

POWER

//////////////////// OUR //////////////////////

FUTURE

PERFORMANCE, PLANET & PEOPLE

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POWER OUR FUTURE

PERFORMANCE, PLANET & PEOPLE

As a municipal utility, commitment to our customers, community and environment is part of CPS Energy's DNA. Long before sustainability was the term to define processes that ensure long-term health and well-being of company and community, our employees were planning for the future. Over the years, we've adapted and responded to changes in society, the economy and our environment. And more recently, we've implemented a strategy to reduce emissions and to embrace the disruptive technologies that are bringing rapid change to the energy industry.

We're ahead of schedule in securing 1,500 megawatts of renewable capacity by 2020 and on track to reduce our 2020-projected peak demand by 771 megawatts through a variety of efficiency programs. South Texas continues to experience economic growth, with San Antonio regularly acknowledged to be one of the fastest-growing cities in America. Thanks to businesses and families relocating here, our community is being recognized nationally as a vibrant place to live, learn and work.

More than ever, we are fulfilling our critical role to uplift our community: we're engaged in the health and education of our present and future workforce. We're committed to preserving our natural resources and to establishing Greater San Antonio as a hub for a new energy economy. To do that, we have leveraged our purchasing power to attract clean technology companies to our community that are bringing new jobs and educational investments with them. The long-term viability of our community is at the center of our consciousness and our strategic planning.

Given our progress over the past three years, we are optimistic about the future of our company and community. We will continue to be challenged. And with the dedication and enthusiasm of more than 3,300 employees, we will continue our legacy of service. We've been honored by industry and environmental leaders like the Solar Electric Power Association for increasing our photovoltaic capacity; by the State of Texas Alliance for Recycling; by the Environmental Defense Fund for our reduced-emissions strategy; by Texas A&M Forest Service for our commitment to the environment; and by the United Way for the financial and volunteerism commitments of our employees.

While recognition from these organizations confirms that our past three years have been one of the most successful periods in our history, our work is far from complete. We continue to improve our performance and do the right things to ensure our customers, we work for you.

DOYLE N. BENEBY
PRESIDENT & CHIEF EXECUTIVE OFFICER



ABOUT THIS REPORT

This 2011-2013 sustainability report is CPS Energy's second formal update on the relevant issues and what we are doing to address them. It focuses on many of the initiatives we established years ago to support our community and reduce our environmental impact while continuing to provide affordable, reliable energy. These efforts include adopting new technologies that enhance grid management and improve efficient energy use as well as operating the business strategically and conscientiously to assure its long-term viability.

Many of our initiatives, years in the making, were implemented in the past three years and were big news for the industry and our community. As such, this report provides insight to the strategic planning efforts that lead to newsworthy results.

In addition to reviewing the major highlights, this report also illustrates the vast array of lower profile actions and activities that make the whole sustainability effort larger than the sum of its parts. Many of these initiatives involve our engagement with our stakeholders including our owners – the City of San Antonio, our customers, partners, employees, and community members. Other actions, such as our commitment to ethics and transparency, are at the core of what we do every day. Our system of checks and balances is a key element of our business structure and critical to long-term sustainability.

This report highlights the progress we've made toward achieving our goals, as well as the overall philosophy that guides our vision. Our overall plan and progress report are up front to provide a high-level overview. The body of the report is organized by social, environmental, and economic impact or, more definitively, issues that affect:

PERFORMANCE:

The interaction and relationships between corporate governance, public policy, and corporate action to support the development and prosperity of our community.

PLANET:

Critical environmental issues including water, air quality, and climate as well as other natural resources and how CPS Energy manages its environmental footprint.

PEOPLE:

CPS Energy's customers, employees, communities, and stakeholders – including their value to CPS Energy as well as how the company supports these relationships and entities.

We hope that this report provides information and insight into the sustainability challenges facing CPS Energy, our community, and our world.

*CRIS EUGSTER
EXECUTIVE VICE PRESIDENT AND
CHIEF GENERATION & STRATEGY OFFICER*



SECTION 1

PERFORMANCE

COMPANY OVERVIEW

CPS Energy is the nation's largest municipally owned gas and electric utility, serving approximately 757,000 electric customers and approximately 334,000 natural gas customers in San Antonio and the surrounding areas. Our 1,515 square miles of service area includes Bexar County and portions of Atascosa, Bandera, Comal, Guadalupe, Kendall, Medina, and Wilson counties.

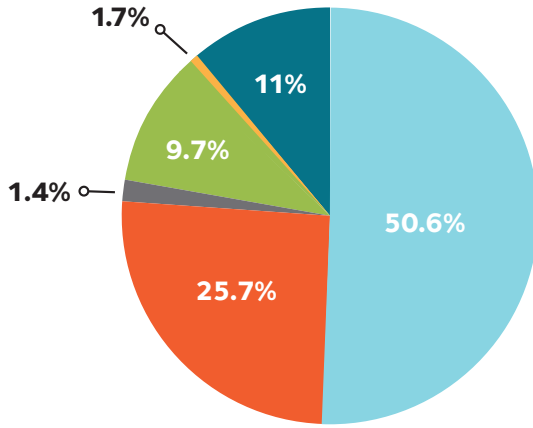
The City of San Antonio acquired CPS Energy in 1942. As the municipally owned utility, CPS Energy contributes 14 percent of its gross revenues to the city's general fund each year. Our total revenue for Fiscal Year 2014 was more than \$2.46 billion, with payment to the City of approximately \$317.5 million.

These payments to the City of San Antonio represent approximately 30 percent of the City's annual operating budget, supporting services such as public safety, libraries, parks, and roads.

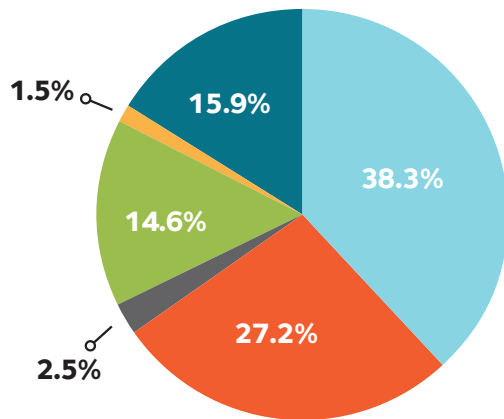
In the summer of 2013, Standard & Poor's, Moody's and Fitch reaffirmed CPS Energy's senior lien bond credit ratings at AA, Aa1 & AA+, respectively, which are the highest of any combined electric and gas municipal utility in the country.



GENERATION 2011



PROJECTED GENERATION 2020*



Our 3,300+ employees regularly volunteer their time, serving the community and contributing to the United Way Campaign. The 2013 United Way contributions from employees and retirees totaled \$983,018.

To the benefit of our customers, our residential electric and gas rates are the lowest among the nation's 10 largest cities. The average CPS Energy bill is about \$144.19, while those in San Diego, CA pay the most at \$325.27.

One of our key strategies is diversifying our generation portfolio. By 2020, we plan to have at least 20 percent of our energy from renewable sources like wind and solar.

The U.S. Department of Energy recognized our commitment to securing energy from renewable sources with the 2011 Public Power Wind Award for leadership in promoting wind energy. We are the nation's largest municipal buyer of wind energy.

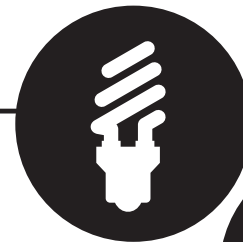
In September 2012, the nonprofit Solar Electric Power Association (SEPA) named Doyle Beneby its Utility CEO of the Year for his leadership in supporting solar energy. SEPA emphasized the integration of solar power into our energy portfolio through a cutting edge mega solar and economic development deal with OCI Solar Power. CPS Energy is the first municipal utility to ever receive this award.

ELECTRIC SYSTEM

OVERHEAD LINES
7,744 MILES

UNDERGROUND LINES
4,915 MILES

TRANSMISSION LINES
1,508 MILES



GAS SYSTEM

DISTRIBUTION LINES
5,210 MILES

TRANSMISSION LINES
89 MILES

*BASED ON FISCAL YEAR FEBRUARY 1, 2013 - JANUARY 31, 2014

KEY MATERIAL ISSUES FOR CPS ENERGY AND STAKEHOLDERS

Our stakeholders – groups and individuals who have a vested interest in how we operate as a business and function in the community – are a critical component in our decision-making processes and our commitment to sustainability.

These stakeholders include customers, employees, local and state governments (most important the City of San Antonio), bondholders, suppliers, community groups, and nongovernmental organizations (NGOs) such as the Sierra Club. To

maintain these key relationships and facilitate collaboration, we communicate with stakeholders regularly through our website, social media, newsletters, mailings, traditional media, and community meetings.

In 1997, we established the Citizens Advisory Committee (CAC) to provide the community with a direct communication channel to senior management and the Board of Trustees for CPS Energy.

During 2011, 2012 and 2013, the CAC

discussed sustainability related topics such as planning for the region's future energy needs, health impacts associated with air emissions, and changes in environmental regulations that may affect our operations.

More information on the CAC is available at www.cpsenergy.com (search "CAC").

THIS REPORT ADDRESSES THE FOLLOWING KEY ISSUES THAT WE HAVE IDENTIFIED AS MOST IMPORTANT TO CPS ENERGY AND OUR STAKEHOLDERS:

- *Employee safety*
- *Community needs*
- *Customer service and reliability*
- *Energy efficiency*
- *Emissions reduction of generation fleet*
- *Water conservation*
- *Financial stability and integrity*
- *Technology and innovation investments*
- *Education*
- *Local spending and economic impact*

THE CASE FOR CHANGE: VISION 2020 ASPIRATIONS

**WE HOPE TO
REDUCE ENERGY
NEEDS BY 771 MW
—THE EQUIVALENT
OF A LARGE POWER
PLANT—BY 2020.**

Americans are trying to adopt more sustainable practices by changing the way we live. Despite improved technology resulting in energy efficient appliances and energy-saving design standards, the daily average energy use remains virtually unchanged.

Most families have more than one TV, multiple cell phones, and laptops to charge; and larger homes to keep cool during hot Texas summers. Many existing homes

are not effectively weatherized and many older buildings are not energy efficient.

The population will continue to grow and the demand for energy will continue to increase. Sustainable energy development is essential to meet this growing demand.

Sustainable energy development uses resources in such a way that we meet our current needs without compromising the ability of future generations to meet theirs.

