peak performance homes

- **Air Conditioner Rebates:** Rebates for central air conditioning systems and central heat pump systems based on a Seasonal Energy Efficiency Rating (SEER) rating of 15.0 and higher.

- **Air Flow Performance Rebates:** Air Flow Performance rebates for existing AC systems and repair and/or replacement of existing duct work.

- **CFL Instant Rebates (Coupons):** We partnered with HEB stores to provide coupons (also available online) for ENERGY STAR®-rated compact fluorescent light (CFL) bulbs.

- **Home Efficiency Rebates:** A range of rebates is available to residential customers to help them seal the thermal envelope of their homes. These rebates include ceiling and wall insulation, spray foam insulation, ENERGY STAR® windows, window films and screens, and “cool roof” applications.

- **Peak Saver Thermostats:** We offer customers a free Honeywell programmable thermostat (valued at \$300), plus free installation, in exchange for the residential customer agreeing to allow CPS Energy to briefly cycle his/her central air conditioner when demand for electricity is at its highest during the months of May through September. Currently approximately 18,000 customers are participating in the Peak Saver Program.

- **Wash Right:** In collaboration with a San Antonio Water System (SAWS) program, we offer our customers a rebate on high-efficiency washing machines. Information about water and energy efficiency is also provided.

- **Electric Lawn Equipment Rebates:** We offer valuable rebates on environmentally friendly electric lawn mowers as well as rebates on electric edgers, blowers, and trimmers.

“CPS Energy is transforming itself from a company focused on providing low-cost power to a company providing competitively priced power from a variety of sustainable sources,” said Cris Eugster, Executive Vice President and Chief Sustainability Officer. As of January 2009, CPS Energy already had spent \$369 million on sustainability-related projects with plans to allocate another \$5.3 billion to be invested in sustainability.



STEP RESULTS

Calendar Year	Amount Spent	Peak Demand MW Reductions
2008	\$11,489,514	16.030
2009	\$20,442,063	44.777

2009 (FYE2010) is still undergoing measurement and verification and is subject to change.

- **Natural Gas Programs:** Our Gas Business Unit launched the Smart Energy Program in 2000 to encourage the efficient use of both natural gas and electricity in homes, which can save customers up to 20% annually. We have improved the program based on lessons learned through our Peak Performance Home Pilot in 2007. The Smart Energy concept is now a key component of our STEP initiative, delivering the double benefit of sustained gas-load growth and slowed electric demand growth. It is being implemented through the following programs:

Smart Energy Program

We provide a Smart Energy Homes designation to market homes that use both natural gas and electricity and a listing of homebuilders who build Smart Energy Homes. These efforts have resulted in consistent growth in gas market penetration across our service area.

Natural Gas Appliance Rebates

We provide rebates of \$50–\$100 for the purchase of new natural gas appliances, including:

- Clothes dryers
- Water heaters
- Cook tops
- Stoves

We also offer a rebate of up to \$1,100 for customers who replace an existing electric water heater with a new natural gas water heater (federal tax rebate of \$1,500 also applies in some cases).

Next Steps and Goals

Additional gas-load growth and electric demand-reduction opportunities are on the horizon as CPS Energy evaluates the next generation of gas-fired fuel cell technologies, super boilers, and other commercial, industrial, and residential end-use applications.

Commercial Programs (Including Industrial and Institutional)

CPS Energy is encouraging a “Staged Approach” to commercial efficiency efforts. The important elements of this approach include lighting, roofing, and HVAC/chiller measures. While we provide rebates for each of these individually, we encourage lighting retrofits first, then roofing replacement, and finally resizing HVAC systems with high efficiency units. This provides the best opportunity for significant power reductions overall for CPS Energy and the customer. Most of the commercial programs require before-and-after inspections by CPS Energy personnel.

- **Lighting Retrofit Programs:** Rebates are available for efficient lighting retrofits. This program has been one of the most successful for CPS Energy. On average, interior lighting accounts for 28% of a business’ energy consumption, and major energy reductions can be realized by installing efficient lighting technologies. The program offers up to 75% of the total project cost as a rebate and is individually calculated based on the energy saved.
- **Cool Roof Program:** Rebates are available for ENERGY STAR®-qualified roofing products. The rebates are based on the total area of the roof that covers conditioned spaces at 10 cents per square foot.
- **HVAC Program:** Air conditioning, including heating, typically is the largest portion of a business’ energy bill. Rebates are available for HVAC units, chillers, package terminal air conditioners, and package terminal heat pumps. Rebates are

based on the size and efficiency rating of the unit. To qualify, the units must be greater than five tons total and be three-phase units.

- **Efficient Motor Program:** Rebates are based on the difference between the efficiency of the motor removed and the new motor — at \$150 per kW of reduction.
- **Lean Clean Energy:** CPS Energy is the first utility in the nation to implement a program with this unique partnership. We partnered with the Texas Manufacturing Assistance Center of the Southwest Research Institute with support from the U.S. Department of Energy and the Environmental Protection Agency to provide training, resources, and tools to implement energy-efficiency changes that increase profitability through verified energy-reducing measures. The program helps mid-size manufacturers implement an energy-efficiency program that makes business and operational practices more cost effective and environmentally friendly through customized rebates and support.
- **Custom Measures:** We also provide a comprehensive platform for custom incentives for cost-effective energy efficiency measures not addressed by our other CPS Energy program offerings. Program participants submit an application for a firm quantity of kW and/or kWh reduction through the installation of energy-efficiency measures.
- **Commercial Demand Response:** Our voluntary Commercial Demand Response Program pays incentives to commercial customers for curtailing electric load at peak times during the summer months. Incentive payments are made subject to measurement and verification of customer performance under the terms of the program.

Commercial and Residential

- **Ground Source (Geothermal) Heat Pump Rebates** (New for 2010): Applicable to three-phase units. Unlike single-phase units, three-phase units do not have ENERGY STAR® high-efficiency ratings. Rebates for three-phase units will be evaluated on a case-by-case basis.
- **Ceiling and Wall Insulation:** Ceiling insulation requires a minimum of R-38 and wall insulation requires a minimum of R-13 be obtained after application. For spray foam insulation, minimum thickness is based on the type of spray foam used, and the rebate is calculated on the conditioned space affected.

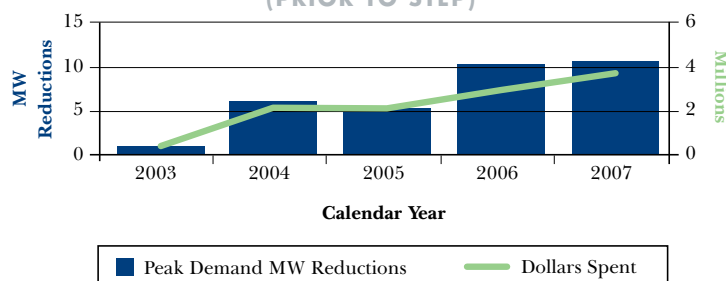
Efficiency Program Results

So far, CPS Energy’s efficiency programs have resulted in significant energy efficiency and demand savings, as summarized in the tables on the next page.

In 2009, we spent \$20.4 million to achieve net energy savings of 102 MW, versus the planned \$22.7 million to save 30 MW with



HISTORICAL CPS ENERGY EFFICIENCY PROGRAM EXPENDITURES AND PEAK DEMAND REDUCTIONS (PRIOR TO STEP)



a net peak demand reduction of approximately 35 MW. In 2008, a net energy savings of 39.8 MW was achieved at a cost of \$11 million with a net peak demand reduction of 16 MW. On average, each kWh saved in 2008 cost \$0.023. The total investment led to a net reduction in utility costs from the energy-efficiency improvements of \$7.6 million.

Renewable Energy and Distributed Energy Resources Program

Building on research we began to conduct in the early 2000s, CPS Energy now has an active distributed energy resources (DER) program. These small-scale power generation systems (between 1kW and 10 MW) are used to provide an alternative to or an enhancement of the traditional electric power system. Rising energy prices have made these types of systems more cost-effective than in the past. The desire to capture and use as much waste energy as possible, while reducing our carbon footprint, has made DER increasingly popular. In both the

residential and commercial customer groups, there has been a growing desire to power some subdivisions and commercial business parks in a way that allows them to disconnect from the electric grid. Although these microgrids are small relative to the traditional electric grid, CPS Energy has embraced the technologies, innovative design, and operating practices necessary to make them a reality.

CPS Energy now collaborates with customers, DER providers, and other stakeholders to install combined heat and power (CHP) systems, reciprocating engines, fuel cells, and photovoltaic systems. Customers find it easy to do business with us because of a new streamlined, interconnected approval process we developed in 2009. CPS Energy's Pearl Brewery and Republic Services solar photovoltaic (PV) demonstration pilot projects highlight our promotion of distributed solar resources. CPS Energy is using these pilots to investigate new metering and energy production tracking systems.



Solar panel installation at the Pearl Brewery

FISCAL YEAR 2009/2010 NET ENERGY AND DEMAND SAVINGS (2ND YEAR OF STEP)

Program	Energy Savings (kWh)	Peak Demand Savings (kW)	Non-Coinc. Demand Savings (kW)
ENERGY EFFICIENCY			
CFL	52,234,024	5,186	61,157
Home Efficiency	1,815,706	737	801
Residential HVAC	6,814,768	2,078	2,597
Solar Initiative	327,694	176	176
Air Flow Performance	441,698	219	274
Commercial Lighting	18,478,590	4,151	4,757
Commercial HVAC	4,830,881	2,163	2,855
Commercial Other	418,501	135	161
Subtotal	85,361,862	14,845	72,777
DEMAND RESPONSE/LOAD CONTROL			
PeakSaver	735,677	13,048	13,048
Demand Response	615,439	16,884	16,884
Program Total	48,953,663	44,777	102,709

Pearl Brewery Solar PV: CPS Energy partnered with Silver Ventures, the company renovating the historic Pearl Brewery, on the largest solar installation in Texas. The \$1.35 million solar energy joint project includes a 200-kilowatt photovoltaic array of solar panels atop a 67,000 square-foot former warehouse facility being adapted for office, retail, and residential use. The array will generate about one-quarter of the building's total energy needs and is allowing CPS Energy to test the viability of solar energy in a large, real-world commercial application.

Republic Services Landfill Solar Project: CPS Energy partnered with Republic Services, Inc., to combine solar generation technology with their existing biogas-to-energy system to turn a local landfill into a sustainable energy park. This green venture covers



portions of closed areas of the Tessman Road Landfill with flexible, laminate-type photovoltaic solar collection strips that capture the sun's rays for conversion into electricity. The system became fully operational in March 2009. With more than 300 days of

sunlight in San Antonio per year, the energy produced by the solar and biogas systems is estimated to continually produce about nine megawatts of power.

Green Energy Purchasing Options

Windtricity®: We offer our customers the opportunity to support the purchase of clean, renewable, electricity from wind through our retail Windtricity® program. Windtricity® customers choose to pay extra to help offset the additional cost of purchasing wind energy. Every kilowatt of wind subscribed for reduces the need to use other resources.

Solartricity® Producer Program: CPS Energy launched its Solartricity® Producer Program, a market-based initiative that could attract hundreds of small-to-medium-scale solar energy-generating projects in the Greater San Antonio area, in spring 2010. We estimate that our net investment for the two-year, 10-MW pilot program will be a net annual cost of \$2.3 million, which we plan to fund in part through establishment of a Solartricity® program, similar to Windtricity®, that will allow us to sell solar energy at a retail price to residential and commercial customers. CPS Energy would purchase solar energy for 27 cents per kilowatt-hour from Solartricity® producers.

“CPS Energy has embraced solar as part of a long-term transition to distributed generation,” said Cris Eugster, CPS Energy’s Executive Vice President and Chief Sustainability Officer.
“Distributed generation refers to the production of renewable energy interspersed throughout our distribution system.”

Solar Energy Programs

Photovoltaic (PV) Program: Rebates are available to both residential and commercial customers for PV systems at \$3 per watt with a cap of \$30,000 for residential and \$100,000 for commercial customers.

Solar Hot Water Rebates: Rebates are calculated using the Solar Rating Certification Corporation (SRCC)-calculated Annual kWh Energy Savings Performance table for San Antonio and are capped at \$2,000.

Energy Efficiency Information Distribution

CPS Energy provides information on energy efficiency to customers in the Greater San Antonio area through a variety of avenues. Comprehensive information is available on the CPS Energy website, cpsenergy.com, including a residential energy audit tool. We provide information on rebate programs and general efficiency tips directly to customers at neighborhood and public meetings, printed on bill stuffers, and in curriculum supplements provided to schools and senior citizen centers, and highlighted through print and television media. Examples of public events and other active information distribution include the following:

- **CPS Energy on Twitter:** Tweet energy saving tips.
- **Neighborhood Nights:** In spring 2009, CPS Energy conducted 20 Neighborhood Nights events across the city to provide energy and water efficiency information to customers.
- **LiveGreen Fest:** The past few years, CPS Energy has sponsored the LiveGreen Fest in the fall to share efficiency ideas and all types of “green” living information. Attendees learn about different ways to reduce their carbon footprint and how to live more green.



Commitment to Customers in Need

CPS Energy has a variety of programs in place to help citizens of San Antonio who face financial difficulties due to age, disabilities, and other challenging circumstances. No matter what generation option we choose, we will always have programs available to ensure power access to our customers who need it the most. As John Saenz, CPS Energy Senior Vice President of Retail Energy, recently assured the City Council, the City of San Antonio has been a great partner in the past and, as long as CPS Energy continues to have that support, we will always have customer-focused programs to help our citizens in need.

CPS Energy Utility Bill Funding and General Assistance Programs

CPS Energy offers a variety of customer assistance programs to improve our customers' access to power and related information. This assistance to customers in need comes in two forms: energy efficiency and bill assistance.

We encourage and support customers by providing efficiency tips and information. We provide weatherization services to improve energy efficiency and reduce gas and electric bills for qualifying low-income homes. We also provide bill assistance in the form of funding and alternative payment plans for both electric and gas bills. In addition to these programs provided directly to our customers, we also offer a referral list of external organizations, both public and private, that provide additional assistance to help customers with their CPS Energy bills. These programs are described below.



Spray foam insulation application

Low-Income Weatherization: The first incarnation of our Weatherization Program operated with CPS Energy employee volunteers from 2002 to 2007, during which time they weatherized approximately 3,000 low-income homes. In late 2009, a new and expanded program was launched in partnership with the City of San Antonio and SAWS to address weatherization of low-income homes using a combination of funds from a federal stimulus package and from STEP.

The federal economic stimulus package via the U.S. Department of Energy and the Texas Department of Housing and Community Affairs is providing \$12.3 million over two years and will weatherize approximately 1,400 homes.

Our STEP-funded weatherization program currently has a budget of \$156 million and is scheduled to continue through 2020, with the goal of weatherizing approximately 45,500 homes.

The new comprehensive weatherization program will address sealing the thermal envelope of homes and provide energy-efficient technologies. Efficiency measures for weatherization funded by the federal stimulus package will include insulation, caulking, window screens, ENERGY STAR® window AC units, ENERGY STAR® refrigerators, carbon monoxide and smoke detectors, compact fluorescent light bulbs (CFLs), and efficient water fixtures, making homes both energy and water efficient. Our goal for the program is to save one dollar in energy consumption for every dollar we invest in the program.

To monitor the efficiency and dollar savings, we will measure and report energy consumption before the weatherization work begins in every home, and then again after completion. To be eligible, the residents of these homes must be qualified as low-income (at or below 200% of the federal poverty level). Priority will be given to the elderly, disabled, and homes with small children, households with high energy costs relative to income, and households with high energy consumption. We will work with representatives from COSA's Office of Environmental Policy, each city councilperson's office, and members of the Community Organizations for Public Service (COPS)/Metro Alliance community organization to prioritize where and how the weatherization program will proceed.

Residential Energy Assistance Partnership (REAP): REAP Inc., a partnership of CPS Energy, the City of San Antonio, and Bexar County, helps disadvantaged elderly, disabled, and low-income customers with small children pay their natural gas and electric bills. Qualifying customers must be residents of the City of San Antonio or Bexar County at or below 125% of the federal poverty level, experiencing a financial hardship, and either have children three years of age or younger, or they must be elderly, handicapped, or require critical care equipment. REAP provides each recipient with up to \$150 twice a year — once during the winter and once during the summer.

CPS Energy is committed to supporting this program through \$1 million in direct customer assistance annually. The partnership underwrites all administrative costs so that all funds go directly to help customers. Assistance is allocated to the city and Bexar County based on the percentage of customers residing within the respective area. Due to the ever-growing need for assistance to low-income customers, in 2008, CPS Energy launched an ongoing marketing campaign to increase REAP awareness and donated an additional \$400,000 to keep up with the need. The campaign includes marketing to CPS Energy employees, public advertising, and targeted solicitation of area businesses and charitable foundations to contribute to REAP. To date, our advertising and solicitation efforts have more than doubled funding from outside contributions from previous years. Recent years' distributions are shown in the following graph.