We developed Vision 2020, our long-range strategic plan, to focus on our transition from traditionally sourced power to diverse sources of generation while maintaining affordable electricity. Our goals under this plan include achieving energy savings from energy efficiency initiatives, adding renewable energy capacity, and engaging our customers to use energy wisely.

Our renewable goal by 2020 is to increase our renewable capacity portfolio to 1500 MW, or approximately 20 percent of our generating capacity. As of December 2013, renewables accounted for 14.5% of generating capacity



Through our Save for Tomorrow Energy Plan (STEP), which provides customer rebates, programs and services to attain greater efficiency and conservation, we expect to reduce energy needs by 771 MW—the equivalent of a large power plant—by 2020. The result will be lower energy bills for customers from reduced energy use, and cost protection associated with environmental and technological issues, as well as a potential rise in fuel prices.

Many of these changes will also help meet requirements from emission-reduction legislation. Reducing our carbon footprint will require a multilevel focus on energy efficiency, new generation technologies, renewable energy sources, gas peaking units, and nuclear energy. Under Vision 2020 and our commitment to building the New Energy Economy, we look forward to discovering new techniques to be as sustainable as possible while helping others do the same.

We also support the City of San Antonio's strategic plan, SA2020, that lays out a vision for the city's future by 2020 and the actions required to get there. CPS Energy is an active participant in the process, serving as a leader in technology innovation and providing valuable economic development, as well as reducing the city's water and electricity usage. More information about SA2020 can be found at www.sa2020.org.



WE LOOK FORWARD TO DISCOVERING NEW TECHNIQUES TO BE AS SUSTAINABLE AS POSSIBLE WHILE HELPING OTHERS DO THE SAME.

DIVERSIFICATION AND INNOVATION

CPS Energy was already a state and national leader in the use of wind energy, and in 2013, we greatly expanded our renewable energy generation portfolio. As of the end of 2013, we have 1,517 MW of renewable energy under contract, of which 1,154 MW is operational.

In July 2012, CPS Energy signed a contract with OCI Solar Power to purchase 400 MW of clean solar power, from several solar plants to be constructed across the state in stages. The first stage is comprised of three solar projects, with the first one at 41 MW, achieving commercial operation in December 2013. The second project is just over 4 MW and went online in the spring of 2014. The third project at around 5 MW is scheduled for commercial operation by the end of 2014.

The second stage is a solar project of 40 MW to be built within 120 miles of CPS Energy's service area and is scheduled for commercial operation in the fall of 2014. The remaining three solar stages, representing up to 315 MW, are projected to be online by

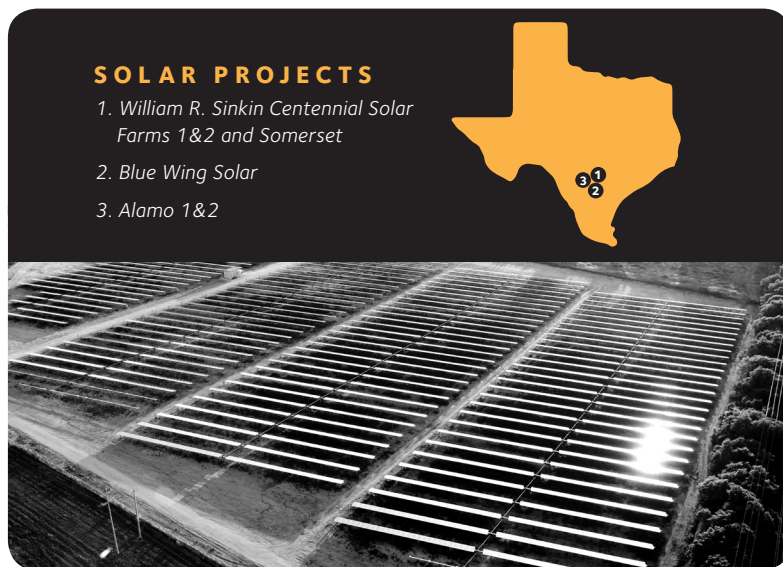
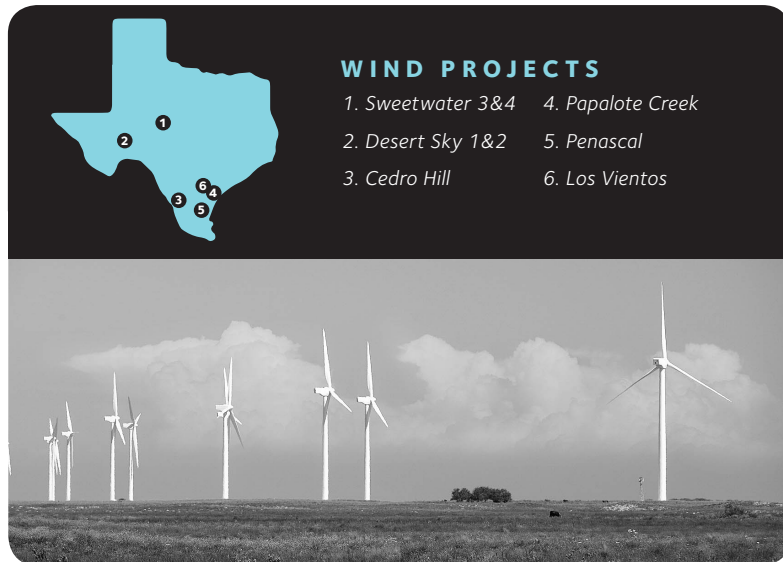
2017. CPS Energy has agreed to buy all of OCI's power for the duration of the 25-year contract. The agreement catapults Texas into the top five U.S. solar producing states.

This latest investment in solar energy adds to the 14 MW of solar energy CPS Energy purchases from the Blue Wing Solar project through a 30 year contract, and the 30 MW of solar generated energy from three new solar farms. The Blue Wing plant went into commercial operation in November 2010. The three newest solar farms began operating in Bexar County during the summer of 2012. Two of the three new plants - the William R. Sinkin Centennial Solar Farms 1 and 2 - are both located at the San Antonio Water System Dos Rios Water Recycling Center. The third - Somerset Solar Farm - is located in southwest Bexar County. CPS Energy will buy the energy produced by these three solar farms for 25 years.

CPS Energy contracted with its first wind farm - Desert Sky - in 2000. Since that time, we have established several additional



AS OF THE END OF 2013, WE HAVE 1,517 MW OF RENEWABLE ENERGY UNDER CONTRACT.



contracts with wind energy providers. In 2011, we secured our eighth wind energy power source when we signed a long-term contract to purchase 200 MW of electricity from the Los Vientos I Windpower Project, in Willacy County just north of Harlingen, Texas. Built and owned by Duke Energy Renewables, the project began commercial operation in December 2012. We purchase all of the electric output and associated energy credits from the facility.

With this new agreement, our total wind-generated capacity has reached 1,059 MW from eight West Texas and Texas coastal wind farms. CPS Energy is the nation's largest municipal buyer of wind energy and was recognized by the U.S. Department of Energy in 2011 with the Public Power Wind Award for promoting wind energy development.

CPS Energy purchased Rio Nogales, a natural gas combined-cycle plant in Seguin in April 2012 rather than spending money to upgrade one of our older generating coal plants. Generation from Rio Nogales will replace our two aging, coal-fired Deely units, which will be deactivated in 2018—15 years earlier than expected. The 800 MW, 10-year-old Rio Nogales plant diversifies our portfolio while reducing risk. Improved air quality is expected, as the plant will not produce any sulfur dioxide, mercury, or particulate matter emissions. Rio Nogales will also help support the local economy by taking advantage of the abundant natural gas resources in Texas. Additionally, compared to the Deely Power Plant, Rio Nogales will use about half the amount of water, emit half the amount of carbon dioxide and one-third the amount of ozone-forming nitrogen oxide emissions.

Since nuclear plants continue to have the lowest marginal operation costs compared to fossil fuel electrical generation and no carbon

dioxide emissions, nuclear energy will remain in our portfolio to serve our base load needs. We own a 40 percent share of the South Texas Project (STP) Electric Generating Station. This two-unit nuclear facility—one of the nation's largest—produced more energy than any other two-unit nuclear plant in the country between 2004 and 2011.

In 2013, STP Unit 1 ranked #2 of 100 reactors in the U.S. and #7 of 425 reactors worldwide in the amount of electricity produced. STP Unit 2 ranked #68 in the U.S. and #152 in the world.

Additionally, the plant is a consistent leader in our commitment to safety. Regarding personal safety, STP's Total Industrial Safety Accident rate has consistently ranked high compared to all U.S. nuclear plants. It was named as one of 12 companies in EHS Today's 2010 list of America's Safest Companies, becoming the first nuclear facility to receive this award.

We also have a 7.625 percent ownership stake (representing about 200 MW) in the planned expansion of STP Units 3 and 4. Nuclear Innovation North America (NINA) retained a 92.375 percent ownership interest in the project and continues to actively pursue a combined construction and operating license for STP Units 3 and 4.

In December 2011, Summit Power of Seattle had been contracted to provide CPS Energy with 200 MW of clean coal power from a first-of-its-kind power plant, located near Midland-Odessa, Texas. The facility would use carbon capture technology to capture more than 90 percent of its carbon dioxide emissions, 99 percent of mercury and sulfur emissions, and 90 percent of nitrogen oxides. The contract expired unfulfilled in December 2013; however, there may be opportunities to renegotiate in the future.

**IN 2013, STP UNIT 1
RANKED #2 IN THE
U.S. FOR AMOUNT
OF ELECTRICITY
PRODUCED.**



ECONOMIC SUSTAINABILITY:

POWERING SAN ANTONIO INTO THE NEW ENERGY ECONOMY

ATTRACTING CLEAN TECHNOLOGY COMPANIES

As a municipally owned company, CPS Energy has a vital role in the prosperity of the Greater San Antonio Area. We provide fourteen percent of our gross revenues directly to the City of San Antonio to be used for funding libraries, parks, roads, and other services and infrastructure. In FY 2014, this amount totaled more than \$317.5 million.

Additionally, we work to boost the local economy by partnering with other organizations and influencing clean energy companies to call San Antonio home, leveraging our buying power during negotiations. From 2011 to 2013, CPS Energy partnered with six clean energy companies, four—Consert Inc., GreenStar, OCI Solar, and Mission Solar Energy (formerly Nexolon America LLC)—have moved their headquarters here.

Details on how these companies have already contributed to improving San Antonio follow.



Consert, a home area network (HAN) provider, is currently employing close to 60 employees in San Antonio on their way to a projected 140 professional and technical jobs by 2017. The company's technology works to provide real-time energy use information and to allow aggregation for demand response. In 2010, we launched a pilot program with Consert for 1,000 customers to start measuring electrical

demand. Consert predicts the program will cut our energy demand by 205 MW if fully deployed. Currently, we have completed 20,000 installations and are able to offer the program to up to 140,000 residential and commercial customers. Consert was acquired by Toshiba Corporation in 2013.



GreenStar, a global supplier of LED lighting, relocated its headquarters to San Antonio in 2011 and grew its staff to more than 40 in 2012. The company is working with us to install 25,000 LED streetlights across the city over the next several years. The LED bulbs will save us energy since each one uses about 60 percent less energy than standard sodium lights. To further boost the economy, GreenStar contributed \$10 from every LED bulb manufactured for CPS Energy to local education initiatives focusing on energy efficiency and renewable energy technology for a total of \$250,000.



OCI Solar Power will provide the city 400 MW of solar energy and its consortium anchor partner, Mission Solar Energy (previously known as Nexolon America LLC), is building a \$100 million manufacturing plant on the city's South Side.

Together, these two companies will create 805 jobs paying an average salary of

FROM 2011 TO 2013, CPS ENERGY PARTNERED WITH SIX CLEAN ENERGY COMPANIES - FOUR HAVE MOVED THEIR HEADQUARTERS HERE.



\$47,000. OCI Solar Power will also be moving its headquarters to the city while Mission Solar Energy is building its North American headquarters here. The 400 MW are expected to be located on seven sites around the state. When completed, the solar farms will provide enough electricity to power about 70,000 households, or about 10 percent of our customers. The OCI Solar Power consortium is expected to have an economic impact of roughly \$1.3 billion per year in greater San Antonio, once all commitments are completed.



SunEdison, one of the largest U.S. solar energy service providers, has added 30 MW of new solar power to our generation portfolio at three sites in our service territory. CPS Energy will buy the energy produced by the SunEdison solar farms at fixed rates for 25 years. SunEdison contributed \$750,000 to various local education programs, including Alamo Area Academies, San Antonio and

Somerset ISD Foundations, KIPP Aspire Academy, UTSA, St. Mary's University, and the University of the Incarnate Word as a result of this solar transaction.



Silver Spring Networks is helping develop CPS Energy's Smart Grid Initiative, by upgrading infrastructure and building a two-way communication system that will increase reliability, give customers greater control over their energy use, reduce outage times, save money, better integrate renewable power into the grid, and improve the environment.



Landis+Gyr Technology, Inc. will be manufacturing over 700,000 smart electric meters with Silver Spring Networks' technology to further the Smart Grid Initiative.

SUPPORTING RESEARCH

CPS Energy has taken the stance that embracing distributed renewable energy is an opportunity to ensure the long-term growth and environmental sustainability of the communities that it serves. While the existing electric distribution and transmission grid served to reliably deliver electricity for decades, modern technology now facilitates complex management of variable electric flows from a variety of sources. Accordingly, we continue to collaborate with research and development partnerships and build new alliances that will drive and support development and commercialization of the technologies needed to make the highly interconnected, reliable and affordable energy grid a reality.

Our continued partnership with the UTSA Strategic Alliance has yielded rich data sets, innovative equipment and modeling tools that make planning for and managing broad deployment of distributed solar a more strategic and precise process. The Electric

Power Research Institute (EPRI) remains a key partner and we are engaged with them in assessing forecasting tools for both utility-scale and distributed solar with the goal of creating aggregated “solar assets” that can be deployed in much the same manner as central station, fossil-fueled generation assets.

In addition to our focus on distributed solar, we are exploring the opportunities afforded by other distributed power generation technologies such as fuel cells and highly-efficient natural gas generators in conjunction with fuel cell OEMs and the American Public Gas Association Research Foundation (APGARF), respectively.

Battery energy storage represents a game-changing technology for the utility industry and CPS Energy is working closely with several battery storage manufacturers to understand how these technologies can be integrated into our grid to extend

the benefits of solar generation, enable a potential laundry list of operational efficiencies, and increase grid reliability and customer resiliency in the event of significant, unforeseen disruptions. Southwest Research Institute possesses extensive knowledge and expertise in this realm, and continues to be a valued partner.

Transportation electrification remains a key strategy for CPS Energy. Our focus has expanded to include regional charging infrastructure as well as large fleet plays that could have multiple benefit streams for electric vehicle owners/operators as well as for CPS Energy and our customers as a whole. The UTSA Strategic Alliance continues to support this research work and we have engaged other internal and external resources in this effort.

Cutting-edge research is necessary to back all of our sustainability goals to ensure maximum performance and achievement.

EMISSION REDUCTIONS EQUIVALENT TO REMOVING MORE THAN ONE MILLION CARS FROM THE ROAD*

TECHNOLOGY	CO2 REDUCTIONS (TONS PER YEAR)	NOX REDUCTIONS (TONS PER YEAR)	SOX REDUCTIONS (TONS PER YEAR)	EQUIVALENT NUMBER OF CARS REMOVED
WIND	3,061,488	839	2,205	556,634
SHUT DOWN DEELY COAL UNITS	3,275,240	1,705	21,002	595,498
SAVE FOR TOMORROW ENERGY PLAN	704,744	269	104	128,135
SOLAR (UTILITY SCALE + ROOFTOP)	616,772	201	0	112,140
LED STREETLIGHTS	20,980	9	23	3,814
TOTALS	7,679,224	3,023	23,334	1,396,223

*Table is Projected Emissions Reduced by 2020 Resulting from Strategic Initiatives. The emissions reductions are calculated using expected MWhs from each new technology on an annual basis. The 7.7 million tons of CO2 reduction is expected annually in 2020 if all the new technologies move forward as planned. Wind is currently achieving a 3 million ton reduction in CO2 and is expected to continue into 2020 and beyond, so only 4.7 million tons are new emission reductions. The baseline year for these reductions is 2010.

SUPPORTING EDUCATION

CPS Energy provides internships for both high school and college students. We understand the value of skilled technical and academic education, and have programs for each.

Students Interested in Technical Education (SITE) is an education program and partnership between the Alamo Academies and CPS Energy. SITE is designed to focus on students interested in learning technical trades and other skills taught at the Alamo Academies. Last year, we had six students representing the Advanced Technology and Manufacturing Academy and the Information Technology and Security Academy. At the end of the internship, students receive a scholarship for \$2,500.

Student selection for SITE participation is based on the student's application, interview, and his or her ability to meet all criteria outlined in the Alamo Academies program participation guide. Students interested in interning at CPS Energy through SITE are required to be a participating student of Alamo Academies. Those interested in Alamo Academies should contact their school counselor or Alamo Academies at www.alamoacademies.com

High school juniors who are interested in pursuing a college degree in fields related to the energy industry can apply for an internship through our Student Assistance for Education (SAFE) Program. For 23 years, high school interns have gained practical work experience in fields they are interested in pursuing in college. After being paired with a professional in their chosen field, students are exposed to the real-work situations of that profession. Assignments and projects are assigned to broaden the students' knowledge of their future

career. Mentors provide work, career and college guidance and feedback. Students are also introduced to workplace ethics and protocols. At the end of the internship, students receive a \$5,000 scholarship.

Both programs benefit students, employees (who serve as mentors), CPS Energy, participating schools, and the community as a whole. Students obtain work experience at CPS Energy, scholarships, enhanced self-esteem, and a true picture of their chosen field of study.

Internships for high school and college students are a potential recruitment pathway and a means for providing community benefits. Initiated in 2009, our Corporate College Intern Program provides summer placements to students from local colleges. College interns gain practical work experience in areas such as engineering,

general business, information systems, accounting, finance, marketing, and other fields. After being paired with a mentor, students are provided with challenging work assignments, helpful guidance and feedback, a clear understanding of work goals and expectations, and real-work experience to improve marketability.

THROUGH OUR NEW ENERGY ECONOMY INITIATIVE, MORE THAN \$1.2 MILLION HAS BEEN INVESTED IN EDUCATION.



CPS ENERGY SAVERS

Our long-term energy efficiency and conservation plan to reduce energy consumption, STEP, relies heavily on customers taking proactive measures to reduce their energy consumption. Through this plan, residential and commercial customers take advantage of substantial rebates and programs that assist them in implementing sustainable energy efficiency and demand reduction measures.

Customer engagement in energy efficiency is particularly important because it accelerates our progress toward becoming a sustainable city. STEP aims at reducing the growth in our community's demand for electricity by 771 MW by 2020—the output of a large capacity power plant.

To achieve this ambitious goal, we are committing millions of dollars to incentives and rebates designed to encourage residents to purchase energy-efficient appliances, improve residential heating, ventilation and air conditioning systems as well as insulation, increase the use of programmable thermostats, expand lighting retrofits and other commercial programs, and more.

For years, reliability and affordability have made us a catalyst for economic development. Energy efficiency and conservation are spurring more business for local companies who provide new equipment and installation services for our rebate programs. Increased customer demand creates more green jobs and, coupled with the low cost of doing

WE HELPED CUSTOMERS SAVE 158,271 KW THROUGH OUR PROGRAMS

ENERGY EFFICIENCY PROGRAMS (FY 2014)*

PROGRAM	ENERGY SAVINGS (kWh)	PEAK DEMAND SAVINGS (kW)	NON-COINC. DEMAND SAVINGS (kW)
Home Efficiency	1,600,016	209	479
Residential HVAC	11,290,482	3,279	4,099
Residential Solar	5,292,733	2,747	2,747
Air Flow Performance	461,797	265	265
New Homes Construction	9,137,801	1,969	1,969
Refrigerator Recycling	492,521	45	57
Weatherization	11,603,145	3,674	5,969
Residential Subtotal	39,878,495	12,188	15,585
Commercial Lighting	25,501,204	5,934	6,406
Commercial HVAC	5,747,478	4,230	5,386
Commercial Solar	3,683,857	2,110	2,110
Commercial New Construction	5,001,811	861	861
Commercial Custom	7,072,068	318	318
Commercial Subtotal	47,006,418	13,453	15,081
ENERGY EFFICIENCY TOTAL	86,884,913	25,641	30,666

DEMAND RESPONSE/LOAD CONTROL PROGRAMS

Smart Thermostat	1,028,788	36,688	36,688
Commercial Demand Response	2,430,507	66,802	66,802
Home Manager	181,394	24,115	24,115
DEMAND RESPONSE TOTAL	3,640,689	127,605	127,605

business here, encourages new green manufacturers to locate in San Antonio.