REAP DISTRIBUTIONS

Year	Distributions	Total
CITY OF SAN ANTONIO		
2006	5,872	\$854,383
2007	5,279	\$763,251
2008	9,127	\$1,306,986
2009	12,216	\$1,759,964
BEXAR COUNTY		
2006	167	\$31,726
2007	527	\$149,710
2008	787	\$205,836
2009	1,451	\$291,280

PROJECT WARM DISTRIBUTION

Year	Distributions	Total
2006	670	\$99,690
2007	1,885	\$282,074
2008	910	\$130,586
2009	960	\$137,503

Project WARM (Winter Assistance Relief Mobilization):

Project WARM provides utility bill assistance to those with the greatest need. While contributions from individual ratepayers, businesses, and organizations have been the mainstay of Project WARM over the years, a former San Antonian and his business partner insured the project's future by donating substantial royalty interests in West Texas natural gas reserves. Under a 1985 agreement with Wagner and Brown Partnership of Midland, CPS Energy bought donated gas at market prices with the payments going into a Project WARM endowment, the interest from which goes into available Project WARM funds.

The program is administered by the City of San Antonio. Household eligibility is based on age, income, number of family members, disabilities, and financial hardship. Priority is given to senior citizens, families with very young children, individuals or families dealing with extreme medical conditions, and disabled individuals. Utility bill assistance has been provided over the past few years as follows: (Funds are allocated to the city and Bexar County based on the percentage of customers residing within the respective area.)

Pennies for Power — Share Your Spare Change: We also invite our more fortunate customers to contribute to the REAP Program through the "Pennies for Power — Share Your Spare

Change" program. In this program, customers are encouraged to donate by rounding up their bill payment each month to the nearest dollar or higher.

Critical Care: Our Critical Care Program tries to minimize potential risks to customers who use electrically operated medical equipment in their homes and/or whose physicians have verified that continued electric and/or gas service is critical to the occupant's health. While we can't promise to maintain continuous service at all times due to storm damage or accidents, we do try to minimize risks.

Affordability Discount: The "affordability discount" is part of our new rates that became effective September 1, 2008. This discount keeps the electric and gas service availability charge at the old rate for customers who qualify. Anyone who has received REAP or WARM funds is pre-qualified. In addition to low-income requirements, there are also requirements of age, disability, and children in the household. The discount program is administered by the City of San Antonio's Department of Community Initiatives (DCI). CPS Energy has proposed plans to increase our affordability discount program by adding \$3 million, which will offer \$5 more than the current discount for 40,000 customers, up from 30,000.

Disabled and Senior Citizens Billing Program: This program grants customers who are disabled and customers who are at least 60 years old and have Supplemental Security Income (SSI) additional time to pay the net amount of their utility bill. Under this program, eligible customers are better able to coordinate the timing of their CPS Energy bill payment with receipt of their income without a late fee. Those who qualify for this program are allowed 26 days to pay their bills, to give them time to receive their Social Security checks.

Payment Arrangements: CPS Energy makes payment arrangements available to customers who need additional time to pay their utility bill. Arrangements include either an extension (30 days or less) or a deferred payment plan, allowing customers to pay their average over a period of months.

Gift Certificates: While perhaps not an "assistance program" per se, individuals can purchase gift certificates for anyone to use toward a CPS Energy utility bill. CPS Energy Gift Certificates pay for gas and electric bills and are available in amounts of \$10, \$25, \$50, and \$100. Certificates can be purchased at any of our customer service centers and redeemed by mailing them in with a utility bill or bringing them to a customer service center. However, they may not be redeemed for cash.

Referral Listing: For customers who are not eligible for either for REAP or WARM, several other public health agencies and community-based organizations offer emergency assistance programs to help customers pay their bill. The City of San Antonio's Community Action Programs—Weatherization Assistance and the Bexar County Department of Community Investments provide this help.

Mi Casa Makeover: CPS Energy partners with KENS-TV to renovate and transform the homes of local families as part of the Mi Casa Makeover program, a feature of KENS' *Great Day SA* morning show. Many of the families chosen to participate in the program have suffered personal hardships that have made home renovation and maintenance difficult. As part of the Mi Casa effort, local remodeling companies donate their time, skills, and materials to help renovate these homes in an effort to improve the lives of these families. CPS Energy implements energy efficiency and conservation programs as part of the renovation. The families receive valuable cost and energy savings, and viewers of the show learn about our conservation programs and how they can take advantage of the benefits our programs offer.

Efficiency and Renewable Energy Plans

At CPS Energy, we are currently working on plans to expand our Vision 2020 Goals and improve our broad sustainability efforts as we move toward 2030. We will continue on this path to dedicate additional spending beyond the more than \$5 billion in Vision 2020.

It is our goal to be one of the leading utilities in renewable energy and energy efficiency and conservation in the nation. As our goals expand, we will continue to meet the goals of existing programs and monitor and improve these programs over time. As the budget and energy-reduction goals increase over the next few years and beyond, we will implement additional programs. Many ideas are already being discussed and developed, including appliance rebates, a refrigerator recycling program, and retro-commissioning.

We are preparing immediate program-specific plans to tie all of our incentives for new construction to the new city building codes, effective January 1, 2010. All individual measure rebates for new construction will be eliminated, and both residential and commercial new building incentives will be based on the energy-efficiency percentage obtained above the minimum code requirements. A structure will need to document an energy performance at least 15% more efficient than code to qualify.

Another immediate program plan is to build upon our recent announcement of the Solartricity® Program. We will continue to promote the program to encourage more rapid adoption of distributed energy facilities and to encourage customer subscription of green power pricing programs.





Because we know that the utility industry will need to rely on technology to help solve the critical energy and environmental problems facing the world, we continue to invest our research and development and technology-transfer resources wisely. Our Energy Research and Technology Initiatives department is accountable for identifying, evaluating, piloting, demonstrating, and facilitating the transfer of emerging technologies to create a sustainable future. The outcomes will help form the strategic basis for the Sustainable Growth business area and, by extension, the entire utility. We release market-ready technologies for utility improvements and enhanced customer satisfaction and loyalty.

Corporate Commitment

Between 2005 and 2015, CPS Energy will participate in the development of new, energy-focused technologies including utility-scale energy storage, plug-in hybrid vehicles and charging stations, distributed generation, smart grid components and end-use technologies, and energy-efficiency technologies. This work will be accomplished with the Electric Power Research Institute (EPRI), as well as other research and industry groups. The EPRI budget is \$2.2 million for 2010.

In addition, we continue to pursue partnerships with local/regional colleges and universities and collaborate with local and national science and research organizations to conduct research and demonstration activities with our own resources.

University of Texas at San Antonio Research Alliance

In June 2010, CPS Energy committed up to \$50 million over 10 years to an alliance with the University of Texas at San Antonio for sustainable energy research. The funding will go to a newly created Texas Sustainable Energy Research Institute. Funding for the first year is set at \$1 million and already is included in our budget. The following year, that amount will rise to \$2.5 million. Funding for later years will be contingent on board approval and budget considerations. It also will depend on annual evaluations of the program. The institute will focus on projects listed below that are specific to CPS Energy needs.

- Carbon management, capture, and utilization for large-scale generation
- Development of a secure electric smart grid to support distributed generation



10-kilowatt photovoltaic solar panel array at the Institute of Texan Cultures

- Expansion of large-scale renewable energy technologies with support in energy storage solutions
- Behavioral research of consumers, in relation to energy efficiency and conservation, in real-world environments
- Electric transportation

Technical innovation has long been one of CPS Energy's strengths. As members of local, state, and federal industry groups, we have actively participated in and funded pilots for a number of alternative solutions to fossil fuels. Projects studied by our technical staff have included:

- Smart grid pilots
- Energy efficiency demonstrations
- Renewables and energy storage
- Electric transportation



Plug-In Hybrid Program

CPS Energy collaborated with EPRI and other utilities to develop and field test a unique plug-in hybrid electric vehicle (PHEV) — a medium-duty 'Trouble' Truck. The Trouble Truck program is a Ford- and EPRI-sponsored initiative to develop an electric drive-train suitable for widespread utility adoption in medium-duty service vehicles. The goal is to reduce fuel consumption and vehicle emissions by more than half when compared to a standard truck. The innovation work includes electrifying the bucket and air conditioning operation to displace engine idling. This conversion applies to both medium- and heavy-duty trucks. The partners in the project are gaining knowledge and experience with the technology that will help accelerate the development of some of the first market-ready, commercial-grade vehicles available.

Membership in the Energy Research Alliance of San Antonio

United in a common interest to explore new and innovative energy solutions, the University of Texas at San Antonio, Southwest Research Institute®, San Antonio Water Systems, and CPS Energy have signed a memorandum of understanding to form the Energy Research Alliance of San Antonio. Although these four entities have a long-standing tradition of collaboration in a variety of areas, the memo is the first formal agreement on the topic of energy among the four. Specifically, the five-year agreement calls for the partners to:

- Prioritize energy-related initiatives for collaboration, including energy workshops
- Define a strategic regional roadmap for emerging energy technology
- Collaborate on energy grant applications and publications
- Organize joint research and academic and scientific activities, such as research projects, demonstration projects, courses, conferences, seminars, symposia, or lectures
- Promote the exchange of researchers, teaching personnel, and students
- Exchange publications and other materials of common interest
- Jointly work to raise public awareness and education on energy topics

Formalized in June 2009, one of the near-term goals of this new collaborative venture includes assessing the efficiency and effectiveness of geothermal heating and cooling systems for residential and small commercial consumers within the CPS Energy electric service area.

Advanced Metering Infrastructure (AMI)

With rate support, CPS Energy began a 40,000-meter, two-year pilot with service-wide rollout of 700,000 electric and 300,000 gas advanced meters with supporting infrastructure to follow as part of its Advanced Metering Infrastructure Program. These meters will have advanced measuring features, remote disconnect and reconnect capabilities, and a two-way communications network that will give

customers near real-time access to their particular energy information. By empowering the energy user with this information, adapting to dynamic pricing and energy scarcity events will represent real savings for customers. This technology also builds a foundation for future energy services that can further integrate lifestyle and comfort preferences with the needs of the utility.

“San Antonio has the opportunity to be a leader in clean energy technologies and their practical applications, and the Energy Research Alliance of San Antonio will be a key catalyst in this endeavor.”

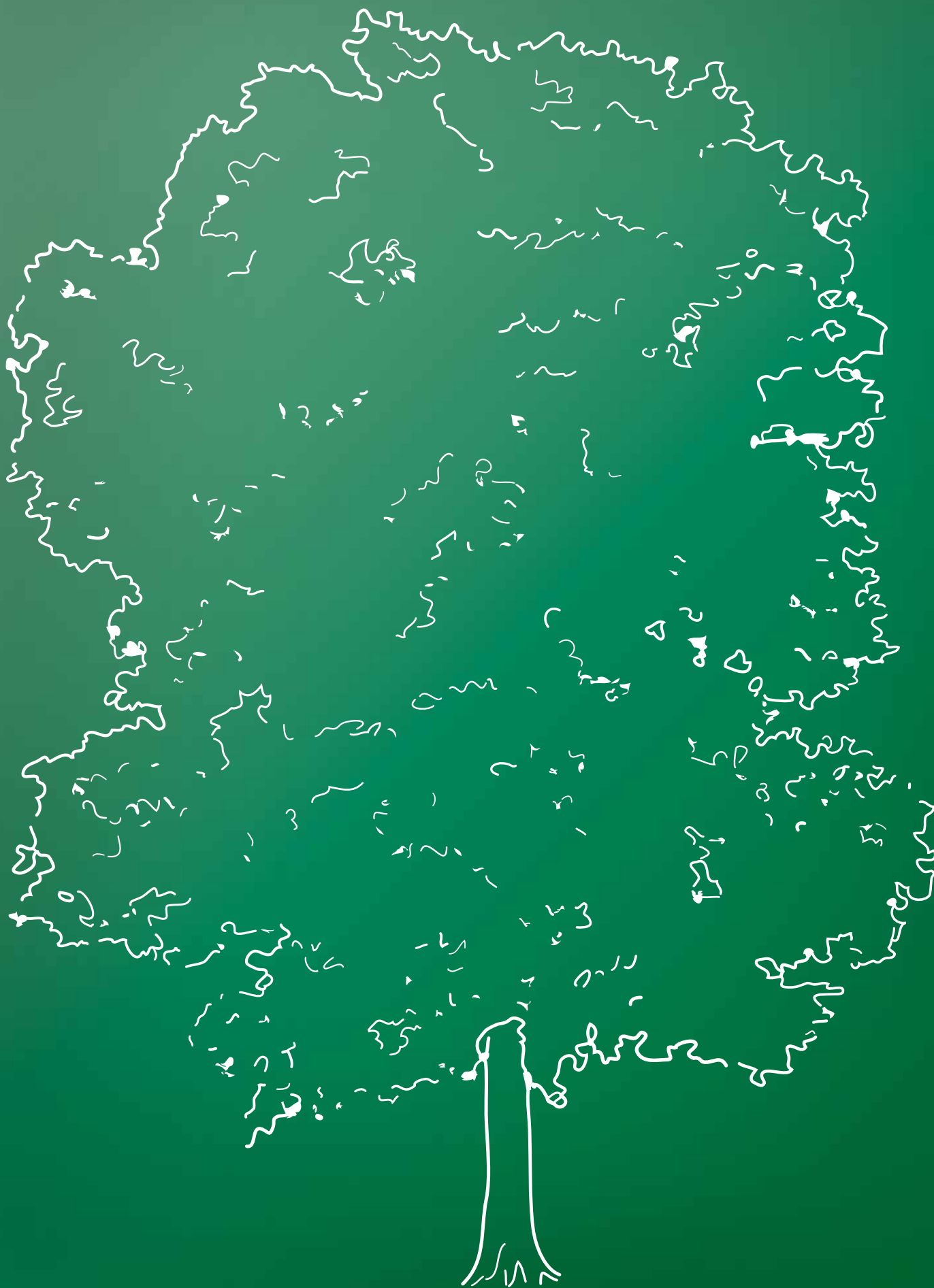
—Cris Eugster, Executive Vice President and Chief Sustainability Officer



Smart meter to be used in AMI program

Smart Grid Pilot

CPS Energy is working with multiple developers of personal energy management systems (PEMS) to test cutting-edge software and hardware that will enable customers to manage their electric use, reduce energy costs, and participate in voluntary conservation and pricing programs. The PEMS system will be an integral part of CPS Energy's smart grid development. PEMS pilots have been under way since 2008 in the CPS Energy service area, and we are working with customers to gain a thorough understanding about how they want to receive their energy use information and how they use that information to change their behaviors.





Calaveras Lake

Reducing CPS Energy's carbon footprint and environmental impact will require a multilevel focus on energy efficiency, new generation technologies, water resource management, and waste reduction initiatives. CPS Energy has made significant progress to reduce our environmental impact and is committing significant resources to continue to improve the environmental quality of the Greater San Antonio area.

Air Quality

CPS Energy is committed to reducing air emissions from our power plants. In past years, we have made significant progress, but there are still areas in which we can improve. Over the past five years, we have invested more than \$100 million in retrofits and controls on our existing power generation fleet.

Air Emissions Data

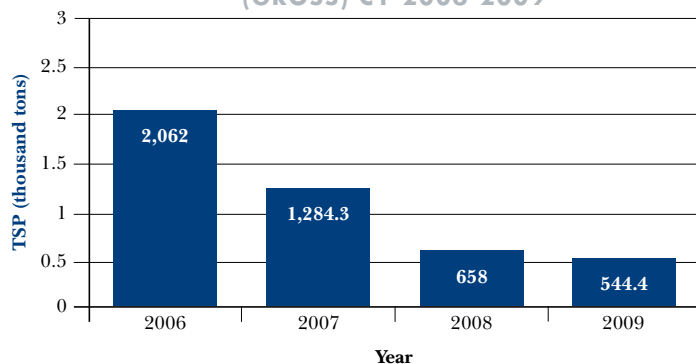
CPS Energy measures and reports to EPA the air emissions from our power plants. The tables on page 58 show our emissions of nitrogen oxides (NO_x), sulfur dioxide (SO₂), and total suspended particles (TSP) from our generation fleet from 2006 to 2009. As a result of our emissions control upgrades, our NO_x and TSP emissions have been decreasing. SO₂ emissions increased in 2008 due to increased electricity generation and our fuel mix but was down again in 2009, and CPS Energy is working to reduce those emissions in the future through the addition of flue gas desulfurization (FGD) scrubbers at our J.T. Deely units at Calaveras Power Station.