Through STEP, 14,790 residential rebates were paid to CPS Energy customers and about two percent were repeat rebate recipients, from February 2013 to January 2014. These numbers exclude the Smart Thermostat program, which includes 80,688 customers. Of the 588 rebates

allocated to commercial programs, about 92 percent were new customers and 8 percent were repeat customers. STEP has helped the city avoid 53,597 tons of carbon dioxide emissions in FY 2014.

To learn more about the program, visit cpsenergysavers.com.

*The table reflects preliminary figures for FY 2014. The figures are in the process of being vetted by CPS Energy and the City of San Antonio.

ENERGY SAVERS REBATES AND INCENTIVES

Through our Energy Savers Program, we offer generous rebates and incentives to help residential and commercial customers reduce their energy usage when they make qualified energy-saving improvements to their home or business. By taking advantage of the following incentives, our customers help to conserve energy, the environment, and their hard-earned money.



HELPING OUR CUSTOMERS SAVE

- **Air Conditioner Rebates:** Rebates for central air conditioning systems and central heat pump systems based on SEER rating of 15.0 and greater and an EER 12. We also rebate ENERGY STAR® certified window air conditioners.
- **Refrigerator Recycling Rebates:** CPS Energy offers \$65 to recycle old refrigerators or freezers. If the recycled unit is replaced with an ENERGY STAR® model, we will rebate another \$35.
- **New Construction Rebates:** Incentives for builders and contractors who design and build new homes that exceed new building codes for energy efficiency.
- **Air Flow Performance Rebates:** Rebates for replacement of existing ductwork.
- **Attic insulation rebates:** We offer three attic insulation rebates including spray foam attic insulation, do-it-yourself attic insulation, and general attic insulation.
- **Solar Energy Programs:** We offer two rebates, one for the installation of photovoltaic (PV) systems and another for the installation of a solar water heater.



COMMERCIAL REBATES

- **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 percent of a business' energy consumption. Major reductions in energy use can be realized by installing efficient lighting technologies
- **HVAC Program:** Typically, air conditioning and heating are responsible for the largest portion of a business' energy bill. Rebates are available for HVAC units, chillers, and package terminal air conditioner and heat pumps.
- **Lean Clean Energy:** As the first utility in the nation to implement this program, we partnered with the Texas Manufacturing Assistance Center (TMAC) of Southwest Research Institute (SwRI) to provide training, resources and tools to implement energy-efficiency changes that increased profitability through verified energy-reducing measures. With the support from the Department of Energy (DOE) and EPA, the program helps mid-size manufacturers implement an energy-efficiency program.
- **Custom Measures:** We also provide a platform for custom incentives for cost-effective energy efficiency measures not addressed by our other program offerings. Program participants submit an application for a quantity of kW and/or kWh reduction through the installation of energy efficiency measures.
- **Commercial Demand Response:** Our voluntary Commercial Demand Response Program pays 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.
- **Solar Energy Programs:** We offer rebates for the installation of photovoltaic (PV) systems.

OTHER PROGRAMS

Cutting down on energy use can be tough if you don't know where to start, so we offer additional programs to make it easier for customers to save.

ENERGY SAVERS HOME ENERGY AUDITS

Through a partnership with the City of San Antonio and CPS Energy, we offered free do-it-yourself home checkups and low-cost professional home evaluations. The program was funded by a \$10 million grant through the Department of Energy's BetterBuildings program. With support from BetterBuildings, CPS Energy Savers made it easy to make energy efficient home improvements by providing reasonably priced home energy assessments, financing, and home energy rebates.

CASA VERDE

Casa Verde was introduced in 2009, supported by federal and state stimulus grant funds. With these funds, we weatherized 3,320 local homes. The grant-funded program was closed in February 2012. The new Casa Verde program is similar; however, it is funded through STEP. Casa Verde is administered at no cost to participants by CPS Energy and uses local contractors and energy auditors to complete the work. In addition to accepting applications via mail, Casa Verde hosts numerous community events throughout our service area where residents can find out about the program, ask questions, and apply in person.

PROGRAMMABLE COMMUNICATING THERMOSTAT

Smart Thermostats: Customers who register for a free Honeywell programmable thermostat also agree to let us remotely access their central air conditioner. We cycle their compressor off approximately 10 minutes each half hour between the hours of 3 p.m. and 7 p.m., Monday through Friday, when necessary, to manage peak energy demand. Generally, the resulting temperature increase is no more than two degrees.

HOME AREA NETWORK (HAN)

Home Manager: Home Manager uses advanced technology to allow customers to remotely monitor and control their energy use through an online management portal. By using any web-enabled device customers can monitor how their home is using electricity, from hour-to-hour, and even make changes remotely from the device. With Home Manager, customers may be able to save up to 10 percent on their heating and cooling costs.



SECTION 2

PLANET

ENVIRONMENTAL STEWARDSHIP



We work to improve the health of our community, conserve valuable resources, and inspire other companies and individuals through our environmental stewardship. This involves reducing our carbon footprint and environmental impact, which requires a multilevel focus on energy efficiency, new generation technologies, water resource management, and waste reduction initiatives. Environmental sustainability means we must operate responsibly, in a way that does not leave a damaging and costly legacy for future generations.

As an energy company, the emission of greenhouse gases (GHG) and the associated potential risks are one of the most significant challenges we face. The scientific and political discussions surrounding climate change is increasing as policy makers worldwide grapple with measures to reduce GHG emissions and carbon dioxide (CO₂). The outcome of these debates could have significant ramifications for the energy industry and for the American lifestyle.

There is no doubt that the expectation of carbon legislation and associated costs are already affecting utility investment decisions and could jeopardize U.S. energy independence in the long run. We recognize the need to proactively reduce anthropogenic (caused by human activity) GHG emissions. The burning of fossil fuels is the main source of anthropogenic gases in the United States.

ALTHOUGH CPS ENERGY'S TOTAL ENERGY GENERATION HAS INCREASED OVER TIME, OUR CARBON DIOXIDE INTENSITY HAS DECREASED SINCE 1980.

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).

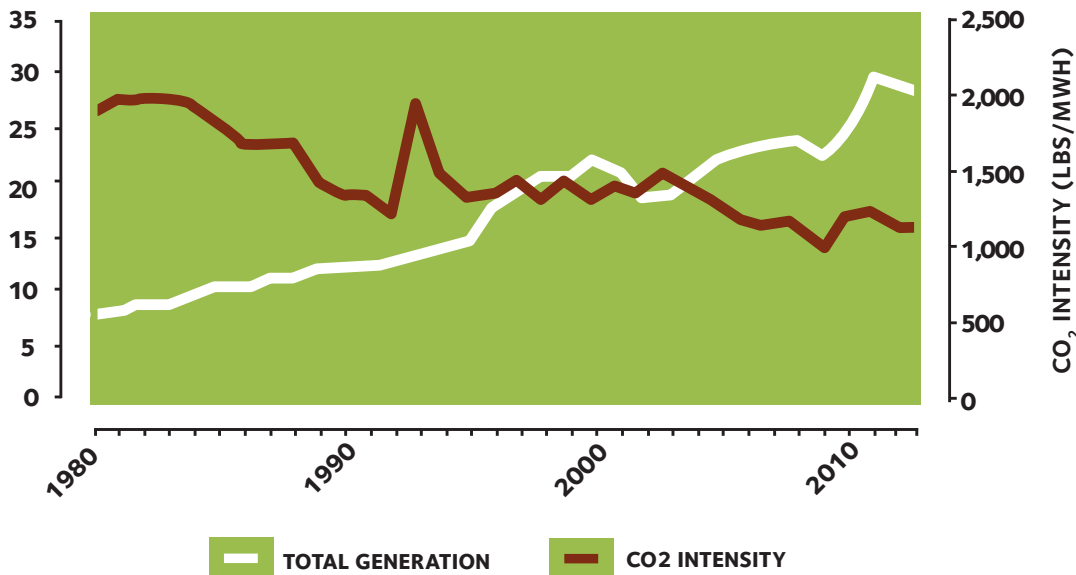
Although CPS Energy's total energy generation has increased over time, our CO2 intensity has decreased since 1980. This inverse relationship indicates that our generation portfolio has become more CO2-efficient over time, largely as a result of our additions of nuclear and renewable generation.

One of CPS Energy's main objectives of Vision 2020 is to transition from purely traditional generation sources to a variety of sustainable sources, while continuing to provide reliable and competitively priced energy to the present and future Greater San Antonio community. Our goal is that 65 percent of our generation portfolio will be low- or no-carbon emitting by 2020.

Water use and conservation of high quality water resources is also becoming increasingly important in light of the pressures placed on water resources by increasing population growth.

The 775 MW Spruce 2 unit, constructed in 2010, was recognized in 2011 by Power Magazine as one of the cleanest coal-fired plants in the country. With the recent installation of Activated Carbon Injection (ACI) on both Spruce Units, the overall mercury reduction at Spruce Plant is about 80%. Activated Carbon Injection is currently being installed on the Deely Units and will be online in summer of 2014 in order to comply with the Mercury and Air Toxics Standards (MATS) rule.

OUR GREENHOUSE GAS EMISSION RATES CONTINUE TO DECLINE EVEN AS OUR GENERATION INCREASES*



1988 STP 1&2 ADDED TO GENERATION MIX 2005 INCREASE STP FROM 28% TO 40% OWNERSHIP
 1993 STP SHUTDOWN FOR A YEAR 2009 INCREASE DUE TO SPRUCE 2

*HISTORICAL CO₂ INTENSITY FOR CPS ENERGY: LBS OF CO₂ EMISSIONS PER NET MWH OF GENERATION FROM ALL SOURCES OF POWER INCLUDING GAS, COAL, RENEWABLES AND NUCLEAR

NON-GENERATION GHG EMISSIONS

While most of our GHG emissions come from our power generation, a small amount—only one percent—comes from our vehicle fleet, buildings, and operations.

A greater part of our fleet consists of diesel-fueled units, but we are incorporating ways to use alternative fuels, such as ethanol, compressed natural gas (CNG), and electricity in our vehicles and heavy equipment. To promote and operate a green fleet, we increased the purchase of these types of units and added 40 such vehicles in 2013.