Another way to measure emissions and performance is by intensity. Emissions intensity is a rate of the total pounds of emissions emitted by combustion of coal and gas divided by total generation (cumulative sum of electricity generated from all sources including coal, gas, nuclear, and renewables during a given time period) reported in pounds per MWh. Although CPS Energy's total generation has increased over time, our intensity for NO_x and TSP has decreased. SO₂ intensity increased in 2008 but was down in 2009 to the lowest value in the last four years.

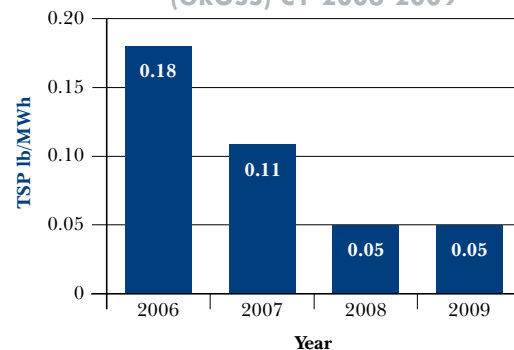
RECENT AIR QUALITY EXPENDITURES

Item	Date	Cost
Enhanced Monitoring Program	2003 - 2009	\$3 million
Coal Yard Dust Controls	2003 - 2004	\$4 million
Gas Startup at J.T. Deely Plant	2005 - 2006	\$5 million
Baghouse Retrofit at J.T. Deely Plant	2005 - 2007	\$87 million
Additional Coal NO _x Combustion Controls	2005 - 2007	\$15 million
J.K. Spruce 1 Scrubber Upgrades	2008 - 2009	\$9 million
Mercury Monitors at J.K. Spruce 1 & J.T. Deely Plants	2008	\$3 million
J.T. Deely Unit 2 SCR	2009 - 2011	\$67 million

**CPS ENERGY POWER GENERATION TOTAL
SUSPENDED PARTICULATES (TSP) EMISSIONS
(GROSS) CY 2006-2009**



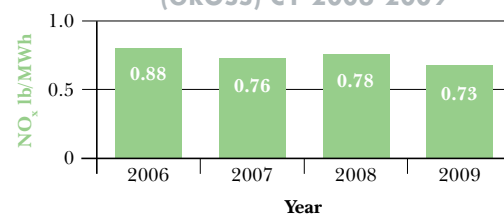
**CPS ENERGY POWER GENERATION
TOTAL SUSPENDED PARTICULATES
(TSP) EMISSIONS INTENSITY
(GROSS) CY 2006-2009**



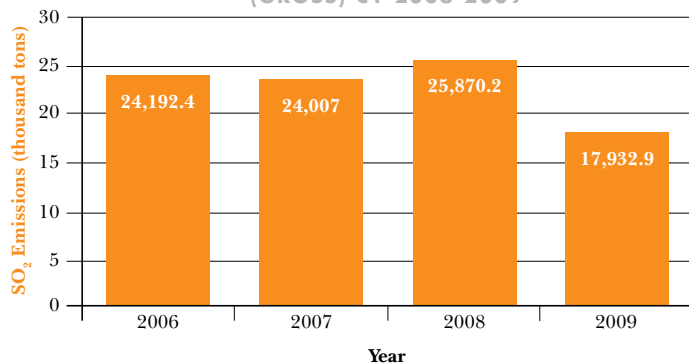
**CPS ENERGY POWER GENERATION NO_x
EMISSIONS (GROSS) CY 2006-2009**



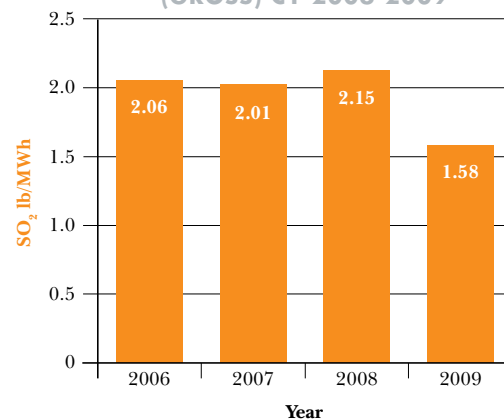
**CPS ENERGY POWER GENERATION
NO_x EMISSIONS INTENSITY
(GROSS) CY 2006-2009**



**CPS ENERGY POWER GENERATION SO₂ EMISSIONS
(GROSS) CY 2006-2009**



**CPS ENERGY POWER GENERATION
SO₂ EMISSIONS INTENSITY
(GROSS) CY 2006-2009**



The table below is the combined emission rates of sulfur dioxide and nitrogen oxide for the 1,032 coal plants in the United States from EPA data for 2009. All CPS Energy coal units combined rank in the top 28% in the nation compared to all of the coal units.

Air Monitoring Stations and San Antonio Air Quality

The air quality and health in our community are of paramount importance to CPS Energy, and we are committed to managing and reducing emissions. To meet this commitment, we are continuously monitoring the ambient air near our power plants. We own and operate two continuous air monitoring stations (CAMS), and data from these stations is available to the public on the Texas Commission on Environmental Quality website at www.tceq.state.tx.us/cgi-bin/compliance/monops/select_month.pl. We also operate smaller CAMS near Calaveras and Braunig Power Stations. This approach ensures that we have accurate, real-time data on our emissions and their effect on the environment.

In the past, San Antonio has maintained average ozone (a major component of "smog") readings below the old EPA standard of 0.08 parts per million (ppm) and therefore has been in compliance with EPA ground-level ozone standards. The EPA revised the Air Quality Index (AQI) effective May 27, 2008, to specify that an area's eighth-hour ozone standard must not exceed 0.075 ppm. Under this new categorization, San Antonio is still below the standard but is close and, therefore, considered "near-nonattainment." The EPA is scheduled to reduce the ozone standard even further in August 2010.

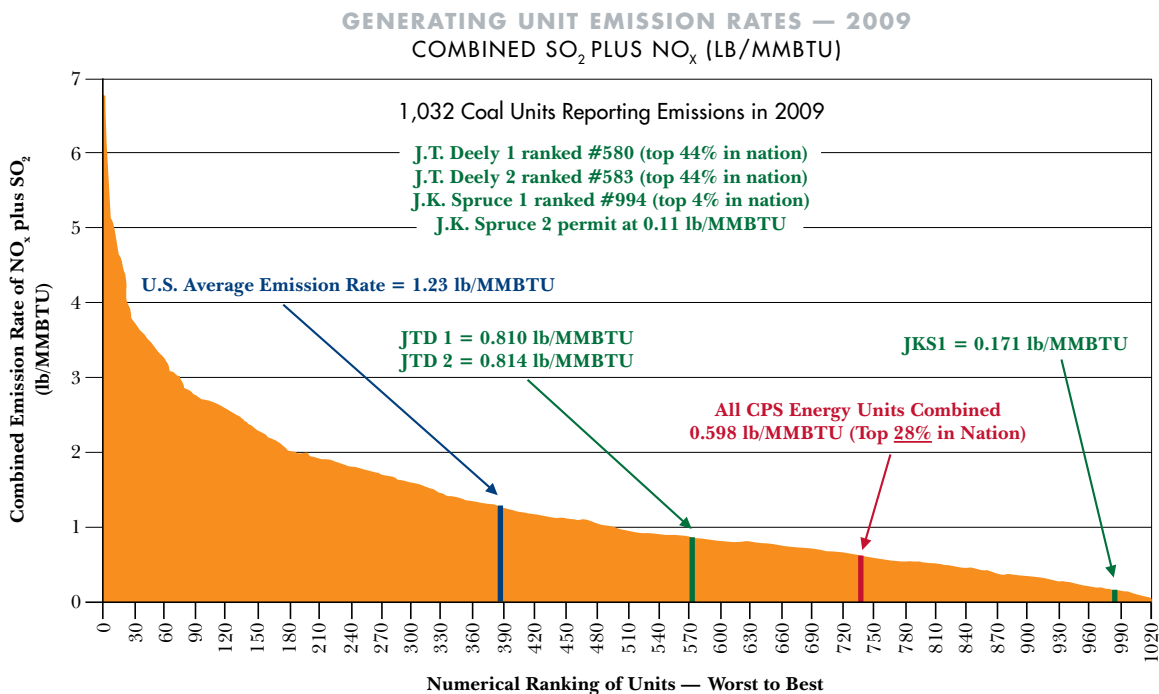
The executive committees of the Alamo Area Council of Governments (AACOG) submitted an Early Action Compact (EAC) to EPA in

2002 as part of the Clean Air Plan for the four-county area including Bexar County. CPS Energy, as one of the participants in the EAC, submitted a list of voluntary control strategies to help the area achieve ozone attainment. These voluntary measures include planned reductions of NO_x emissions (because there is a correlation between rising ozone and NO_x emissions) at CPS Energy power plants; the purchase of alternatively fueled vehicles; the continuation of CPS Energy's "Mow Down Smog" program, under which CPS Energy provides rebates to purchasers of electric lawnmowers; and employee notifications of Air Quality Health Alert days. The only pollutant for which San Antonio has violated the EPA air quality standards is ozone.

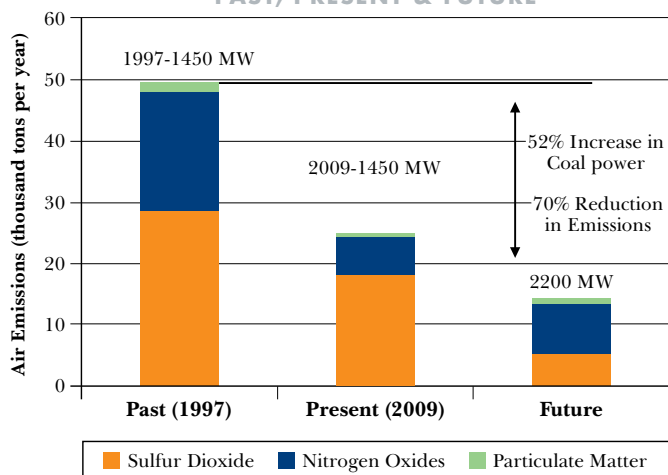
Air Emissions Improvements and Upgrades

We are committed to further reducing our air emissions in the next several years. This will not only occur as a result of emissions control technology investments but also because of our increasing focus on energy efficiency and renewable energy, which will lower the overall emission intensity of our generation activities.

Furthermore, we are committed to reducing total coal generation emissions (sulfur dioxide, nitrogen oxides, and particulate matter) by 70 percent relative to actual emissions in 1997. What makes this goal even more significant is that, during that same time period, we also will be increasing our coal power generation by 52%, as shown in the figure on page 60. Additional emission reductions will require significant investment and include selective catalytic reduction (SCRs) and scrubbers (flue gas desulfurization) for the Deely units. An SCR is currently under construction on J.T. Deely Unit 2 at the Calaveras Power Station.



CPS ENERGY AIR EMISSIONS FROM COAL PAST, PRESENT & FUTURE



Climate Change and Greenhouse Gas Emissions

Climate change is one of the most complex and challenging issues of our time. Of greatest concern are the effects of emissions of anthropogenic (resulting from human activity) greenhouse gases on climate. The main source of anthropogenic gases in the United States is the burning of fossil fuels. Electricity generators consumed 37 percent of U.S. energy from fossil fuels and emitted 42 percent of the CO₂ from fossil fuel combustion in 2008.

There is a need to reduce greenhouse gas (GHG) emissions, and CPS Energy is committed to being a part of the solution. One of our core focus areas from Vision 2020 is "carbon constraints and the environment." Our plan is to transform ourselves from a company focused on providing low-cost power based on traditional generation sources to a company providing competitively priced power from a variety of sustainable sources.

Sustainable energy development strives to meet our current needs without compromising the ability of future generations to meet theirs. We will uphold our commitments to environmental responsibility, social equity, and economic viability, while continuing to provide reliable and competitively priced energy to the present and future Greater San Antonio community.

Greenhouse gas emissions are going to receive increased attention in the coming years, and pending U.S. legislation to regulate CO₂ emissions will greatly affect our business going forward. As required by the new EPA Mandatory Greenhouse Gas Reporting Rule, CPS Energy will report its GHG emissions in March 2011 for the emissions in 2010.

CPS Energy does factor in financial risks and opportunities associated with climate change in our business planning. We have not yet completed an evaluation of the physical risks of climate change and its direct economic impacts, but we continue to evaluate the indirect risks and opportunities associated with CO₂ regulation.

One of CPS Energy's strongest measures of operational and financial effectiveness has been the benefit it has derived from its diverse and low-cost generation portfolio, which is currently comprised of coal, nuclear, gas, and various renewables such as wind, methane, and solar, as well as purchased power. One of our primary objectives is continued diversification. Accordingly, our management team periodically assesses future generation options that would be viable. This extensive assessment of various options involves projections of customer growth and demand; technological viability; upfront financial investment requirements; annual asset operation and maintenance costs; and environmental impacts.

A federal program regulating CO₂ is expected within the next five years, which would place a cost on CO₂ emissions. Although future cost is highly uncertain, our forecast has prices beginning at \$12 per ton of CO₂ emission in 2012 and rising to around \$50 in 2020. Under business-as-usual conditions, that would translate to an annual economic impact of more than \$1 billion to CPS Energy customers.

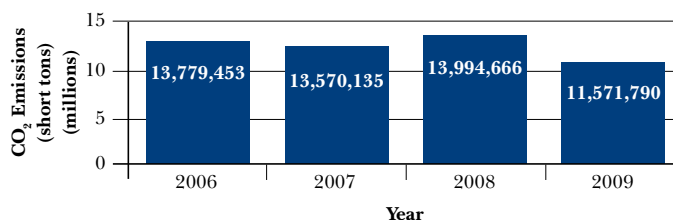
In response to these projections, CPS Energy has begun investing and planning for ways to mitigate the impact of CO₂ legislation. Our new resource plan includes increased use of renewable energy, an aggressive energy-efficiency program, additional nuclear generation, and applications of carbon capture when that technology becomes available. This resource plan requires a higher investment cost, but it should save annually around 60% in emissions and emissions cost from business as usual by 2020. CPS Energy will continue to evaluate and look for additional ways to mitigate CO₂ risks.

Since 2006, our CO₂ emissions from power generation have increased. Because no cost-effective CO₂ control technologies currently exist for our natural gas- and coal-powered fleet, we create more CO₂ as we generate more power.

To address this issue, since 2005 we have added significant renewable energy generation, implemented power plant efficiency upgrades, and increased energy efficiency in the community.

POWER GENERATION CO₂ EMISSIONS 2006-2009

*Reflects net generation, based on all generation types

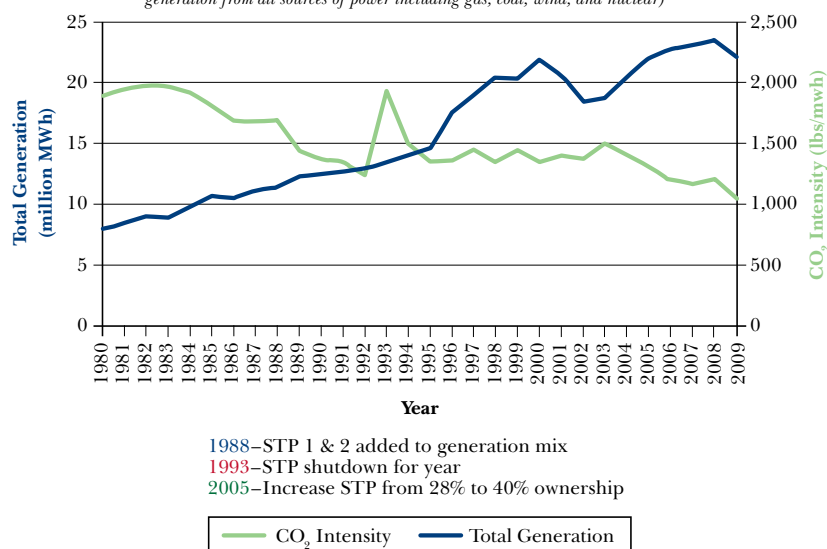


Right: Construction of 14MW Blue Wing Solar Project in southeast San Antonio



CO₂ INTENSITY

Historical CO₂ Intensity for CPS Energy (lbs of CO₂ emissions per net MWh of generation from all sources of power including gas, coal, wind, and nuclear)



CO₂ Intensity

CO₂ intensity is the rate of the total pounds of CO₂ emitted by burning coal and gas divided by total generation (cumulative sum of electricity generated from all sources including coal, gas, nuclear, and renewables during a given time period), and it is reported in pounds per megawatt hour (lb/MWh). With the inclusion of renewables, this results in projected reductions of CO₂ emissions of more than 991,000 tons in 2015, and more than 1,645,000 tons in 2020.

Although CPS Energy's total energy generation has increased over time, our CO₂ intensity has decreased. This inverse relationship indicates that our generation portfolio has become more CO₂-efficient over time, largely as a result of our additions of nuclear and wind generation. The STP Nuclear Plant was first added to our generation mix in 1988, and in 1993 STP 1&2 were shut down for one year. In 2005, CPS Energy increased ownership in STP 1&2 from 28% to 40%. Additional wind power also was acquired in 2005 and 2007, further reducing our carbon intensity. Replacement of the original steam turbines in our three coal units with new, high efficiency technology allowed us to produce more electricity while burning the

same amount of fuel and emitting the same amount of CO₂, also reducing our carbon intensity.

Long-term CO₂ Reduction Plan

CPS Energy is focused on setting long-term GHG reduction targets and reducing emissions cost effectively in the short term. In 2002, we joined the Department of Energy's Climate Challenge Program and began voluntarily reporting GHG reductions. Over 15 years we've avoided releasing approximately 55 million tons of carbon by using nuclear energy, and over a six-year period we've avoided emitting 1.2 million tons through wind-generated electricity. In the coming years, GHG reductions may be mandated by federal GHG legislation such as HR 2454: The American Clean Energy and Security Act, or through some other form. This legislation has not passed as of mid 2010, and the future cost of carbon or reduction requirements is uncertain. Either way, as part of the CPS Energy sustainability program, we are pursuing GHG reductions as part of our core strategy going forward.

Our platform to pursue sustainable energy includes these strategies:

- Aggressive energy-efficiency program
- Large portfolio of renewable-energy generation
- Distributed generation with local emphasis
- Energy storage development and integration
- Smart grid infrastructure deployment

To meet this challenge, we must successfully address various issues, including:

Managing the energy network

Maintaining system reliability as we manage power flow and transmission from potentially thousands of generation/storage sources to hundreds of thousands with the possibility of plug-in hybrids

Transforming the business model

Moving from purely selling electricity to generating revenue from a wider range of other value-added services to our customers

VISION 2020 GOALS

Goals	Achievement to Date
1500 MW of renewable energy in our generation	910 MW of renewables under contract (94% of this is TX wind)
100 MW non-wind carve-out	44 MW under contract for solar farms; 9.6 MW landfill to gas; 5 MW Solartricity Producer Program
771MW of energy efficiency STEP program	142 MW overall reduction; 61 MW peak demand reduction (first 2 yrs.)
AMI and smart grid roll-out	40,000-meter 2-yr. pilot with citywide rollout following

In 2008, in an effort to initiate, prioritize, evaluate, and support sustainability efforts and activities across the organization, Scott Smith, Director of Environmental Planning and Compliance, spearheaded the creation of the CPS Energy Sustainability Council. The Sustainability Council is comprised of cross-functional business unit members, and they directed the development and publication of CPS Energy’s first Corporate Sustainability Report.

Increased emphasis on technology and integration
Building expertise in technologies and how/when to integrate, managing technology risk, new sectors electric transportation

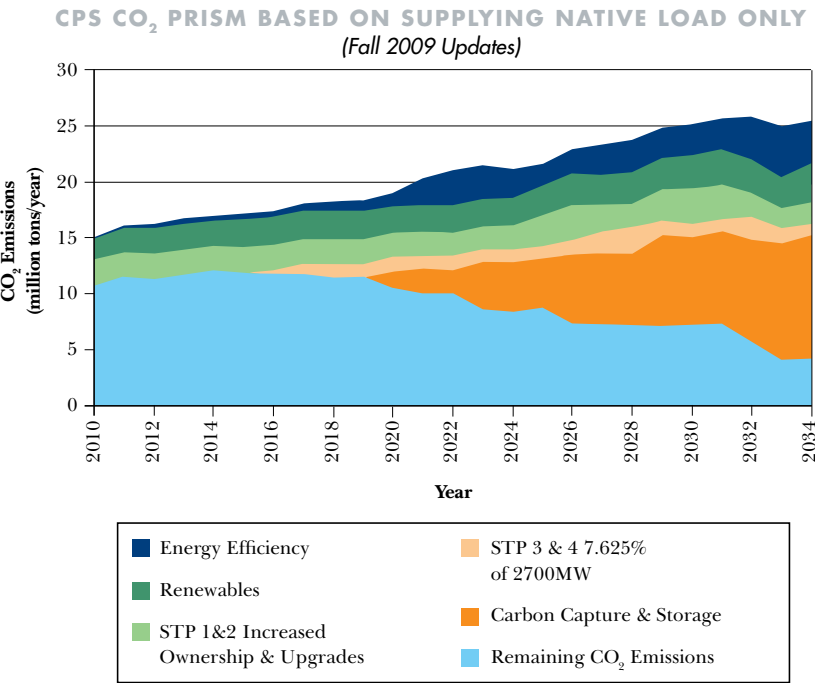
Customer education and marketplace transformation
Transforming the marketplace to empower customers or third parties to manage their power via efficiency, pricing, budgets, generation, etc.

Enormous funding requirements to invest in future
\$5.7 billion estimated

The CPS Energy long-term GHG reduction plan focuses on a diverse mix of sustainable sources of electricity generation. Therefore, to reduce GHG emissions we must not only pursue energy efficiency and renewable energy but also nuclear power as well as future investments in carbon capture and storage.



20-kilowatt photovoltaic solar panel array at the Emergency Management Center



Note: Prism is based on load forecasts that were created using the Save for Tomorrow Energy Plan’s (STEP) aggressive energy efficiency goals. Emissions are based on power supplied to native load only. CPS currently has 40% ownership in STP 1&2; the STP 1&2 turbine upgrades add 55 MW of nuclear capacity. A 7.625% ownership participation in STP 3&4 adds about 200 MW of nuclear capacity. Carbon capture and storage will be installed when commercially available.

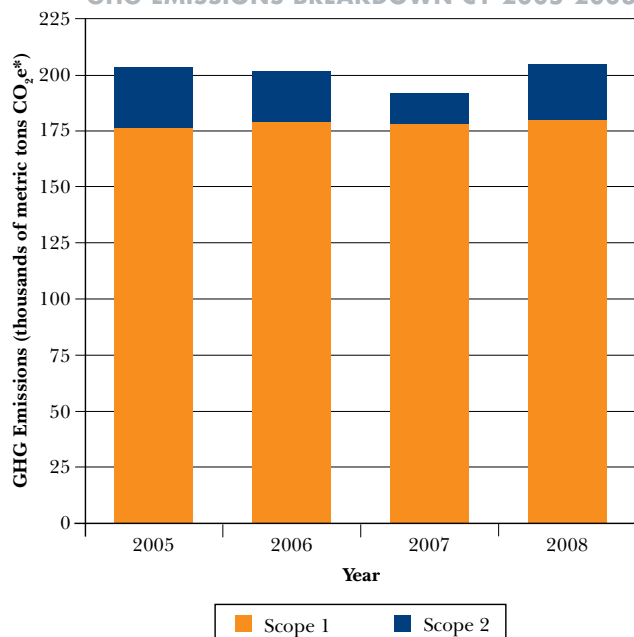
Total Non-Generation CPS Energy GHG Emissions Breakdown

GHG emissions are not only released from our power generation, but also from our fleet, buildings, and operations. More than 99% of our CO₂ emissions are emitted from power generation, but we are committed to managing and reducing all GHG emissions as an example to the community.

For non-generation CO₂ emissions, we separated emissions into Scope 1 and Scope 2. Scope 1 emissions are direct GHG emissions from sources within our organizational boundary that we own or control. They include vehicle fleet, natural gas distribution system, and sulfur hexafluoride (SF₆) gas circuit breakers. Scope 2 emissions are indirect GHG emissions that are a consequence of activities that take place within our organizational boundary, but that occur at sources owned or controlled by another entity. Scope 2 emissions primarily represent building electricity usage.



**TOTAL CPS ENERGY NON-GENERATION
GHG EMISSIONS BREAKDOWN CY 2005-2008**



* Our Natural Gas Distribution System makes up about 85% of our total Scope 1 emissions.

SF₆ Partnership

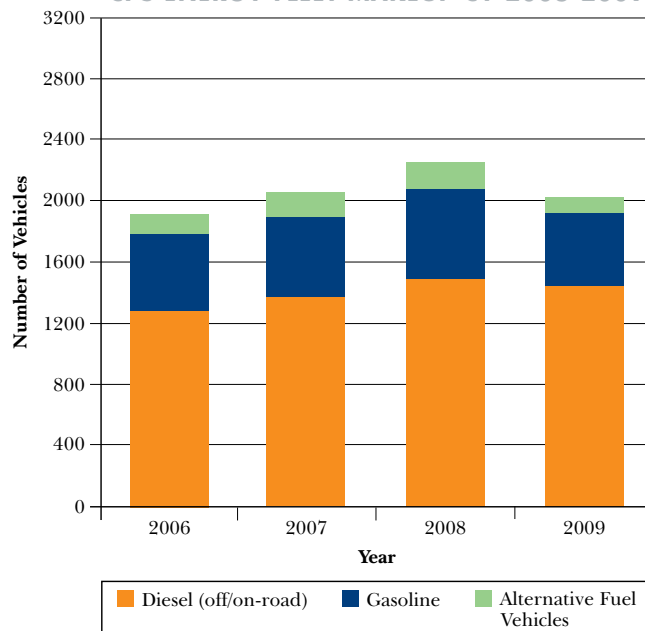
Sulfur hexafluoride (SF₆) has been identified by the Intergovernmental Panel on Climate Change as an extremely potent GHG. SF₆ emissions from electric power systems are the result of releases from improperly functioning equipment, from leakage, and from gas escaping into the atmosphere when gas is either transferred into equipment or extracted from it for disposal, recycling, or storage.

In 1998, CPS Energy signed a voluntary agreement with EPA, joining the SF₆ Emissions Reduction Partnership for Electric Power Systems. As part of this agreement, we provided the total nameplate capacity of SF₆ for our SF₆-bearing equipment in service, and agreed to inventory emissions of SF₆ annually. CPS Energy has developed a company-wide policy for the proper handling of SF₆.

Reducing GHG Emissions from Our Vehicle Fleet

One of the greatest impacts on air quality in our community comes from automobile emissions. CPS Energy maintains a fleet of about 2,900 vehicles, the majority of which are dieselfueled. However,

CPS ENERGY FLEET MAKEUP CY 2006-2009



we also have procured vehicles that run on alternative fuels, such as ethanol and propane. A summary of the vehicles in the CPS Energy fleet is provided in the table above.

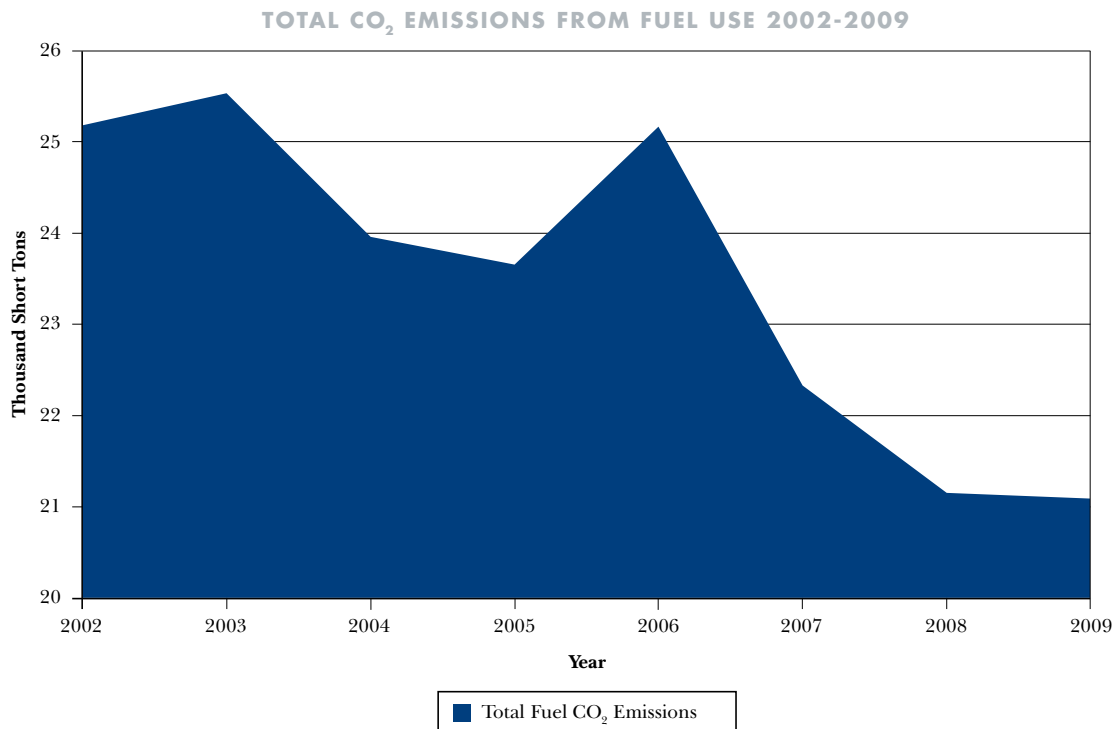
As of 2009, emissions from the CPS Energy vehicle fleet were about 19,128 metric tonnes of CO₂-equivalent per year, or about 21,085 short tons per year. The figure on page 66 shows the trend of GHG emissions from the fleet. Since 2003, we have steadily reduced our fleet-related GHG emissions.

The GHG emissions from the vehicle fleet are directly related to the types of fuels used in the fleet. Fuel usage at CPS Energy is summarized in the figure on page 67.

In recent years, diesel fuel usage has increased, but ethanol usage has greatly increased while use of unleaded gasoline has declined. By reducing our reliance on gasoline and increasing ethanol usage, CPS Energy has reduced its fleet-related GHG emissions.

CY 2005-2009 SULFUR HEXAFLUORIDE (SF₆) EMISSIONS

	2005	2006	2007	2008	2009
Total SF ₆ Capacity (lb)	30,354	32,409	40,482	44,571	51,435
SF ₆ Emissions Rate	1.6%	1.3%	1.8%	1.3%	2.0%
Total SF ₆ Emissions (lb)	495.3	417.5	731.0	593	1007.9
CO ₂ Emissions (tonnes)	5,369	4,525	7,923	6,428	10,925



To improve process controls and data accuracy of our fueling process, in 2010 CPS Energy installed a Smart Fuel System to automatically capture actual vehicle mileage when employees fuel vehicles and equipment.

CPS Energy has a number of comprehensive programs to reduce the environmental impacts of our internal operations. This section of the report discusses these programs, their impacts, challenges, and ways we can improve our performance in the future. We focus on energy usage in our buildings, GHG emissions from indirect sources such as employee commuting and air travel, GHG emissions from the CPS Energy fleet, water usage in our buildings, and recycling and waste reduction.

energy consumption by CPS Energy's facilities declined 2.1% in 2008 over 2007. The figure at left below shows our annual energy consumption from 2006 to 2008.

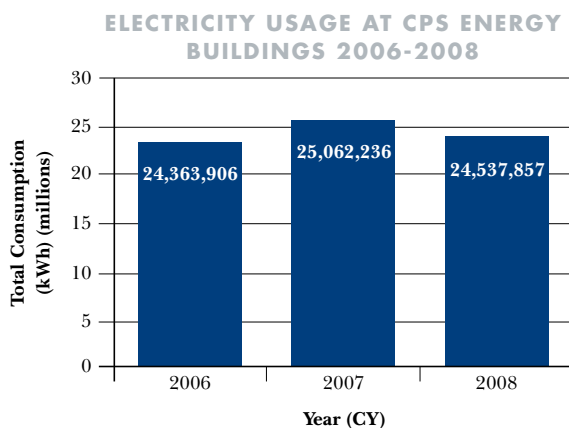
We have replaced older fluorescent lights at some of our service centers with newer, more efficient induction lights. Some work areas now have occupancy sensors that turn off lights when the areas are unused. Other changes have been behavioral, such as encouraging employees to turn off lights and computer monitors at the end of the work day.

In some of our facilities, CPS Energy set a goal of reducing energy consumption 25% from 2001 to 2006, as part of Senate Bill 5. We were one of only a handful of public entities to achieve this goal. This equates to a 5% annual reduction, which was achieved in part by the high-efficiency light bulb replacement program and improved HVAC operations.

We hope to achieve additional reductions over the next few years by continuing to use higher efficiency lights, better control systems, and similar measures as part of SB12.