The Gas Marketing group continues to utilize two vehicles that are fueled solely with compressed natural gas (CNG). Per

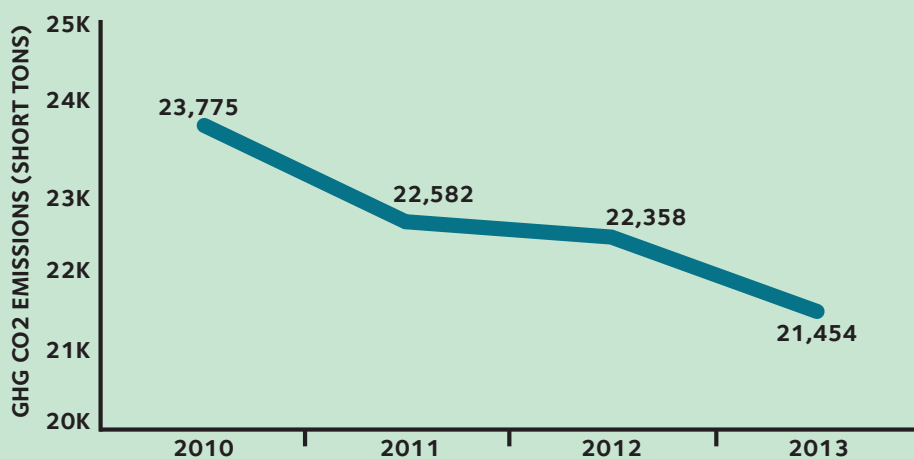
mile, these vehicles emit significantly less in CO₂, carbon monoxide, nitrogen oxides, and sulfur dioxide than conventional internal combustion engine vehicles.

In continuation of the Green Fleet and Compressed Natural Gas (CNG) initiative we have modified our light duty truck specification for our Gas Business Unit to ensure the vehicle is bi-fuel CNG. These efforts allowed us to purchase two compressed natural gas (CNG) bi-fuel light duty trucks. Our goal is to continue to add alternative fuel vehicles to our fleet in the future.

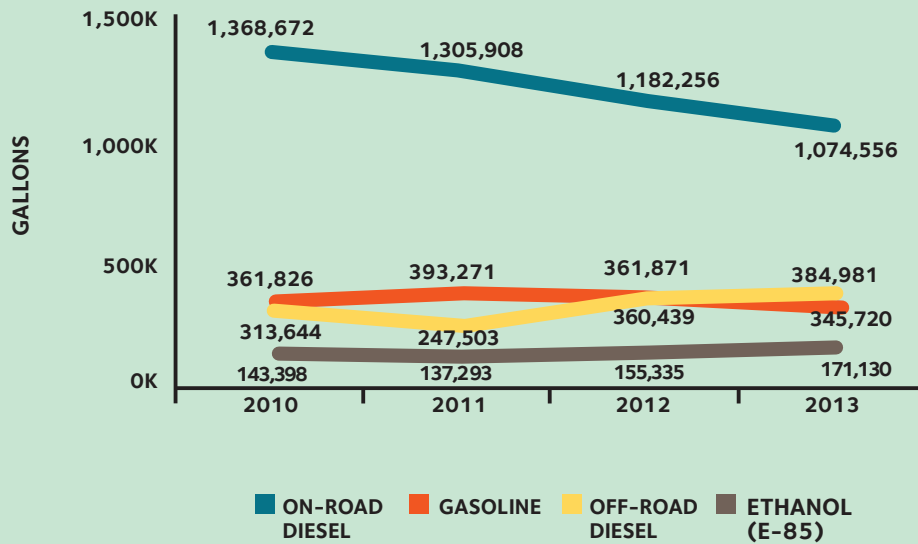
As of 2013, CO₂ emissions from the CPS Energy vehicle fleet were about 21,454 tons per year.

WE CONTINUE TO LOWER TOTAL CARBON EMISSIONS FROM VEHICLE FUEL USE BY MORE THAN 2,000 TONS.

TOTAL CARBON EMISSIONS FROM VEHICLE FUEL USE 2010-2013



VEHICLE FLEET FUEL USAGE HAS DROPPED BY 211,153 GALLONS OR 9.7% SINCE 2010.



REDUCING ENERGY USE IN OUR BUILDINGS

Just as many of our customers are making energy efficient improvements in their homes, we are constantly looking for new ways to make our own buildings more sustainable.

One way to do this is to follow the U.S. Green Building Council’s Leadership in Energy and Environmental Design (LEED) rating system that measures the sustainability of a building. LEED certification provides independent, third-party verification that a building, home or community was designed and built using strategies aimed at achieving high performance in key areas of human and environmental health: sustainable site development, water savings, energy efficiency, materials

selection and indoor environmental quality. We have transitioned to daytime cleaning which reduces energy required to light offices at night for custodial staff to perform services.

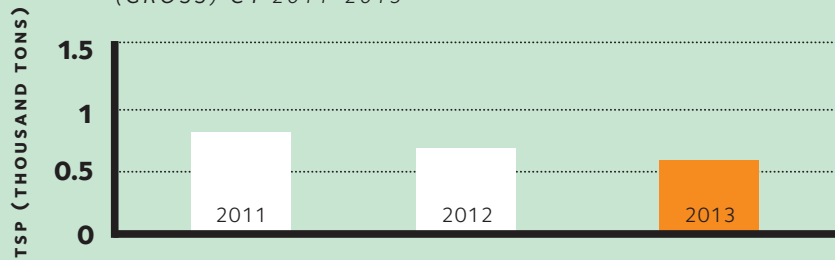
AIR EMISSIONS DATA

CPS Energy measures and reports the air emissions from our power plants to the U.S. Environmental Protection Agency. The graphs on the following pages show our emissions of nitrogen oxides (NOx), sulfur dioxide (SO2), and total suspended particulates (TSP) from our generation fleet from 2008 to 2013 in terms of total emissions.

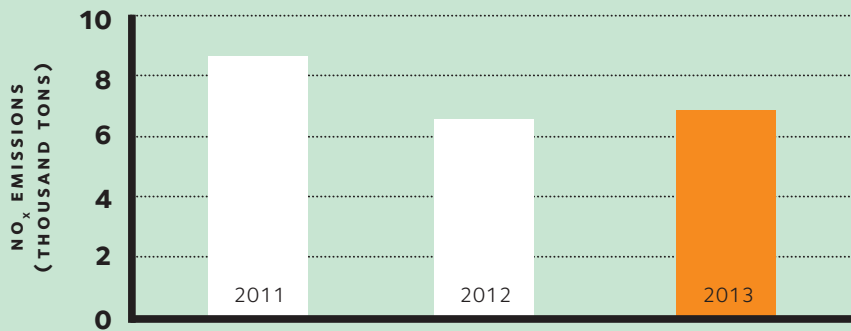
**WE ARE CONSTANTLY
LOOKING FOR NEW
WAYS TO MAKE OUR
OWN BUILDINGS
MORE SUSTAINABLE.**

AIR EMISSIONS FROM CPS ENERGY POWER GENERATION

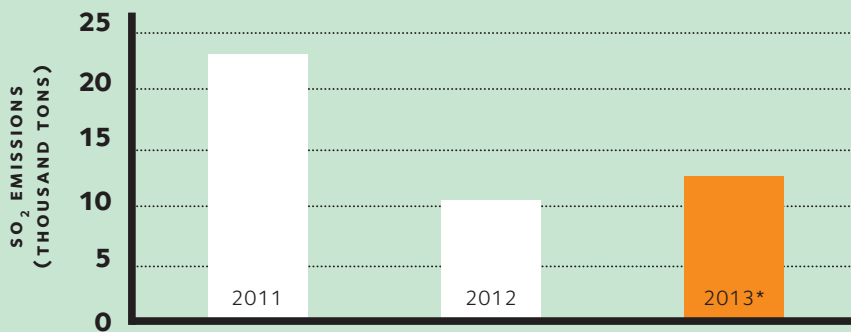
**CPS ENERGY POWER GENERATION
TOTAL SUSPENDED PARTICULATES (TSP) EMISSIONS
(GROSS) CY 2011-2013**



**CPS ENERGY POWER GENERATION NO_x EMISSIONS
(GROSS) CY 2011-2013**



**CPS ENERGY POWER GENERATION SO₂ EMISSIONS
(GROSS) CY 2011-2013**



*DEELY #1 OPERATED MORE IN 2013 THAN IN 2012

All CPS Energy coal units rank within the top half, and our newest coal unit, Spruce 2, built in 2010, is ranked first. At the time that the EPA compiled this data, Spruce 2 had the lowest reported emission rate of SO₂ and NO_x combined of any other coal-fired unit in the nation.



IN 2012, SPRUCE 2 RANKED CLEANEST GENERATING UNIT IN THE NATION, BASED ON EMISSIONS RATE.

KEEPING THE AIR SAFE

Unhealthy air quality can cause harm to the elderly, children, and those with asthma or other health complications. To ensure the city's air quality is safe, we own and operate two continuous air monitoring stations (CAMS) which monitor the ambient air for pollutants.

One CAM is located at 802 Pecan Drive, behind the Metropolitan Health District Office. The second is located near the Heritage Middle School in the East Central Independent School District. We operate smaller particulate matter (PM) CAMS at our Calaveras Lake and Braunig Power Stations.

Data from our CAMS is available to the public on the Texas Commission on Environmental Quality at the TCEQ website.

On August 21, 2012 regulatory air quality monitors in the AACOG/San Antonio region recorded ozone values representing a violation of 2008's eight-hour average ozone national ambient air quality standards. However, the area was not immediately designated as non attainment, since the EPA follows a defined procedure. Designations under the 2008 standard have already been made and the next set will not take place until after the standard is revised again in late December 2014. The standard is expected to be set between 60-70 ppb and even 70 ppb will result in nonattainment designations for Bexar County and surrounding areas.

PROTECTING OUR WATER RESOURCES

Over the past few years, Texas has been facing widespread drought, making water an increasingly scarce commodity. With competing demands for this dwindling resource, we face the challenge of how to most efficiently use water and manage increasing future water needs.

Water is a necessary component in the generation of electricity since it is used for steam generation, cooling, process water, irrigation, fire control, and environmental controls. Our water comes from four sources: the Edwards Aquifer, surface water from the San Antonio River, recycled water, and potable water purchased from SAWS and East Central Water Supply Corporation.

The Edwards Aquifer is San Antonio's primary source of water and home to eight species considered endangered by the U.S. Fish and Wildlife Service. Fortunately, CPS Energy leaders had the foresight in the 1960s to reduce our reliance on the Edwards Aquifer by diversifying our water supply.

Our newest power plant, Rio Nogales in Guadalupe County, obtains its water from the City of Seguin, supplied from the Guadalupe River, Gonzales County groundwater wells, and recycled water.