To reduce our energy consumption in our facilities, CPS Energy has implemented the following programs:

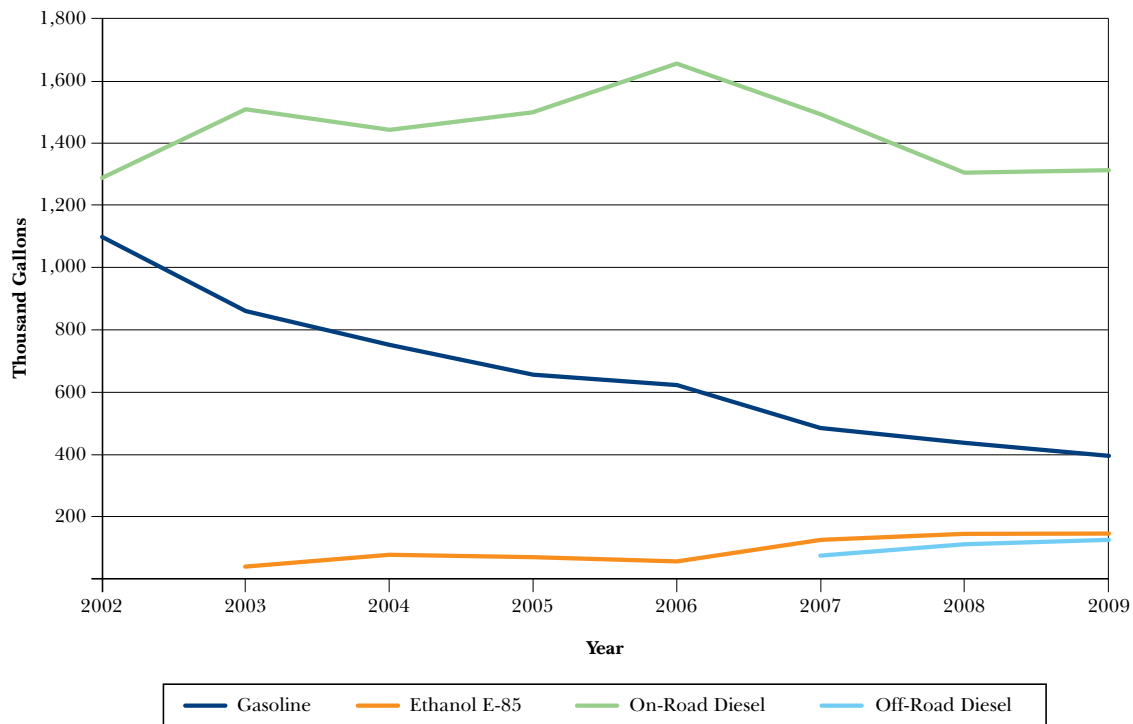
Information Communication Services (ICS): Since 2003, CPS Energy has been improving the efficiency of all ICS processes. During this time, we consolidated data centers and upgraded to more efficient units. Twenty-one data servers were eliminated and old cooling systems were replaced with more efficient systems. Sixteen existing servers were converted to virtual machines (VM) and 81



Reducing Energy Use in Our Buildings

CPS Energy is currently trying to achieve its SB12 goal of 5% overall reduction in facility electricity usage from 2006 to 2012. Overall

CPS ENERGY FLEET FUEL USE 2002-2009



new VMs were created in lieu of purchasing new physical servers. Overall, this effort has reduced or avoided the annual electricity use of more than 140,000 kWh.

Also, for the past three years CPS Energy has purchased computers that use the energy-saving "80 Plus Program" power supplies, saving an estimated 116,365 kWh. All monitors ordered over the past three years are energy efficient LCDs, and all desktops and laptops are set to put monitors in power-save mode after 20 minutes of inactivity. In addition, more than 1,000 office support machines (faxes, printers, copiers) have been eliminated.

Environmental Lab Building: In 2008, CPS Energy opened its new state-of-the-art environmental lab, featuring 20 solar photovoltaic modules capable of producing a combined output of 3.4 kilowatts (KW), while a 35-foot-high wind turbine can generate at peak capacity of 2.6 KW. The lab's green building features include the ability to precisely control lighting as well as heating, ventilation, and air conditioning (HVAC) systems. The orientation of the building minimizes direct sunlight on exterior walls and reduces cooling requirements. Overhangs also provide shade over the windows for most of the year and reduce heat buildup inside the lab. Besides saving energy, the lab also conserves water. Indoors, low-flow water



Environmental lab building at the Calaveras Power Station

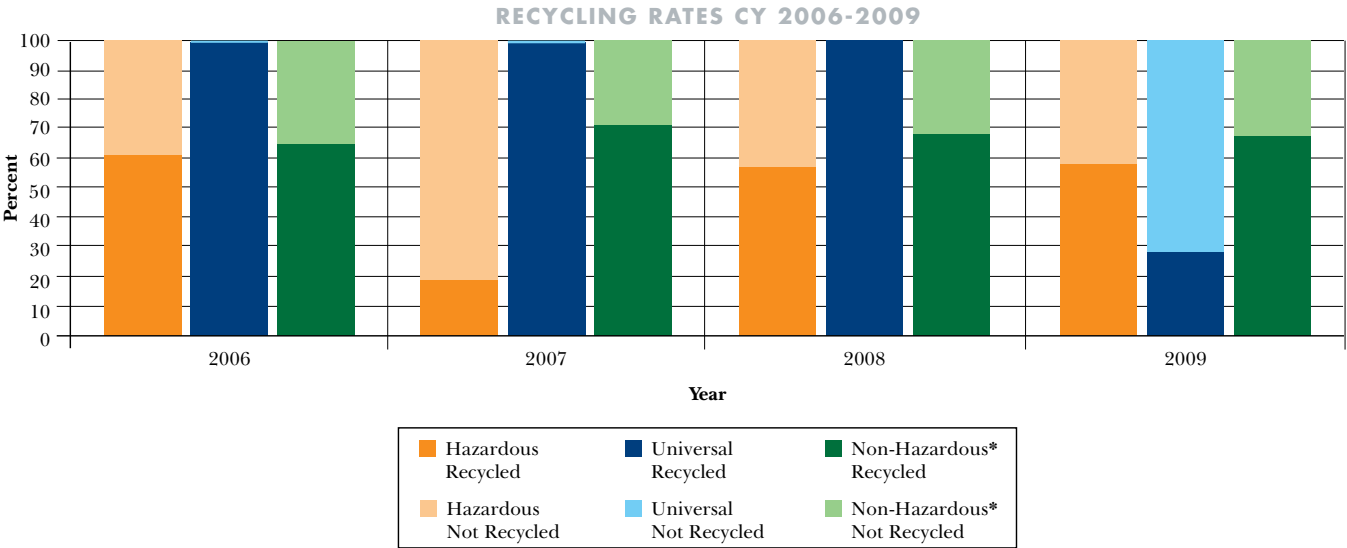
fixtures and infrared motion sensors prevent excess water usage. Outside the lab, a rainwater-harvesting system collects runoff from the roof and stores it in a 4,800-gallon concrete tank. The rainwater is used to irrigate drought-tolerant plant species used in xeriscaping all around the facility. Recycled content was used in building materials such as ceiling tiles and concrete floor tiles.

High Efficiency Lighting Program: One new technology, the induction light bulb, has a 100,000-hour rated life span that is five to 13 times longer than the previous lamps. The longer lamp lives will reduce environmental impacts because fewer employee-hours will be used in replacing them. Since 2005, 1,337 induction bulb fixtures have replaced older fixtures, resulting in an approximate energy savings of 874,348 kWh.

Also, in 2004, CPS Energy began replacing office and customer service center incandescent light bulbs with high efficiency CFLs. CFLs use 75% less energy and last about 10 times longer than traditional incandescent bulbs.

Telework: By 2020, CPS Energy plans to successfully implement telework programs, eliminating the need for many employees to travel to the office each day. Specific work areas have implemented telework on a small scale. For the past several years, staggered work times have been in place to reduce traffic congestion. Finally, we plan to implement incentive programs that motivate employees to use mass transit for commuting. Bus passes are offered to employees.

Call/Videoconferencing: Videoconferencing between various CPS Energy facilities is available at four of our locations: Main Office, Jones Avenue, Calaveras Power Station, and Emergency Management Center (EMC). This form of conferencing is used in place of face-to-face meetings to avoid vehicle travel between our facilities. It is primarily used among CPS Energy-owned facilities but on rare occasions has been used for conferences with outside parties, thereby eliminating the need for air travel. In the future, we hope to equip more of our facilities with videoconferencing capabilities.



Reducing Indirect GHGs Outside Our Walls

CPS Energy has calculated GHG emissions from employee commuting, business-related air travel, wastewater treatment, and solid waste disposal. These are considered other non-direct sources, also known as Scope 3. Scope 3 emissions are from sources not owned by CSP Energy but are a result of our business activities. We can help minimize GHG emissions from these sources by controlling our supply chain operations or implementing programs. For example, if we minimize the amount of waste that we send to a landfill, we help avoid CO₂ emissions from that facility because they have less waste to process. Although our Scope 3 emissions make up a small portion of the overall inventory, CPS Energy has implemented the following initiatives and associated goals to reduce Scope 3 emissions:

Coal Ash Recycling: CPS Energy recycles nearly all of the by-products of coal combustion for power generation. For example, fly ash is used in the manufacture of cement. As a result, approximately 2.7 million tons of CO₂ emissions have been avoided over the past 15 years, and valuable landfill space has been conserved. Recent federal regulatory proposals could significantly change requirements for ash disposal.

Materials and Recycling

CPS Energy has an extensive recycling program that includes electronics, wood, paper, cardboard, metals, plastic bottles, aluminum cans, used oil, coal-combustion by-products, concrete, asphalt, and other materials. In 2009, we recycled about 300,000 tons of material. Our efforts have resulted in the reduction of about 300,000 tons of CO₂ over 15 years. A summary of the types and amounts of materials recycled from 2005 – 2009 is presented in the first table to the right.

TYPES AND AMOUNTS OF MATERIALS RECYCLED, CY 2005-2009

Material	2005	2006	2007	2008	2009
Aluminum	543	155	133	76	23
Aluminum Cans	NA	NA	NA	0.4	0.4
Antifreeze	3	11	7	5	5
Asphalt, Spoils, Concrete, Masonry	3,052	3,052	13,412	9,870	12,070
Batteries (lead acid)	40	18	40	52	15
Batteries (small rechargeable)	0	0.4	.01	0.0	0
Brass	10	1.2	9	0.0	4
Cardboard	62	15	17	23	16
Coal Combustion By-products	353,172	321,224	308,241	346,669	258,672
Computer Monitors (junked for recycling)	1	1	2	2	0
Hazardous Spent Lamps/Bulbs	3	4	3	1	2
Lead-Covered Copper Cable (high-level PCBs)	3	2	3	5	0.4
Office Paper	839	34	40	41	75
Oil Filters	11	13	14	20	10
Oily Water	47	33	87	1,587	1,735
Other Electrical Equip. (high-level PCBs)	20	29	29	18	7
Other Electrical Equip. (low-level PCBs)	134	146	87	246	76
Parts Cleaning Solvent	13	13	17	17	11
Plastic Bottles	NA	NA	NA	2	4
PVC Conduit	0	6	3	28	0
Scrap Electric Meters	189	64	86	43	9
Steel (incl. iron & scrap metal)	2,070	1,952	2,730	1,666	1,729
Tin	54	49	61	104	482
Transformer Mineral Oil (containing PCBs)	188	247	169	222	243
Transformer Mineral Oil (PCB free)	595	345	507	642	110
Transformers (high-level PCBs)	24	48	18	33	25
Transformers (low-level PCBs)	2,003	701	1,454	2,014	1,093
Tree Trimmings	25,450	25,800	24,000	27,770	23,605
Used Oil	139	154	105	81	220
Wire & Cable (incl. lead-covered copper cable)	937	709	822	741	536
Wood Pallets/Reels	500	850	2,079	1,138	945
TOTAL	390,102	355,677	3524,175	393,116	301,722

All values provided in short tons

NA - Not Applicable

SUMMARY OF WASTE MANAGEMENT AT CPS ENERGY, CY 2006-2009

	2006 Total Tonnage	Percentage	2007 Total Tonnage	Percentage	2008 Total Tonnage	Percentage	2009 Total Tonnage	Percentage
Incineration	22	0.01%	23	0.01%	20	0.005%	54	0.02%
Landfilling	17,946	4.8%	18,314	4.9%	19,588	4.7%	19,065	5.85%
Fuel Blending (Energy Recovery)	789	0.2%	774	0.2%	978	0.2%	544	0.17%
Recycling	354,966	95.0%	353,418	94.9%	392,949	94.6%	303,409	93.09%
Evaporation Pond	NA	NA	NA	NA	1,745	0.42%	2,861	0.88%
TOTAL	373,722		372,529		415,281		325,933	

Mission Recyclable

CPS Energy celebrated America Recycles Day and Texas Recycles Day Nov. 15th 2008 by conducting a 60-day pilot program to recycle aluminum cans and plastic bottles (labeled Nos. 1-7). The pilot was a huge success and was quickly expanded to several other facilities. Employees were reminded to continue recycling office paper and cardboard.

Five plastic bottles yield enough fiber for one extra large T-shirt, one square foot of carpet, or the filling of one ski jacket. Recycling a single aluminum can saves enough energy to power a PC or TV for three hours. Making new cans from used cans requires 95% less.

A breakdown of our hazardous, nonhazardous, and universal waste is provided. In addition, a summary of waste disposal/recycling methods is provided. CPS Energy recycles around 70% of all nonhazardous waste. While the total amount of waste generation has increased since 2006, the percentage of nonhazardous waste that is not recycled has remained steady at about 30%. All hazardous waste and universal hazardous waste that can be recycled is recycled. In addition to the materials listed in the first table above, other materials are recycled and include the following:

- Vehicles and equipment
- Tires and tubes
- Furniture
- Computers and accessories
- Miscellaneous material

Not only is recycling better for our environment, but it is also better for our bottom line; the total revenues from all recycling in 2009 were about \$5.2 million.

CPS Energy also owns and operates a Class 1 nonhazardous waste landfill, which is registered with the Texas Commission on Environmental Quality, an initiative that reduces disposal costs and CPS Energy's reliance on off-site disposal facilities.

Also, since 1990, CPS Energy has significantly reduced the amount of hazardous waste (defined under the Federal Resource Conservation and Recovery Act) generated by its operations.

PCBs

By the early 1990s, CPS Energy completed a program aimed at removing 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 when serviced as part of an ongoing program to voluntarily eliminate 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.

Water Resources

CPS Energy's water resources consist of recycled water from treated sewage effluent, a small amount of surface water, groundwater, and potable water from local utilities.

Braunig and Calaveras lakes are CPS Energy-owned man-made lakes that provide cooling for the majority of the 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 groundwater for other uses.

Braunig Lake

Braunig Lake is a 1,350-acre reservoir that CPS Energy built in 1962 as a cooling pond for the Braunig Power Station. The lake impounds the Arroyo Seco and receives some runoff from the small drainage basin nearby. Most water received by the lake is supplied by river diversions; this river water is from the San Antonio Water System (SAWS) treatment plants.



Braunig Power Station

Calaveras Lake

Calaveras Lake is a 3,450-acre impoundment of the Calaveras and Chupaderas creeks, which was built in 1969 as a cooling pond for Calaveras Power Station. The lake is allowed to impound up to 27,000 acre-feet per year of runoff from Calaveras Creek. Most of the water received by the lake is provided by river diversions and is supplied from the SAWVS sewage treatment plant discharges.

Both Braunig Lake and Calaveras Lake have provided valuable outdoor recreational opportunities for residents and visitors interested in a day of fishing, an afternoon picnic, or setting up camp for the night.



Calaveras Power Station

Water Discharge

Under permit, CPS Energy discharges cooling and process water into Braunig Lake, Calaveras Lake, and into various tributaries of the San Antonio River. Each of these water bodies and the discharges of water from CPS Energy operations are described in more detail below. There are no known endangered species or protected habitats in or surrounding these water bodies. CPS Energy does not have discharges of heated water to the San Antonio River; all thermal discharges go to the lakes, which were designed and built as cooling ponds. Water is not discharged from the lakes, except during storms.

Tributaries of the San Antonio River

Tuttle Power Station discharges water to an unnamed tributary of Salado Creek, which flows to the San Antonio River. In addition, the Leon Creek Power Station discharges water to a city drainage ditch, which flows to Leon Creek, and then to the San Antonio River. Water quality in the San Antonio River basin is impaired because of high bacteria levels. However, CPS Energy's discharge does not contribute to the bacteria level in the river.

Monitoring Water Quality

Several years ago, CPS Energy thoroughly studied the impact of mercury in Braunig and Calaveras lakes. The highest mercury level

— 2 parts per billion, or 0.002 parts per million — was found in the San Antonio River and was attributed to San Antonio sewage effluent released from water treatment plants upstream. This level is more than 1,300 times cleaner than the EPA's safe-drinking-water level for mercury. The study was updated and expanded in 2009; preliminary results indicate no significant increase in heavy metals in fish tissue samples and water samples. We continue to monitor the water quality and aquatic environment of Braunig and Calaveras lakes and participate in projects that protect and enhance the fisheries.

Over the last several years, CPS Energy has stocked Braunig Lake with bass in the numbers below.

- 2004: 7,000
- 2006: 12,000
- 2007: 12,000
- 2008: 11,000

Water Use, Recycling, and Conservation

CPS Energy uses water from three main sources: the Edwards Aquifer, the San Antonio River (primarily consisting of treated sewage effluent), and potable water from SAWVS and from the East Central Water Supply Corporation. The table below summarizes water usage from each source, as well as the percentage of usage from each source.

Edwards Aquifer

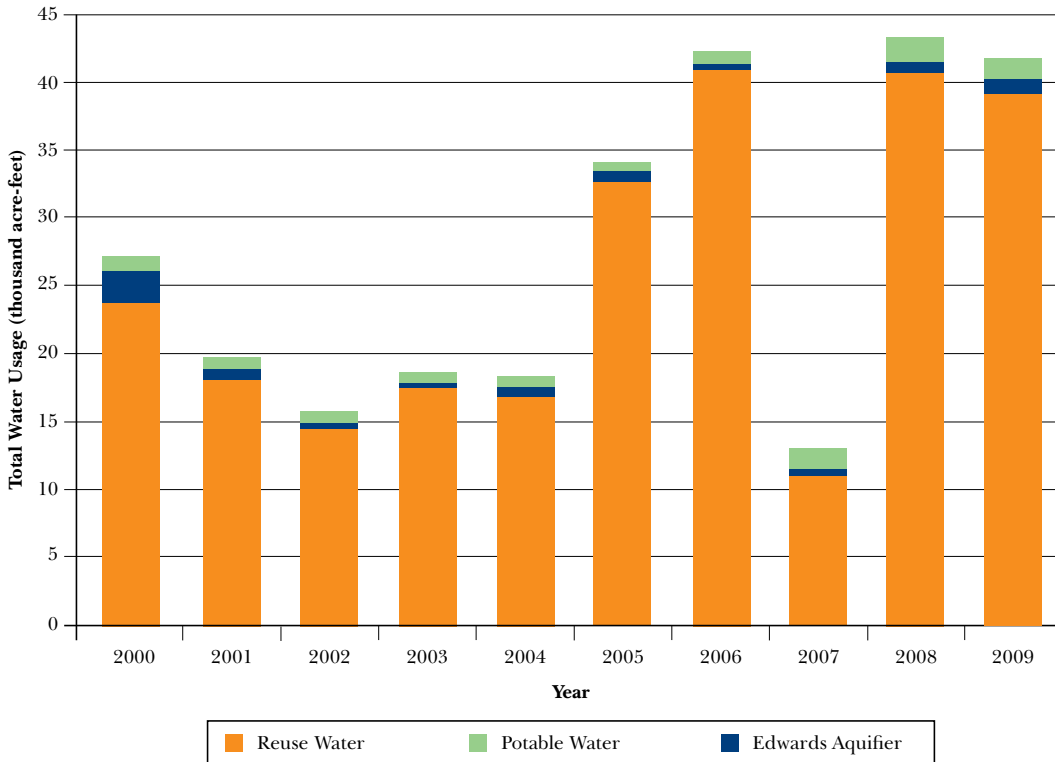
All water used at Mission Road Power Station, Leon Creek Power Station, and Tuttle Power Station is provided by wells into the Edwards Aquifer. CPS Energy holds permits for a total of 3,067 acre-feet (AF) of annual water withdrawals from the Edwards Aquifer.

San Antonio River

All of the surface water used to maintain Calaveras Lake and Braunig Lake cooling pond levels is diverted from the San Antonio River. CPS Energy is allowed to withdraw a total of 72,000 AF of water from the surface water of the state, and is allowed to consumptively use 37,000 AF at Calaveras Lake and 12,000 AF at Braunig Lake. Consumptive use is defined as water consumed by the industrial process such as forced evaporation, irrigation, dust suppression, and emission control.

CPS Energy has a contract with SAWVS to supply up to 50,000 AF of reuse water from its sewage treatment plants via a bed and banks permit on the San Antonio River. This reuse water supplements water of the state and is the primary supply of water used in the lakes for cooling water. As shown in the table above, water usage from the San Antonio River varies widely from year to year. Lower diversions occur in years, when rainfall is plentiful, and higher diversions occur in drought years when reduced rainfall fails to naturally replenish the lakes. The highest volume of water ever diverted from the San Antonio River to date was 41,563 acre-feet (or 51,268,440 cubic meters) in 2006.

CPS ENERGY WATER USAGE, CY 2000-2009



Potable Water

CPS Energy purchases about 700 acre-feet of potable water annually for use at the Calaveras and Braunig plants as process water. This water is purchased from SAWS and the East Central Water Supply Corp. The water purchased from SAWS comes primarily from the Edwards Aquifer, but a portion of the water can be supplied from the Carrizo Wilcox Aquifer. The water purchased from East Central can come from several sources, but primarily will be from the Guadalupe River or the Carrizo Wilcox Aquifer.

Water Conservation

CPS Energy relies mainly on surface water (primarily consisting of treated sewage effluent) instead of groundwater. In 2009, surface water provided 96% of the water that we used. The production of electricity is one of the top industrial consumptive uses of fresh water in the United States. San Antonio is the largest metropolitan area in the world that depends almost exclusively on groundwater for fresh water supply. The Edwards Aquifer is unique in its ability to supply all the freshwater needs of almost 2 million people in the San Antonio region.

Because we recognized the importance of preserving this freshwater resource, we began planning to reduce consumption of Edwards Aquifer water for power plant cooling shortly after a drought in the 1950s. Both Braunig and Calaveras lakes were built to use treated sewage effluent and runoff waters rather than water from the Edwards Aquifer to maintain operating levels at these man-made cooling lakes. Through 2009, CPS Energy has conserved more than 282 billion 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 our ongoing 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.

Recycled and Reused Potable Water

The amount of recycled or reused water consumed annually depends on the weather and other factors and would be difficult to calculate. However, we are permitted to recirculate 3.6 billion gallons per day at Calaveras and 1.35 billion gallons per day at Braunig.

The potable water used in process water is recycled through the system constantly. Very little water is lost after it is introduced into the boiler, and most water not used in the boiler is used in the water treatment process.

Strategic Water Planning

CPS Energy has a Strategic Water Planning Group that is taking a holistic view of CPS Energy water demand and developing a plan for meeting future water needs in the 50-year planning horizon. The rapidly growing regional population is stressing all water sources and forcing competition for increasingly scarce water resources. This water planning effort is employing a multidisciplinary approach and is providing a greater depth of understanding of all water demands as well as the importance of water efficiency/conservation in both current operations and the planning of future projects.

CPS Energy manages significant permitted water resources for the citizens of San Antonio. It is incumbent on CPS Energy to work within the regional and state water planning effort to assure management of these water resources consistent with the State Water Plan while assuring continued reliable power generation that will meet consumer demand.

Natural Habitats/Habitat Restoration

CPS Energy recognizes that our activities impact the habitat for local flora and fauna. When possible, we work to minimize these impacts and to restore impacted areas when appropriate.

Habitat Protection on Transmission Lines

One area of active habitat monitoring and protection is the 30-mile-long Cagnon to Kendall transmission line. Before the transmission

line route was selected, an environmental assessment (based on 30+ environmental criteria) was conducted on the preliminary routes.

Areas with potential endangered species habitats were identified on the final transmission line route.

The total amount of clearing for the Cagnon-Kendall transmission line project was approximately 10.59 acres of potential golden-cheeked warbler habitat. Based on the results of three absence/presence bird surveys voluntarily authorized by CPS Energy and conducted by a CPS Energy contractor, there have been no adverse effects to the golden-cheeked warblers from the construction activities. The warblers appear to be readily and successfully using areas adjacent to the line and do not appear to be disturbed by its presence. The presence/absence surveys started on the first full season following the energizing of the line (2007) and will continue for four seasons.

CPS Energy implements several measures designed to avoid and/or minimize impacts to the golden-cheeked warbler, black-capped vireo (vireo), and karst invertebrates:

- Reducing the amount of vegetation clearing needed by using the Texas Department of Transportation right-of-way, roads, and access pole locations
- To the greatest extent possible, locating poles to minimize the amount of clearing required for equipment access
- Completing all vegetation clearing outside of the vireo and golden-cheeked warbler breeding seasons, in areas within 300 feet of each species' habitat
- Conducting ground-disturbing activities as far as possible from karst features
- Educating CPS Energy employees and contracted employees on how to recognize threatened and endangered species
- Using best management practices to minimize and avoid erosion and sedimentation into receiving surface water features
- Using off-site equipment maintenance, and storage and disposal of all petroleum products
- Avoiding use of herbicide in endangered species habitat and within the Edwards Aquifer recharge zone, and only allowing limited usage on the remainder of the line

Radio Transmission Tower

Another habitat restoration project conducted by CPS Energy involved a radio transmission tower on Heuermann Road. The operating permit allowing construction of the tower included language from the U.S. Fish and Wildlife Service to modify the habitat to reintroduce the vireo, an endangered bird species. We created a cooperative research program with the City of San Antonio and the U.S. Fish and Wildlife

Service to promote nesting by the vireo. The goal was to convert vegetation that was not suitable for vireo nesting into prime habitat for the migratory species. This was a first-of-its-kind project to increase the number of vireos and has been a successful program. The restoration areas are progressing toward a shrub-dominated community preferred by the vireo, and the species has been present in all the restoration areas during nesting season. Since 2001, vegetation management in the area is the responsibility of Friends of Friedrich Park.

Planting Trees

Between 1985 and 2001, the San Antonio metropolitan area lost 22% of its heavy tree-canopy cover, according to an urban ecosystem analysis conducted by American Forests. CPS Energy is committed to improving the tree canopy in Greater San Antonio and providing customers with an additional source of future energy savings by donating trees. Trees planted in the right places around homes can provide the proper shade to reduce energy usage while removing air pollutants.

CPS Energy is partnering with the City of San Antonio's Office of Environmental Policy to launch a new tree-planting rebate program to provide customers with rebates for purchasing and properly placing trees for energy savings. In addition, CPS Energy plans to educate and distribute trees to more than 3,500 customers in 2010 and 2011 at several events.



Senior Vice President Mike Kotara helps local teens plant trees at Fox Tech High School.

Since 2001, CPS Energy has given away more than 33,000 trees. In 2009 alone, 4,707 trees were distributed through our tree donation programs. These programs include partnerships with Habitat for Humanity, where trees are planted for every new house built; the Real Estate Council's Green Team Challenge, bringing trees to area schools; the City of San Antonio's Neighborhood Sweeps program, restoring old neighborhoods with cleanups and fresh landscaping; and public events like Earth Day at Woodlawn Park; and LiveGreen Fest.

Financial integrity always has been and continues to be at the forefront of CPS Energy's focus. Our disciplined use of revenues results in a consistent application of income to cover company commitments in the following manner:

Use of Company Revenues	Description
1st	Operating & Maintenance (O&M) costs, including fuel
2nd	Debt Service, including principal & interest, in order of lien level seniority. This is the primary support of the capital plan.
3rd	Repair and Replacement cash contributions, which also support the capital plan
4th	Payments to the city that represent ownership return
5th	The remainder of company revenues becomes added Repair and Replacement contributions.

CPS Energy also focuses on actively managing its debt and liquidity levels. While this is challenging because of CPS Energy's large capital program that will drive borrowing levels up through 2016, we are working to control and lower debt levels below 60% by the year 2020 or sooner.

One of our primary goals is to ensure that we have adequate funds to cover our capital program, building and sustaining infrastructure. This infrastructure is critical to driving long-term value to customers, which are also the owners of this municipal utility. These major assets are required to maintain assets for current customers and must be in place before customer growth can be properly accommodated. Since it is too expensive to pay cash for these items upfront, we proceed as a typical homeowner would, by carefully using a blend of debt and cash to acquire assets. But, instead of one major asset such as a home, CPS Energy must acquire a variety of major assets.

We also protect our liquidity, in part, by maintaining access to cash in the form of healthy balances in our General as well as our Repair and Replacement accounts. We also maintain access to special instruments such as an affordable Note Payable Program that functions as a line of credit.

Success in maintaining financial integrity manifests in several ways:

1. By keeping our residential electric rates below the rates in the competitive areas of Houston, Dallas, and Corpus Christi
2. By allowing us to focus on our varied stakeholder groups
3. By maintaining one of the best credit ratings among municipally owned utilities

By understanding what is behind each of these metrics, it becomes clear why they are so linked to our financial integrity and sustainability efforts.

Stakeholder Focus

All decisions are made with considerations of the company's financial integrity and the resulting benefits that accrue to our stakeholders, which include our customers, owner, the San Antonio metropolitan and surrounding county community, and all employees. For our owner, financial integrity allows CPS Energy to contribute up to 14% of its revenues, with some exclusions, to the general fund of the City of San Antonio. This contribution makes up nearly 30% of the city's annual budget and is used to provide police, fire, and other essential services to the community.

In addition, CPS Energy and its employees contribute to the community through numerous volunteer programs that provide a helping hand directly to many in need. For our employees, financial integrity translates into a "Great Place to Work" with steady employment and opportunities for a meaningful career and advancement. And to our customers, financial integrity translates into competitively priced electric and gas services when compared to the largest cities in Texas and the United States.

Credit Ratings

CPS Energy has one of the highest credit ratings among municipally owned utilities in the nation, with ratings of AA+/AA/Aa1 from Fitch, Standard & Poor's, and Moody's, respectively. These ratings are a reflection of a number of important elements closely monitored by the ratings agencies as follows:

- Financial strength
- Excellent management team
- Regulatory support
- Strong, growing economy
- Fuel diversity and fuel cost recovery

In today's market, investors are looking to invest in companies with strong credit ratings, and thus our ratings provide CPS Energy with greater access to capital. In addition, our position as a municipally owned utility allows us to use both tax-exempt and taxable debt instruments to raise necessary capital. All of this translates into lower debt service costs and lower electric and gas rates for our customers.

Financial Strength

Electricity sales account for nearly 90% of CPS Energy's operating revenues, totaling \$1.9 billion in fiscal year 2010. Of these electric sales, 85% to 90% serve CPS Energy's retail electric load in its certificated service territory, with the remaining electric sales made into the wholesale energy market. In our service territory, we serve nearly 720,000 electric customers, primarily residential customers but also commercial, industrial, and other customers. While residential customers make up the majority of our customers, they represent slightly less than half of the retail electric load, with commercial and industrial customers primarily making up the remainder.

	FISCAL YEAR 2010			FISCAL YEAR 2009		
	Sales	Revenue (in Thousands)	% of Total Revenue	Sales	Revenue (in Thousands)	% of Total Revenue
Electric (MWh):						
Residential	9,104,633	\$790,297	46.03%	8,608,619	\$780,253	41.08%
Commercial/Industrial	8,392,016	\$629,722	36.67%	8,479,361	\$647,299	34.08%
Other	2,886,271	\$191,557	11.16%	2,914,904	\$240,876	12.68%
Subtotal Retail	20,382,920	\$1,611,576	93.86%	20,002,884	\$1,668,428	87.84%
Wholesale	2,619,031	\$105,501	6.14%	3,115,931	\$231,029	12.16%
Total Electric	23,001,951	\$1,717,077	100.00%	23,118,815	\$1,899,457	100.00%
GAS (MMCF):						
Residential	10,498	\$117,179	54.81%	9,416	\$128,137	50.87%
Commercial/Industrial	10,179	\$80,310	37.56%	9,732	\$105,357	41.83%
Other	2,100	\$16,309	7.63%	2,084	\$18,390	7.30%
Total Gas	22,777	\$213,798	100.00%	21,232	\$251,884	100.00%

CPS Energy also sells into the wholesale power market to provide additional net revenues for the benefit of our customers. These sales are typically made during off-peak periods to optimize generation capacity not being used to serve retail load. By capturing additional net revenue opportunities when they exist, CPS Energy is able to use this revenue, net of incremental costs, as an additional source of funding for its total capital needs, again, all of which benefits our customers.

Natural gas sales make up the remaining 10% of our operating revenues and are made to approximately 320,000 retail customers. Again, the vast majority of these customers are residential, but slightly less than half of the load is attributable to them, with commercial and industrial customers comprising the remainder of our customers.

As mentioned previously, in the midst of a significant capital program to add new generation, update existing infrastructure, and make environmental commitments, CPS Energy is keenly focused on its debt levels and debt coverage ratios. Initiatives to manage operating costs through continuous quality improvement will play a significant role in sustaining the strong debt coverage ratios and moderate debt levels that have contributed to credit ratings that CPS Energy strives to maintain. Rate support will augment the revenue needed to also maintain our strong credit ratings. The key will be to find the right balance between financial strength and affordability for our customers.

Also, CPS Energy returns up to 14% of its revenues to the city to help pay for essential community services. These dollars are an important component of the city's financial integrity that contributes to its strong credit ratings.