AIR EMISSIONS IMPROVEMENTS AND UPGRADES

To further improve air quality, we installed Activated Carbon Injection (ACI) to reduce mercury emissions at the Spruce Plant. Activated Carbon Injection is a commercially available technology that utilizes an activated carbon powder sorbent to remove mercury. The mercury attaches to the carbon and is removed via the baghouse system along with ash and particulate matter.

Combined, Spruce Units 1 and 2 have reached a total mercury removal of 80 percent with the ACI technology. Our Deely units will also have ACI technology by summer 2014 to comply with the Mercury and Air Toxics Standards Rule.

WE HAVE REDUCED EMISSIONS OF NITROGEN OXIDES (NOX) BY ABOUT 70 PERCENT SINCE 1997.



RECYCLING WATER AT BRAUNIG AND CALAVERAS LAKES

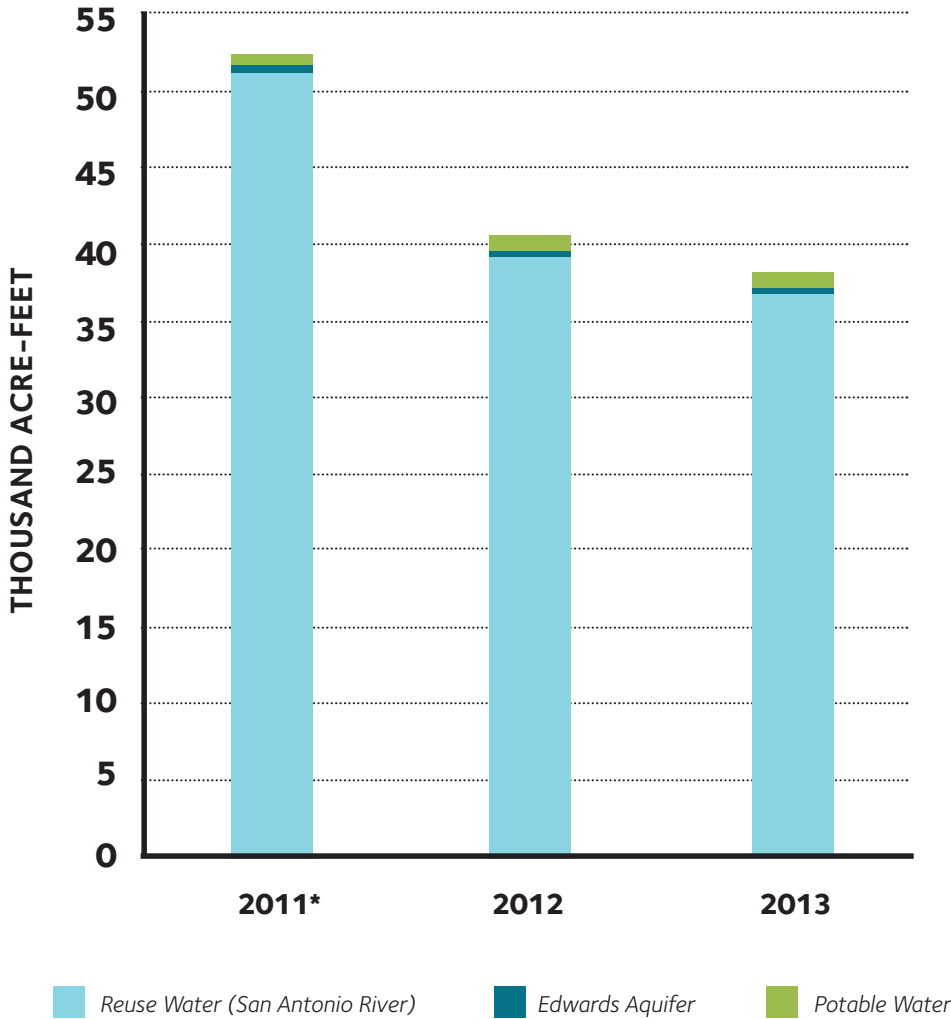
We own and manage the man-made Braunig and Calaveras Lakes, which provide cooling water for the majority of our generating units in Bexar County. These two lakes have helped us meet the community's electrical needs for more than 40 years. Both lakes use treated wastewater to provide cooling water at our nearby power plants. Using recycled water reduces our reliance on high quality Edwards Aquifer groundwater.

Braunig Lake, built by CPS Energy in 1962, is a 1,350-acre reservoir that acts as a cooling pond for the Braunig Power Station. Calaveras Lake is a 3,450-acre impoundment constructed in 1969 and is used for cooling at the Calaveras power stations. Since 1966, the year Braunig 1 came online, CPS Energy has steadily reduced its use of Edwards Aquifer water to less than 1,000 acre-ft. per year.

We have a contract with SAWS to supply reuse water from its sewage treatment plants via a bed and banks permit on the San Antonio River. This contract was amended in 2011 from 40,000 acre-feet to 50,000 acre-feet to allow for future plant expansion and to sustain the thermal generation units in a prolonged drought.

**WE'VE STEADILY REDUCED USE OF THE EDWARDS AQUIFER
WATER TO LESS THAN 1,000 ACRE-FEET PER YEAR.**

CPS ENERGY WATER USAGE BY SOURCES CY 2011-2013



THE TREATED WASTEWATER IS SAFE FOR AQUATIC LIFE AND RECREATIONAL ACTIVITIES. AFTER THE WATER IS USED FOR COOLING, IT IS DISCHARGED BACK INTO THE LAKES FOR RECIRCULATION.

Both Braunig Lake and Calaveras Lake provide valuable outdoor recreation opportunities for the community. More than 250,000 people visit the lakes each year to use the picnic and camping facilities, boat ramps, piers, and shorelines for fishing.

Both lakes and the surrounding undeveloped areas provide aquatic and wildlife habitats,

wetlands, nesting areas, and are home to migratory birds and overwintering water fowls. The treated wastewater is safe for aquatic life and recreational activities. After the water is used for cooling, it is discharged back into the lakes for recirculation. The graph above details our annual water use.

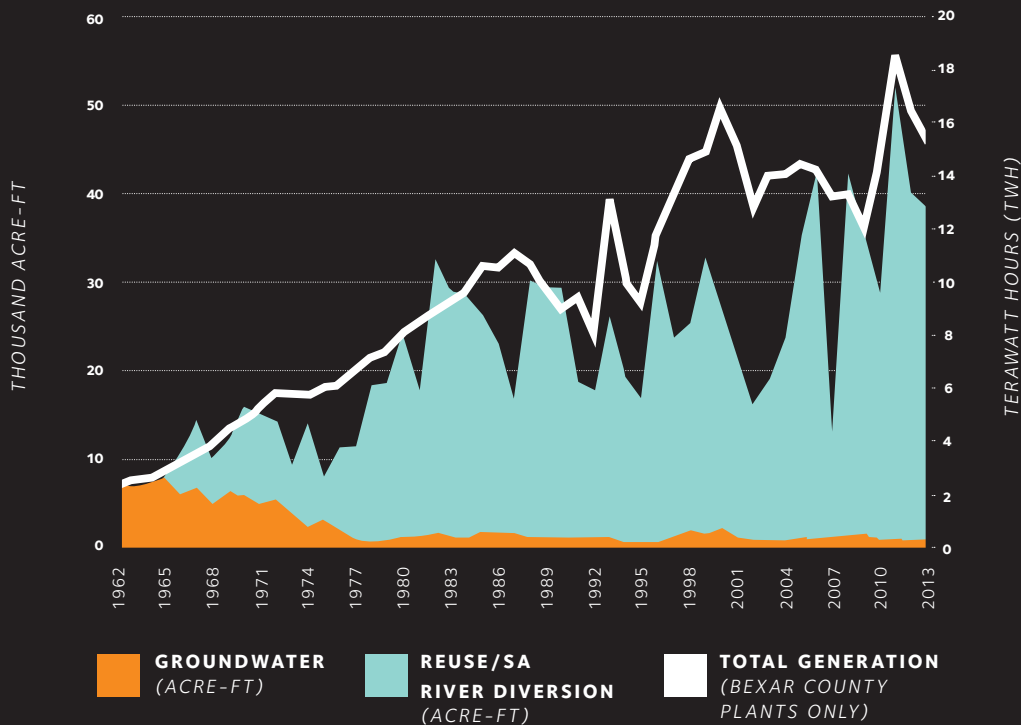
THE FUTURE OF WATER SUPPLY

Thanks to the foresight employed decades ago and recent acquisitions, CPS Energy has a diversified and adequate water supply to weather extreme droughts and to accommodate future expansion. To preserve Edwards Aquifer water for higher potable use, we turned our attention to treated sewage effluent discharged from San Antonio's wastewater plants in the 1960s.

This shift from groundwater supply to recycled water saved an estimated one million acre-feet, or 330 billion gallons, of Edwards Aquifer resources from 1966 to 2013. The figure below depicts the decrease in our dependence on the Edwards Aquifer from 1962 thru 2013, even as generation from our Bexar County plants has grown exponentially to more than 15 terawatt hours in 2013.

THE USE OF RECLAIMED WATER, OVER THE LAST FIVE DECADES, SAVED ENOUGH EDWARDS AQUIFER WATER TO SUPPLY 2.85 MILLION HOUSEHOLDS FOR ONE YEAR.*

WATER USE FOR POWER GENERATION SINCE 1962



*BASED ON EPA AVERAGE DAILY HOUSEHOLD USE.

Today, we employ various water management strategies to ensure there is a continued reliable supply of water for future power cooling and generation needs. We have a Strategic Water Planning Group that is taking a holistic view of our water demand by developing a plan for meeting future water needs in the 50-year planning horizon. Conservation achieved in plant operations keeps our surface water withdrawal and water consumption relatively low compared to our supply. For example, the majority of plant wastewater is reused in other plant processes, treated, discharged back into the lakes under a state wastewater discharge permit, and then withdrawn back for cooling.

As part of our drought contingency planning, plant personnel closely monitor lake levels in Braunig and Calaveras Lakes to better manage pumping operations. Currently, our personnel schedule their river pump operations to optimally manage discharge from the wastewater plants, San Antonio river flows and lake levels.

To lessen the impact of our water diversion in the San Antonio River basin, we work closely with stakeholders, such as SAWS, the San Antonio River Authority (SARA), the South Texas Water Master, and downstream water users to time our river pumping operations and maintain flow in the San Antonio River.

WE HAVE DIVERSIFIED OUR GENERATION TO INCLUDE RENEWABLES SUCH AS WIND, SOLAR AND LANDFILL GAS, WHICH USE NO WATER.