Excellent Management Team

An essential element to the success of any organization is its employees. From the people in the field — responsible for keeping service safe and reliable for our customers — to our Board of Trustees responsible for the strategic direction of the company, CPS Energy believes it has a committed and talented team to serve our customers. The company's management team is committed to ensuring that all stakeholder needs are addressed. Clear and meaningful communications with the entire community continue to be areas of focus for the management team. The team successfully navigated the company through tumultuous times in late 2009 and early 2010. While CPS Energy came out of that period financially stable and well positioned, management acknowledges that there will be future challenges as we look to transform from a traditional utility to a leader in sustainability.

In addition to the large capital program, the management team continues to explore other opportunities to bring value to our stakeholders. Examples include products such as BillPower, which allows residential customers to pay bills online, and Home Energy Suite, which offers customers tools to manage their energy costs. In our Supply Chain division, efforts to lower inventory levels and procurement lead times. This division effectively uses lean management principles and reverse logistics to lower costs, improve safety, and have a positive impact on our environment by reusing and recycling. CPS Energy remains committed to supplier diversity to assist all small businesses in being part of the American enterprise system. Every dollar we save goes toward offsetting our costs and helps us move closer to a sustainable future.

Regulatory Support

In order to move forward with our sustainability initiatives, CPS Energy will need the support of its owner/regulator and the entire community. Some of that support will come in the form of rate support. From the 3.5% electric and gas base rate approved in 2008, to the approval of the Save for Tomorrow Energy Plan in 2009, and then the most recent approval of a 7.5% base electric and 8.5% base gas rate increase in 2010, CPS Energy cannot proceed toward sustainability without the complete support of its regulator. In addition, new building codes will need to be enacted to ensure the entire community financially shares the vision of sustainability. Enforcement of these codes and changes to old codes will be critical to effective implementation of energy efficiency and conservation standards. In order to be successful, the entire community must embrace the goals of Mission Verde and sustainability.

Strong, Growing Economy

Texas and more specifically San Antonio continue to be areas of steady growth. New home construction peaked in 2007, and since that time, the local housing market has softened with the national economy. Even so, San Antonio continues to grow as economic development activity has drawn new companies to our area. Large data centers have been attracted to San Antonio because of reliable, affordable power. In addition, the expansion of a Toyota production plant and the planned opening of a Texas A&M campus are expected to stimulate growth in and around San Antonio. Supporting industries are expected to follow, further driving the demand for a skilled workforce. This growth, even with the emphasis on energy efficiency and conservation, is projected to increase demand for electricity over the next few years.

Fuel Diversity and Fuel Cost Recovery

Since the late 1970s, a cornerstone of CPS Energy's ability to deliver low-priced, affordable electricity to San Antonio has been its fuel diversification strategy, including nuclear, coal, gas, oil, and, most recently, renewable energy. CPS Energy has been recognized by the ratings agencies for its fuel diversification program. Using nuclear and coal internally operated infrastructure to predominantly meet base load demand, and natural gas primarily for peak demand, CPS Energy has been able to moderate and reduce the volatility in its fuel costs and resulting bills for customers. In addition, CPS Energy uses innovative approaches such as its energy price risk programs and a 20-year prepaid natural gas arrangement with San Antonio Energy Acquisition Public Facility Corporation as an additional measure to lower costs.

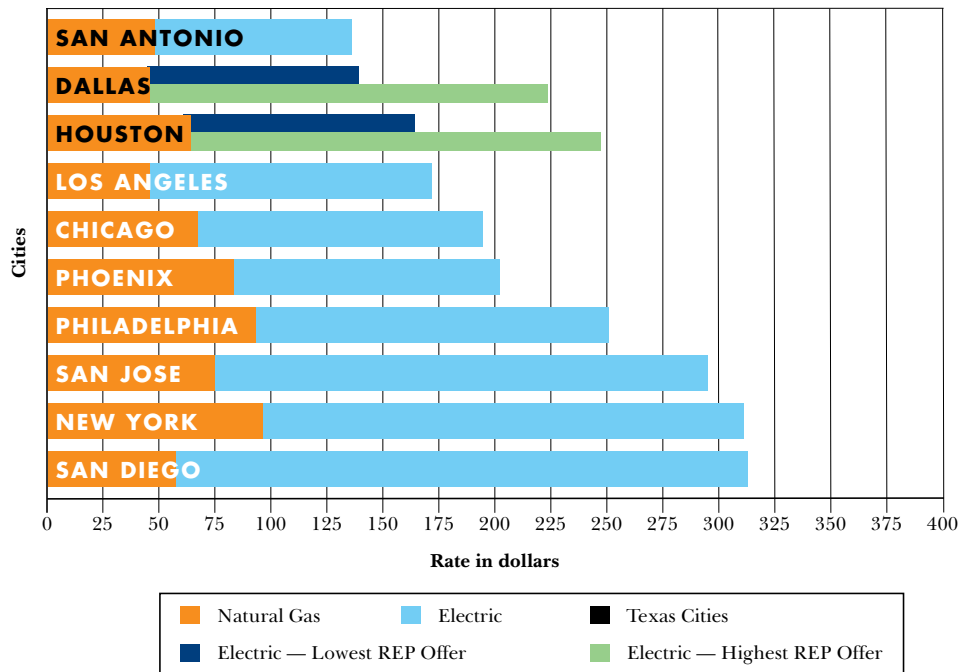
More recently, CPS Energy has become recognized as a leader in its commitment to renewable energy, becoming the largest municipal purchaser of wind energy in the United States. In addition to wind, CPS Energy recently completed two agreements for purchases of solar energy from two large-scale commercial solar facilities, both in the San Antonio area. Our Solartricity program is expected to add to our renewable footprint, as we purchase solar energy from mid-size



rooftop installations. And, we continue to provide rebates to customers who wish to install solar panels on their home rooftops.

The other important element in our commitment to sustainability has been the growing focus on energy-efficiency and conservation in our Save for Tomorrow Energy Plan program. By expanding rebates for the purchase and installation of energy-efficient lighting, air conditioning, and appliances, and by increasing our weatherization efforts for many of San Antonio's neediest homes, our conservation program is expected to save 771 MW at a cost of \$849 million over the next 10 years and ultimately delay the need for our next generation plant to sometime near 2023.

UTILITY RATES IN THE TEN LARGEST U.S. CITIES, FY 2010



REP - Residential Energy Provider
Monthly average for 12 months ended January 2010 based on 1,000 kWh and 5 thousand cubic feet (MCF).

In addition to our fuel diversification strategy, another strength for CPS Energy is fuel-cost recovery. This regulatory mechanism also reinforces financial discipline as it ensures fuel costs are recovered on a monthly basis, therefore matching current energy benefits with the propriety of paying for power consumption promptly. This type of discipline in turn ensures CPS Energy does not need to borrow funds on a long-term basis to pay for short-term operational requirements. Not adding fuel costs to financing needs then keeps debt levels from rising unnecessarily.

This recovery mechanism is also important to the company's renewable strategy. Due to CPS Energy's tax-exempt status, its customers are currently better served by purchasing renewable power — from entities that can take advantage of tax credits — than by owning these assets. These renewable purchases are then included in the fuel-cost recovery calculations and paid for as consumed.

Competitive Rates

The second measure of our success in financial integrity is our long-term focus toward maintaining retail electric rates that are below those in the competitive areas of Houston, Dallas, and Corpus Christi. Over the last decade, CPS Energy's bills have consistently been below those of other major cities in the United States. At the same time, CPS Energy has been able to maintain one of the highest credit ratings of municipally owned utilities. The challenge will be to maintain the proper balance of these two success measures while embarking on a sustainable future for the utility and community.

From investing and developing new generation sources, including an increasing commitment to renewable energy, to promoting energy

efficiency and conservation through its STEP program, to addressing the continually evolving regulation of an uncertain environmental future including carbon, SO₂, NO_x, mercury, and fly ash, CPS Energy will see increasing pressure on its electric rates. Some of this pressure can be mitigated by developing a rate structure designed to send the necessary price signals. These valuable signals will seek to redistribute and lower demand.

CPS Energy is committed to a sustainable future, while keeping its rates low and its credit ratings high. As shown above, CPS Energy boasted the lowest electric rates of the 10 largest cities in the United States in 2009 and is among the lowest in the state of Texas.

Supply Chain Management

CPS Energy's Supply Chain department is focused on procuring materials and products at the lowest cost, shortest lead time, and highest quality for the maintenance and growth of our electric and gas customers. To reduce the overall cost of inventory for CPS Energy, we have begun using lean management, which focuses on eliminating waste through continuous improvements from team members. The results of this effort are:

- A 10-year low inventory level
- 70% reduction in stock replenishment lead time
- 85% reduction in non-stock lead time
- Warehouse organization, modernization, and safety through deployment of the 5S workplace management system (sort, set in order, shine, standardize, sustain)
- Employee training and development
- Creation of Reverse Logistics Department

With the reduction in lead time and inventory levels and the creation of our Reverse Logistics department, CPS Energy has had a positive impact on our environment by reducing over-acquisition of materials and developing reuse and recycling strategies for all products.

Supply Chain's philosophy is to involve all levels of the organization, suppliers, and our community in the development, decision, and application of improvements in safety, process, operations, and environmental impact through an innovative approach of lean management.

Supplier Diversity

CPS Energy's policy is to ensure that small, minority, small disadvantaged, veteran owned and service-disabled veteran owned, woman owned, and HUB Zone businesses have the maximum practicable opportunity to participate as contractors and suppliers. It is our policy to help these businesses overcome barriers that may have kept them from the mainstream of American business. Through outreach and advocacy, we encourage these businesses to compete for contracting and subcontracting opportunities with CPS Energy.

Local Economic Impact

The economic impacts of CPS Energy's activities on Greater San Antonio are concentrated in two areas: the cost of energy to consumers in the region and the wages paid by CPS Energy. CPS Energy's strategy of balanced generation has resulted in electric rates that are consistently among the lowest in the state, although this comparison depends on the variance in natural gas prices. The current historically low prices for natural gas have reduced electricity prices in competitive areas because of the relatively greater impact of natural gas on ERCOT market prices. When natural gas prices rise in the near future, CPS Energy's electricity rates should rise at a slower pace than most other Texas cities' rates.

CPS Energy has 3,716 (FY2009) employees and pays \$225 million in wages that flow into the local economy. The generation, transmission, and distribution infrastructure on the electric side, and the gas distribution system portion, require constant maintenance and upgrades. Providing service

to customers requires handling complaints, settling accounts, and managing relationships with ERCOT, the PUCT, and other agencies that have an effect on CPS Energy operations.

With such a wide variety of relatively complex projects all in operation at the same time, a substantial management force is needed to keep the project budget and focus aligned with CPS Energy corporate goals. While our employee payroll is a sizeable expenditure, it represents less than 11% of CPS Energy's total costs. Generally, CPS Energy's expenditures have a limited impact on the region relative to the company's overall costs because the majority of expenditures are for fuel, specialized equipment that is manufactured elsewhere (turbine blades, etc.), and interest on loans used to finance capital investments. Most of these expenditures cannot be made in the San Antonio area.

Cost competitiveness is another pillar that we directly support. Every dollar we save through better sourcing, acquisition, and use of materials and services goes toward offsetting our costs and helps us fund future energy generation needs. All of the work Supply Chain is doing to eliminate waste frees up resources to help the company meet the future needs of our community in a responsible manner.

While most of the revenue from San Antonio consumers flows out of the region, investments in energy efficiency provide a direct benefit. Shifting spending from electricity and natural gas to local labor and materials used to refurbish and upgrade buildings and equipment is a win-win for the community. Recycling revenues back into the San Antonio community is a key component of CPS Energy's strategic vision.



Peak performance home construction by Woodside Homes



Introduction

While CPS Energy has an annual operating budget of well over a billion dollars, our employees are our most valuable resources. More than 3,600 dedicated professionals take great pride in making sure CPS Energy customers have affordable and reliable natural gas and electric service for their homes and businesses.

CPS Energy employees work diligently behind the scenes to keep energy service reliable and affordable. This section of the report describes our internal operations and the impacts we create through our day-to-day activities.

In addition to engineers and equipment operators, CPS Energy employs financial analysts, energy specialists, IT technicians, transmission line workers, account managers, customer service representatives, and more. Our employees can be found downtown at our administrative offices, at one of our customer service centers, or at any of our power plants and service centers.

We are proud to describe our employee safety programs, employee benefits, commitment to attracting and retaining a talented workforce, ongoing training, and process for providing feedback to employees through performance reviews.

Health and Safety Programs and Performance

At CPS Energy, keeping our employees safe, and teaching them to keep our customers safe, is absolutely imperative. Our vision is to create an organizational safety culture that enables and maintains an accident-free environment.

The Safety Policy states it is the duty of supervisors and others in charge of CPS Energy operations to see that employees under their direction are kept informed of general and specific rules at all times, regulations, and methods for the safe conduct of any work to which they may be assigned and to see that safety rules, practices, and recommendations are carried out by employees. It is the duty of individual employees to familiarize themselves with all safety rules, regulations, and practices applicable to their work and to follow them under all circumstances.

Because we care about people, we emphasize safety in everything we do. In action it means:

- Safety is a top priority.
- We are all responsible for safety.
- We train and equip our employees to work safely.
- We contribute to a safe environment through responsible construction, operation, and maintenance practices.

In Action: Corporate Safety Committee

The overall objective of the Corporate Safety Committee is to provide high-level guidance for the CPS Energy Safety Program, support business unit safety initiatives, advise on policies and practices pertinent to safety, and update general management on the safety program progress. The Corporate Safety Committee assists the organization in fulfilling its responsibilities for safe work policies and practices through collaborative discussions and by providing solutions to safety and health issues. This may take many forms, such as collecting and disseminating information on workplace hazards, evaluating work environments, assessing risks, and proposing safety-related process and policy changes. Through our discussions and guidance, the committee promotes a grassroots ownership of safety as an organizational value by each employee at CPS Energy.

Carpooling

Nancy Waciawczyk (Employee Benefits), Trisha Wiatrek (Contract Services-Supply Chain), and Pam Maris (Corporate Communications and Community Relations) have been carpooling for more than 20 years. They save money, help keep the air cleaner, and enjoy each other's company as they travel up to 100 miles each day. The women save wear and tear on their own cars because they alternate drivers every day, reduce their own stress, and catch up on some rest when they are passengers. It's a win-win for CPS Energy employees and the environment.

In Action: Safety Advisory Form and Exchange (SAFE)

In a continuing effort to strengthen the Safety Program in our Corporate Safety areas, CPS Energy is creating a new Safety Advisory Forum & Exchange (SAFE). The Safety Advisory Forum & Exchange will be responsible for reviewing all employee work-related injuries, accidents, and safety infractions. The SAFE team also will review all employee work-related motor vehicle accidents and determine whether they were preventable or non-preventable. In addition, this group will monitor results of field safety audits, track trends of accidents/injuries/incidents and near-misses to ensure that safe working conditions exist, and make recommendations for further improvements to the overall safety program.

SAFE MEMBERSHIP:

ESVP-CAO (approval pending) - Safety Advisory Forum
& Exchange sponsor

Director - Enterprise Asset Management - EAM

Corporate Safety Specialist - SME - Chair

Representative - Audit/Ethics

Representative - Enterprise Asset Management

Representative - Organizational Excellence

Representative - Enterprise Asset Management

Representative - Information Communications Services

Representative - Supply Chain

Representative - Employee Services

Representative - Financial Services

Representative - HR/Business Consultants

Representative - Retail Energy

Representative - Corporate Communications

Representative - Occupational Health & Wellness

A Career with CPS Energy

Putting Vision into Action: Working at CPS Energy

CPS Energy wants to become the best publicly owned energy company in the United States, and attracting and retaining top talent is critical to achieving that goal. Going further, we also support programs to help shape the Greater San Antonio area workforce so the next generation can meet the creative career challenges of providing more sustainable energy sources.

Benefit Plans

CPS Energy offers competitive salaries along with other valuable benefits to ensure the personal and financial health of our employees and their families. CPS Energy provides employee benefits as well as pension and other post-employment benefits for its staff. The complete CPS Energy plan consists of four plans: the Pension Plan, the Group Health Plan, the Group Life Insurance Plan, and the Disability Income Plan. All plans are reported on a calendar year basis.

Pension Plan: CPS Energy is proud to offer a pension plan that can provide our employees with regular income after their retirement. All full-time CPS Energy employees who are at least 21 years old begin participating in the plan after one full year of employment. Participation is mandatory with a 5% employee contribution.

The benefits provided by the Pension Plan are paid from a Pension Trust Fund 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. The Pension Plan and the Pension Trust Fund were established by the Board in accordance with applicable law and are maintained for the exclusive benefit of the eligible employees and their beneficiaries.





Linemen training at the Southwest Service District

Group Health Plan, Group Life Insurance Plan,

Disability Income Plan: The other three components of the CPS Energy employee benefit plan are single-employer contributory plans funded by employee contributions and annual contributions from CPS Energy, as determined by the Board in accordance with applicable law. The Group Health Plan and the Group Life Insurance Plan provide benefits for employees, their spouses, and covered dependents. Additionally, most CPS Energy employees are also eligible for these benefits upon retirement.