We are deactivating older generating units and shifting our generation capacity to include low water-intensive technologies such as combined gas cycle gas units and simple cycle turbine units. The recent purchase of the combined cycle Rio Nogales plant in 2012 is an example of this strategy, which not only diversified our generating capacity but also has the effect of expanding our water supply to include Gonzales County groundwater and Guadalupe River surface water. In addition, it uses about 40% less water than a

typical gas steam or coal steam plant.

We are also diversifying our generation capacity to include renewables such as wind, solar, and landfill gas, which use no water. With 14.5% of our generating capacity derived from renewable resources, we have saved an estimated 24,000 acre-feet from 2002 to 2012. The addition of 400 MW of OCI solar power to the present 1,059 MW of purchased wind power will reduce water use even more.

Reducing energy demand also saves water. Through STEP, our demand management reduction and conservation program, 2,484 acre-feet of water have been saved since 2005.

Diversified water supplies, long term planning, a shift to renewable energy

sources, and low water intensive technologies are critical elements of our water management strategy. This careful planning is essential to withstanding future droughts and accommodating population growth, while assuring conscientious management of water resources.

**THROUGH STEP,
2,484 ACRE-FEET OF
WATER HAVE BEEN
SAVED SINCE 2005.**



REDUCE, REUSE, RECYCLE

Recycling plays an important role in environmental sustainability and the conservation of our natural resources by reducing the amount of waste that reaches our landfills. We have an extensive recycling program able to recycle electronics, wood, paper, cardboard, metals, plastic bottles, aluminum cans, used oil, coal-combustion byproducts, concrete, asphalt, and other materials.

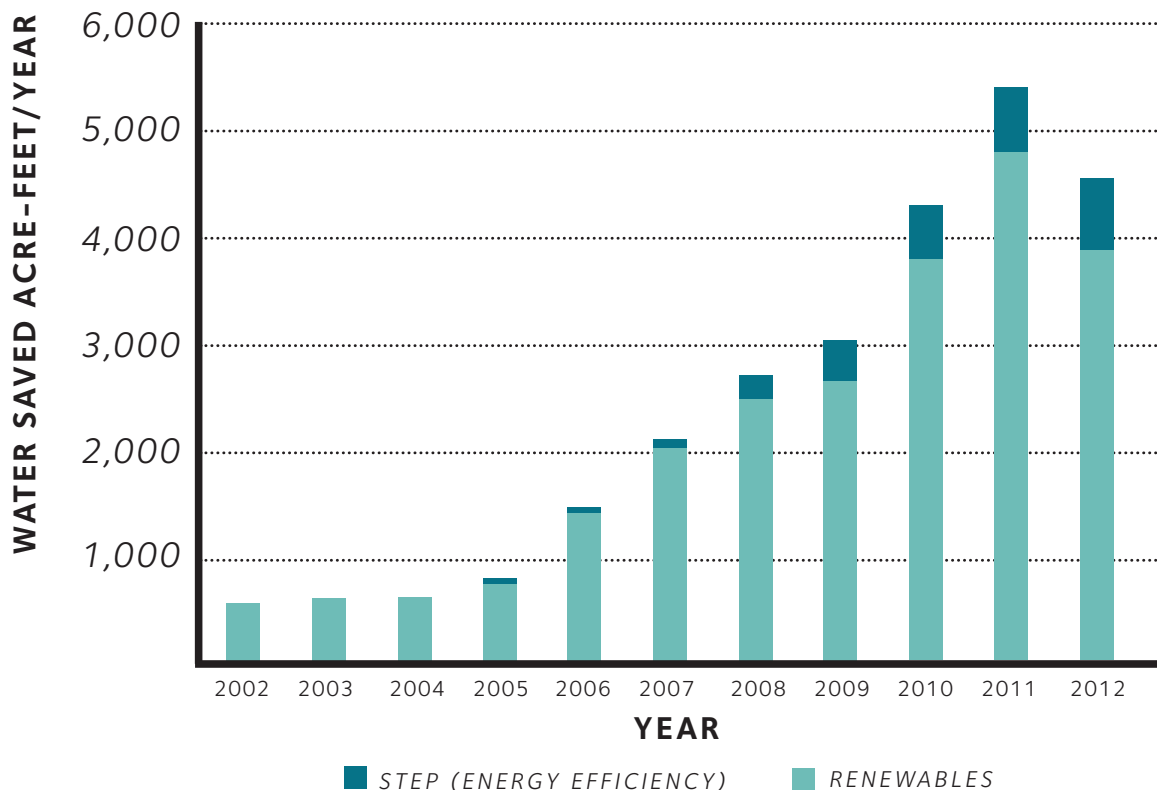
Much of the equipment and materials we purchase are made from recycled materials including steel, paper products, antifreeze, parts cleaning solvent, and laser printer cartridges. We also encourage our employees to consider purchasing recycled products, especially office products, through our Buy Recycled Program.

In 2013, we recycled approximately 467,000 tons of material. We also recycle and sell scrap metal, wood poles, office furniture, used electronics, equipment, vehicles, tires, and other miscellaneous materials. The total revenue from all of our recycling streams in 2013 was about \$5.1 million.

CPS Energy also owns and operates a Class 1 non-hazardous waste landfill, which is registered with the Texas Commission on Environmental Quality--an initiative that reduces disposal costs and our reliance on off-site disposal facilities. Approximately 95 percent of our total waste is currently recycled, either conventionally or, in the case of most of our hazardous waste, recycled for fuel blending and thermal recovery. The rest of the non-recyclable waste is landfilled, evaporated, or incinerated.

IN 2013, WE RECYCLED APPROXIMATELY 467,000 TONS OF MATERIAL.

WATER SAVED FROM RENEWABLES AND ENERGY EFFICIENCY



ELIMINATING TOXIC SUBSTANCES

By the early 1990s, we 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 reduce the amount of electrical equipment containing mineral oil with any level of PCBs in our system.

Since 1996, in connection with capital improvements being made to many of our substation sites, we have identified and remediated areas contaminated by pollutants, such as PCBs. We are committed to safely disposing of this material in an ongoing effort to phase out PCBs in our equipment.

RECYCLING COAL ASH

Fly ash, a byproduct of coal combustion for power generation, can be used productively in a number of different industries. The largest single use is in the production of concrete. Other uses include embankments in construction, grout and other flowable fillers, stabilization of soft soils, road sub-base for road construction, loose application on roads and parking lots for ice control, and a variety of consumer products including cosmetics and bowling balls. CPS Energy recycles 100% of its fly ash.

PROTECTING ECOLOGICAL RESOURCES AND HABITATS

As a large utility with infrastructure over 1,514 square miles, we are mindful of our responsibility to protect the local habitat and natural resources associated with our facilities and operations.

Once potential impacts are identified, we take steps to identify appropriate management practices to mitigate our impacts. When possible, we work to improve biodiversity and restore impacted areas.

Among other efforts, we distribute native tree guides we have designed, give away trees, promote energy conservation through community education and rebate programs, and support restocking the Calaveras and Braunig lakes with fish.

GREEN CLEANING

Conventional cleaners can be harmful to human health and toxic for the earth's ecosystems. Green cleaning is effective cleaning that protects our health without harming the environment.

To provide a clean, safe and sustainable work environment, we have contracted a custodial service provider that meets requirements established by the U.S. Green Building Council (USGBC) for effective green cleaning.

Our custodial contractor is certified by the Cleaning Industry Management Standard (CIMS). This certification identifies that the organization has proven its capability to provide green cleaning services in accordance with ISSA-The Worldwide Cleaning Industry Association's Cleaning Industry Management Standards.

WE RECYCLE 100% OF OUR FLY ASH.

SECTION 3

PEOPLE

COMMUNITY OUTREACH PROGRAMS

SAFETY IS OUR NUMBER ONE PRIORITY

We are committed to ensuring the safety of the communities we serve by promoting customer safety with electricity and natural gas.

Billboards cautioning customers to Call 811 Before You Dig, newspaper ads, newsletters and a variety of other communication tools educate customers on electric and natural gas safety. Our website includes greater detail on safety tips at cpsenergy.com (search "education").

Customers regularly receive bill inserts highlighting our recent news and safety tips. Recent examples include warnings of thieves impersonating CPS Energy employees, how to safely heat your home during winter, and how to eliminate electrical hazards.

We also worked with the San Antonio Police Department to distribute 350 safety and informational kits for National Night Out.

Our outreach includes free presentations to community groups and businesses interested in learning more about today's important energy issues through our Speakers' Team. The presentations outline our Strategic Energy Plan, energy efficiency initiatives, environmental programs, energy safety, and other topics of interest.

Customers also can hear directly from us by subscribing to our online newsroom at newsroom.cpsenergy.com. Posts on our blog *Energized* and news releases are available



immediately to subscribers. The newsroom, combined with social and traditional media, provide additional opportunities for us to communicate with customers about company policy, programs, services, major power outages, economic development initiatives, educational investment and other topics that affect and benefit the community.

COMMITMENT TO CUSTOMERS IN NEED

As we transition to more diverse and clean energy, we remain committed to providing programs and services to our customers in need.

TO DATE THE CASA VERDE PROGRAM HAS WEATHERIZED 4,632 HOMES

The Casa Verde Weatherization program is funded through STEP funding and is an integral part of our overall energy efficiency efforts. It helps many people who can least afford to waste energy.

The program weatherizes low income homes in our community. The budget commitment for this program is \$156 million through 2020 with a goal of weatherizing 35,000 homes within the service territory. To date the Casa Verde program has weatherized 4,632 homes. Through Casa Verde, our goal is to save an average of \$1 in energy consumption for every dollar we invest. To monitor the savings, we measure and report energy consumption prior to and following the weatherization upgrades.

Improvements include the installation of wall, floor and attic insulation; weather-stripping and caulking; and the installation of compact fluorescent lighting, solar screen, and duct sealing. Eligible customers

must be qualified as low-income, or whose household income is at or below 200 percent of the poverty guideline.

Implementation of the Casa Verde program in the community has stimulated the creation of hundreds of jobs for locally hired and trained weatherization workers.

RESIDENTIAL ENERGY ASSISTANCE PARTNERSHIP (REAP)

CPS Energy established REAP in 2003 to assist low-income or financially distressed households who are having difficulty paying their bill. On every energy bill our customers receive, they have the opportunity to help fellow residents who cannot afford to pay their utility bill by donating to REAP.

The program, a partnership between CPS Energy, the City of San Antonio, and Bexar County, provides eligible REAP recipients financial assistance twice a year (up to \$400 per year) -- once during the winter and once during the summer.

The partnership underwrites all administrative costs so that 100 percent of all funds go directly to help customers.

To be eligible for this program, customers must be residents of the City of San Antonio or Bexar County, at or below 125 percent of the federal poverty level, experiencing a financial hardship, have children either three years of age or younger, be elderly or handicapped, or require critical care equipment.

CPS Energy supports this program by providing direct funding annually.

We invite customers to join us in the assistance program by donating through the bill stub, online, or through PayPal.

Contributions to REAP in 2012 and 2013 totaled \$3,620,431. Through grass-roots communication efforts and fundraising events, public contributions to REAP have increased over 30 percent annually in the last few years.

TOTAL CONTRIBUTIONS TO REAP IN 2012 AND 2013 TOTALED \$3,620,431.

PROJECT WARM (WINTER ASSISTANCE RELIEF MOBILIZATION)

Project WARM, funded by royalty interests from natural gas reserves, provides bill assistance to those with emergency needs.

CPS Energy manages WARM while the City of San Antonio and Bexar County qualify and process CPS Energy customer applicants. Project WARM assistance totaled \$73,600 for 2013 and \$68,800 for 2012 for a two-year total of \$142,400.

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.



OTHER EFFORTS

In addition to these larger programs, we offer several other resources to assist our customers in need:

- Our Affordability Discount Program provides a monthly discount to low income residential electric and gas customers who qualify .
- Our Critical Care Program offers qualified customers who use electrically operated medical equipment in their homes additional time to pay their utility bill.
- Our Disabled Citizen Billing Program provides residential disabled customers on Supplemental Security Income (SSI) additional time to pay the net amount due on their utility bill. This allows customers 26 days to pay instead of the normal 16 days.
- Senior Citizens Billing Program also provides residential customers age 60 or older 10 additional days to pay the net amount due on their utility bill.
- Burned Veterans' Discount Program provides bill payment assistance to military veterans who have significantly decreased abilities to regulate their body's core temperature because of severe burns. Qualified customers will receive up to \$94 dollars per month off of the electric portion of their CPS Energy bill. This discount is effective for the months of April through October.

SUPPORTING AND ENGAGING OUR EMPLOYEES

Our success depends upon the hard work of our 3,300+ employees.

It is the responsibility of every employee to act safely on the job and to recognize—and prevent—unsafe actions or conditions.

We invest in professional development programs that allow our workers to enhance their skills and meet their own career goals.

We are also very proud of the initiative shown by our employees as they organize and implement community outreach projects for the benefit of children and adults in the Greater San Antonio area.

ENTERPRISE OCCUPATIONAL SAFETY AND HEALTH (EOSH)

We are committed to creating a culture focused on zero injuries and illnesses, where everyone goes home safely at the end of the workday.

We have set an aggressive goal of reducing our injury incident rate every year. Some of our safety initiatives incorporated this past year includes:

- Continuing our defensive driver improvement course with behind-the-wheel as well as classroom and computer-based instruction.
- Involving our employees in reviewing the development of procedures with a focus on improving the processes and making work safer for field personnel.
- Upgrading our safety dashboard, providing daily updates on recent safety related events that occur out in the CPS Energy operations areas.

- Daily Operations Call which incorporates a review of recent safety events with the enterprise leadership.
- Encouraged the use of Safety Circuit Teams within all business units. The teams are actively involved in reviewing policies and guidelines; identifying hazards and solutions; reviewing incidents; analyzing root causes and developing solutions; and providing safety recognition suggestions.
- Managers, with the assistance of the safety professionals, are investigating and publishing the accident reports.

This effort, not only produced a reduction in our recordable incident rate in 2013, they also provided a reduction in the number and severity of injuries.

WORKFORCE DEVELOPMENT AND EMPLOYEE ENGAGEMENT

Employee Relationships and Safety is one of seven key drivers of the Vision 2020 Strategy. The goals of the Employee Relationships driver are, specifically to:

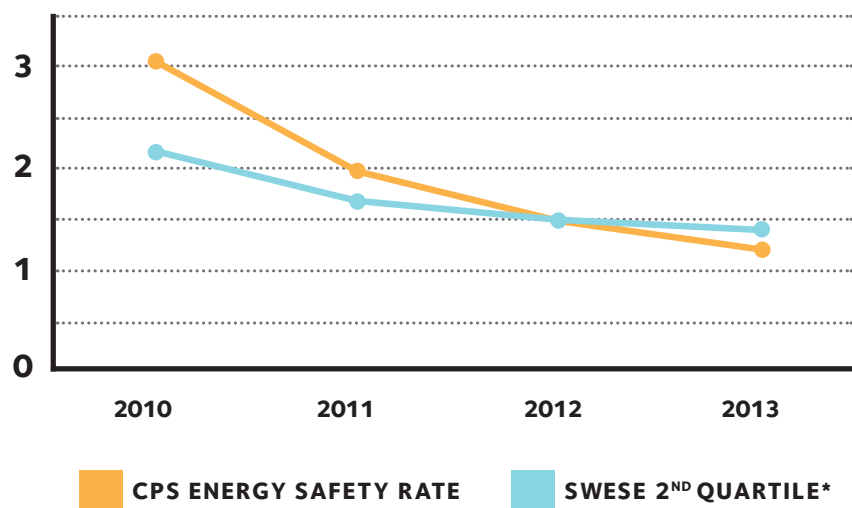
- Create a culture where “everyone gets home safely”
- Enhance employee trust in the management and leadership direction through transparency and communication
- Demonstrate “open door” management processes
- Provide development opportunities for employees to perform their jobs efficiently and accurately through continuous learning and cross-training opportunities
- Make adjustments to current organizational structure to promote efficiency

To accomplish these goals, we are focused on the development and implementation of a fully integrated strategic talent management process, an integrated set of processes designed to increase workplace productivity. As part of this effort, CPS Energy launched CPS Energy University with the objective of improving business results, productivity, effectiveness, and efficiency through the improvement of employee knowledge and skills.

In addition, we administer an annual Employee Engagement Survey. In 2013, 80 percent of all employees participated in the survey providing their feedback and assessment on levels of engagement. The results of the survey showed a 60 percent favorable rating for employee engagement. Our goal for 2014 is 75 percent.

We use the results of the employee survey to address employee concerns and to increase a sense of achievement, camaraderie, and equity to increase the level of employee engagement. Employees can take advantage of a variety of in-house training programs. From 2011 through 2013, more than 100,000 hours of training were logged each year and an average of 290 employees were promoted to higher level positions within the company. Tuition reimbursement is available for employees who would like to further their education. We signed agreements with several local and online universities that provide tuition discounts for our employees.

WE HAVE IMPROVED SAFETY PERFORMANCE BY OVER 70% SINCE 2010



*Southwest Electric Safety Exchange - industry average

VOLUNTEERISM AND CORPORATE RESPONSIBILITY

CPS Energy is an active member of the San Antonio community. While we work hard to provide affordable and reliable energy for Greater San Antonio, we are eager to give back to our community through our efforts in education, volunteerism and the environment. We believe in our motto: CPS Energy Works for You.

Each year, our employees donate thousands of volunteer hours to a variety of community service projects. We revitalize neglected parks, mentor elementary, middle, and high school students, lend time and support to our military heroes, donate school supplies as well as holiday gifts to children in need, participate in walks and charitable events, educate residents about energy issues, and give generously to our annual United Way campaign.

Through our corporate responsibility program, hundreds of employees, retirees, and their families provide thousands of hours of support each year to local charities, non-profit organizations, and other community projects.

We offer valuable education and mentoring programs for the city's youth. Our education programs are multi-faceted and reach students of all levels. Our employees mentor at-risk youth through the citywide Inspire U program, we partner with Alamo Academies to mentor students interested in technical fields, and provide intern and dual credit opportunities for students pursuing college degrees in STEM (Science, Technology, Engineering and Math) fields.

We have also partnered with San Antonio Youth Literacy (SAYL) to provide our employees with opportunities to read and mentor second grade students.

Through CPS Energy's New Energy Economy Initiative we have developed partnerships with companies not only committed to economic development and job creation in San Antonio, but have made more than \$1.2 million of local education investments through the end of 2013.


Recent volunteer and community outreach achievements:

- In October 2013, CPS Energy was honored at the Platts Global Energy Awards with an Award of Excellence in the area of Corporate Social Responsibility. CPS Energy was also honored for its service in 2012 as Volunteer of the Year for Corporate Large Business. In 2013, the volunteer corps completed nearly 15,000 community service hours and CPS Energy and partner IBEW Local 500 raised more than \$983,018 through employee and retiree donations, proceeds from our United Way Golf Tournament and agency sponsorships, beating the previous year's goal and making CPS Energy once again among the region's top United Way contributors. Each year, we have a United Way rally at our different locations so our employees can see how their contributions make a difference in the community.

- Each year, CPS Energy employees volunteer at multiple events around San Antonio. In 2012, our largest corporate project included our beautification efforts at Eduardo Garcia Park located next to Haven for Hope where more than 300 employees planted 82 trees, laid 42 pallets of grass, painted dormitories, and constructed a half-mile walking path. In 2012, more than 500 employees volunteered over three days at the Wounded Warrior Support Center where they trimmed trees, planted more than 20,000 small native plants, mulched trees, spread gravel, rocks and dirt, constructed a walking path and painted exercise equipment and bathrooms.

Our employees are involved in many projects designed to help meet community needs. We support and encourage these activities by providing recognition and resources to employees who participate in them. This year, we are also establishing a companywide system for tracking and measuring employee engagement in corporate responsibility activities.

WE VOLUNTEERED MORE THAN

15, 

COMMUNITY SERVICE HOURS

Report Boundaries

Information and data in this report reflect those facilities and activities over which we have direct operational control. This includes the fossil fuel power plants on our website at cpsenergy.com, our electricity transmission and distribution network, and our natural gas distribution system. The solar, wind, and landfill gas generating units are not owned and operated directly by CPS Energy; rather, we purchase their output through long term purchase agreements to provide renewable energy sources for our customers.

CPS Energy owns a 40 percent share of the South Texas Project (STP) Electric Generating Station, one of the nation's largest nuclear facilities. Nuclear generation is considered part of CPS Energy's base-load generation.

When reporting on the intensity of air emissions (in pounds per megawatt-hour), we base this metric on the total amount of electricity generated at our power plants, the amount of electricity from STP based on our percent ownership, and the electricity obtained from our purchased renewable power agreements.