CPS Energy established each plan as a “risk pool” as that term is defined in the Texas Political Subdivision Employees Uniform Group Benefits Act (“Act”), Chapter 172 Texas Local Government Code. These plans are each operated at all times and in all respects as a risk pool under the act. CPS Energy’s Disability Income Plan, also established as a risk pool, provides income to eligible employees of CPS Energy who become disabled.

Training

CPS Energy provides employees with the training they need to perform their jobs safely, to stay on the cutting edge of technology, and to advance in their careers.

CPS Energy provides a tuition reimbursement plan for employees wanting to further their education. Additionally, we schedule training classes ranging from a leadership skills training for managers to a mini-MBA program. We also offer a National Joint Apprenticeship and Training Committee program.

To better accommodate training courses, CPS Energy built three one-story training facilities on land adjacent to the V.V. Tuttle Power Plant. Completed in September 2009, these new facilities encompass a 10,000-square-foot training shop, 6,700-square-foot classroom building, and a 6,700-square-foot office building.

Because of their job responsibilities, some CPS Energy personnel receive OSHA Hazardous Waste Operations and Emergency Response Standard (HAZWOPER) training or Department of Transportation (DOT) 126-F Hazardous Materials training.

Number of employees covered by structured safety program:

- Gas: 200
- Electric delivery services: 1,300
- Energy development/fossil generation: 719
- Corporate: About 1,300

NUMBER OF EMPLOYEES WITH HAZARDOUS MATERIAL TRAINING

Year	40-Hour HAZWOPER Training	8-Hour HAZWOPER Refresher	DOT 126 Hazardous Materials
2006	46	182	20
2007	-	206	23
2008	15	211	25
2009	-	275	34

Ethics Program

CPS Energy is committed to conducting business in an ethical manner. Maintaining trustworthy relationships with our customers, our community, and each other ensures that we provide long-lasting superior service. Therefore, every employee is expected to make a personal commitment to the highest ethical standards. Promoting personal accountability ensures that we are all concerned about the future integrity of

the company. The Ethics Program supports employees in maintaining high ethical standards by providing training on ethics-related issues, offering advice for ethical dilemmas, and investigating allegations of wrongdoing.

The mission of the Ethics Program is to foster a culture of integrity grounded in honesty, trust, loyalty, open communication, good judgment, and personal accountability.

Although employees are encouraged to discuss their concerns with their supervisor, the Ethics Program provides additional resources to ensure that allegations are addressed in a timely and appropriate manner. Employees may bring their concerns directly to the Ethics Department or call the CPS Energy Hotline at 1-888-255-8144, which allows for anonymous reporting by both employees and the public.

Performance Reviews

Just as CPS Energy values open communication with our external stakeholders, we also make internal feedback a high priority. One key tool is performance reviews.

CPS Energy's Performance Management System establishes a process that develops and emphasizes facilitative leadership and engages all employees in actively working toward key shared organizational and business unit strategies and objectives. The process is designed to provide for continual 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 is actively engaged in comprehensive Workforce Development and Succession Planning processes to promote wider development opportunity for all 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 in the organization are always staffed by employees who have the capacity to keep the company operating at its highest level of productivity.

The Big Audacious Goal

As part of our Vision 2020 goals, we've set out to be No. 1 in customer satisfaction and a great place to work. This is known as the Big Audacious Goal.

Customer Satisfaction

- By 2010 we will be No. 1 in a nationally recognized customer satisfaction survey such as the J.D. Power Residential Electric Customer Satisfaction Survey and remain in the top five overall ranking through 2020 and thereafter.
- As a means of ensuring high customer satisfaction ratings in the national survey, we will achieve continuous improvement in the overall ServQual™ score.

Great Place to Work (Living Our Core Values)

The Great Place to Work Survey is a corporate-wide initiative to improve the way CPS Energy employees live our core values. The intent of the survey is to identify areas in which CPS Energy can improve the culture by adhering to our core values.

History: In 2004 a group of CPS employees called the Jupiter Team was charged with coordinating and composing a list of CPS Core Values following participation and feedback by 100% of the workforce at CPS Energy. The CPS Energy Core Values were defined as:

- Customer commitment
- Performance
- Respect
- Safety
- Teamwork
- Trust

The survey was administered to the entire workforce from 2005 through 2008. Initially, in year 2, the overall scores improved; however, in years three and four, 2007 and 2008, respectively, the scores declined.

Interestingly, a new question was added to the 2008 questionnaire: "Would you recommend CPS Energy as a great place to work?" The question asked for a yes or no reply. Overall 73% of the responses were positive and appear to reflect that a majority of CPS Energy employees would recommend CPS Energy as a great place to work. The high score on this question seemed to depart from the declining scores.

Another significant event following the 2008 survey is that, for the first time, CPS Energy undertook a corporate-wide initiative to act on the survey results. All employees had the opportunity to attend one of the 66 report-out sessions conducted by leadership to share the results from the 2008 Great Place to Work Survey for their area.

This past summer, 22 teams worked to establish a response plan to address the issues in each area. Each team focused on implementing two improvements based on their specific business area's core value scores. The manager-led survey result report-outs and the response teams were major steps in addressing employee issues and making their concerns a priority.

Current status: At the direction of the senior management team, CPS Energy did not administer the Great Place to Work Survey in 2009. This decision was based on both budgetary constraints and allowing time for improvements to be made to the survey instrument.

CPS Energy issued an RFP in the fall of 2009 for a new employee survey vendor. A cross-functional team reviewed the proposals, interviewed a selected group of potential vendors, and made a selection. The contract with the new vendor was signed in early 2010. We will work with the new vendor on redesign of the survey and timing for administration in 2010.

Labor Representation / Unions

CPS Energy currently recognizes the International Brotherhood of Electrical Workers (IBEW) and National Association of Public Employees (NAPE) unions, and 38% of our workforce is unionized. We do not have a formal working-conditions contract with our unions.

Employee Organizations

HOPE

Hispanic Organization for Public Employees (HOPE), the first CPS Energy networking group, was formed on November 6, 2003. HOPE is a common interest, nonprofit, and nonpartisan organization committed to supporting present and future corporate objectives and to helping with advancement of Hispanics at CPS Energy and in the community it serves. The group is open to active and retired CPS Energy employees. HOPE meets monthly and sponsors career mobility workshops, educational speakers, diversity training seminars, a newsletter, scholarships, recommendations to management on diversity gaps, career days, and sponsorship of educational opportunities, as well as joint meetings and events with external Hispanic organizations. Since its inception, HOPE has raised \$28,000 in college scholarships for local San Antonio youth.

Events:

- Cesar Chavez March
- "Dancing with the Executives" fundraiser for CPS Energy Residential Energy Assistance Partnership (REAP) — donated \$4,200
- "Synergy" mixer sponsored by the Hispanic Chamber of Commerce and Urban Manager Assistants of South Texas (UMAST)
- Annual Tribute to Hispanic Heritage Banquet (scholarship fundraiser) in conjunction with CPS Energy Hispanic Heritage Campaign
- "HOPE Begins with YOU" membership drive



Recipients of the African American Culture Club's 2010 Scholarships

African American Culture Club (AACC)

AACC's purpose is to establish a common interest, nonprofit, and nonpartisan organization committed to supporting present and future corporate objectives and assisting in the development and advancement of African Americans at CPS Energy, while establishing an active and visible presence in the community. In addition, the group provides a culturally diverse and supportive environment for employees, and it mentors young people so that they are better prepared to excel.

African American Culture Club events:

- Walk-a-thon fundraiser
- Bar-b-que fundraiser
- CPS Amazing Energy Ad Campaign Banquet and Silent Auction
- Mix and Mingle membership drive
- \$500 donation to the Back to School Uniform Charity
- Donating to various scholarships

Other CPS Energy employee clubs include:

- Amistad Club
- Better Service Club
- Eastside Club
- Goodfellowship Club
- Kilowatt Club
- Livewire Club
- Mission Road Club
- Northside Club
- Public Service Golf Association
- Retirees Association
- Southside Sportsman Club



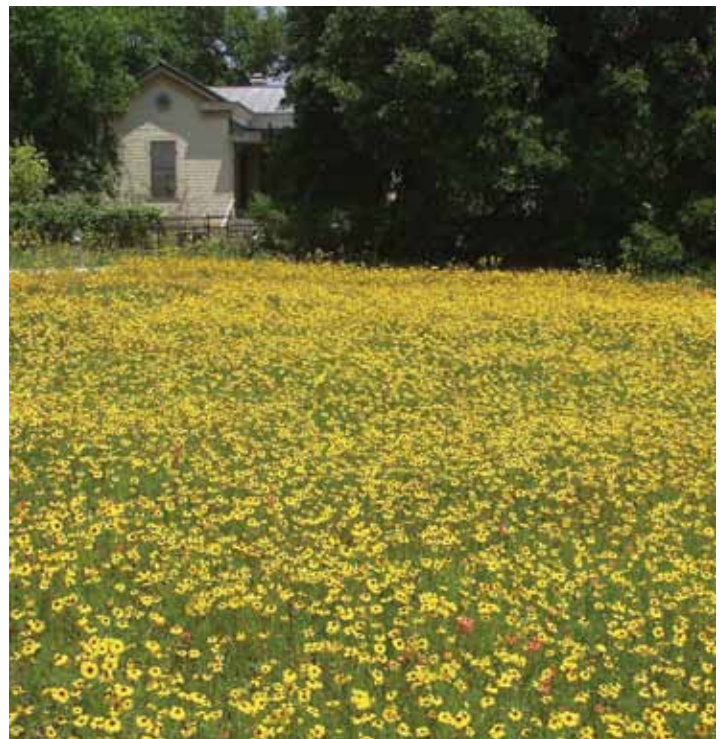


Sunset at Calaveras Lake

This Sustainability Report is not simply a document summarizing our commitment to sustainability in the San Antonio area. We at CPS Energy see this report as the beginning of much more to come, and the first step in our commitment to continued communication and action to improve the sustainability of our organization to benefit all of our stakeholders. We are not focused on the past, but on the future. We intend to use this as our biennial progress report to the public. Our sustainability program is a living, breathing program that will change the way we do business.

On page 16, you will find a summary of our focus issues, goals, actions, and challenges. Think of this as a road map to where we are going over the next two years.

We are excited that you have taken the time to review this report, and we are very interested in your input. The CPS Energy sustainability program isn't about us; it's about improving our performance and modifying our behavior in order to contribute to an economically strong, socially just, and environmentally sound San Antonio, for our children and their children.



Sweetwater 4 Wind Farm

Indicator	Description	Report Section(s)	Page(s)
STRATEGY AND ANALYSIS (2)			
1.1	Relevance statement	Letter from the CEO and CSO	4-5
1.2	Key impacts, risks, and opportunities	What's Our Motivation?	11-13
ORGANIZATIONAL PROFILE (10)			
2.1	Organization name	Who is CPS Energy?	25
2.2	Brands, products, services	Who is CPS Energy?	25
2.3	Operational structure	Who is CPS Energy?	27
2.4	Headquarters location	Who is CPS Energy?	25
2.5	Operational countries	Who is CPS Energy?	25
2.6	Ownership	Who is CPS Energy?	25
2.7	Markets served	Who is CPS Energy?	27-28
2.8	Size of organization	Who is CPS Energy?	25
2.9	Significant changes in size, structure, or ownership	Who is CPS Energy?	27
2.10	Awards received in the reporting period	Who is CPS Energy?	27
REPORT PARAMETERS (9)			
3.1	Reporting period	Why Now?	7
3.2	Date of most recent previous report	Why Now?	7
3.3	Reporting cycle	Why Now?	7
3.4	Contact point for questions regarding the report	Why Now?	8
3.5	Process for defining report content	Why Now?	7-8
3.6	Boundary of the report	Why Now?	7-8
3.7	Specific limitations on scope or boundary of the report	Why Now?	7-8
3.9	Data measurement techniques and the basis of calculations	Why Now?	7-8
3.11	Significant scope, boundary, or measurement changes from previous period	Why Now?	7
GRI CONTENT INDEX (1)			
3.12	Table identifying location of standard disclosures	GRI Indicator Checklist	88-91
GOVERNANCE (5)			
4.1	Governance structure of the organization	Who is CPS Energy?	27
4.2	Indication of whether the chair of the highest governance body is also an executive officer	Who is CPS Energy?	27
4.3	Independence of the Executive Board	Who is CPS Energy?	27
4.14	Stakeholder groups engaged by the organization	Why Now?	7
4.15	Identification and selection of stakeholders	Why Now?	7

Indicator	Description	Report Section(s)	Page(s)
ECONOMIC (5)			
EC1	Direct economic value generated and distributed	Financial Integrity	75-56
EC2	Financial implications due to climate change	Carbon Constraints and the Environment	60
EC3	Coverage of benefit plan obligations	Employee Relationships	82-83
EC6	Policy, practices, and proportions of spending on locally based suppliers	Financial Integrity	77-79
EC9	Understanding and describing significant indirect economic impacts	Financial Integrity	79
ENVIRONMENTAL (16)			
EN3	Direct energy consumption by primary energy source	Carbon Constraints and the Environment	60-67
EN4	Indirect energy consumption by primary energy source	Carbon Constraints and the Environment	66
EN5	Energy saved due to conservation and efficiency improvements	Customer Relationships	47
EN6	Initiatives to provide energy efficient or renewable products and services	Customer Relationships	42-48
EN7	Initiatives to reduce indirect energy consumption, and reductions achieved	Carbon Constraints and the Environment	66-68
EN8	Total water withdrawal by source	Carbon Constraints and the Environment	72
EN9	Water sources significantly affected by withdrawal of water	Carbon Constraints and the Environment	70-72
EN10	Percentage and total volume of water recycled and reused	Carbon Constraints and the Environment	72
EN13	Habitats protected or restored	Carbon Constraints and the Environment	72-73
EN16	Total direct and indirect greenhouse gas emissions by weight	Carbon Constraints and the Environment	60-65
EN17	Other relevant indirect greenhouse gas emissions by weight	Carbon Constraints and the Environment	68
EN18	Initiatives to reduce greenhouse gas emissions, and reductions achieved	Carbon Constraints and the Environment	62-68
EN20	NO _x , SO _x , and other significant air emissions	Carbon Constraints and the Environment	57-59
EN22	Total weight of waste by type and disposal method	Carbon Constraints and the Environment	68-70
EN25	Water bodies and related habitat significantly affected by discharges of water and runoff	Carbon Constraints and the Environment	70-72
EN29	Environmental impacts of transporting products	Carbon Constraints and the Environment	65-67

Indicator	Description	Report Section(s)	Page(s)
SOCIETY (1)			
SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	External Stakeholders	35-39
ELECTRIC UTILITY (16)			
EU1	Installed capacity, broken down by primary energy source and by regulatory regime	Who is CPS Energy?	29
EU2	Net energy output broken down by primary energy source and by regulatory regime	Who is CPS Energy?	29
EU3	Number of residential, industrial, institutional, and commercial customer accounts	Who is CPS Energy?	28
EU4	Length of above- and underground transmission and distribution lines by regulatory regime	Who is CPS Energy?	32
EU6	Management approach to ensure short- and long-term electricity availability and reliability	Who is CPS Energy?	33
EU7	Demand-side management programs	Customer Relationships	42-47
EU8	Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development	Technology and Innovation	53-55
EU10	Planned capacity against projected electricity demand over the long term, broken down by energy source and regulatory regime	Who is CPS Energy?	30
EU14	Programs and processes to ensure the availability of a skilled workforce	Employee Relationships	81-84
EU19	Stakeholder participation in the decision-making process related to energy planning and infrastructure development	External Stakeholders	35
EU21	Contingency planning measures, disaster/emergency management plan and training programs, and recovery/restoration plans	Who is CPS Energy?	33
EU23	Programs, including those in partnership with government, to improve or maintain access to electricity and customer support services	Customer Relationships	41, 49-51
EU24	Practices to address language, cultural, low literacy and disability related barriers to accessing and safely using electricity and customer support services	Customer Relationships	41
EU28	Power outage frequency	Who is CPS Energy?	33
EU29	Average power outage duration	Who is CPS Energy?	33
EU30	Average plant availability factor by energy source and by regulatory regime	Who is CPS Energy?	29

Indicator	Description	Report Section(s)	Page(s)
PRODUCT RESPONSIBILITY (1)			
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Customer Relationships, Employee Relationships	41, 84
HUMAN RIGHTS (1)			
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	Employee Relationships	85
LABOR (3)			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	Employee Relationships	81-82
LA10	Average hours of training per year per employee by employee category	Employee Relationships	83
LA12	Percentage of employees receiving regular performance and career development reviews	Employee Relationships	84

